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**Private environmental governance through cross-sector partnerships:  
Tensions between competition and effectiveness**

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**Abstract**

We analyze the suitability of cross-sector partnerships as an effective mechanism for private environmental governance. By focusing on the interaction between firms within cross-sector partnerships, we analyze how competition between firms affects partnership effectiveness. Marrying insights from the private governance literature with institutional theory and the resource-based view, we identify under which conditions firm-level competition for legitimacy and capabilities, respectively, undermines or enhances effectiveness of cross-sector partnerships to address environmental issues. In doing so, our argument develops the various factors that moderate the relationship between competition and effectiveness for different types of partnerships. We contend that the effectiveness of cross-sector partnerships for governing global environmental issues depends considerably on whether competitive forces at the firm level are aligned with the collective benefits of partnerships. We discuss the consequences for designing effective cross-sector partnerships as well as the implications of a firm perspective on private governance.

**INTRODUCTION**

Over the past decade, firms have become an integral part of the governance of global environmental issues, such as climate change, ozone depletion, and deforestation (Andonova, Betsill, & Bulkeley, 2009; Bäckstrand, 2008; Forrer & Mo, 2013; Ruggie, 2004). This heightened role has not only been the result of a broader movement where firms and non-governmental organizations (NGOs) gained authority in the global political arena, but both governments and NGOs have also increasingly tried to harness the strength of the market in initiating corporate change in addressing public policy issues (Ruggie, 2004). By moving away from adversarial tactics – e.g. campaigning and litigation – towards cooperative tactics to get business behind their cause instead (Yaziji, 2004), governments and NGOs have leveraged firms’ market power to mobilize entire industries and their influence on customers to change consumption patterns (Konefal, 2013; O’Rourke, 2005). One of the main ways governments, NGOs and firms have started to cooperate is via cross-sector partnerships, which have been defined as “projects formed explicitly to address social issues and causes that actively engage the partners on an ongoing basis (Selsky & Parker, 2005, p. 850). Cross-sector partnerships are set up to realize public objectives by performing specific governance functions (Andonova, et al., 2009; Bäckstrand, 2008) and involve collaboration between actors from different sectors<sup>1</sup> including business-NGO, business-government, government-NGO, and tri-sector collaborations (Selsky & Parker, 2005). Following the 2002 World Summit on Sustainable Development (WSSD) in Johannesburg, such cross-sector collaboration has become more widespread for the purpose of global environmental issues (Bäckstrand, 2006; Biermann, Chan, Mert, & Pattberg, 2007).

In this article, we focus on the competitive interaction between firms within cross-sector partnerships. In doing so, we depart from extant research which has particularly shed light on the tension between firms on the one hand and governments and NGOs on the other, which stems from the fundamentally different objectives of these actors (Berger, Cunningham, & Drumwright,

2004). While firms predominantly strive for competitive advantage and wealth creation, NGOs and governments aim to achieve public objectives (Di Domenico, Tracey, & Haugh, 2009; Rondinelli & London, 2003). Management scholars have examined how different participants in cross-sector partnerships manage this incongruence of objectives (Berger, et al., 2004) and have proposed ways to further cooperation and learning between for-profit and non-profit actors (Googins & Rochlin, 2000; London & Rondinelli, 2003). Our starting point in this article, however, is that conflict within partnerships not only arises between actors from different sectors, but also *between actors from the same sector* (Egels-Zandén & Wahlqvist, 2007). Many cross-sector partnerships, and the ones we focus on in this article, are large coalitions of different actors. These large partnerships also tend to contain two or more firms, suggesting that inter-firm rivalry will have an impact on their effectiveness. Our main purpose is to analyze how this competitive nature in firm interactions within cross-sector partnerships affects partnership effectiveness. That is, how and under which conditions does inter-firm rivalry influence the achievement of the governance function and public objectives of cross-sector partnerships? While we do not rule out the possibility of cooperation between firms, we start from the assumption that the competitive nature of for-profit firms will have a fundamental bearing on their role in cross-sector partnerships.

We examine this question conceptually and appraise the conditions under which the competitive emphasis of firms will impede or enhance the effectiveness of partnerships. Marrying insights from the private governance literature with institutional theory and the resource-based view of the firm, we posit that corporate conduct in partnerships is driven by competition for legitimacy in the socio-political arena and competition for capabilities in the marketplace. The article teases out factors that moderate the impact of firms' competitive preoccupations on the effectiveness of partnerships. By implication, we posit that firms do not always use their

distinctive capabilities in a socially efficient way while engaging in cross-sector partnerships. We thus raise doubts about the categorical suitability of cross-sector partnerships as an effective private environmental governance mechanism.

## **PRIVATE GOVERNANCE AND THE ROLE OF CROSS-SECTOR PARTNERSHIPS**

A governance perspective on cross-sector partnerships emphasizes the role of partnerships as a mechanism to supplant or complement the role of national governments (Bäckstrand, 2008). Some purported benefits of cross-sector partnerships are their potential to overcome governance deficits (Bäckstrand, 2008; Biermann, et al., 2007; Pinkse & Kolk, 2012) and to build bridges between different actors (Rondinelli & London, 2003; Selsky & Parker, 2005; Westley & Vredenburg, 1991). Global environmental issues, defined as issues ‘wherein the offending activity has ‘universal’ impact from which no state can exclude itself, no matter where it is located or how powerful it may be’ (Ruggie, 2004, p. 509), represent an area of public policy where cross-sector partnerships have become particularly pervasive, because national governments cannot effectively regulate such issues unilaterally.

To understand the influence of inter-firm rivalry on partnership effectiveness, it is essential to consider the governance function of cross-sector partnerships. Effectiveness can only be assessed in view of a partnership’s intended function. Andonova et al. (2009) have derived three related but distinct functional categories of cross-sector partnerships: information sharing, capacity building and implementation, and rule setting. These categories make a distinction between governance functions by identifying *how* a partnership steers participant behavior towards a public goal. *Information sharing* does this through a process of information exchange, particularly the exchange of knowledge, to either build consensus on ways to approach an environmental issue or to expand the transfer of best practices (Andonova, et al., 2009). An

information exchange function assumes that pockets of knowledge already exist, but there is inadequate diffusion across organizations to be effective on a societal scale. *Capacity building and implementation*<sup>2</sup> steers through the supply of financial, labor, technical or managerial resources, to diffuse and implement specific policies and practices. The main difference with information sharing is that capacity building is more directly aimed at driving action by providing partnership members with the means to implement solutions to address a specific environmental issue (Andonova, et al., 2009). *Rule setting* refers to the process of ‘validating a set of norms and establishing rules to guide and constrain constituents’ (Andonova, et al., 2009, p. 65). On initiative of cross-sector partnerships, all kinds of environmental norms, standards and labels have emerged; for example, to monitor the sourcing, manufacturing and distribution of consumer products (Andonova, et al., 2009; Bäckstrand, 2008).

