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“When One Size Does Not Fit All:

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Abstract

Voluntary management standards for social and environmental performance ideally help to define and improve firms' related capabilities. These standards however have largely failed to improve such performance as intended. Over-emphasis on institutional factors leading to adoption of these standards has neglected the role of firms' existing capabilities. External pressures can drive firms to adopt standards more than their technical capacity to employ them. This can lead to problems of 'fit' between institutional requirements and a firm's existing capabilities. We describe a conceptual model that considers the impact of an interaction between a firm's institutional requirements and its existing capabilities on standards failure. We suggest solutions that align institutional requirements to appropriate governance forms as a means to improve standards success. We contribute to theory by describing the role of firms' internal capabilities to the success of voluntary management standards and the reliability of self-regulation generally.

Introduction

Management standards for social and environmental performance, such as industry-based certifications (e.g. ISO 14001, Responsible Care, Forest Stewardship Council standards) and product-based standards (e.g. Certified Organic, Fair Trade) have grown in number and popularity in the past decade. These standards, for the most part voluntarily adopted, ideally

signal stakeholders that a firm has specific capabilities and guide firms in capability improvement (Matten and Moon, 2008; Delmas and Terlaak, 2001; Terlaak, 2007). Voluntary management standards however have struggled to produce consistent evidence that they improve or accurately reflect the performance of firms that adopt them (Darnall and Sides, 2008; Delmas and Montes-Sancho, 2010). Several recent studies have identified failures of voluntary management standards such as masking poor performance (Rivera, De Leon and Koerber, 2006), encouraging opportunism (Delmas and Keller, 2005) and a general failure to improve capabilities (King, Lenox and Terlaak, 2005; Ziegler and Nogareda, 2009). Scholarly exploration of these problems however has tended to over-emphasize the role of institutional factors such as weak governance and stakeholder pressures. While still important, firm-level operational factors such as capabilities – the specific resources, practices and goals that drive firm performance – have received far less attention. Firms' existing capabilities and their technical appreciation of an innovation have proven highly influential to firm performance in the past (Ansari, Fiss and Zajac, 2010; Short and Toffel, 2010). Yet in the study of standards for social and environmental performance, the role of firm level capabilities has been largely overlooked.

Changing institutional requirements have been a major factor behind growth in the number and variety of management standards available to firms. Many industry associations for example, have encouraged their members to adopt management standards to improve the perception of their industry among regulators and the community (Barnett and King, 2008). Independent agencies have developed standards to certify specific types of manufacturing practices (e.g. ISO14001 and OHSAS 18000) so that firms can identify suppliers. Consumers, stakeholders and niche producers have also sought product standards that can improve the identification of

products with unique characteristics (e.g. Certified Organic and Fair Trade) (Mueller, Gomes dos Santos and Seuring, 2009; Jamali, 2010). Many firms however adopt management standards because of external political or cultural pressures rather than a desire to benefit from them (Ansari et al, 2010). As a result, very few voluntary management standards have been associated with consistent, significant performance improvement among adopting firms.

A firm's internal capabilities, such as its resources, knowledge, practices and technologies are critical to the management of social and environmental performance (Lenox and King, 2004). Firms develop these capabilities over time, largely incrementally and often with unique adjustments that fit each firm's circumstances (Hayes and Wheelright, 1984; Murillo-Luna, Garces-Ayerbe and Rivera-Torres, 2008). Management standards ideally provide a roadmap for improving such capabilities. Yet standards that are too weak, e.g. they do not control which firms adopt a standard or how, or too narrowly focused e.g. tied to a single performance issue, limit their effectiveness. This can lead as we propose to problems of 'fit' between what stakeholders expect from firms that adopt voluntary management standards and what firms can practically achieve. The contribution of firms' internal capabilities to their ability to fulfill the requirements of voluntary management standards is significant (Delmas and Montes-Sancho, 2010). Yet consideration of its role in the failure of voluntary management standards has received very little attention in the past.

