ACTOR AND INSTITUTIONAL DYNAMICS IN THE DEVELOPMENT OF MULTI-STAKEHOLDER INITIATIVES

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ABSTRACT

As forms of private self-regulation, multi-stakeholder initiatives (MSIs) have emerged as an important empirical phenomenon in global governance processes. At the same time, MSIs are also theoretically intriguing because of their inherent double nature. On the one hand, MSIs spell out CSR standards that define *norms for* corporate behavior. On the other hand, MSIs are also the *result of* corporate and stakeholder behavior. We combine the perspectives of institutional theory and club theory to conceptualize this double nature of MSIs. Based on a stage model that looks at the interplay of actor and institutional dynamics, we generate insights into why actors join a voluntary MSI, how the various motivations and intentions of the actors influence the standard development, and how these as well as the MSI design are subsequently influenced by both external (institutional) and internal (club) dynamics.

Keywords: business self-regulation; global governance; management of diverse interests; multi-stakeholder initiatives; political role of the firm; soft law; club theory; institutional theory; institutional entrepreneurship

INTRODUCTION

Multi-stakeholder initiatives (MSIs) have emerged as an important building block in new governance arrangements responding to pressing, often global sustainability challenges. In the absence of traditional state governance, MSIs provide forms of self-regulation where governments are either unwilling or incapable of providing adequate regulation at the national or global level (Matten & Crane, 2005). Here, companies co-create and voluntarily commit to novel CSR standards that compensate for these governance gaps and go beyond local governmental regulation so as to address issues that range from conflict diamonds (Kimberley Process) to project financing (Equator Principles), from general business principles (United Nations Global Compact) to reporting business sustainability performance (Global Reporting Initiative), or from sustainable resource management (Marine Stewardship Council, Forest Stewardship Council) to transparency standards needed to create accountability in resource-rich countries (Extractive Industries Transparency Initiative).

MSIs have thus emerged as a phenomenon of highly practical relevance. At the same time, they are also intriguing from a theoretical perspective because of their inherent double nature.

On the one hand, MSIs spell out CSR standards that define *norms for* corporate behavior. As some form of "soft law" (see similar Nolan, 2013), MSI principles and standards codify expectations that companies have to meet to gain or secure legitimacy in the eyes of important stakeholders. MSI standards amount to institutions that change the organizational field in which businesses operate. Put differently, in the field of corporate social responsibility, MSI norms are involved in defining the terms of trade in the market for legitimacy.

On the other hand, MSIs do not only provide norms for corporate behavior. MSIs are also the *result of* corporate and stakeholder behavior. MSIs do not fall from heaven but come into being as the product of purposeful decisions and negotiations of pioneer members with diverse interests. As the MSI attracts new members, followers might join for other reasons than did the original pioneers, thus creating a dynamic interplay of even more diverse interests. As the result of purposeful behavior, MSIs thus invite looking at the interests and interactions of the different stakeholders involved.

Given their double nature both as norms for as well as the result of purposeful action, theoretical analyses of MSIs are so far either rooted in institutional theory or in club theory. These conceptualizations generated many valuable yet fragmented insights. For instance, club theory approaches to voluntary MSIs (Potoski & Prakash, 2005, 2009a; Prakash & Potoski, 2007, 2009) offer perspectives on why companies join self-regulation initiatives. From this view, non-members become members if the anticipated benefit that they can gain from the club good – reputation – is greater than the costs of fulfilling the necessary CSR standards. However, club theory is less powerful in explaining the process of norm diffusion and why some companies join earlier and others later. In contrast, institutional theory has generated important insights into understanding MSIs as norms (Helms, Oliver, & Webb, 2012; Perez-Batres, Miller, & Pisani, 2011), into how these norms create isomorphic pressures to adopt them (DiMaggio & Powell, 1983), and into how corporate norm adoption leads to phenomena such as decoupling and creeping commitments (Haack, Schoeneborn, & Wickert, 2012). Yet, institutional theory often presupposes the existence of the norm and is less focused on investigating the rationale of the different actors starting the MSI.

One of the reasons for the conceptual diversity in MSI research is the diversity of MSIs in real life. In effect, extant research has identified multiple types of voluntary MSIs which differ in their level or quality of the developed standard as well as their degree of reinforcement (Potoski & Prakash, 2009a; Rasche & MacLean, 2012). Moreover, Potoski and Prakash (2009a) raise concerns about the theoretical rigor as most research is based on single or small-N comparative case studies. As a consequence, scholarship so far lacks generalizability.

The purpose of this paper is thus to respond to the call by Potoski and Prakash (2009a) for a sounder theorization of the field. To this end, we combine club and institutional theory to derive a conceptual framework that can account for both the double nature of MSIs and their diversity in real life. The key aim is to generate insights into why actors join a voluntary MSI, how the various motivations and intentions of the actors influence the kind of standards developed, and how these as well as the MSI design are subsequently influenced by both external (institutional) and internal (club) dynamics.

For this purpose, both institutional and club theory offer important insights. While institutional theory follows the general primacy of institutions – socially constructed rules and norms – as guide for human behavior, club theory is rooted in rational choice economics and thus emphasizes the individual motivation of actors as the main influential factor for their choices of behavior. Thus, by merging these approaches the effects of the various MSI stakeholders (civil society actors, the MSI secretariat, member and non-member companies) can be simultaneously conceptualized with external pressures that further shape behaviors.

By so doing, we contribute to the literature in the following ways. We conceptually merge institutional and club theory which enables us to develop a stage model rooted in the diverse motivations and objectives of the stakeholders involved in the process as well as their adherence to external institutional pressures. This enables us to identify the critical stages where the interplay of the different external and internal dynamics influences how the MSIs develop in terms of membership and strictness of the voluntary standards.

Our paper proceeds in three steps. First, following a brief overview of the current state of literature on self-regulation multi-stakeholder initiatives, we introduce our theoretical framework. Here, we will briefly provide an overview of institutional theory, in particular institutionalization, institutional pressures, and institutional entrepreneurship, as well as of club theory. Moreover, we will also provide extant insights into MSIs derived from these theoretical approaches. We then elaborate our argument on why we consider their combination insightful for better understanding the emergence and development of MSIs and in particular potential tensions that may occur during these processes.

In a third step, we will present a stage model of voluntary MSIs. We formulate propositions on the four stages – self-selection, initial negotiation, external dynamics, and internal dynamics. In a nutshell, we argue that once the initial members have self-selected themselves based on reasons such as wishing to co-produce exclusive reputational capital or to increase rivals' cost, the MSI members will negotiate its further development in terms of both quality (level of the standard) as well as quantity (desired breadth of MSI membership). After the pioneering group agreed on a standard, this proto-institution will then be subject to external dynamics such as legitimization. These external dynamics may incentivize or push new members to join. This change in membership may in turn impact future negotiations on the standard's further development.

Fourth, we derive management and research implications and conclude with some final remarks.

CLUB THEORY AND INSTITUTIONALIST PERPECTIVES ON MULTI-STAKEHOLDER INITIATIVES AND STANDARD-SETTING

This section serves three purposes. First, we provide our understanding of multi-stakeholder initiatives, which we will use for the remainder of the paper. Second, we provide a brief review of the literature on self-regulating MSIs. In a third step, we introduce our theoretical framework that is based on the insights of club theory and institutional theory.

This paper's definition of multi-stakeholder initiatives

In the debate about "governance without governments" (Nolan, 2013; Rosenau & Czempiel, 1992), collective forms of self-regulation have gained a great deal of attention. Despite a multitude of terms used, we refer to this phenomenon as *multi-stakeholder initiatives* (Koenig-Archibugi, 2004; Mena & Palazzo, 2012; O'Rourke, 2006; Utting, 2001)[i] as it emphasizes three facets important for our argument. First, the *multi* prefix stresses the collective dimension of these processes. Second, *stakeholder* underlines the diversity of interests of heterogeneous members and inherent differences in power between nongovernmental organizations (NGOs) and companies (Baccaro & Mele, 2011). Finally, the word *initiative* points to the process from emergence to subsequent development.

In addition, we focus on MSIs that possess the following four characteristics. First, the MSI must address common issues relevant to all or at least most companies in an industry or broader market. We thus exclude MSIs that are built around an individual company (for an example, see the Puma case in Roloff, 2008b) and look instead at MSIs as arenas for collective action (for an example, see the Forest Stewardship Council case in Pattberg, 2005).

Second, the MSI must address problems that remain unresolved due to the absence of adequate state governance (as in Nolan, 2013). In this situation, the MSI offers *voluntary* regulation as a means to overcome the current global governance gaps, i.e. no company is obliged to join the MSI and to adhere to the set standards by any formal legal regulations (Prakash & Gugerty, 2010). Thus, MSIs that do not offer any regulatory aspects are also excluded (for an example see Schouten, Leroy, & Glasbergen, 2012).