As stated above, a cross-sector partnership’s effectiveness depends on its governance function. This implies that even though a partnership is often initiated to address a specific global environmental issue, effectiveness is usually not assessed in terms of how it has mitigated environmental impact *directly*, but whether it has been able to adequately fulfill its specific governance function instead (Bäckstrand, 2006). This means that information-sharing partnerships are effective when there is a significant exchange of relevant knowledge between members; capacity-building partnerships should have enhanced members’ ability to reduce their environmental impact; and rule-setting partnerships would have to produce broadly accepted and enforceable norms. While effectiveness in fulfilling the governance function is no guarantee for mitigating environmental impact, scholars assume that effective governance enables such mitigation (Bäckstrand, 2006). Hence, in the remainder of this article we will use Andonova et al.’s (2009) categorization of governance functions to carve out the factors that moderate the effect of firm-level competition on the effectiveness of cross-sector partnerships in terms of how well

partnerships fulfill their governance function and thereby enable the mitigation of environmental impact.

## **A FIRM PERSPECTIVE ON CROSS-SECTOR PARTNERSHIPS**

### **Partnership Effectiveness as Positive Externality**

Our perspective on cross-sector partnerships starts from the assumption that firm behavior is driven by private wealth maximization. Firms thus see their participation in partnerships as instrumental to value creation (McWilliams & Siegel, 2001). In contrast, partnerships are designed to provide non-excludable collective benefits in terms of enabling the mitigation of environmental impact. As a consequence, there is a discrepancy between on the one hand the firm's interest in appropriating private –i.e. excludable –benefits from engaging in partnerships and on the other hand the purpose of partnerships in striving for collective benefits. Hence, a partnership's benefits from a single-firm perspective differ from a partnership's collective benefits. From the perspective of the individual member firm, a partnership's collective benefits represent positive externalities (Crouch, 2006). Member firms bear the cost of participating in a partnership without reaping its full benefits, since the benefits in terms of mitigating environmental impact are non-excludable. Accordingly, we assume that firms will seek to appropriate as much private benefits as possible to compensate for the cost of participation (Lepak, Smith, & Taylor, 2007). However, when a firm is not the only private actor in the partnership, this tendency to maximize private benefits will lead to competitive behavior with other firms in the partnership. Consequently, there is a disconnect between the effectiveness of partnerships with regard to non-excludable collective benefits and firms' interest in seeking private benefits from participating in such partnerships. In the remainder of the article, we therefore analyze how competitive forces affect the effectiveness of cross-sector partnerships.

## **Competition for Legitimacy and Capabilities**

Competitive forces are at the heart of firm behavior and strategy in a market economy. Here, we follow a definition of competition based on a Neo-Austrian perspective (Hill & Deeds, 1996), which denotes competition as ‘the action of endeavoring to gain what another endeavors to gain at the same time’ (Hayek, 1948, p. 96). Competition thus represents a dynamic process of rivalry (Hill & Deeds, 1996) where at least two parties strive to obtain the same scarce resources that cannot be obtained by all (Vickers, 1995). Resources include tangible and intangible assets which enable the firm to achieve its objectives (Hunt, 1997). Firms compete for resources on markets as well as in the non-market sphere (Baron, 1995), since market-based competition is constrained by and embedded in socio-political processes (Roberts & Greenwood, 1997). Accordingly, we distinguish between competition for legitimacy in the non-market sphere based on institutional theory and market competition for capabilities based on the resource-based view.

*Competition for legitimacy* means that firms are competing for favorable institutional conditions in the sociopolitical arena that privilege their activities. Organizational legitimacy is defined as ‘a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions’ (Suchman, 1995, p. 574). Such institutional rules and norms about proper and legitimate structures and practices (Wright, 2009) are constantly produced, reproduced and transformed through social action and influenced by interested actors (Giddens, 1984) in a ‘political process, contingent on the interests of the participants and their ability to advance these interests’ (Phillips, Lawrence, & Hardy, 2000, p. 32). Usually, legitimacy is seen as a resource that organizations need to survive and thrive (Meyer & Rowan, 1977). At the same time, legitimacy cannot be produced by organizations but is eventually granted by stakeholders



(Ashforth & Gibbs, 1990). However, different stakeholders hold competing and dynamic views on what constitutes legitimate organizational behavior (Driscoll & Crombie, 2001; Neilsen & Rao, 1987). As a consequence, legitimacy is scarce as it will not be granted to all organizations by all stakeholders at all times (Oliver, 1996). Hence, organizations seek to strategically influence legitimacy in order to compete for favorable institutional conditions (Lawrence, 1999; Oliver, 1991; Suchman, 1995). Since inter-organizational collaborations have been identified as important arenas for institutional processes (Lawrence, Hardy, & Nelson, 2002; Phillips, et al., 2000), cross-sector partnerships may serve as a relevant context for firms to compete for legitimacy and achieve favorable institutional conditions with regard to firm conduct towards environmental issues. Competition for legitimacy might be especially strong in cross-sector partnerships as they tend to include the type of stakeholders that grant legitimacy.

*Competition for capabilities* means that firms are competing for a distinctive strategic position in the marketplace that creates a sustained competitive advantage. In particular, it highlights the accumulation and exploitation of unique capabilities in order to appropriate the private benefits that accrue from them (Barney, 1991). Initially the discussion of capabilities centered around those that are unique, proprietary and internal to the firm (Barney, 1991; Prahalad & Hamel, 1990). These capabilities encompass the knowledge and skills, technical systems, and management systems that distinguish and provide the competitive advantage central to a specific business (Leonard-Barton, 1992). Teece (1986) argues, however, that a firm's own capabilities might not always be sufficient to constitute sustained competitive advantages that resist duplication from competitors. Rather complementary capabilities might be required to fully exploit resources and allow a firm to appropriate the value generated. Furthermore, it has been argued that relational capabilities (Lorenzoni & Lipparini, 1999) can play an important role in constituting competitive advantage through providing relation-specific assets, knowledge-sharing

routines, and effective governance (Dyer & Singh, 1998). From this perspective inter-firm collaborations and cross-sector partnerships are perceived as potential sources of critical resources that extend beyond firm boundaries.