We describe and address two important gaps in the literature regarding the effectiveness of voluntary management standards for social and environmental performance. First, past explorations of voluntary management standards have described fairly homogenous goals for

firms seeking their adoption and use. Yet firms frequently respond to institutional requirements because of a perception that their survival depends on satisfying stakeholders rather than to complement or enhance their internal capabilities (Mitchell, Agle and Wood, 1997). This can lead firms to over-emphasize the extrinsic rewards of standards adoption rather than internal gains from performance improvement. Un-balanced stakeholder pressures and firm vulnerability to such pressures are important, emerging factors in standards diffusion and efficacy (Delmas and Montiel, 2009). Second, very few studies regarding management standards have considered the role of firms' existing capabilities in standards adoption (Melnyk, Sroufe and Calantone, 2003). We describe a model that proposes that the interaction between a firm's institutional requirements and its existing capabilities is a major factor behind standards failure. We first outline a foundation for our assumptions from institutional theory and operations management theory. We then define a typology of 'fit' for management standards that is driven by this interaction. We further address this problem of fit by proposing governance solutions that improve the alignment of institutional requirements and capabilities. Finally, we conclude with suggestions for further research.

Institutional Requirements

Voluntary management standards for social and environmental performance have grown significantly in number and function in the past decade. They are designed and promoted by both public actors (governments, interest groups and consumers) and private actors (trade associations, supply chains and individual firms) (Terlaak, 2007). Although voluntary management standards help to define and focus the institutional requirements of firms they have

failed for the most part to produce consistent evidence of performance improvement. Though past work has highlighted external firm factors that explain the failure of these standards (Howard, Nash and Ehrenfeld, 2000; King et al, 2005; Delmas and Montes-Sancho, 2010), few studies have explored the impact of more internal, operational factors such as capabilities. In the following, we explore and develop specific external factors that, when interacting with firms' internal capabilities, help to explain standards failure.

Institution-led Requirements

Institutions are structures that provide rules for the fulfillment of performance claims or to guide and normalize firm behavior (Scott, 1995). They can take the form of formal regulations, codes-of-conduct and certification systems as well as more informal norms established by industries and societies (DiMaggio and Powell, 1983). Effective institutions assist with the establishment of norms for groups or social networks and can control membership through barriers to entry, penalties for non-compliance, or auditing processes (North, 1990; Hargrave and Van de Ven, 2006). Voluntary management standards are 'institutions' in that they define: '*shared rules ... that identify social actors and their appropriate activities or relationships*' (Barley and Tolbert, 1997:p.96; North, 1990). Voluntary management standards have assisted with the definition of norms for an increasing number of social and environmental performance issues. They have allowed the expectations of a diverse range of stakeholders to be defined including government agencies (Climate Challenge Program), industries (organic certification, Responsible Care; FSC and UNCAP), customers and consumers (Starbucks sourcing guidelines, Fair Trade). Management standards have also improved firms' abilities to signal their stakeholders that they

have certain capabilities relative to other firms or to join unique product markets (Ingram and Clay, 2000; Terlaak, 2007). Also referred to as Voluntary Agreements (Delmas and Terlaak, 2001), Voluntary Environmental Programs (Delmas and Keller, 2005), or Certified Management Standards (King et al, 2005; Terlaak, 2007), they are usually bound to specific issues or stakeholders.

Voluntary management standards focus on performance domains that are outside the realm of public law in that they are more narrowly defined and not required for all firms (Delmas and Terlaak, 2001). Although traditionally developed by stakeholders wishing to define a more specific set of expectations, firms themselves have increasingly sought out or developed management standards for their own purpose. Industry groups such as the chemical, fishing and forestry sectors for example have developed management standards to control shared resources (Ingram and Inman, 1996; Barnett and King, 2008). Firms have also used standards to reduce government or community scrutiny (Delmas and Terlaak, 2001; Hicks and Schnier, 2008); stratify themselves into performance groups (Lenox, 2006; Prakash and Potoski, 2007) or to certify their own products or suppliers (Mueller et al, 2009). Competing uses for management standards between firms and their stakeholders however, has led to claims from some stakeholders of free-riding by firms or a lack of interest from firms in more stringent standards (Rivera et al, 2006; Delmas and Montes-Sancho, 2010; Ibanez and Grolleau, 2008).