Third, and closely related to the first, we focus on MSIs with a global outreach, thus neglecting MSIs that provide local governance platforms (for an example, see Faysse, 2006).

Fourth, the MSI must have at least some degree of formal organization to allow analyzing it as an independent entity and thus be able to distinguish between participating and nonparticipating actors. Note that participation can then be defined not only as formal membership but also as factually applying or publicly endorsing the MSI's principles.

A literature review on self-regulation through MSIs

In the context of multi-stakeholder initiatives, the literature discusses a diversity of topics. These range from inherent management problems such as dealing with potential conflicts between members (Graz & Nölke, 2008), the emergence and development of such initiatives (Hemmati, 2002; Roloff, 2008a, 2008c) to analyses of their effectiveness and legitimacy (Bäckstrand, 2006; Mena & Palazzo, 2012; O'Rourke, 2006). However, in regard to our research question and our specific research object, the current literature informs us about two main points. First, the literature identifies MSIs as an arena where *conflict* or tensions may emerge (Graz & Nölke, 2008; Sethi & Schepers, 2013). Second, the literature considers MSIs from a *process* perspectives insinuating that the strategies and structures of the MSI change over time (e.g., Hemmati, 2002; Roloff, 2008a, 2008b).

(1) One of the challenges MSIs face is the nonbinding character of standards (Gugerty, 2010; Mena & Palazzo, 2012; Vogel, 2008), which can lead to shirking or free-riding (Potoski & Prakash, 2009a). Shirking occurs when participants take advantage of adopting MSI self-regulations only in rhetoric but not in practice (Graz & Nölke, 2008; Potoski & Prakash, 2009a). Free-riding in a more narrow sense occurs when non-participants benefit from an increased external perception that companies have become more socially responsible without actually joining the MSI (Potoski & Prakash, 2009a). Particularly, in the former case of shirking, conflicts between shirkers and non-shirkers (Conlon & Pecorino, 2004) may arise. Moreover, the easier shirking becomes, the greater the problem of adverse selection (Inderst, 2005; Lenox & Nash, 2003) i.e. the inflow of ill-suited members that do not intend to fulfill

the standards but wish to benefit from potential reputational gains. Thus, one of the major challenges of MSIs is to manage "potential conflicts between participants" (Roloff, 2008b, p. 313). Here, a reoccurring theme is that of sanctioning misbehavior (Potoski & Prakash, 2005). In short, the heterogeneity of actors, interests, and resources creates the need for an MSI to manage such tensions in order to avoid deadlock and conflict (Hemmati, 2002).

(2) As MSIs are by definition networks that emerge and then evolve, a second strand of the literature looks at MSIs from a *process* viewpoint (e.g., Hemmati, 2002; Roloff, 2008a, 2008b). Roloff (2008a, 2008b) provides a life-cycle model of multi-stakeholder networks that distinguishes seven possible phases of an MSI. According to this model, conflict management is a key challenge for MSIs in the acquaintance phase, as the participants initially need to establish common ground and a common discourse language (Roloff, 2008b). In particular, members need to familiarize themselves with their new roles and new kinds of relationships (e.g. cooperation instead of competition or cooperating instead of shaming) amongst each other (O'Rourke, 2006). Additionally, in the first agreement phase, conflict management serves to avoid strategic behavior that could undermine open discourse (Roloff, 2008a). In particular, Roloff (2008b) argues that most MSI get stuck between the deliberation process and the two agreement phases. Thus, members seem unable to kick-off implementation because they are continuously discussing the purpose, strategy, and operations of the particularities of the MSI. While this life-cycle model thus explains the effect of diverse or even conflicting stakeholder interests, it offers little interpretation as to why these stakeholders joined in the first place.

We thus posit that an MSI needs to be aware of and effectively manage both potential conflict between different stakeholders and the process of its development. As the brief literature review above illustrates, however, so far little is known about how the two aspects interact or (in parts) how they come about. This gap is what our framework seeks to address.

A set of example MSIs that Appendix A describes in more detail will repeatedly be referred to in order to illustrate our framework.

Grounding MSI's in Club Theory and Institutional Theory

To conceptually grasp the double nature of MSIs and to theorize the interplay between internal and external MSI dynamics we suggest combining club and institutional theory. Here, club theory provides an agentic perspective that enables the understanding of why actors join MSIs, whereas institutional theory then talks to the pressures the MSI faces once it is established. Interestingly, institutional entrepreneurship nicely links these two by providing an agentic perspective on the creation of norms.

Club theory and voluntary standard-setting MSIs

Club theory originates in economics and deals with the effects of club goods on club members and non-members (McNutt, 1999; Sandler & Tschirhart, 1997). Club goods are exclusive to a certain group of actors (members), yet non-rival within the club (Gugerty, 2010). However, while the focus on club theory lies on the particularities of this special kind of public good, all clubs proffer club and private goods. Take the example of a golf club. All members can equally enjoy the golf court (non-rival). Yet, if one member uses the golf cart, other members cannot (rival and thus private good). Similar to "normal" public goods, all members must contribute to uphold the quality and availability of the club good.

Actors join clubs if they perceive the anticipated benefits to be greater than the anticipated or known costs of joining (Fratianni & Pattison, 2001; McNutt, 1999). One of the challenges of clubs is to avoid shirking or free-riding. According to Olson (1965), actors' incentives to free-ride and shirk – i.e. use benefits of clubs without bearing the costs – grow the larger the group. As group size increases, the risk of shirking increases as it becomes more difficult for members to monitor the behavior of all other members. At some point, this behavior then ultimately lowers the overall quality of the club goods as more members try to avoid its costs. Put differently, clubs might suffer a multi-sided social dilemma (see similar Olson, 1965). Therefore, clubs need to find mechanisms to ensure the continuous contribution of their members as well as means to exclude non-conforming members (Potoski & Prakash, 2009a).

From a club theory perspective, MSIs can be conceptualized as clubs, since they offer an exclusive good – reputation – only to those actors that are club members (Bartley, 2009; Diaye, Ghabri, Greenan, & Pekovic, 2007; Gugerty & Prakash, 2010; Potoski & Prakash, 2005, 2009a; Prakash & Potoski, 2007, 2009; Schuler, 2012). The exclusiveness of the reputation for socially responsible business conduct helps to solve a key issue of collective action: starting-up (P. Oliver, Marwell, & Teixeira, 1985). To be precise, clubs organize collective action (Ostrom, 2000) to solve a prisoners' dilemma that occurs when all companies fail to realize a shared interest because of their conflicting individual interests. With an effective club solution, only members can enjoy a benefit; and if this benefit outweighs the cost of joining and being more socially responsible, then companies are willing to join. This insight notwithstanding, there are no particular reasons why the *first* initiators begin the creation of new standards.

Second, while clubs wish to overcome a social dilemma – i.e. allow companies to become more socially responsible without suffering competitive disadvantage – they experience a new dilemma. Specifically, the particular context of voluntary MSIs invites a more fine-grained understanding of the free-riding issue (Marwell & Oliver, 1993; Olsen, 2009). Schuler (2012) extends the club theory framework by arguing that voluntary clubs also create public goods in addition to club and private goods. Here, the public goods are the positive social or environmental externalities created by the improvement of the CSR performance of MSI members (Gugerty, 2010). In this situation, two kinds of free-riding may occur: shirking and free-riding in a more narrow sense (Potoski & Prakash, 2009a). Here, shirking refers to unwanted behavior by club members. As internal free-riders, shirkers are those actors that reap the reputational benefits of the MSI yet do not adhere to the required standards, while free-riding refers to non-member companies that enjoy positive reputation spill-overs to the entire industry.

Third, as standards are voluntary, a key challenge for such MSIs is to attract members (Gugerty, 2010). Therefore, the net benefit of an MSI needs to be clear to non-members in order to incentivize joining. A membership benefit might be the higher credibility of cooperative voluntary standards in comparison to single-company responses (Bartley, 2009). This effect may increase with growing uncertainty. In such situations, the market of information about production conditions is likely to malfunction (Akerlof, 1970). Therefore, while allowing or even encouraging non-members to join, clubs also need to ensure that their standards are uphold, e.g. through monitoring (Bartley, 2009) or through the introduction of certification schemes (Spar & Yoffie, 2000). In addition, MSIs differ in their relative homogeneity. This constitutes an important characteristic as homogenous clubs are superior to mixed clubs in their performance (Berglas & Pines, 1981; Varughese & Ostrom, 2001). Since MSIs are often heterogeneous in their member base, the respective member contributions must be complementary in order to limit inefficiencies (see similar Brueckner & Kangoh, 1989).