## **TENSIONS BETWEEN COMPETITION AND EFFECTIVENESS OF CROSS-SECTOR PARTNERSHIPS**

From a firm perspective, competition for legitimacy and capabilities follows an instrumental rationale for gaining and maintaining legitimacy and competitive advantage of the single firm (McWilliams & Siegel, 2001). This contrasts with the main purpose of partnerships to achieve collective benefits. Consequently, we argue that corporate membership in cross-sector partnerships is subject to considerable tensions between competition and effectiveness. More precisely, we posit that under certain conditions the competitive impetus of firms considerably limits the effectiveness and suitability of cross-sector partnerships as a private governance mechanism for global environmental issues. In the following, we develop the factors that moderate the tension between competition and effectiveness. For each of the three types of partnerships (Andonova, et al., 2009) – information sharing, capacity building and implementation, and rule setting – we discuss under which conditions competition for legitimacy and capabilities impedes or enhances the effectiveness of partnerships.

### **Partnerships for Information Sharing**

Partnerships for information sharing focus on steering and directing members through information exchange and diffusion to build consensus and enhance knowledge on ways to address environmental issues (Andonova, et al., 2009). Efficient and trustful information exchange among firms and other constituents contribute to the partnerships' effectiveness. But will

partnerships result in sufficient information sharing to achieve desired outcomes, or will these outcomes be undermined because members refrain from sharing substantive information?

**Competition for legitimacy.** Through information exchange and diffusion participants define the issue and problem to be addressed and seek to legitimize practices to respond to the problem (Phillips, et al., 2000). These negotiations are particularly relevant in the context of global environmental issues, such as climate change, because problem definitions and appropriate responses are not yet widely institutionalized and taken-for-granted compared to other domains. Control over information is crucial in such highly dynamic domains (Lawrence, 1999). Information and knowledge sharing therefore represents an important strategy to gain legitimacy (Suchman, 1995). Since certain problem definitions and responses privilege some actors over others, partnership members compete for issue definitions and responses that favor their particular position. The impact of competition for legitimacy on the effectiveness of information-sharing partnerships will thus depend on whether members seek to legitimize novel and pro-active problem definitions and responses or rather defend their existing institutional position.

In this context, it is relevant that power within collaborations is unevenly distributed among participants (Phillips, et al., 2000). Dominant members – i.e. those that have legitimate authority, scarce resources or discursive legitimacy relative to other members of the partnership – exert a stronger control over information flows (Lawrence, 1999) and stronger influence on the problem definition and potential responses addressed by the collaboration (Phillips, et al., 2000). Therefore, we argue that *dominant members' stance on environmental issues* will moderate the effect of competition for legitimacy on the effectiveness of information sharing. Dominant members who benefit from a strong position in their institutional field will be interested in protecting and reproducing the institutional rules and norms that privilege them. As soon as

dominant members perceive emerging demands for environmental protection as a threat, they will seek to appease these demands. One way to achieve appeasement is constructing a legitimate appearance of the firm (Roberts, 2003), which can be achieved by passive membership in the partnership rather than engaging in substantive information exchange. In cases where dominant members adopt a defensive stance on environmental demands, we expect information sharing to be limited to symbolic information and the effectiveness of partnerships to be undermined by dominant members' interest to preserve favorable institutional conditions. In contrast, for dominant members that take a more proactive stance on environmental issues – e.g. because they seek to establish novel technologies or new business models – partnerships will be a platform to build consensus around problem definitions and legitimate responses through sharing and exchanging substantive information. In this case, dominant members use information-sharing partnerships as a mechanism to build wider acceptance and institutionalization of an environmental issue, so that the competitive interest of dominant firms to gain legitimacy for their activities may enhance the effectiveness of information-sharing partnerships.

Legitimacy can refer to a wide range of different aspects of organizational behavior; what an organization does in terms of domain of activity, outcomes or products; how an organization acts in terms of specific procedures, technologies or strategies; and through whom an organization acts (Dowling & Pfeffer, 1975; Suchman, 1995). Getting passive support for a firm's general position and conduct poses different challenges than gaining and maintaining active approval for specific firm responses to an environmental issue, such as novel technologies, products or business models. Therefore, the *problem focus of the partnership* also influences the relationship between competition for legitimacy and effectiveness of information-sharing partnerships. We argue that information sharing will be more substantive when partnerships focus on specific problems and solutions. With a narrow but specific problem focus members seek to legitimize

specific, innovative responses. This requires the sharing of detailed and profound information. In such cases, effective communication is in the best interest of member firms to ‘effect standards [...] that privilege their own strategic position’ (Lawrence, 1999, p. 178). Conversely, partnerships that focus on an environmental issue at large are more likely to serve as platforms for firms to seek general approval and legitimacy in the public arena through symbolic signaling of conformity with social expectations based on the exchange of symbolic information (Aldrich & Fiol, 1994). Consequently, the effectiveness of partnerships in providing members with substantive information and knowledge is undermined.

In legitimation processes, organizations will strategically select favorable audiences to gain and maintain legitimacy (Oliver, 1991; Suchman, 1995). Since inter-organizational collaborations act as important arenas for institutional processes (Phillips, et al., 2000), the *scope of membership* determines the prime audience for these processes. We expect that information-sharing partnerships with a cross-sector membership (Andonova, et al., 2009), i.e. also including public and/or civil society actors, are particularly prone to symbolic communication. A broad membership including various NGOs or government agencies corresponds to an audience that grants socio-political legitimacy in the public arena. In this case, firms’ competitive concerns for legitimacy may well crowd out effective information sharing beyond symbolic communication. On the contrary, where information-sharing partnerships are restricted to the membership of a relatively exclusive expert elite (Lawrence, 1999), a more effective information exchange can be expected. With a focused membership, member firms seek to legitimize innovative responses and compete for favorable legitimacy judgments in emerging fields through the exchange and negotiation of in-depth expert knowledge with their close peers.

One cross-sector partnership that illustrates the tension between competition for legitimacy and information sharing is the World Wildlife Fund (WWF) Climate Savers program. The

Climate Savers program was set up in 1998 with the aim to reduce greenhouse gas (GHG) emissions by committing firms to voluntary reduction targets and has attracted fifteen firms from different industries. The main benefits for members would be access to knowledge on best climate practices and external exposure for their climate commitment. The pro-active stance on climate change of the first firms to join, including Johnson & Johnson and IBM, was favorable for the effectiveness of the partnership as they wanted to show leadership in the emerging climate change arena by being a first mover (Schwandt, Steger, & Ionescu-Somers, 2008). However, the problem focus has been fairly broad. The program focused on how firms deal with climate change as an issue at large, but did not specify practices or mechanisms through which member firms would achieve emissions reductions. Moreover, the scope of the partnership has made it prone to serving as an instrument for symbolic communication. Of particular importance in this regard is the presence of the WWF. Since the WWF is a moderate activist NGO with high brand value, firms seek to be associated with this organization. Thus, while the proactive stance of the members might have been conducive for information sharing, the lack of focus and the presence of the WWF as a high-profile member seemed to have watered down the information exchange. The combined effect of all three factors might have rendered the Climate Savers program more a platform for communicating showcase examples to the outside world than an effective mechanism for information sharing. Accordingly, in a survey of the program in 2008 members applauded the external exposure that they received through the program but nevertheless called for more technical knowledge exchange (Schwandt, et al., 2008).