Institutional Pressures

Several institutional factors influence a firm's decision to adopt voluntary management standards as well as to adopt them but not employ them (e.g. free-riding). Institutional theory proposes that firms adopt new practices because of pressures placed on them by different stakeholders. For the decision regarding whether or not to adopt new practices such as a management standard, pressures within a firm's immediate social network can often dominate (Scott, 1995; Ansari et al, 2010). A firm's social network, or 'field' can be highly influential in its adoption decisions particularly where a firm's internal experience with new requirements is low or its legitimacy is at stake (Oliver, 1991; Tolbert and Zucker, 1983). A firm's field will usually include: a. key stakeholders with coercive power over the firm (e.g. customers or regulators), b. industry peers or organizations in close proximity that firms seek to emulate, and c. more normative stakeholders such as communities, interest groups and industry associations (DiMaggio and Powell, 1983; Scott, 1995; Tolbert and Zucker, 1983). Collectively, field-level stakeholders regulate a firm's 'license to operate' and can influence its decisions in major and minor ways (Scott, 1995; DiMaggio and Powell, 1983; Jamali and Neville, 2011). Firms are known to adopt new practices in response to institutional pressures that lead them to believe that their acceptance and survival is at risk (Ansari et al, 2010; Meyer and Rowan, 1977; Scott, 1995). Because of the power that stakeholders have over firm choices, firms may focus more on the extrinsic rewards of management standard adoption (e.g. acceptance by stakeholders) rather than more intrinsic rewards (e.g. performance improvement) (Scott, 1995; Montiel and Husted, 2009).

Institutional pressure can also be a more significant driver of performance change for some firms relative to others. Where firms are significantly larger than their peers, more visible because of media attention or incumbency, or operate in high pollution industries (e.g. chemical production or mining), institutional pressure for performance improvement is often more intense (Bansal and Roth, 2000; Darnall, 2006; Delmas and Montes-Sancho, 2010; Murillo-Luna et al, 2008). This can lead to the emergence of a group of firms within an industry that invests in performance improvement earlier and more substantively than other firms. These firms seek to preempt institutional pressure by developing operational capabilities that exceed stakeholder expectations and in some cases eventually define them (Montiel and Husted, 2009). Performance development and performance innovation for such leader firms tends to be higher and more substantive than industry peers (Bansal and Roth, 2000; Sarkis et al, 2010). Firms that face less intense institutional pressure tend to instead 'follow' and adopt new practices such as management standards after leading firms (Rogers, 1995; King et al, 2005). They seek to lower the risks of adopting new practices by waiting longer to adopt and selectively following successful peers (McFarland, Bloodgood and Payan, 2008; Ansari et al, 2010). Follower firms are usually smaller and less technically proficient than lead practice adopters, have fewer resources and are more risk averse (Delmas and Montiel, 2009; Darnall et al, 2010). They also respond to a smaller group of stakeholders such as only to major customers and regulators (Barrett and Choi, 2007; DiMaggio and Powell, 1983). The improvement of capabilities for follower firms has been increasingly found to be lower than early adopters and in many cases no related performance improvement occurs (King et al, 2005; Rivera et al, 2006; Delmas and Montes-Sancho, 2010). These firms adopt standards that only appear (but may not be) an appropriate fit to their capabilities based on the observed learning curves of early adopters. As a result, late adopting

firms do not necessarily understand the performance requirements or development value of voluntary management standards that they adopt (Barley and Tolbert, 1997; Nishitani, 2009).

Governance

As an alternative form of governance to public regulation, voluntary management standards have become increasingly acceptable to firms and their stakeholders (Short and Toffel, 2010). Critics of voluntary management standards however suggest that a lack of independent governance is a significant factor behind their failure to improve firm performance (Bondy et al, 2004). Self-regulation – the governance approach of most management standards – relies on firms to independently and reliably ensure their compliance with a standard's requirements. New institutionalism however proposes that firms will act independently within their institutional constraints and given too much freedom, such as with self-regulation, will opportunistically choose to change as little as possible (Granovetter, 1985; Ingram and Clay, 2000). This factor, exploitation by firms of weak control over who adopts standards and how, has been described as a major driver of standards failure (Delmas and Keller, 2005; Delmas and Montes-Sancho, 2010).

Many self-regulating management standards have proven popular with firms less because of their performance development features and more because of their low barriers to entry and limited auditing requirements (Delmas and Montes-Sancho, 2010). Weakly regulated sustainable forestry standards for example, have been used by timber producers to avoid a more rigorous standard established by the Forest Stewardship Council (Bass, 2001; Rametsteiner and Simula,

2003). Governance of voluntary management standards has traditionally used a two-option framework of either central governance (one party) or more collective governance (industry or group-level) (Ostrom, 2000; Ingram and Clay, 2000; Terlaak, 2007). The strictness with which participation in a management standard is controlled also varies widely. Standards with low dosage controls have encouraged participation that is largely principle, pledge or commitment-based and non-binding (Delmas and Terlaak, 2001; Bondy, Matten and Moon, 2004). Standards with more significant governance have used enforceable obligations, participation-contingent benefits and processes for verifying participation and penalising non-compliance (Ingram and Clay, 2000). Examples of more restrictive standards include the ISO14001 management standard and the USDA organic label. Both provide significant assurances for stakeholders that the capabilities of participating firms match institutional expectations. More restrictive entry standards also have allowed firms to use them as a certification tool for their suppliers and products (Mueller et al, 2009). Too restrictive governance for standards however can increase the costs of standard adoption beyond a level that many firms can achieve. It may force smaller, less well resourced firms out of a standard where the participation requirements favor larger firms or a specific group of firms (Prakash and Potoski, 2007).