Club theory thus provides a powerful rational-choice perspective for explaining MSIs in terms of the relationship between individual incentives and collective action. At the same time, it leaves many open questions. For instance, club theory is unable to explain why some members join earlier than others (Prakash & Potoski, 2009) or why reputation gains are of such importance to company members. Additionally, it is limited in its capacity to fully explain the emergence of voluntary standards as it somewhat ignores the embeddedness of such undertakings in a wider environment (Bartley, 2009). Here, some of these questions may be answered through the application of institutional theory.

An institutional perspective on MSIs

Institutional theory is a powerful explanatory tool (Dacin, Goodstein, & Scott, 2002) that analyzes how the influence of institutions affects the behavioral choices of actors (Tolbert & Zucker, 1996). In this context, institutions are socially constructed taken-for-granted norms that limit the choices of behavior (Tolbert & Zucker, 1996; Zilber, 2002) due to habitualized practices (Lawrence, Hardy, & Phillips, 2002; Tolbert & Zucker, 1996) and shared meaning (Zilber, 2002).

Institutional theory thus advocates the primacy of institutions for constraining behavior rather than intentional agency as in club theory. This effect on behavior can work in two ways. The first, more obvious effect occurs in the case of norm compliance. Yet, secondly, even if an actor resists compliance with an institution and engages in strategies to avoid the norm, this reaction is nonetheless provoked by institutions or more specifically by institutional pressures (Goodstein, 1994). In short, institutional pressures are forces in an actor's environment that push towards specific widely accepted behaviors, as those are considered legitimate.

While strategic responses to institutional pressures (e.g., Goodstein, 1994) or questions of homogenization of organizational forms due to institutional isomorphism

(DiMaggio & Powell, 1983) have been widely discussed in the literature, the question of where institutions come from was neglected for some time (e.g., Pacheco, York, Dean, & Sarasvathy, 2010). Institutional agency or institutional entrepreneurship are relatively new concepts that acknowledge the creation of institutions through intentional agency (DiMaggio, 1988; Greenwood, 2003; Hargrave & Van De Ven, 2006; Rao, Morrill, & Zald, 2000). Whereas institutional agency emphasizes changes within organizations (Goodstein, 1994; C. Oliver, 1991), institutional entrepreneurship analyzes institutional changes within organizational fields (DiMaggio, 1988; Rao et al., 2000). Here, new institutions emerge through the interaction of actors (Zilber, 2002), which aim to break-down existing social structures (habits, practices) (Scott, 1995).

The resulting proto-institutions (Lawrence et al., 2002) - i.e. institutions only adopted by some actors - then need to diffuse and be widely accepted so as to become "proper" institutions (e.g., Leblebic, Salancik, Copay, & King, 1991; Strang & Meyer, 1993). Importantly, the process of institutionalization is not automatic (Zilber, 2002) and may fail along the way. However, the more members of a population oblige by a proto-institution, the greater its gain in legitimacy which in turn increases its likelihood of institutionalization (Hannan, 1986). In short, analogous to the creation of institutions, the diffusion and general adoption of institutions necessitates social interactions.

Turning back to MSIs, institutional theory seems particularly suitable for three main areas. (1) Institutional entrepreneurship sheds light on how actors intentionally create institutions and try to institutionalize them. Thus, in our context, the pioneering members of an MSI actively engage in institution creation processes. Moreover, since the MSI's mission is to set standards for entire industries or broader markets (see first criterion in our MSI definition), they are in need of institutionalizing their proto-institutions. (2) Once the proto-institution has emerged, adopting the MSI norm through membership may become an institution in itself. Thus, the more institutionalized the standard, the more difficult it becomes for non-members – that is non-adopter – to resist joining. (3) This is because the existence of the new institution shifts the expectation levels for organizational behavior. Thus, companies may feel the need to join the MSI in order to regain or maintain their current level of legitimacy as non-joining may result in reduced levels of sociopolitical legitimacy, which may incur costs for the company.

So far, the current literature predominately addresses the second aspect: the institutionalization process of the MSI institution (e.g., Haack et al., 2012; Maguire, Hardy, & Lawrence, 2004) and only some address institutional entrepreneurship (Maguire et al., 2004). During institutionalization, mimetic – imitating others due to uncertainty – and normative – profession-based influences – isomorphic pressures (DiMaggio & Powell, 1983) seem to have a great influence in the context of CSR (Perez-Batres et al., 2011). Moreover, Haack, Schoeneborn, and Wickert (2012a) identified various means of institutionalization. In particular, they argue that the mere verbal commitment to MSI standards by new members changes internal processes of the respective company, which in turn might lead to a higher CSR activity. This phenomenon is called creeping commitment (Haack et al., 2012).

Despite these first insights into the process of institutionalization of MSI norms, little more is known about its emergence. Moreover, studies so far mostly neglected the issue or threat of deinstitutionalization (C. Oliver, 1992) or other changes in the MSI institutions (Zilber, 2002). The latter is of particular relevance as in practice many MSIs are accused of either not further advancing a given standard level or even watering down their standards over time (e.g., as in the case of FSC, see Moog, Spicer, & Böhm, 2014).

To sum up, institutional theory sheds light on many of the pressing questions about the double nature of MSIs. Nonetheless, questions about the emergence of MSI norms, their alterations over time, and their influence on different kinds of non-complying actors remain mostly unanswered.

An institutional-club-theory perspective on MSIs

For the purpose of this paper, we argue that it is beneficial to combine both club theory and institutional theory as their distinct perspectives on actor behavior – rooted either in norm compliance or intentional agentic behavior – supplement each other. Their respective insights help to fill the blank spots of the other perspective. Table 1 summarizes the complementarity of both theories in a condensed overview.

Insert Table 1 about here

In short, club theory helps to understand why actors join clubs at different stages of the club life-time. Institutional entrepreneurship underscores the process of institution creation while other streams of institutional theory inform us about the institutionalization process, and its consequent build-up of expectations for various actors. Moreover, once these pressures occur, club theory then sheds light on internal dynamics in response to external institutional pressures.

A STAGE MODEL OF INTERNAL AND EXTERNAL DYNAMICS CAUSED BY THE DOUBLE NATURE OF MSI'S

This section aims to generate theoretical insights into the double nature of MSIs and its effects on the MSI development. In particular, we divide our conceptualization into four stages. These are the self-selection of pioneer members, the initial negotiations, the external dynamics caused by institutionalization processes, and the internal dynamics stage. Referring to the propositions developed below, Figure 1 gives an overview of these four stages and their potential actor and institutional dynamics.

Stage 1: Self-selection at the pre-set-up stage – who joins and why?

The first crucial element that we need to understand is the underlying mechanisms of MSI set-up. Specifically, we look at why which kinds of *pioneers* (initial members) set up an MSI, given they have the free choice to do so.[ii]

In this *self-selection stage,* pioneer members come together to pursue a common objective of closing governance gaps through business self-regulation. Given the intent to create a new institution, this collaboration of first-movers can be interpreted as an attempt of collective institutional entrepreneurship. To understand who self-selects for what reasons to join this initial coalition, we suggest looking at the underlying self-interests of the different actors.

Insert Figure 1 about here

Intuitively, the first founding members for an MSI that come to mind are civil society organizations (CSOs) that are active in the respective field. Advocacy CSOs define their raison d'être in terms of addressing ecological, social, or human rights issues in various domains. Thus, if processes are kicked-off that might lead to business self-regulation in a CSO area of expertise, those respective CSOs willing to engage in partnerships are likely to participate so as to influence the process in a direction they consider favorable. As real-life examples show, CSOs often even act as initiators of these processes (e.g. the WWF in the case of the FSC). Similarly, some governmental actors may also become pioneering members if one of two situations arises. First, governments may support an initiative that addresses a global governance gap that they cannot address unilaterally (e.g. OECD governments in the case of the EITI (EITI, 2013)). Second, if the governance gap is national or regional, governments might fear repercussions from other countries (see the sweatshop case in (Bartley, 2009)). Coming back to the institutional entrepreneurship perspective, both civil society and governmental actors can thus play an important role in the initial institutional entrepreneurial coalition by holding the necessary “subject position” (Maguire et al., 2004) to serve as agenda-setters and coalition conveners to attract or bring together other – in our case business – MSI members. Take the example of the FSC. Here, companies in the timber industry were already considering standards to protect their vital resource. However, only when the Worldwide Fund for Nature (WWF) entered the discussion and brought actors together did the FSC certification move forward (FSC, 2014). By the same token, the WWF played a similar role in the Marine Stewardship Council and in the Roundtable for Sustainable Palm Oil.

In MSIs, CSOs and governmental actors partner with business members. However, MSIs typically start with only a small sub-group of businesses who self-select to be pioneer members, a fact that invites looking at the underlying self-interest that propels companies to voluntarily create self-regulations. Here, we suggest distinguishing two forms of self-interested motivations for a company to be an MSI pioneer: first, illustrating arguments proposed by club theory, companies seek to create a *difference* from poorly performing competitors by establishing an exclusive club that provides them with distinctive reputational capital; second, illustrating the idea of institutional entrepreneurship, companies can try to establish the *same* norm for their competitors in the attempt to improve their position in the context of firm rivalry.