**Competition for capabilities.** Competition for capabilities can also have reinforcing as well as impeding effects on the effectiveness of information-sharing partnerships. In this context, tensions amount between private benefits of information and knowledge sharing and the reluctance to openly share proprietary information and knowledge with (potential) competitors.

Such tensions between cooperative and competitive elements of information and knowledge exchange are typically found in learning alliances between organizations (Khanna, Gulati, & Nohria, 1998). According to Khanna et al. (1998), common benefits of information and knowledge sharing occur when firms share and use information and knowledge collectively to produce outcomes, beneficial to all partners. Consequently, information-sharing partnerships' effectiveness in providing collective benefits depends on the degree to which member firms commit to mutual information exchange. In contrast, to acquire private benefits from information sharing each firm attempts 'to also use its partners' know-how for private gains, and [...] significantly greater benefits might accrue to the firm that "finishes" learning from its partner(s) before the latter can do the same' (Khanna, et al., 1998, p. 194). From such a competitive perspective a single firm has the incentive to discontinue information sharing and withdraw from the partnership as soon as it has appropriated sufficient knowledge. In the following, we discuss the conditions under which the effectiveness of information-sharing partnerships may be undermined or enhanced by member firms' competition for capabilities.

Soekijad and Andriessen(2003) find that in competitive alliances firms are less willing to share information on core business aspects such as strategic market and client characteristics or early stage product development projects. In contrast, information on general market conditions, general expertise or terminated projects was more openly shared. In a similar vein, Bengtsson and Kock(2000) show that the closer information and knowledge is to their customers the less cooperative firms will be in terms of sharing information with (potential) competitors. Consequently, the higher the *strategic relevance of information* to be shared, the more information-sharing partnerships will face a learning dilemma (Larsson, Bengtsson, Henriksson, & Sparks, 1998). Collaborative members will eventually try to protect themselves and stop sharing information because they fear to be exploited by free riders that seek to acquire

knowledge opportunistically, i.e. without sharing own information. We expect opportunistic behavior of single partnership members to undermine the effectiveness of information-sharing partnerships when the information is of high strategic relevance to the members. In contrast, the propensity for opportunistic competitive behavior and its detrimental impact on the partnership's effectiveness will be less pronounced in partnerships where more general information is exchanged.

Furthermore, the reluctance of firms to openly share strategically relevant information will be higher the more overlap there is between the business activities of member firms and the more these operate in the same markets. In contrast, competitive incentives for opportunistic behavior in information-sharing partnerships will be less prevalent when they have more heterogeneous membership, acting in non-rival business activities and markets, (including firms from different industries) or cross-sector membership (Andonova, et al., 2009). Hence, we expect that the higher the *relative propinquity of member firms* the more competition for capabilities undermines the sharing of information. In partnerships among firms with highly similar business areas, firms that already own distinctive capabilities will be reluctant to share information on these capabilities with close rivals to protect themselves against opportunistic exploitation. The effectiveness of information-sharing partnerships is less vulnerable to competitive tensions in knowledge exchanges between firms in non-rival business activities and sectors.

A partnership where these effects have played a pivotal role is the Green Power Market Development Group (GPMDG). The World Resources Institute together with 10 US-based firms set up the GPMDG in 2000. The partnership aim was increasing the uptake of renewable energy in the US and used information diffusion as the primary means to achieve this objective (Andonova, 2009). Since the partnership was set up as a learning network, information protection has been safeguarded from its inception. All members 'signed an information non-disclosure



agreement to facilitate an open dialogue within the group and a process of best practices diffusion' (Andonova, 2009, p. 80). In addition, this partnership has not allowed admittance of direct competitors of member firms and any new entrant should have the approval of all others. As a consequence, the partnership has been assessed as quite successful and 'the extent of member willingness to share best practices and lesson learned [...] was larger than anticipated' (Andonova, 2009, p. 87). Reducing the relative propinquity of member firms has been useful in controlling some of the competitive drawbacks of information exchange. However, the type of information exchanged referred to general market conditions with limited strategic relevance instead of core business aspects, e.g. where to locate green power projects and how to deal with resistance from local communities (Andonova, 2009).

### **Partnerships for Capacity Building and Implementation**

Partnerships for capacity building and implementation go beyond the diffusion and exchange of information on environmental practices, technologies and policies. They are concerned with enhancing the capacity of members to develop new practices to respond to environmental issues. In principle, capacity-building partnerships bear a strong potential for a high effectiveness as they directly address firm activities. But will such partnerships indeed incite business development via the creation of new products, services, technologies or business models for it to be worthwhile for participating firms?

**Competition for legitimacy.** From the viewpoint of competition for legitimacy, corporate membership in cross-sector partnerships is driven by firms' pursuit of institutional approval based on widely accepted rules and norms. Members 'vie for the establishment and legitimation of their own specific practical definitions' (Lawrence, 1999, p. 180). Member firms can utilize capacity-building partnerships either as a platform for the transformation of norms and rules to privilege

their solutions and skills or to reproduce and stabilize existing rules and norms in an attempt to play down emerging environmental demands. In the following, we develop the conditions that influence the effect of competition for legitimacy on the effectiveness of capacity-building partnerships.

As Phillips et al. (2000) argue, firms benefitting from a high status in their institutional environment will be reluctant to institutional change and work towards the reproduction of the existing rules and norms that privilege them. Particularly in fields where the environmental issue at stake is not (yet) accepted, partnership members are unlikely to engage in substantive efforts for capacity building and the associated legitimation of novel practices. Therefore, we expect that firms with an *institutional background* that is hostile to the environmental issue at hand tend to utilize partnerships to protect their core activities and institutional status against changes (Roberts, 2003), which undermines partnership effectiveness. Due to the hostile stance towards the issue, these firms will predominantly engage in partnerships to attenuate stakeholder pressure, not to mitigate environmental impact. Hence, they will have the tendency to build capacity for business practices that seemingly address the issue but keep the core of their business unchanged. Rather than contributing to effective capacity building for environmental mitigation, under these conditions, corporate membership serves to manufacture a legitimate appearance of the firm (Alvesson, 1990). For such firms competition for legitimacy renders capacity-building partnerships into pseudo-structures ‘which do not have an impact on the efficiency producing activities of the corporation’ and pseudo-action ‘carried out only for the sake of affecting the perceptions of an audience, without being recognized as having that intention’ (Alvesson, 1990, p. 387).