Greater governance lowers risks that firm's capabilities do not match institutional requirements and increases the value of participation for adopting firms. Weakly governed, un-restricted entry standards however are more popular with firms than restricted entry standards and often provide greater flexibility in participation. Voluntary management standards require a careful balance between complete freedom of association and more significant performance requirements that

deter or prevent firms from joining. The appropriate mix depends as we propose on the nature of the performance issue and the average, existing capabilities of target firms.

Firm's Existing Capabilities

A firm's internal capabilities provide the mechanism through which performance goals can be met (Hayes and Wheelright, 1984; Melnyk et al, 2003). For the achievement of social and environmental performance, relevant capabilities are the firm's resources, attitudes, experiences and practices that facilitate social and environmental impact reduction and related innovation (Hart, 1995; Sarkis et al, 2010). Basic capabilities are focused toward regulatory compliance to ensure firms maintain their license to operate. They include simple activities that ensure minimum standards for pollution control and worker safety are maintained (Pagell and Gobeli, 2009). They do not seek to meet the needs of unique stakeholders or produce improvement or innovation. More advanced capabilities on the other hand provide firms with first to market and performance advantages such as pollution and resource use reductions that are superior for their industry (Sharma and Vredenburg, 1998; Sarkis et al, 2010; Jacobs et al, 2010).

Strategic capabilities that have been linked to social and environmental performance improvement by firms include resources, goals and executive-level values that support related objectives (Henriques and Sadorsky, 1999). Operational capabilities include philosophies of continuous improvement (Klassen and Whybark, 1999; Pil and Rothenberg, 2003), focused employee training and support (Kitazawa and Sarkis, 2000) and innovation routines (Cordano and Freize, 2000). Cognitive capabilities can include environmental expertise, supportive

administrative systems or networking (Lenox and King, 2004). Alignment of interpretations between firms and their stakeholders however of the definition, purpose and value of these capabilities can vary widely (Akerlof, 1970; Barnett and King, 2008; Brammer and Millington, 2008). Some firms for example have sought to invest voluntarily in these capabilities in ways that improve their performance beyond that of peers and the expectations of stakeholders (Henriques and Sadorsky, 1999; Sharma and Vredenburg, 1998; Murillo-Luna et al, 2008). Other firms seek only to maintain capabilities that allow them to meet minimum, legally required performance outcomes (Margolis and Walsh, 2003; McWilliams and Siegel, 2000).

We propose primarily, that diversity in social and environmental performance capabilities among firms and between firms and the expectations of their stakeholders help to explain the failure of many voluntary management standards. Where the expectations of stakeholders for management standard use and effectiveness do not align with firms' capabilities or expectations, problems of 'fit' arise. We describe this relationship in Figure 1 and further in the discussion that follows.

--- INSERT FIGURE 1 HERE ---

Firms That 'Fit' Standards

In the ideal scenario, voluntary management standards both: a. improve the identification by stakeholders of firms that meet a specific set of institutional requirements, and b. provide achievable goals for firms seeking to improve their performance. They are designed in ways that provide flexibility for firms to adopt new standards without diminishing the benefits derived

from their existing capabilities. For firms with less advanced capabilities, standards should offer a clear, attainable and beneficial body of guidance for improvement. Many of the more successful management standards were developed after a comprehensive consultation process between industry and stakeholders e.g. the socially and environmentally focused ISO standards and USDA organic. Those standards incorporated the needs of both firms and their stakeholders and sought achievable, 'best available' outcomes that could be amended and tailored over time. Most voluntary management standards however are not designed with such principles in mind. Effective management standards tend to evolve over time through a negotiation and tailoring process between firms and their stakeholders. This becomes necessary where voluntary management standards have requirements that are inflexible to firms' existing capabilities or are too ambiguous to adequately guide firms' performance improvement.