Building exclusive reputation through the creation of clubs

Here, the logic is that companies partner with other stakeholders and above all other companies to co-create reputation as a club good. MSI membership then serves to provide a signal that a member company fulfills a certain level of superior sustainability performance.

Note that this reputation-based rationale can exist in a defensive and in a pro-active way. In the defensive case, companies with high reputational capital at risk (such as global consumer brands (Bartley, 2009; Lenox & Nash, 2003) are ready to partner with others and establish an MSI in order to jointly fence off reputational risks for two somewhat interlinked reasons. On the one hand, if one company is attacked by civil society organizations, generally other firms within the industry suffer (King, Lenox, & Barnett, 2001) as the discussion quickly changes from "company x" to "those textile companies". By working together in a club companies protect each other. On the other hand, firm behavior is steered by anticipated repercussions. Interestingly, this behavior may be explained through institutional theory. Institutions are expectations to guide the behavior of actors (Tolbert & Zucker, 1996). Thus, if companies anticipate that there might be a potential loss in reputation if they do not participate early in an MSI, they act on *anticipated* institutional pressures. Such anticipation might be rooted in past experience, regardless of whether it was their own or that of other businesses.

The Forest Stewardship Council (FSC) provides an example for how pioneer companies self-selected to establish the MSI based on reputation-driven considerations. When the FSC was started in 1993, a key founding member was B&Q – not only one of the largest UK hardware and wood-products retailers but also a prime target of citizen protests during tropical timber boycotts in the 1980s. IKEA quickly followed suit. As "public relations sensitive firms", these first-movers thus used the MSI to defend themselves against reputational risks (Moog et al., 2014, p. 9).

In the offensive case, sustainability pioneers wish to distinguish themselves from competitors that are less socially responsible. From a club theory perspective (McNutt, 1999; Potoski & Prakash, 2009a), we can conclude that if each member contributes a certain level of performance (their costs) and thereby reputation to the club, they will benefit from the reputation of the others in addition to their own reputation. Indeed, in the case of EITI, Schuler (2012) showed that companies had a greater likelihood of supporting EITI when they wished to differentiate themselves based on their social performance. Additionally, such a strategy might be of particular interest for companies that so far lack visibility. These companies are then able to benefit from the greater visibility of others, as this will in turn raise their visibility.

Despite very different rationales, in both the defensive and offensive case the MSI serves as a club to jointly produce a reputational good with which members can communicate more credibly to be different from the (poorly performing) rest of the market. Put differently, companies try to achieve competitive advantage through committing themselves to standards that make them *different* from competitors. Here, companies' desire to secure or increase their individual reputation creates an incentive to coalesce with others to produce reputation as a club good.

We thus posit:

Proposition 1a: The higher the potential reputational benefits or the higher the perceived risk to one's brand value, the more likely are businesses to become pioneering members of standard-setting MSIs.

Using institutional entrepreneurship to change the context of firm rivalry

The reputation-based first strategy was about creating a club that allows companies communicating that they are *different* from their competitors with a poorer sustainability performance. The second rationale follows a different logic. Here, companies could gain a competitive advantage if the entire industry was bound by the *same* standard or norm. In this case, companies become pioneers in initiating an MSI if they expect the new standard to improve their position compared to another group of competitors. Thus, they act as collective institutional entrepreneurs and try to influence the type of proto-institution that will be developed to their own advantage. Here again, there is a defensive and an offensive version of this strategy.

In the defensive variant, companies want to make sure that competitors are pressured to bear the same costs that they already bear or are likely to bear in the future. Examples include companies that are subject to legislation in their home country or that experience pressure from a strong stakeholder. By engaging in institutional entrepreneurship aimed at expanding the range of these norms to other firms, companies can defend themselves against costs that they would need to otherwise bear unilaterally.

In the offensive variant, companies do not defend themselves against idiosyncratic external pressures. Rather, following the resource based view (Wernerfelt, 1984), companies differ in the internal ability to achieve a certain sustainability performance (McWilliams, Van Fleet, & Cory, 2002). If a company possesses special resources such as expertise, technologies that are difficult to imitate, or exclusive access to specific supplies (such as organic raw material), it can meet the same sustainability performance at cheaper costs than its competitors. Institutional entrepreneurship aimed at establishing new sustainability standards through an MSI can therefore serve to create pressures for raisings one’s rivals’ costs (McWilliams, Siegel, & Wright, 2006).

An illustration of an attempt of institutional entrepreneurship to change the context of firm rivalry through an MSI can be found in the early stage of the EITI. Here, Shell and a small group of other EITI pioneers indicated that they would comply with mandatory regulation; however, only if all competitors were also required to do so (Haufler, 2010). This can be interpreted as a first-mover signal of companies who would benefit from a new industry norm – be it in a defensive way because Shell felt that it already experienced individual pressures to bear at least some costs that others should bear as well or in an offensive way to use its superior performance to raise rivals' cost. In the end, however, other EITI pioneers blocked this attempt, as they were not interested in mandatory regulation. Arguably, the reason for which they joined as first movers might have been to create reputational benefits in a defensive way.

Despite the differences between the defensive and offensive variant of institutional entrepreneurship, both cases have in common that a company benefits from pushing for a norm whose broad(er) application improves the competitive position of the firm. Being a pioneer in the establishment of a new MSI then amounts to a form of institutional entrepreneurship to establish such a norm.

We thus posit:

> *Proposition 1b: The more a new norm would improve a company's competitive position, the more likely is a company to welcome and participate in the set-up of an MSI that seeks to promote this norm.*

Stage 2: Set-up stage – negotiating the terms of MSI scope and membership

Companies thus do not join the set-up phase of a new MSI randomly. Rather, they self-select based on their self-interest in reputation-building or influencing the competitive context. However, as shown above, companies are not the only actors in a multi-stakeholder initiative. Next to companies, civil-society organizations and governmental organizations, the MSI secretariat might also become a separate internal stakeholder once the MSI is established as an independent organization. As processes of institutional entrepreneurship are inherently political (Maguire et al., 2004), the different self-interests outlined in the previous subsection will lead to an internal political struggle. In particular, in order to create proto-institutions members need to reach a state of congruent meaning and consequent practices (Zilber, 2002). Thus, they need to agree on what the MSI's concrete purpose and mechanisms will be.

In her life-cycle model of MSIs, Roloff (2008b) addresses these points in her "acquaintance" and "agreement" phases. Despite her generated insights, this model falls short of elaborating how the interaction between various interests results in different types of MSI standards. To classify these different MSI types, Potoski and Prakash (2009a) develop a two-by-three matrix that yields six different types of MSIs. On one axis, MSIs can be differentiated based on their stringency or lenience. On the other dimension, they are strong, medium or weak "swords" i.e. have high or low sanctioning mechanisms. Each of the six types of MSI yields different degrees of reputation benefits (Schuler, 2012). While this typology is helpful to compare the regulatory *output* produced by an MSI, it is less conducive for our purpose of analyzing the potentially diverging interests of the MSI pioneers involved in the process of creating this output. In order to consider the respective interests of the pioneer members addressed in propositions 1a and 1b, we therefore suggest referring not to the level of the standard and the level of sanctioning but to the level of the standard and the *number* of desired members. Based on this distinction, we can now look at how the partially conflicting interests of member stakeholders create different 'pushs' whose interaction influences which type of standard emerges in this process.

The push for selective MSI membership

Those companies seeking to distinguish themselves through membership in the MSI club seek to increase the joint production of reputation in two ways. First, as reputation also results from visibility, the club's reputation can increase if the MSI attracts more company members (or companies who apply the standard). Second, however, overall reputation will only increase if the new members have a sustainability performance that is high enough to add positive reputation to the group. In other words, new members need to share the cost of high sustainability performance (McNutt, 1999). Otherwise, poor sustainability performers would not only shirk on the group's reputation but might actually destroy the club's reputation. This may happen as outsiders are not able to distinguish shirkers from non-shirkers (Potoski & Prakash, 2009a). Thus, if one company performs poorly, consumers or civil society actors are likely to collectively blame and shame the MSI as a whole. Therefore, the club good value would be greatly diminished. Correspondingly, clubs with high stringency create higher club goods (Potoski & Prakash, 2009a). As a consequence, companies interested in the production of reputation will favor the exclusive growth of the MSI limited by strict screening and monitoring to prevent adverse selection and shirking. We thus propose:

Proposition 2a: The greater the influence of companies that seek to secure their reputation, the greater the pull towards exclusive growth, that is increasing membership of good sustainability performers and restricting membership to poor sustainability performers.