Conversely, for firms with a more favorable institutional background, capacity-building partnerships may represent a platform to actively work toward creating legitimacy for novel

business practices (Aldrich & Fiol, 1994). Inter-organizational collaborations such as cross-sector partnerships represent an important avenue for strategic institutional change (Phillips, et al., 2000) where ‘organizations will find it in their best interest to affect standards [...] that privilege their own strategic position’ (Lawrence, 1999, p. 178). Favorable institutional settings may occur when the dominant members come from institutional fields where an environmental issue is regarded legitimate, for instance due to existing or emerging regulation, and/or ongoing NGO campaigns, or where existing rules and norms are open to contestation or redefinition (Oliver, 1992) due to disruptions through technical innovations or novel scientific insights. Since the transformation of institutional norms and rules occurs through continuous innovation of practices by interested actors (Giddens, 1984), the diffusion and legitimation of innovative practices requires members to engage substantively in building capacity and implementing these practices within the partnership. In this case, competing for legitimacy enhances the effectiveness of capacity-building partnerships.

Furthermore, as Lawrence (1999) argues, organizations with technical, legal, marketing and political expertise have a stronger ability to influence institutional norms and rules in contested domains. The same applies to organizations that are perceived as leader in their field, i.e. organizations ‘to which others turn in times of uncertainty’ (Lawrence, 1999, p. 179). Therefore, we expect that the higher the *expertise and institutional leadership* of partnership members for the development and implementation of innovative business practices to address an environmental issue, the more substantive the action of the partnership towards the legitimation of such novel practices. This contrasts with partnerships that lack the participation of leaders and experts. In this case, partnerships are more susceptible to symbolic action with the aim to appease upcoming demands without substantive changes in business conduct, thus hindering the development and adoption of novel business practices.

Finally, the *level of involvement* of members in inter-organizational collaborations has been found to enhance the legitimation of novel practices (Lawrence, et al., 2002). High involvement is given when members engage in interactions that comprise different departments and management levels of the partner firms, leading to ‘new coalitions in which [partners] work together to carry out particular activities’ (Lawrence, et al., 2002, p. 285). Partnerships designed to foster deep interactions are more likely to result in substantive efforts to build capacity. Under such conditions members seek to legitimize novel practices through intense collaboration. This contrasts with partnerships with a more superficial design. When collaboration is restricted to isolated functions of the member firms with no focus on a particular activity the effectiveness of capacity-building partnerships is limited.

The Renewable Energy and Energy Efficiency Partnership (REEEP) is an example in this context. The UK government set up REEEP in 2002 and remains to be its main donor (Pattberg, Szulecki, Chan, & Mert, 2009). The partnership has since expanded to include 246 partners in 2009 and around €16 million in resources. REEEP’s aim has been to increase investments in renewable energy, energy efficiency measures, and improve access to sustainable energy services for the poor (REEEP, 2009), with the underlying goal of cutting GHG emissions while maintaining energy security (Pattberg, et al., 2009). The partnership provides facilities to enable project implementation for renewables and energy efficiency. REEEP has a broad membership of governments, firms, and NGOs with ample resources and expertise. On the whole, the institutional background of many members seems favorable towards climate change as many, in particular small members see REEEP as an opportunity to fund projects to make sure that their practices become accepted standards. Moreover, REEEP contains institutional leaders in this area such as the World Resources Institute and many OECD country governments as well as many innovative players in the field of renewable energy and climate mitigation and heavyweights of

key industries such as oil firms Royal Dutch/Shell and BP. However, some of the institutional leaders in REEEP – i.e. the oil & gas industry and the US government – come from institutional backgrounds that are less favorable to climate change. Accordingly, some doubts have been raised with regard to REEEP's effectiveness to build capacity through the technical implementation of (pilot) projects (Pattberg, et al., 2009). This might be the result of some members' reluctance to work towards the institutionalization of novel technologies and practices. The competitive impetus of some members to defend their leading and favorable institutional position in climate-skeptical fields may well have undermined the partnership's effectiveness in implementing novel practices to mitigate climate change.

**Competition for capabilities.** With regard to competition for capabilities, capacity-building partnerships have promise to be attractive loci for learning and development of novel capabilities. Learning might be particularly relevant in the context of cross-sector partnerships, because such partnerships tend to be created when an industry faces a new global environmental issue. The environmental issue thus forms a shared challenge firms in the industry need to overcome together. Learning not only takes place between different member firms, but firms also use partnerships to learn from the governments or NGOs involved that tend to have more knowledge about environmental issues (Selsky & Parker, 2005). According to Soekijad and Andriessen (2003), there are three different types of learning in partnerships. When firms learn *in* partnerships, focus is on mutual learning and a transfer of capabilities between members. Learning *as* partnership refers to collective development of novel capabilities based on members' initial skills. Finally, learning *about* partnerships refers to the development of knowledge about new forms of governance and collaboration. All forms of learning involve the need for members to collaborate. However, as capabilities are not distributed equally among firms (Bengtsson & Kock, 2000; Hamel, 1991), they will show competitive behavior. In the following we discuss

the conditions under which we expect collaboration to be crowded out by competition for capabilities.

It has been argued that the willingness to collaborate for developing capabilities in partnerships is lower the higher the strategic relevance of these capabilities and the closer they are to the final customer of a firm (Bengtsson & Kock, 2000). Therefore, a decisive aspect for the impact of competition for capabilities on the effectiveness of capacity-building partnerships is the *strategic relevance of activities and capabilities* at the core of such partnerships. Consequently, and almost cynically, the more partnerships focus on core business aspects – which goes hand in hand with the highest potential positive effects on mitigating environmental impact – the more we expect competition to dominate over collaboration. This effect can be particularly detrimental with regard to partnerships for global environmental issues. Given the scale of such issues, it is desirable that capabilities refer to core business aspects rather than peripheral activities to induce fundamental shifts in firm behavior. As long as the skills developed in partnerships solely refer to peripheral business activities of member firms, the detrimental effect of competition on collaboration will be less pronounced but the expected beneficial impacts in terms of mitigating environmental impacts will be rather limited.