Firms That Over-Fit Standards

For a small group of firms, greater motivation exists to invest voluntarily in social and environmental performance improvement than other firms. These firms experience significant, coercive pressure from a range of stakeholders to demonstrate social and environmental performance improvement (Henriques and Sadorsky, 1999; Brammer and Millington, 2008). They are larger firms with high visibility, foreign interests and shareholders. They proactively invest in operational changes that improve their performance beyond that of their peers (Bansal and Roth, 2000; Schaefer, 2007). Firms that make forward investments in social and environmental performance perceive benefits from the activity that other firms do not (Buyse and Verbeke, 2003). Their proactivity suggests a greater understanding of the benefits of social

and environmental performance and the potential for related returns. Their capabilities over-fit most management standards however because they effectively lead change in institutional requirements rather than follow (Tolbert and Zucker, 1983; Ansari et al, 2010).

Firms that over-fit voluntary management standards generate two major failures. As shown in Figure 1, capabilities for such firms are significantly more developed than their institutional requirements. For these firms, voluntary management standards both: a. fail to capture the comprehensiveness of their capabilities, and b. may lead to diminished performance if adopted. For example, firms with very narrow technological capabilities (one or a few unique technologies) benefit less than other firms from the adoption of industry standards (Benner and Veloso, 2008). The returns available to a firm from socially responsible investments have also been shown to plateau where the investments begin to significantly exceed stakeholder expectations (Brammer and Millington, 2008). The adoption of voluntary management standards can produce administrative and operational costs where the firm needs to change or modify its operations during adoption. Firms that ‘over-fit’ voluntary management standards will only seek standards that closely fit with their existing capabilities or can be adopted without significant additional investment. Hewlett Packard for example uses recycling infrastructure that exceeds the European Union’s WEEE¹ requirements and actively sought to fight introduction of the standard (Toffel, 2003). Some supply chains also such as Toyota’s, have used independently designed environmental management standards where a more generic standard (e.g. ISO14001) was insufficient for their particular requirements (Simpson, Power and Samson, 2007; Mueller et

¹ “Waste Electrical and Electronic Equipment” Directive.

al, 2009). These firms hold existing capabilities that are confined rather than developed by voluntary management standards. In relation to problems of over-fit, we initially propose that:

H1a: Voluntary management standards limit the capabilities of over-fit firms where their existing capabilities significantly exceed institutional requirements for performance improvement.

Firms That Under-Fit Standards

As much as a small sample of firms might proactively improve their social and environmental performance capabilities, a majority of firms do so more reluctantly (Taylor, Rubin and Hounshell, 2005). Ambivalence toward social and environmental performance improvement is due in part to the ambiguity of its benefits. Difficult performance transformation that involves complex or costly change can lead to avoidance behavior such as a firm's complete refusal to change as peers change (David and Han, 2004). This is most apparent in transformations involving innovations with high costs and unknown returns (Akerlof, 1970; Birkinshaw, Hamel and Mol, 2008). Many firms only seek the adoption of voluntary management standards because of significant institutional pressure from major stakeholders (e.g. customers) or because a majority of their peers have done so (e.g. late following firms). Such firms have operational capabilities that do not 'fit' the management standards they try to adopt. They seek to reduce the risk and costs of new practice adoption by following early adopters and as such are unlikely to have prior experience with new practices (Melnyk et al, 2003). The expectations of stakeholders for performance change can cause a group of firms – those that 'under-fit' a standard – to seek

only the appearance of performance improvement. Because many management standards are self-regulating however, they allow under-fit firms to free ride on the benefits of association with such standards.

Firms that under-fit voluntary management standards generate two major failures. As described in Figure 1, capabilities for these firms are significantly less developed than the institutional requirements of the standards they choose to adopt. For these firms, voluntary management standards both: a. fail to account for a lack of capabilities, and b. do little to advance performance when adopted. They seek voluntary management standards for the benefits of association rather than for performance guidance (Delmas and Montes-Sancho, 2010). Under-fit firms rarely achieve performance levels close to that achieved by their over-fitting peers (Rivera et al, 2006). Those that do improve performance do so only marginally and for simple, ‘low hanging fruit’ type problems (King and Lenox, 2000). Late adopters of the USEPA’s Climate Challenge Program for example invested far less in air pollution control than both early adopters and non-adopters (Delmas and Montes-Sancho, 2010). In relation to problems of under-fit, we propose that:

H1b: Voluntary management standards fail to improve the capabilities of under-fit firms where the institutional requirements for performance improvement significantly exceed firms’ existing capabilities.