In addition, there may be a further type of reputation-seeking companies that wish to expand membership selectively. However, the increase in membership is not meant in terms of company members but in terms of civil society actors. If companies perceive not only reputation but also legitimacy[iii] as their club good, they are interested in the participation of civil society organizations. These actors are usually carriers of legitimacy in their respective field of sustainability. Thus, if more such actors participate in the MSI, the legitimacy of the MSI and thus of its entire member base increases. In other words, the participating civil society actors give their stamp of approval not only to the MSI but to its members simultaneously.

Proposition 2b: The greater the influence of companies that seek to increase their legitimacy, the greater the pull towards the inclusion of relevant civil society actors.

The push for broad membership

If we now consider those businesses that wish to change the competitive context of their rivals, we find different interests. As argued above, some companies might benefit from a new norm if norm compliance increases rivals' costs. Consequently, such business institutional entrepreneurs have a nuanced interest in the type of MSI standard developed. To start with, these companies would prefer a standard that is strict enough to create meaningful costs for competitors. Given the voluntary nature of self-regulation, however, high standards render it unlikely that many competitors actually join the MSI and commit to the new norm (Potoski & Prakash, 2009a). Consequently, especially in the defensive variant aimed at creating a level playing field, the institutional entrepreneurs will prefer a standard that, while keeping a minimum standard, allows wider membership through lenient requirements and low-entry barriers. Potoski and Prakash (2009a) come to a similar conclusion by arguing that lenient weak sword MSIs are likely to increase their membership the fastest. Here, they refer to the "network effect" that happens as more and more members join. Taking an institutional theory perspective, we can conceptualize these networks effects as self-reinforcing institutional pressures that non-members experience. While these institutional pressures strictly speaking do not occur before stage 3, we suggest that pioneer businesses wish to create such institutional pressures by promoting membership and norm compliance. Since the future degree of taken-for-grantedness depends on the inclusiveness of membership, pioneer businesses seeking to establish such an institution will push for broader membership while demanding a minimum standard. By so doing, these companies hope to ensure quick build-up of institutional pressures while making rivals "pay" as the latter will need to fulfill at least some kind of standard they did not before. Based on our argumentation, we conjecture:

Proposition 2c: The greater the influence of companies that seek to alter the context of firm rivalry, the greater the push to expand MSI membership while keeping a minimum standard.

The influence of civil society organizations

Since an MSI has civil society actors as their founding members, it is important to understand their preference in respect to the qualitative and quantitative elements of the MSI standard. As civil society actors seek to create impact i.e. induce large-scale positive change within society or for the environment (Bradach, 2010), they will, on the one hand, tend towards a larger membership, as only a change in many businesses will have significant impact on society. On the other hand, their mission focus also propels them towards wanting high standards. Again, however, there is a tradeoff between strict standards and inclusive membership.

In the case of the FSC, this core dilemma was faced at the time of its founding months, namely the decision to opt for a fast-growth strategy as a means to set a global benchmark (Moog et al., 2014). While key environmental organizations were favouring the highest possible standards also at the cost of only having a small membership base, "those voices arguing that the scheme must aim for the greatest immediate impact by capturing the broadest possible segment of the global consumer market won the day" (ibid.).

By this logic, CSO actors would strive to achieve a balance between large membership and high standards. Thus, we posit:

Proposition 2d: The greater the influence of mission-driven actors, the greater the push towards increasing impact by striking a balance between broad membership and standard strictness.

In sum, the self-selection effects of the pre-set-up phase of an MSI can bring together different actors with diverse and, more importantly, conflicting interests. In particular, the interests of reputation-seeking companies in restricting membership clashes with the interest of companies who want to gain competitive advantages by promoting the taken-for-grantedness of a new norm through low entry barriers and wide membership. At the same time, reputation-seeking companies welcome the inclusion of reputable CSOs who, in turn, however, bring in a middle-position that seeks to strike a balance between broader membership and strict standards. As a consequence of these diverse interests, the initial negotiation phase of an MSI is a highly political process that can easily lead to the failure of an MSI. Indeed, Roloff's (2008) life cycle model indicates that many MSIs are stuck in the agreement phase. Only if the MSI can meet the essential interests of the various internal and external stakeholders, can it gain output legitimacy (Bäckstrand, 2006). Achieving such a state needs to reflect the relative power of the key members. As the next section shows, however, the very success of an MSI triggers institutional dynamics that may destabilize this delicate power balance.

Stage 3: External dynamics – the building up of external expectations and the inflow of new members

As institutional theory informs us, proto-institutions may only become "proper" institutions if they are adopted by actors that were not part of their development (Lawrence et al., 2002). Note that regardless of the outcome of stage 2 – exclusive club or minimum standard club – pioneers will have an interest in institutionalizing the MSI norm. As a consequence, the MSI will seek to bring forward its proto-institution in either case. Going back to institutional entrepreneurship, it is most likely that the MSI will do so by providing meaning and by linking its new practice to existing practices (Maguire et al., 2004). This process may then create reactions within the external environment of the MSI. We suggest that, depending on the scenario, at least one of two mechanisms occurs.

The attraction of shirkers

In the first scenario, a high-reputation club that reflects the assumptions of club theory (Potoski & Prakash, 2009a) has been established during stage 2. In this situation, the club good – high reputation for sustainability performance – generates the incentive for so-far non-participating companies to be part of the club, no matter whether they are high- or low-sustainability performers. For both groups, club membership would offer desirable reputation effects. For the latter group of low sustainability performers, however, the club may offer an opportunity to gain sustainability reputation without actually having to be more sustainable in their operations. Put into the wording of club theory, such clubs are very attractive for potential shirkers (E. Ostrom, 1990). Without sufficient and effective screening mechanisms, these exclusive club MSIs therefore run the risk of facing adverse selection (Lenox & Nash, 2003). We thus propose:

Proposition 3a: The higher the perceived club good of reputation, the greater the push of non-participants with lower sustainability performance to become members in order to (at least partially) free-ride on that club good creating the problem of adverse selection.

The external push to join

As the MSI strives for institutionalizing its proto-institution, we now take on an institutional theory perspective to identify another external dynamic. Generally speaking, the process of institutionalization creates and requires legitimacy. While legitimacy is gained during institutionalization, this process is unlikely to start without any initial legitimacy. In particular, two types of legitimacy are of importance: cognitive and sociopolitical (Aldrich & Fiol, 1994). For cognitive legitimacy to occur, outside actors need to understand the institution or trust the institutional entrepreneur (Aldrich & Fiol, 1994). Understanding a novel institution, however, requires learning over time. That is why we suggest that existing trust in already well-known actors plays a more significant role in the early stages of an MSI. By this logic, external stakeholders gain trust in the MSI due to the membership of reputable civil society organizations. Once cognitive legitimacy has then been established, sociopolitical legitimacy – acceptance by society – can follow.

If the MSI gains some degree of legitimacy, this in turn may lead to two interlinked effects. First, non-participating companies that seek legitimacy in regard to sustainability issues may turn to the MSI due to its established legitimacy. In situations of uncertainty, actors are prone to imitate the behavior of actors that they perceive as best-practice or well-established (DiMaggio & Powell, 1983). As the MSI consists of members with a moderate to high sustainability performance, non-participants with a lower sustainability performance might perceive that behavior as legitimate. Thus, they follow mimetic isomorphic pressures (DiMaggio & Powell, 1983). Indeed, the case of the UNGC indicates that mimetic pressures are a core element in UNGC participation (Perez-Batres et al., 2011). Thus, we propose:

Propositions 3b: The greater the perceived legitimacy of the MSI norm, the greater the likelihood that companies with lower sustainability performance will join the MSI to overcome uncertainty.

The perceived legitimacy also has a second effect. With increasing institutionalization the MSI norm may replace previous norms of appropriate behavior. Due to this increased visibility and acceptance, external stakeholders such as government agencies, non-member civil society organizations, or consumers may push a company into joining the MSI, thus creating coercive isomorphic pressures (DiMaggio & Powell, 1983). Companies may then regard MSI membership as a quasi-law or–to use the legal term–soft law (Nolan, 2013). For instance, Campbell (2007) found that companies are more likely to follow sustainable business conducts in environments where such behavior is expected. In the case of UNGC, European companies show a greater tendency to join self-regulations as the demand for such behavior by both European society and governments is greater than in other areas (Perez-Batres et al., 2011). Thus, due to institutional pressures brought forward by other external actors, non-participating companies are expected to enter the MSI. Note that this effect applies to non-participating companies irrespective of whether they have a high or low sustainability performance. We thus posit:

Proposition 3c: The greater the visibility of an MSI and the consequent institutional pressures other actors can create, the stronger will be outside pressures for non-participants to join the MSI.

Moreover, we argue that if those companies that wish to change the competitive field prevailed during stage 2 and lower standards were decided on, this effect becomes even greater. If companies perceive the standard to be obtainable without prohibitive costs, they are more likely to join in response to external pressures. In contrast, if standards are high and cost-intensive, non-participants will be more likely to strategically choose to resist the new institution. We thus conjecture:

Proposition 3d: The lower the standards, the sooner will non-participants yield to external pressures to join the MSI.