In collaborations for capacitybuilding, ideally, partnership members' skills and capabilities will be complementary, leading to lower development costs, more rapid development and deployment of novel capabilities (Bengtsson & Kock, 2000). In the case of strong *complementarity of capabilities* within the partnership – especially if reciprocal – capacity-building partnerships' effectiveness will be less susceptible to detrimental competitive effects. Such complementary can be expected between firms on the one hand and governments or NGOs on the other hand, as they tend to have distinct types of capabilities due to their different objectives. Nevertheless, we expect the competitive effect to be particularly strong when the capabilities

represent core aspects to all or the majority of member firms who thus vie for exclusive access to the capabilities of the government, NGO or other firms involved. In cases where peripheral skills of some member firms qualify as a core capability of other member firms, this problem can be circumvented. Bengtsson and Kock (2000) find that tensions between collaboration and competition might be resolved if, from the viewpoint of the single firm, competitive and collaborative elements are separated topically, geographically or structurally. A separation can enhance the effectiveness of capacity-building partnerships when they bring together firms along the value chain (vertical membership) rather than direct competitors (horizontal membership). Likewise, *inter*-industry partnerships for development and transfer of capabilities among partners not competing for the same markets appear to be less vulnerable to detrimental effects of competition.

Finally, for capacity-building partnerships to serve as effective platforms of mutual learning and transfer of capabilities, it is critical what the different partners bring to the table. If the contributions of the different partners in terms of sharing skills and risks are too divergent (Bengtsson & Kock, 2000), participants that contribute strongly will refrain from collaboration because they perceive a risk of being deskilled (Lei & Slocum Jr, 1992) through asymmetric learning (Hamel, 1991). As soon as member firms perceive a large imbalance in the relative contribution of the different members, we expect competitive forces to undermine collaboration for joint capacity building. The effectiveness of capacity-building partnerships thus depends on the *relative contribution of the different members* regarding their initial skills and capabilities. Even when contributions of members are relatively equal, however, the collaborative element of capacity-building partnerships can be considerably limited by a race to learn as ‘partners [...] may sometimes be more likely to view collaboration as a race to get to the future first, rather than a truly cooperative effort to invent the future together’ (Hamel, 1991, p. 89).

The CO<sub>2</sub> Capture Project (CCP) is an example of a capacity-building partnership that has reportedly been successful in creating a platform to learn *as* partnership, collectively developing new climate mitigation technologies (Miracca, et al., 2009). CCP was set up in 2000 and as of 2011 seven oil & gas firms – BP, Chevron, ConocoPhillips, ENI, Petrobras, Royal Dutch/Shell and Suncor – cooperate in this partnership with the US Department of Energy, European Union and Norway as well as the non-profit Electric Power Research Institute. The goal of the partnership is ‘to advance the technologies and to improve operational approaches in order to reduce costs and accelerate the deployment of CO<sub>2</sub> Capture and Storage (CCS)’ (CCP, 2011, p. 3). CCP (2011) has identified and developed several CCS technologies that lower the costs of this mitigation option and has recently started two field demonstrations. A review of CCP suggests a significant contribution from all members, including funding and technical expertise of staff members (Kuuskraa, 2005). The effectiveness of CCP might stem from the rather low strategic relevance of CCS at this early a stage of development which opens up possibilities for mutual learning and reduces competitive tensions. Firstly, one of the main goals of CCS investments is to permit fossil fuel-dependent firms to leave their core business intact as most projects are aimed at post-combustion capture. Hence, it will be difficult to achieve a competitive advantage based on an end-of-pipe technology (Bowen, 2011). Secondly, this technology is of higher strategic relevance for electric utilities using coal-fired power plants or the coal industry than the oil and gas industry (Stephens, 2009). Even if oil and gas firms already possess capabilities to inject CO<sub>2</sub> for enhanced oil recovery and manage underground reservoirs (Stephens, 2009), this does not represent a core capability. Thirdly, competition for capabilities has not hindered the cooperation within CCP because this partnership has so far mostly dealt with developing basic scientific research with commercial applications of CCS technology at least a decade away (Bowen, 2011; Stephens, 2009). So, the combined effect of the relatively low strategic relevance of CCS



technology and the even contribution of all member firms in CCP has created a rather favorable context for mutual learning to take place.

### **Partnerships for Rule Setting**

Partnerships for rule setting complement traditional governance mechanisms for rule and norm setting and steer partnership constituents to the definition and adoption of rules and norms (Andonova, et al., 2009). As soon as ambitious norms and rules are targeted, such partnerships may have considerable potential as effective private governance mechanisms, especially if the rules and norms are accepted and applied beyond the boundaries of the partnership.

**Competition for Legitimacy.** Legitimacy judgments are not monolithic but rather emerge through social discursive processes. Within such processes different rules and norms compete as suitable reference points to judge firm behavior (Driscoll & Crombie, 2001; Neilsen & Rao, 1987). Firms can strategically influence legitimation processes as interested actors. In the context of capacity-building partnerships we have discussed the potential of such partnerships to reproduce and transform norms and rules through established and repeated practice among the members. However, the enactment of practices in partnerships is no guarantee that these practices will diffuse from the collaborative setting of the partnership to wider institutional fields (Phillips, et al., 2000). In the context of rule-setting partnerships, firms competing for legitimacy will have an interest to sponsor and support the wider diffusion of those rules and norms that are favorable to their strategic position. In contrast, from the viewpoint of effective environmental governance it would be most beneficial if the most stringent and ambitious environmental rules and norms diffused into wider institutional fields. In the following, we discuss the factors that moderate the tension between competition for legitimacy and the effectiveness of rule-setting partnerships.

The negotiation of favorable institutional rules and norms represents an important institutional strategy firms can apply to gain and maintain legitimacy (Oliver, 1991; Suchman, 1995). However, firms will only benefit from the desired legitimizing effect of favorable rules and norms negotiated in rule-setting partnerships, if these rules and norms are diffused beyond the partnership, which is ‘contingent on the ability of members to effect institutional change’ (Phillips, et al., 2000, p. 36) beyond the partnership boundaries. The effectiveness of rule-setting partnerships will thus depend on whether member firms with an interest in novel practices have the ability to sponsor and support coercive, mimetic and/or normative processes to diffuse corresponding norms in their wider institutional field. In other words, the *position of members in their institutional field* (Phillips, et al., 2000) determines whether interested firms can successfully diffuse ambitious environmental rules and norms to gain legitimacy. With regard to coercive mechanisms the participation of regulators or civil society actors may be beneficial for the widespread adoption of rules and norms. Comparable effects may be expected with regard to mimetic and normative processes, respectively, if the partnerships include members with a leading institutional position or key positions in influential collective arrangements such as unions or industry associations. As all these actors pursue particular interests and strategically select and diffuse favorable rules and norms in competing for legitimacy, the question which members have the necessary power and position in their fields is most relevant for the effectiveness of rule-setting partnerships.