Firms With No Fit to Standards

Firms that choose not to adopt a voluntary management standard because of a complete lack of fit provide further insight for our model. ‘No-fit’ firms are firms with existing capabilities that do not match the narrow focus of most voluntary management standards. These firms experience no institutional pressure to improve their performance because they have existing capabilities that are significantly lower than their industry average (King et al, 2005). For ‘no-fit’ firms, existing operational capabilities are so far below the requirements of a voluntary standard that related change would require a significant investment with unknown benefits (Short and Toffel, 2010). These firms are small or operating in industries with intractable problems (such as electricity and coal production or low labor cost production) (Dimaggio and Powell, 1983). Customer-based pressures such as a mandated adoption of ISO14001 may cause these firms to drop out of industries altogether (Raynolds, 2004). As we propose, these firms are the least affected by pressure from stakeholders for performance change and have capabilities significantly below that of most voluntary management standards. They see very little value in self-regulation of their social and environmental performance. In relation to the no-fit problem, we propose that:

H1c: No-fit firms fail to adopt voluntary management standards because of low institutional pressure to do so and limited related capabilities.

Institutional Pressure, Governance and Improved Fit

Voluntarily joined standards for social and environmental performance hold significant potential to improve the definition and flexibility of institutional requirements between firms and their stakeholders. Weak governance or poorly defined requirements however reduce the capacity of

these standards to improve firm-level capabilities. Alternatively, where the requirements of a standard are increased or too narrowly defined this can also limit the ability of firms to adopt some standards. For the resolution of fit problems described in the previous section, we define solutions that improve the alignment of institutional requirements with firm-level capabilities. These include either tailoring or moderating of standards to improve their compatibility with firms' capabilities or a strengthening of standards to increase performance control. We describe these solutions in the following and provide a summary in Table 1 below.

--- INSERT TABLE 1 HERE ---

Tailoring or moderating requirements

Where standards suffer from low adoption or participation rates by firms they often exhibit a problem of either too little or too much performance specificity. For firms that over-fit standards a 'tailoring' of institutional requirements – improving fit to an industry type or increasing the detail of practical expectations – can increase the relevance and the signaling benefits of a standard. Leader, over-fit firms are important to the evolution of management standards. As leaders of practice within their industry, they influence capability development within their institutional field (Montiel and Husted, 2009). These firms drive adoption cycles among peers with their choices. Yet they often require a level of detail or flexibility in a management standard that does not confine their capabilities (Howard et al, 2000). Toyota Motor Corporation for example has produced sustainable innovations well in advance of their competitors using their own environmental performance requirements for suppliers (Simpson et al, 2007; Gertner, 2007).

Existing management standards available within their industry however were insufficiently tailored to their product and process needs. In another example, Fedex sought in 2007 to influence fuel emission standards in the U.S. transportation industry so as to improve the value of its own emission reduction efforts (US Government, 2007).

‘Moderating’ a standard’s requirements – reducing performance, reporting or outcome restrictions – can improve the flexibility of standards and their compatibility with firms. When Exxon Mobil’s peers established industry standards for carbon emission reductions through the United States Climate Action Partnership (USCAP), Exxon dismissed them for being too restrictive (Claussen, 2001; Waldman, 2009). Avoidance of dolphin capture by tuna boats in the waters of the Eastern Tropical Pacific also were found to be more effective where businesses could manage fish stocks without the restriction of an industry standard (Hicks and Schnier, 2008). Fishermen relied more on their local knowledge rather than the prescriptions of a standard and were better able to adapt to changing environmental conditions. Reducing the restrictions of a management standard improves its compatibility with firms and allows adopters to meet standard requirements in their own unique ways. To improve fit between firms’ capabilities and voluntary management standards, we first propose that:

H2a: Improving fit of management standards may require a tailoring or moderating of requirements to increase their value to firms.

Strengthening requirements

For firms whose capabilities under-fit institutional requirements and seek to symbolically adhere to management standards, increased levels of performance control may be required. Where standards require adherence to performance requirements that are both significant and important to stakeholders, such as quality or material avoidance requirements, increased control of participation is warranted (Akerlof, 1970). Free-riding firms, by not complying with the performance requirements of management standards, can facilitate a decline in the standard's signaling benefits. Where management standards protect product attributes or a common resource such as reputation then standard 'strengthening' – increasing barriers to entry and auditing of participation – is necessary (Akerlof, 1970; Delmas and Terlaak, 2001). Such an outcome was achieved in the U.S. organic industry when a small producer successfully sued the US Government for an increase in the requirements for organic produce claims. Weak standards developed by firms for their own financial benefit rather than to improve their performance can also be improved with greater scrutiny from stakeholders. Starbucks for example was forced by stakeholders to justify their self-regulated claims of sustainable coffee production (Giovannucci and Ponte, 2005; Taylor, 2004). The Body Shop was similarly forced to change its cosmetics marketing practices, following pressure applied by stakeholders to justify its 'natural' and 'fair trade' product claims (Entine, 1994).