When linking the two effects described above, we observe a self-reinforcing mechanism. If companies join the MSI regardless for what reason – mimetic isomorphism or institutional pressures –, these behavioral choices further alter the institutional landscape for the remaining non-participants. For those joining to overcome uncertainty, the MSI becomes even more attractive as the perceived legitimacy has increased due to an increase in membership. Similarly, increased membership and visibility makes it more likely that external stakeholders such as analysts, investors, CSOs, or other firms take norm compliance for granted and in turn raise their coercive pressure on non-participants.

The EITI can be interpreted as providing an example of the effects discussed here. As most companies were reluctant to accept a high level standard, the EITI effectively *lowered* company requirement, thereby entering the route into becoming what Potoski and Prakash (2009) call lenient standards. In the years following the shift in company requirements, participant numbers not only started growing but after 2006 even accelerated (see Table 2). From 2006 onward, the higher the number of “supporting companies,” the greater the number of new companies that joined the initiative. Arguably, the growth of the MSI created a self-reinforcing pressure on non-participating companies to join EITI. We conjecture that this was due to an emerging social norm of “resource transparency” which led companies to consider it necessary to endorse the EITI, at least in rhetoric (Aaronson, 2011; Gillies, 2010). In contrast, companies whose continued existence is less dependent on their reputation, such as state-owned companies in China (China National Petroleum Company), Russia (Lukoil), and Indonesia (Petronas), who are not under the scrutiny of NGOs and private investors did not feel the need, so far (as of September 2014), to join EITI as supporting members (Aaronson, 2011).

Insert Table 2 about here

In short, both effects of mimetic and coercive isomorphic pressures further increase both membership and visibility, thus pushing even more companies into the MSI. We thus propose:

Proposition 3e: The larger the MSI becomes in terms of its membership, the greater the pressures for non-participants to join which leads to a self-reinforcing process of increasing membership.

As a consequence of this spiral of institutional pressures and actor behavior, the composition of MSI members is likely to change. There is a tendency that new members who are pressured to join the MSI display a poorer sustainability performance than earlier members. The reason is that first those companies are likely to join that can at least partially fulfill the required MSI norm. Very poor performers might only join once pressures are built up so highly that they are unable to further resist them. Consequently, we suggest:

Proposition 3f: The greater the pressure to join, the more the respective sustainability performance of new members will tend to be lower.

In short, the success of the MSI (visibility, membership, norm institutionalization) creates institutional pressures for so-far non-participating companies to join/apply the standard. As a consequence, the composition of company members changes. While self-selection effects in the pre-set-up stage brought together companies with a superior sustainability performance, new firms now enter with a somewhat poorer sustainability performance.

Stage 4: Internal dynamics – pushes to change the MSI norm

As institutional dynamics change the self-selection effects of new MSI members, the composition of MSI company membership changes as well. This change in membership may, in turn, affect the MSI norm (institution). This is because actors carry the meaning of institutions; thus, if actors change, so do the institutions (Zilber, 2002).

Despite potential differences in their goals, during stage 1, positive selection effects ensured that pioneers were likely to share not only a superior level of sustainability performance but also some form of (negotiated) goal congruence. With expanding membership both factors are likely to change. As some of the followers (non-pioneer members) enter the MSI due to uncertainty or institutional pressures, not only their sustainability performance but, more importantly, their interests are likely to at least partially diverge from that of the pioneers. This is in line with Tolbert and Zucker's (1996) stage model of institutionalization, which postulates that in the objectification, once the proto-institution was launched, the group of adopters becomes increasingly heterogeneous, turning the previously observed imitative impetus of participating companies into a normative impetus for diffusion (Tolbert & Zucker, 1996). In other words, new members are increasingly likely to join based on a "coerced egoist" CSR logic (Husted & Salazar, 2006). Here, companies join an MSI not because they care about the actual MSI mission but because they respond to e.g. coercive isomorphic pressures (DiMaggio & Powell, 1983). At this point, club theory and institutional theory predict similar patterns as club theory also predicts difficulties with an increase in heterogeneity within clubs (McNutt, 1999).

For that reason, we argue that the MSI enters into another round of – explicit or implicit – negotiations. Yet, in this stage, the focus is more internally as some of the new members try to influence the further development of the MSI norm. Thus, in order to understand the new internal dynamics, we need to understand the interests of new members. To this end, we introduce three new internal stakeholders: the MSI secretariat, shirking reputation-seeking followers, and institutionally pressured followers. For the purpose of analytical clarity, we conjecture that the interests of pioneers remain the same.

The MSI secretariat and potential tendencies toward enlarging the MSI

There is a great deal of literature that analyzes MSIs as networks or forums for mutual discourse (L. W. Fransen & Kolk, 2007; O'Rourke, 2006; Roloff, 2008a, 2008c), but to our knowledge, no literature investigates the MSI itself as an independent entity able to interact with other internal and external stakeholders. This lacuna is surprising because almost every MSI relies on some sort of secretariat that is not free of organizational self-interests but also has a stake in the development of the initiative. While we insinuate that the MSI secretariat and its interests may already exist in stage 2, during this phase their status is still very rudimentary and closer to a position of mere coordination (e.g. meeting scheduling). Yet, once the MSI has gained visibility, the MSI secretariat also gains recognition for instance in its role of providing information to outsiders or handling public relations.

For the MSI secretariat, communication of the MSI's activities and, especially, its success is crucial not only for raising public awareness of the MSI but also for securing future resources. However, unlike for-profit firms, which have easily communicable figures such as sales or profit, nonprofit organizations often find it difficult to demonstrate measurable, quantitative success (Ebrahim & Rangan, 2010). To overcome this problem, they often attempt to make their achievements seem more tangible by defining quantitative proxies of performance (Bagnoli & Megali, 2009; Nicholls, 2005).

MSIs can face similar problems of defining and communicating success. Indeed, since attaining resources critically depends on perceived legitimacy, the MSI secretariat is under pressure to deliver "tangible outcomes." In its set-up and internal negotiation stage, one important tangible outcome could be the generation of a new standard or principle (see above). Once the standard exists, however, the MSI secretariat needs to find another way of documenting success. In the early stages, in particular, external stakeholders lack means to evaluate the performance of the venture, which is, however, essential for gaining and maintaining cognitive legitimacy (Aldrich & Fiol, 1994). It is at this point that the number of MSI company members can become a proxy for mission fulfillment. Yet, as known from the nonprofit literature, such proxies may trigger a "what you measure is what you get" effect (Lindgren, 2001; Spitzer, 2007). Thus, if MSI secretariats measure and communicate their progress based on growth in membership, the MSI secretariat may increasingly shift its attention toward increasing the MSI membership.

According to some critics, the UNGC is an illustration of this phenomenon, as, over time, it arguably abandoned its initial mission to instead opt "for a deceptively simple alternative claim of success, emphasizing the number of UNGC signatory companies" (Sethi & Schepers, 2013, p. 11). Similarly, with regard to the EITI, Haufler (2010, p. 65) notes that from its initiation in 2002 until about 2006, "the proponents of the EITI struggled to expand its membership," both in terms of participating companies and participating countries. Indeed, the U.K. government—a key external stakeholder—"pushed to gain more participation" (ibid.) – which led to various changes in the EITI strategy. One element of these changes in the EITI was that while *tightening* requirements for governments, requirements for participating companies were *loosened*. Instead of requiring participating companies to commit to a minimum transparency standard, EITI implemented a new "supporting company" status with rather vague – and strictly voluntary – commitments.

Against this background, we propose:

Proposition 4a: The more and the longer the MSI's legitimacy depends on communicating quantifiable measures of success, the more likely is the MSI secretariat to work toward increasing the MSI through additional members.

A further divergence in interest – new company members

Reputation-seeking followers with the intent to shirk join the MSI in order to free-ride on the reputation of other members. As such, they are not interested in further increasing the membership base of the MSI. After all, MSIs with lower standards also proffer lower reputational value to their members (Potoski & Prakash, 2009a). The reason is that other shirkers would reduce the overall quality of the reputational club good. Consequently, shirkers who managed to somehow sneak into the MSI would, once in it, prefer high entry-barriers for so-far non-participating members or at least oppose reducing the level of MSI standard as this may reduce the reputational value they seek. Thus, somewhat ironically, the interests of reputation-seeking followers and reputation-seeking pioneers point in the same direction, yet for different reasons. We thus conjecture:

Proposition 4b: The greater the influence of new member companies that seek to increase their reputation, the greater the push towards exclusive growth, that is increasing membership of good sustainability performers and restricting membership to poor sustainability performers.