Closely related to the members’ position in their respective field, the level and way of *connectedness of the members* to third parties beyond the boundaries of the partnership will influence the more wide-spread adoption of rules and norms negotiated by the partnership (Lawrence, et al., 2002). This is particularly relevant in the context of emerging global environmental issues such as climate change. On the one hand, an emerging issue represents a

domain where rules and norms are still contested so that there is ample room for negotiation and for competing rules and norms. On the other hand, global environmental issues are a transversal problem that cut across and challenge existing rules and norms in many different fields.

Consequently, legitimate firm behavior ‘may mean different things in different places to different people and at different times’ (Campbell, 2007, p. 950). Firms with strong and multiple connections within institutional fields will benefit from considerable leeway for strategically promoting favorable rules and norms to gain and maintain legitimacy. Strongly connected members may therefore hold cornerstone positions regarding the effectiveness of rule-setting partnerships. As soon as these firms primarily promote the diffusion of rules and norms that merely favor themselves instead of rules and norms that aim for substantial reductions in environmental impact, the effectiveness of rule setting-partnerships may be undermined.

A partnership for rule setting that has been particularly influential is The Prince of Wales's Corporate Leaders Group on Climate Change (CLG). Since 2005, this group of originally UK-based firms has expanded its scope to the EU and also globally (CLG, 2011). CLG has written several letters to UK Prime Ministers and the President of the European Commission as well as created Communiqués launched at UN meetings on climate change. In these letters CLG calls for tougher climate regulation to dispel uncertainty with a particular focus on market mechanisms as policy instrument, i.e. emissions trading. A letter CLG sent in 2006 has allegedly had much influence on then Prime Minister Blair in introducing a Climate Change Bill (Carter, 2008). The effectiveness of CLG in terms of rule setting seems to stem from the strong position of some of the key members in their institutional field as well as their connectedness beyond the partnership. Accordingly, the first letter sent in 2005 was signed by key players with strong institutional positions pushing for emissions trading, most notably BP. From 1998 onwards BP had acted as a policy entrepreneur on emissions trading; not only by setting up an internal emissions trading

scheme, but also by actively lobbying the European Commission and Germany (Meckling, 2011). In addition, CLG has profited from strong connectedness of some key members beyond the partnership. From its inception CLG has had well-connected partners with regard to the UK political arena (Visser & Adey, 2007). Notably, many corporate leaders joined CLG, because the Cambridge Programme for Industry convening CLG had good relations with the UK Prime Minister. The ensuing political connections enabled CLG to accurately time its letters with regard to UK climate policy decision-making. In addition, letters were always published in the presence of key members of government and key actors from the media (Visser & Adey, 2007).

**Competition for Capabilities.** Firms competing for capabilities have an interest in contributing to rule-setting partnerships to protect or create unique capabilities. Lobbying for and setting rules that raise rivals' costs has been identified as a strategy to gain competitive advantage and block alternative capabilities of competitors (McWilliams, van Fleet, & Cory, 2002), particularly for early movers seeking to protection against imitators (Dean & Brown, 1995). Furthermore, rule setting reduces the uncertainty about (future) environmental regulation and removes barriers to costly and irreversible firm investments into capabilities (Rugman & Verbeke, 1998). Rival firms attempting to question rules for environmental mitigation 'would have a difficult and costly time explaining why they oppose socially desirable regulations that are supported by other firms in their industry' (McWilliams, et al., 2002, p. 718). However, this strong overlap between firms' competitive interests and effective rule setting will be considerably limited as soon as rule-setting partnerships are used as a mechanism to preempt government regulation in favor of less ambitious and watered down regulation. In such cases, rule-setting partnerships are reduced to coordination platforms to effectively steer lobbying for industry-friendly public policies. We now discuss the factors that moderate the relationship between competition and effectiveness in this context.

The degree of *heterogeneity within an industry* (Maxwell & Briscoe, 1997) with regard to technological knowledge, business models or products and services can play an important role in determining whether rule-setting partnerships are dominated by defensive lobbying for less stringent regulation or proactive lobbying for ambitious regulation to create a competitive advantage. Higher heterogeneity within an industry suggests that firms are less likely to compete on price but instead on specific attributes of their business models, products and services (Porter, 1996). This heterogeneity also provides opportunities to differentiate through ‘coalitions of the green and the greedy’ (Maxwell & Briscoe, 1997, p. 285), i.e. an overlap between ambitious regulation in the public interest and firms’ private interest to protect environmental capabilities from competitors. We therefore expect high heterogeneity in an industry to induce firms to proactively engage in rule setting for more stringent rules and norms. In a situation with low heterogeneity within an industry and highly standardized business models, products and services, firms will have comparatively little interest and need to protect unique practices through stringent regulation in order to differentiate from competitors. In such cases, we expect a stronger incentive for incumbent firms to influence rule setting in a more defensive way to protect their current position against more stringent rules and norms.

By contrast, we expect high *heterogeneity within a partnership* in terms of membership of firms across industries to create a trade-off with the effect of heterogeneity within an industry. As firms from different industries tend to have different interests, they will have greater difficulties in reaching consensus, which puts the stability and degree of political influence of a rule-setting partnership at risk. Basically, the wider diversity of firms’ interests in a partnership due to the fact that they operate in different industries will cancel out the incentive to proactively lobby for more ambitious regulation that stems from the heterogeneity within an industry. Rule-setting partnerships with a heterogeneous membership across industries thus run the risk that the

proposed rules are watered down in order to avoid conflict. Likewise, the impact of lobbying for stringent environmental regulation will be reduced if the members disagree about burden sharing of upcoming regulation. High heterogeneity among members could lead to partnerships with a fairly short lifetime. In contrast, if members have homogeneous competitive interests for more stringent regulation, for instance because they rely on similar technological innovations, competition for capabilities appears more favorable to collective efforts among partnership members, and hence the effectiveness of such memberships.

A case in point is the United States Climate Action Partnership (USCAP), which for some years was seen as the main rule-setting partnership in the US urging the federal government to implement climate regulation in the form of emissions trading. This partnership was first established in 2007 comprising nine firms and 4 NGOs, which later grew to 27 firms and 6 NGOs (Meckling, 2011). While the heterogeneity of USCAP members across industries was first a strongpoint of the partnership to gain political leverage as it led to a broad representativeness, it has also proven to be its Achilles' heel. In 2010 three firms— BP, Caterpillar and ConocoPhillips – decided to leave the partnership. The oil firms that stepped out of USCAP argued that ‘many of the bills that have come before Congress place an unfair burden on motor fuels and offer too many concessions to coal’ (McNulty & Crooks, 2010). As a consequence, they considered the proposed climate bills to be punitive for their natural gas and oil refining activities and put utilities at an advantage (McNulty & Crooks, 2010).