Weakly governed standards can generate significant costs for industries and firms (Gold and Casselman, 2010; Tavernise, 2011). Firms in an industry for example can suffer spillover effects from the poor performance of their peers (Barnett and King, 2008). Safety and environmental

standards used by the petroleum industry have suffered from a credibility problem following the oil spill at BP's Deep Horizon well (Gold and Casselman, 2010). Where such firms operate in industries with shared reputations or similar products, field-level pressure may facilitate a strengthening of available standards (Darnall, 2006). Industry and shareholder anger over Enron's poor practices for example led to the introduction of the Sarbanes-Oxley Act. In the chemical and automotive industries also, the adoption of the Responsible Care standard and ISO14001 have become basic operating requirements. We further propose that:

H2b: Improving fit of management standards may require a strengthening of requirements to increase the participation of firms.

Conclusions and Further Research

Firms increasingly use management standards to signal stakeholders that specific performance issues are being appropriately managed. They frequently adopt standards or avoid standards however because of an over-emphasis on institutional pressures rather than a desire to improve related capabilities. We describe a conceptual argument that defines failure of voluntary management standards to improve firm's social and environmental performance as an issue of 'fit'. We identified two key factors – institutional requirements and existing capabilities – that drive the adoption and effectiveness of these standards. As we proposed, where these two factors do not match, three types of fit problem – over-fit, under-fit and no-fit – can arise and reduce the success of standards. Voluntary management standards, such as labeling standards, certification schemes or advanced sourcing criteria provide legitimacy benefits for firms and ideally act to

improve their capabilities. They provide diverse opportunities for the definition of institutional requirements for firms by their stakeholders. Their self-regulatory nature however often encourages firms to manipulate their use. Firms that already possess operational capabilities that match a voluntary management standard will gain stakeholder-based benefits from its adoption. Equally, firms with operational capabilities that are close but not quite matched to a standard's requirements may benefit from the guidance that these standards provide. For other firms however, where their capabilities significantly over or under-match a standard, performance is unlikely to improve or may be limited. We proposed that changes to standards such as tailoring, moderating or strengthening can help to increase fit between institutional requirements and firm-level capabilities and resolve this performance problem.

We sought to address two important gaps in the literature on voluntary management standards. First, management standards are too often considered as aggregate pressures that are adopted for homogenous reasons across all types of firm. Not all firms however experience equal pressure from stakeholders and will each seek to satisfy stakeholder requirements in different ways. Second, a firm's existing capabilities have been insufficiently addressed in the assessment of how firms adopt and employ these standards. We addressed both issues by proposing an integrative model that described a relationship between institutional requirements and firms' existing capabilities as well as governance solutions to reduce standards failure. We have provided a more nuanced perspective on the role of firm-level factors to the success of voluntary management standards. In particular, we have highlighted the impact of firms' existing practices, resources and understanding of their social and environmental performance, to standards success.

We did not explore the implications of multiple management standard adoptions such as a progression of adoptions where firms attempt to incorporate a range of new capabilities (e.g. ISO9000, followed by ISO14001, followed by OHSAS 18001). We also did not explore the longitudinal impacts of standards adoption. Major customers and their supply chains also, continue to be a significant driver of standards adoption by firms and their role should be explored in more detail. Further study of voluntary management standards should consider their life-cycle and design implications as well as any multi-standard use or stakeholder conflicts faced by firms. Voluntary management standards provide firms with greater scope to capture and adapt to the concerns of their stakeholders. A lack of consistency between standards in the way that they are designed and governed however still presents significant problems for firms and their stakeholders.