In contrast, those followers that were pushed into the MSI due to institutional pressures would have very different interests. First, as they are likely to have a poorer sustainability performance (otherwise they would not have to be pushed into the self-regulation), their interest in tightening the standard is limited. In effect, their preference is likely to lower the standard instead. By so doing, they would incur less cost in abiding to the MSI norms. Second, pressured followers would however be interested in an increase in membership. The rationale is that the inclusion of additional members with a poor sustainability performance will make it very difficult to further tighten the standards. In the extreme, the poor sustainability performers might even capture the self-regulation process and effectively water down the existing standard. Thus, in contrast to the pioneers aiming to raise rivals' costs, coerced new members, whilst agreeing to increase membership as widely as possible, do not wish to keep or tighten a certain minimum standard. We thus propose:

Proposition 4c: *The greater the influence of companies that were pressured into MSI membership, the stronger the push towards inclusive growth and reducing MSI standards.*

A possible trajectory – the downward spiral

As the previsions propositions demonstrated, the diverse actor and institutional dynamics in the development of an MSI create 'pushs' that can direct an MSI into very different trajectories. We will now take out one particular scenario to illustrate one of many possible such trajectories. In this scenario, the majority of followers was pressured into joining and did not perceive a decisive reputational gain. Furthermore, due to institutional dynamics addressed in proposition 3e, the relative number of coerced members is increasing. In this situation, we conjecture that a self-reinforcing process of watering down the MSI standard becomes increasingly probable. Our argument goes as follows:

The more institutionally pressured companies with poorer sustainability performances join, the higher not only their number but also their influence, be it through formal voting procedures or the more informal influence of their sheer numbers. If coerced followers have increasing influence, joining the MSI therefore becomes less risky for other, so-far non-participating companies with poorer sustainability performance. In related work, Lenox and Nash (2003) discuss the problem of adverse selection in industry self-regulation that arises when at some point lower quality firms seek to participate. They argue that without mechanisms for ensuring compliance with program objectives, "bad firms will join to receive the insurance and signaling benefits of membership" (Lenox & Nash, 2003, p. 4) without engaging in the required effort. Indeed, if entry is left unrestricted, in time "adverse selection will undermine self-regulatory programs" (ibid., p. 2). An increasing number of members may then require the MSI to accommodate increasingly divergent interests, which, in turn, makes it even more tempting for poor performing followers to become members (Sethi & Schepers, 2013). We therefore posit:

Proposition 5a: The greater the number of poor performing and coerced companies that join the MSI, the more attractive the MSI becomes to other poorer performing companies.

What will be the effect of an increasing number of members who wish to lower the MSI standards? Haack et al. (2012) argue that the act of joining or publicly adopting a norm can lead to creeping commitments. The underlying mechanism is that post-adoption discursive processes will eventually lead to an internal identity transformation (Haack et al., 2012). If this is correct, it means that these followers will change their preferences through discursive practices and eventually develop a positive interest in the MSI mission. This is why Haack et al. (2012) view low entry barriers to joining as appropriate for promoting the MSI norm.

We agree that discursive practices *can* play a relevant role in constructing actor identities and interests. However, we challenge the assumption that discursive norm adoption *necessarily* leads to these effects. On the contrary, if followers behave strategically and pay only lip service to a certain norm, we claim that allowing their admission can have counterproductive effects for the MSI. As the proportion of such followers increases, they gain, all else equal, more power in the democratic and deliberative processes within an MSI. Due to their different interests, the MSI then runs the risk of "regulatory capture"[iv] (Laffont & Tirole, 1991) as a result of enlarged membership. In short, low entry barriers for adoption do not necessarily guarantee self-reinforcing identity transformation but may trigger self-re-enforcing strategic behavior.

According to Cheit (1990, p. 176), "most private standards are 'consensus' standards […] This process seems practically designed to ensure that standards-setters follow the path of least resistance." By this logic, private standard setting can be "controlled by those who want the least done" (Rasche & MacLean, 2012, p. 4), which illustrates why an enlargement process continuously focused on attracting new (lower performing) members may create a conflict between these new members who might, instead of engaging in transformative discourse, engage in "obstructionist participation, creating discord and blocking decision-making on sensitive issues" (Truex & Søreide, 2010, p. 7). Again, critics see the UNGC as a good example in that, according to Sethi and Schepers (2013), the initiative suffers from a promise-performance gap, as public delisting of companies remains the only sanction of the initiative and its practices constitute "an open invitation to entice the worst performing companies to become signatories in good standing, i.e., adverse selection and free-rider gone amok" (for similar arguments, see Berliner & Prakash, 2012). We thus posit:

Proposition 5b: The greater the relative number of companies who join based on institutional pressures, the more likely are tendencies toward loosening the standards promoted by the MSI.

While institutional entrepreneurs are able to create institutions (DiMaggio, 1988), for those proto-institutions to become taken-for-granted they simultaneously destroy existing institutions. The latter process is often called deinstitutionalization (C. Oliver, 1992). We conjecture that if the above-described scenario is uninhibited, it might ultimately lead to a deinstitutionalization of the MSI norm. This may occur if the meaning of the institution and its practices are not aligned (Zilber, 2002). Thus, if followers interested in pulling down the standard succeed in their endeavor, the institutionalized meaning of the MSI norm and its practices are no longer aligned.[v] Furthermore, if outside stakeholders realize this downward movement of the standard, they will raise skepticism and are likely to withdraw given legitimacy as they would not consider the soft law MSI norm as robust i.e. it is not anymore what it was set out to be (Nolan, 2013). Thus, while both the MSI secretariat and parts of the pioneering company members (raising rival's costs) may wish to hold onto a certain minimum standard, their push towards an increase in membership may lead to the exact opposite. Rather then using soft law to force others to comply with a standard, those that were forced push back by watering down the standards.

IMPLICATIONS AND CONCLUDING REMARKS

In this paper, we addressed the actor and institutional dynamics within MSIs aimed at self-regulation. Based on the insights of club theory and institutional theory, we developed a stage model that depicts the various influences an MSI faces. Specifically, we conceptualized how the interaction between the interests of the different internal stakeholders – such as the MSI secretariat, reputation-securing companies, or civil society organizations – with external stakeholders – such as non-participating civil society organization, the public, or non-participating companies – influences the type of MSI norm that emerges and how changes in these interactions may yield changes in the MSI norm.

Based on our conceptualizations, we conjecture that in certain scenarios, the success of an MSI might have ambivalent follow-up effects. The more successful the MSI becomes in terms of visibility, of institutionalization, and of enlarging its membership base, the more institutional dynamics may change the self-selection effects and thus the composition of MSI business members. This may, though need not, render it more difficult to secure the quality of the MSI norm. When the pull toward improving the quality of self-regulation comes into conflict with the push toward watering down self-regulation, negative consequences, including (1) deadlock, (2) abuse, and (3) loss of legitimacy, can ensue.

A deadlock (1) will paralyze the MSI. The increasing difficulty of consensus may lead to a complete loss of effective decision-making and enforcement. Another possibility is abuse (2) of the MSI by members that shirk on its reputation. In the extreme, companies might even use their nominal participation in the MSI to ward off other forms of hard law legislation. As a consequence of such developments, the MSI ultimately runs the risk of losing its legitimacy (3).

To overcome these and other difficulties so as to reach their potential for addressing urgent societal challenges (Bäckstrand, 2006; O'Rourke, 2006; Roloff, 2008a, 2008c), MSIs and its members need to manage the development process. To begin with, pioneer members need to be clearly aware of their different interests to negotiate a potentially robust norm. Moreover, once the pioneers agreed on a MSI norm, they should also consider how to safeguard this norm. For this purpose, there are multiple possibilities. For instance, the MSI could introduce screening mechanisms prior to gaining membership, apply monitoring during membership, or allow for sanctioning such as cancelling membership if members do not comply.

Furthermore, as research indicates, new actors (the MSI) need to create shared meaning to gain cognitive legitimacy (Aldrich & Fiol, 1994) for their work. For this purpose, rather than using quantitative information such as the number of members, MSI could consider using qualitative information for effective story-telling. According to Kaplan (1986), stories are often able to bridge between stakeholders and to bring forth information and insight that would otherwise not be obtainable or understood. Moreover, we conjecture that by telling stories rather than stating pure numbers, the MSI will also avoid being measured against only numbers but rather also against qualitative impact. In addition, this story-telling may also help to create a form of shared identity within the MSI. Such identity creation might then reduce the risk of organizational capture.

These recommendations can be condensed into three general insights. (1) MSIs will benefit from a clear awareness of the potential tradeoffs and tensions that can occur with a growth in membership. (2) To avoid conflict that can lead to dysfunction or even non-function, MSIs need to manage the governance of their development by, among other things, defining and/or designing success indicators, appropriate admission procedures, and decision-making structures. (3) Throughout the whole process of its development and lifecycle, the MSI should pay special attention to its communication strategy, since appropriate, well-reasoned communication can be the key to securing transparency and, consequently, legitimacy.