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FIGURES AND TABLES

Figure 1: The relationship between institutional requirements and existing firm capabilities

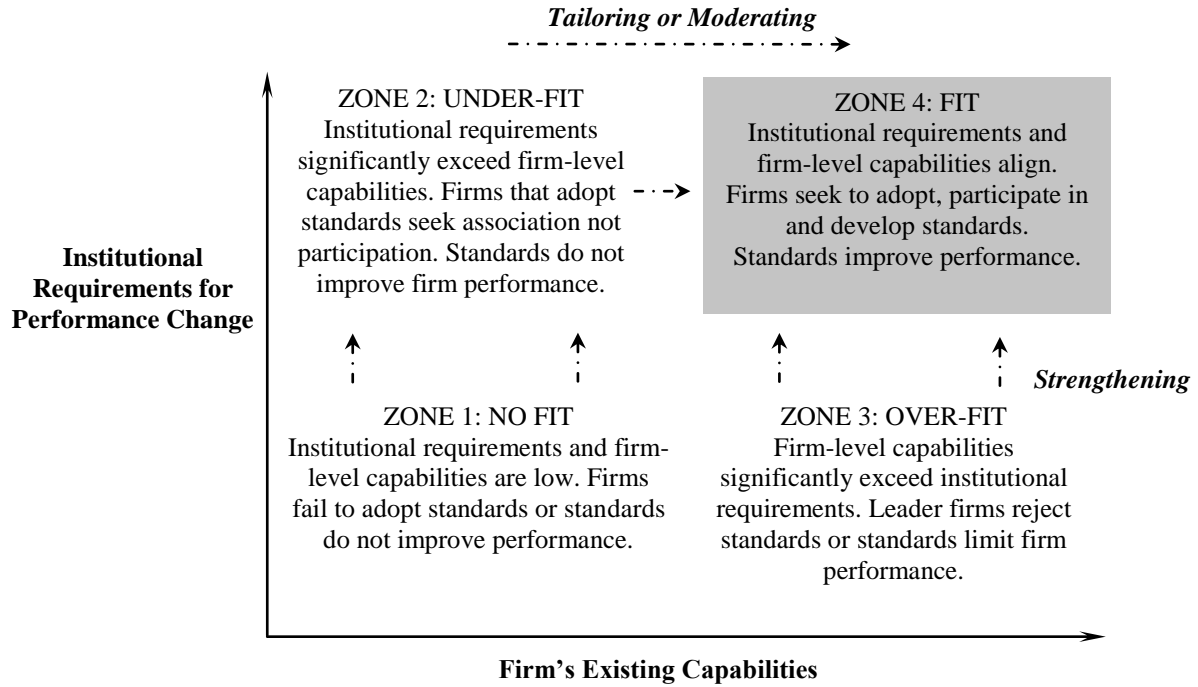


Table 1: Strategies to improve fit between institutional requirements and firm capabilities

Fit Problem ¹		
No fit	Under fit	Over fit
<p>→Standards are poorly defined, are simplistic and principle rather than practice-based, and participation is not enforced.</p> <p>→Firms struggle to understand the purpose of standards and have limited interest in them.</p> <p>→Firms invest little to no effort toward social and environmental performance improvement.</p> <p><u>Governance Solution:</u> Tailor or Strengthen Institutional Requirements</p>	<p>→Stakeholder expectations are unrealistic with respect to what firms will seek to achieve when they adopt standards.</p> <p>→Standards are too narrowly defined and enforcement can lead to widespread non-compliance.</p> <p>→Firms adopt standards to satisfy stakeholder expectations but do not seek to improve their performance.</p> <p><u>Governance Solution:</u> Moderate Institutional Requirements</p>	<p>→Standards are not specific enough and only weakly enforced making them unattractive to leader firms.</p> <p>→Firms' capabilities lead to performance outcomes that exceed and define stakeholders' expectations.</p> <p>→Firms have greater knowledge and skills than available standards and seek more specific or tailored standards.</p> <p>→Compliance with standards can lead to a confining of firms' capabilities.</p> <p><u>Governance Solution:</u> Tailor or Strengthen Institutional Requirements</p>
Governance Solutions		
<p>→Tailor</p> <ul style="list-style-type: none"> ▪ Stakeholders work to improve their understanding of industry specific capabilities and needs. ▪ Specificity of standards can be improved such that they are clearer regarding expectations, practices and performance outcomes. ▪ Too general standards are made more specific through the use of different modules for different needs. <p>→Moderate</p> <ul style="list-style-type: none"> ▪ Standard certification or reporting requirements are adapted to fit with other reporting requirements. ▪ Practical requirements and outcomes are made less specific to allow greater flexibility in adoption and outcomes. <p>→Strengthen</p> <ul style="list-style-type: none"> ▪ Stakeholders increase the participation requirements of standards e.g. reporting, certification or auditing processes. ▪ Stakeholders increase the clarity of performance expectations for firms. ▪ Firms seek to have standards introduced or adapted by their industry associations. 		

¹ Refer to Figure 1.