As a future research avenue, scholarship could enhance our process framework by generating insights into mediating and moderating factors to better understand its boundary conditions. Since we focused our framework on the interactions within and with the MSI as the unit of analysis, we believe that shifting the unit of analysis to the various stakeholder groups would greatly benefit the further advancing of our proposed stage model. By so doing, research might be able to build a more complete picture of the mechanisms related to MSI conflicts and processes. Furthermore, future research on the political role of the firm, particularly on self-regulation efforts, may benefit from including MSI secretariats into their conceptual and empirical work as they are so far neglected. To this end, a large-N exploratory study amongst various types of self-regulation MSIs might help to generate insights into the various actor and institutional dynamics as well as into their contingencies.

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TABLES AND FIGURES

mit downward spiral

Figure 1: A stage model of the actor and institutional dynamics in MSI development

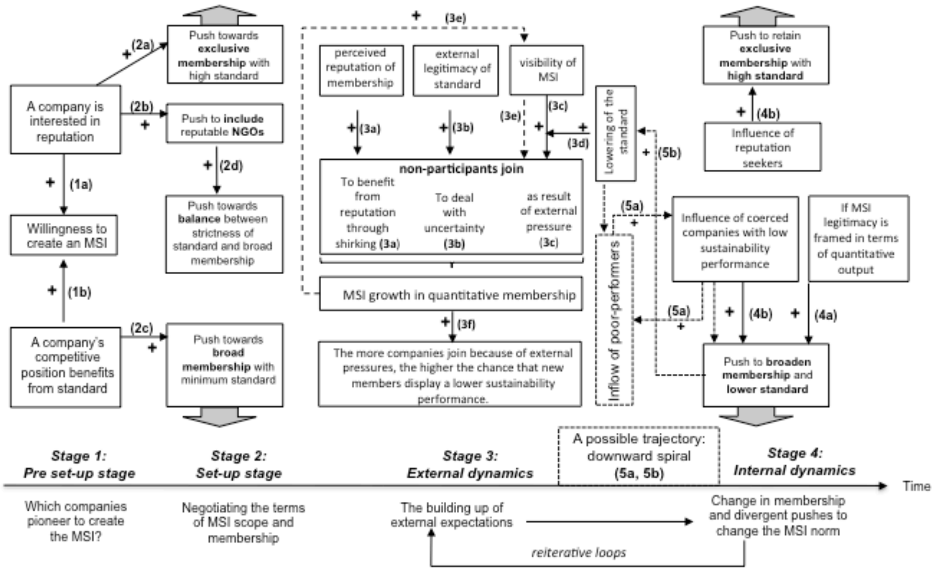

Table 1: The conceptual complementarity of club and institutional theory

accounts for	**Club Theory**	**Institutional Theory**
Individual agency: why individual actors have an interest to create or join an MSI	✔	(✔)
Diversity and potential conflict of interests: explaining shirking and free-riding	✔	✖
Increasing group size fostering internal conflicts of interests	✔	✖
Reputation as a self-produced club good	✔	✖
Legitimacy as depending on fulfilling external expectations	✖	✔
Institutional dynamics through institutionalization processes that change external expectations	✖	✔
Isomorphic mechanisms that make companies adopt similar behavior	✖	✔

Table 2: Company participation in EITI

Year	09/2004	04/2005	08/2006	07/2007	07/2008	04/2010	07/2011	07/2012	09/2013
EITI Company Members	9	12	24	28	37	46	56	67	80
New Members Δ n				4	9	9	10	11	23

Source: Internet Archive (2013b)

Table 3: Overview of MSIs used for illustrative purposes

Characteristic	EITI	UNGC	FSC
Year established	2002	1999	1990
Initiator(s)	UK Prime Minister Tony Blair	UN General Secretary Kofi-Anan	WWF plus timber using or trading companies
Societal problem	Lack of transparency about taxes and other payments made by extractive companies and their use by local governments	Need for more responsible behavior of businesses in the areas of human rights, labor standards and anti-corruption	Decreasing forests as a problem both for the Earth's ecosystem as well as for companies which use timber as resource
Mechanisms	Countries publish what they receive Companies (whether they are supporting EITI or not) need to report what they pay to governments in "compliant" countries[1]	Companies join and pledge their compliance to the 10 principles	Companies must go through certification scheme in order to become members
Enforcement and monitoring rules[2]	Lenient standards (requires companies to report what they pay to governments on a single aspect) Medium to strong sword (enforcement by national governments with varying enforcement capacities)[3]	Lenient standards (ten principles in principle require compliance in multiple areas, however in practice only reporting is required as output) Medium sword (no third-party audits, but publication of "Communications on Progress"; non-complying companies will at least temporarily be publicly delisted)	Stringent standards (responsible management of forests, including social standards) Strong sword (third-party audits and certification, sanctioning through withdrawal of certification during auditing process)
Further literature	Aaronson (2011); Frynas (2010); Haufler (2010); Schuler (2012)	Berliner & Prakash (2012); Brinkmann-Braun & Pies (2007); Kell (2012); Perez-Batres, Miller & Pisani (2011); Rasche & Gilbert (2012) Rasche, Waddock	Moog, Spicer & Böhm (2014); Pattberg (2005); Schepers (2010)

	& MacIntosh (2012); Sethi & Schepers (2013)

[1]Schuler (2012: 9)
[2]based on Potoski & Prakash (2009: 29)
[3] Schuler (2012: 8)

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APPENDIX A

MSI examples

At the 2002 World Summit of Sustainable development in Johannesburg (South Africa), UK Prime Minister Tony Blair initiated the Extractive Industry Transparency Initiative (EITI). Its main purpose is to tackle the issue of payments to governments in the extractive industries that is mining, oil, and gas. In these industries, companies usually pay local governments in order to obtain mining rights. In many developing nations, however, this money often vanishes within governments and is not used for national requirements such as education or health. Against this background, EITI uses a mechanism in which countries openly declare what amounts of royalties and other payments they received. Through these mechanisms, local and global civil society actors have a means to ask how the respective amounts have been spent. Therefore, transparency about the amounts and its use is increased.

The United Nations Global Compact (UNGC) was brought forward in 1999 by then UN general secretary Kofi-Annan. The initiative was officially launched in 2000. Originally, the UNGC started with 9 principles for responsible business conduct with regard to human rights, labor standards, and the environment. Later, anti-corruption was included as the tenth principle. Companies can join the UNGC and pledge their compliance to these ten principals. Members are then expected to publicly report on their progress. If they fail to do that, the UNGC delists these non-compliant members for a year after which they can join again.

The Forest Stewardship Council (FSC) is a certification scheme developed by the Worldwide Fund for Nature (WWF) and companies that use or trade timber. Together, these actors discussed how the world’s forest could be used as resources for timber products while at the same time protecting them as key elements of the world’s ecosystem. The first FSC meetings took place in 1990 while the first certificates where issued in 1993. Companies can only become FSC members if they fully comply with the principles of the MSI. Only after the certification process is completed, companies may refer to themselves as FSC members. As the certification frequently needs renewal, companies can loose their membership if they fail to comply with the required principles during recertification.

Please insert Table 3 about here

ENDNOTES

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[i] Other terms include new governance (Pies, Beckmann, & Hielscher, 2011; Scherer & Palazzo, 2011), global public policy networks (Witte, Benner, & Streck, 2005), transnational private regulation (Bartley, 2007; Graz & Nölke, 2008), multi-sector networks (Bäckstrand, 2006; Roloff, 2008b), and stewardship councils, (Baccaro & Mele, 2011; L. Fransen, 2011; Gugerty, Sidel, & Bies, 2010).

[ii] Note that we thus exclude MSIs that were practically mandated by for example the state or that emerged because of short-term pressures in the face of an acute crisis or scandal, such as the The Bangladesh Accord on Fire and Building Safety after the 2013 catastrophe when a major textile factory collapsed and left more than 1100 workers dead.

[iii] We consider the difference between legitimacy and reputation to be the following: Reputation refers to what the company "stands for" in the eyes of others, while legitimacy only results if the company additionally gains social acceptance by fulfilling prevailing norms of appropriate behavior. To illustrate, a company might build up a reputation for offering eccentric design without gaining substantial legitimacy if there are no social norms that expect companies to do so.

[iv] "Regulatory capture" occurs when regulatory agencies created to serve the public interest are "captured" by the very actors, such as firms, they are supposed to regulate. As a result, the "captured" agency fails to serve its public purpose. In political economy, regulatory capture usually refers to government agencies, thus describing a problem that can arise in conventional nation-state governance. We suggest that the idea of "regulatory capture" can be usefully transferred to the field of new governance and self-regulation. For the original idea of regulatory capture, see Laffont and Tirole (1991) and Levine and Forrence (1990).

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[v] Similarly, this may also occur if more and more members are not actually implementing standards.