## **Table 1**

Moderators of the Relationship between Firm Competition for Legitimacy and Capabilities and  
Cross-sector Partnership Effectiveness

| Type of partnership | Competition for legitimacy                                    |                           | Competition for capabilities                               |                           |
|---------------------|---|---------------------------|--|---------------------------|
|                     | enhancing effectiveness                                       | undermining effectiveness | enhancing effectiveness                                    | undermining effectiveness |
| Information sharing | <i>Dominant members' stance on environmental issues</i>       |                           | <i>Strategic relevance of the information to be shared</i> |                           |
|                     | Proactive   | ↔                         | Defensive  | Peripheral ↔ Core         |
|                     | <i>Problem focus of the partnership</i>                       |                           | <i>Relative propinquity of the member firms</i>            |                           |
|                     | Specific  | ↔                         | General  | Low ↔ High                |
|                     | <i>Scope of membership</i>                                    |                           |  |                           |
|                     | Focused   | ↔                         | Broad  |                           |
| Capacity building   | <i>Institutional background of member firms</i>               |                           | <i>Strategic relevance of capabilities</i>                 |                           |
|                     | Favorable to environmental issue                              | ↔                         | Hostile to environmental issue                             | Peripheral ↔ Core         |
|                     | <i>Expertise and institutional leadership of members</i>      |                           | <i>Complementarity of members' capabilities</i>            |                           |
|                     | High  | ↔                         | Low  | High ↔ Low                |
|                     | <i>Level of involvement</i>                                   |                           | <i>Relative contribution of members</i>                    |                           |
|                     | High  | ↔                         | Low  | Even ↔ Uneven             |
| Rule setting        | <i>Position of members in their institutional field</i>       |                           | <i>Heterogeneity within industry</i>                       |                           |
|                     | Strong  | ↔                         | Weak   | High ↔ Low                |
|                     | <i>Connectedness beyond the boundaries of the partnership</i> |                           | <i>Heterogeneity within partnership</i>                    |                           |
|                     | Strong  | ↔                         | Weak   | Low ↔ High                |

**DISCUSSION AND IMPLICATIONS**

In this article, we address the question of the effectiveness of cross-sector partnerships for the governance of global environmental issues and advance the understanding of their potential *and* limitations in this regard. While it has been observed that firms' participation in governance has increased in general (Cutler, Haufler, & Porter, 1999; Ruggie, 2004), in the governance of global environmental issues the role of firms has become even pertinent (Biermann, et al., 2007). This active firm involvement appears straightforward as global environmental issues 'may be beyond the reach of the nation-state government' (Matten & Crane, 2005, p. 172). However, our argument suggests that the suitability of partnerships as a mechanism for environmental governance might be hampered by inter-firm competition for legitimacy in the socio-political arena and for capabilities in the marketplace. A distinctive characteristic of cross-sector partnerships is the fact that firms can use their participation not only to create favorable institutional conditions in the sociopolitical arena – i.e. they are seen by stakeholders as a legitimate organization – but also to create a distinctive strategic position in the market arena. As a consequence firms will use their participation in cross-sector partnership to compete with other firms for a better position in both these arenas. As Table 1 summarizes, the ensuing competition for legitimacy and capabilities have a distinctive impact on the ability of the partnership to fulfill its governance function – i.e. information-sharing, capacity building and rule setting – with the eventual aim to mitigate environmental impact. Moreover, this impact is contingent on a number of factors that moderate the relation between inter-firm competition and effectiveness.

These contingency factors determine whether there are tensions between the collective benefits of partnerships and inter-firm competition for capabilities and legitimacy, which undermine the necessary collaboration for partnerships to be effective. Hence, the effectiveness of cross-sector partnerships for the governance of global environmental issues may not be categorical. Rather, firms' competitive behavior within partnerships to obtain or maintain



legitimacy and/or capabilities can enhance but also considerably limit a partnership's potential contribution to mitigating environmental impact. Our main contribution is that we adopt a firm perspective to the analysis of partnership effectiveness. This is a relevant perspective because firm behavior is driven by competition for private benefits (McWilliams & Siegel, 2001), which not necessarily aligns well with the public objectives of partnerships to reduce environmental impact (Andonova, et al., 2009; Bäckstrand, 2008), giving rise to considerable tensions (Hahn, Pinkse, Preuss, & Figge, 2014). This firm perspective allows us to carve out the factors that determine whether inter-firm competition plays a favorable or detrimental role for the effective functioning of partnerships.

We suggest that there are two major – although not exhaustive – design variables to at least partially align private and collective benefits of partnerships to avoid that competition crowds out effectiveness. First, the *composition of and access to partnerships* are directly or indirectly related to a number of the factors summarized in Table 1. With regard to the influence of competition for legitimacy, the scope of the membership (in the context of information sharing partnerships), the institutional background of members (in the context of capacity building partnerships), the position of members in the institutional fields, and their connectedness beyond the partnership (in the context of rule setting partnerships) are for instance related to the composition of the partnership. These membership characteristics can thus be influenced at least to a certain extent by a careful choice of members when partnerships are designed. Likewise, a careful selection of corporate members may influence the propinquity of members (in the context of information-sharing partnerships), the complementarity of capabilities (in the context of capacity-building partnerships), as well as the heterogeneity within the partnership (in the context of rule-setting partnerships), and thus help to avoid potentially detrimental effects of firms' competitive behavior on effectiveness. In this context, it is particularly relevant to note that the

influence of the composition of the membership on partnership effectiveness depends on the type of the partnership with regard to its governance function. While in capacity-building partnerships heterogeneous partnership across industries might help to ensure complementarity of capabilities and avoid tensions, in rule-setting partnerships cross-industry membership is likely to increase tensions between competition for capabilities and partnership effectiveness.

Second, a number of partnership characteristics that determine the effect of competition on effectiveness are directly or indirectly related to the *key topic of partnerships*. While the problem focus plays a direct role for the effect of competition for legitimacy on the effectiveness of information-sharing partnerships, the strategic relevance of the information to be shared and the strategic relevance of capabilities to be built in the context of capacity-building partnerships are closely related to the key topic. Topic choice in the design of partnerships plays a particularly crucial role with regard to the effectiveness of capacity-building partnerships. While it might be tempting to avoid competitive tensions that crowd out collective benefits by choosing a key topic that only refers to peripheral capabilities of members, this might result in an almost paradoxical situation with regard to effectiveness. Simply focusing on peripheral capabilities and business practices might well avoid competitive tensions, but at the same time also undermine substantive contributions to mitigating environmental impacts as this requires a focus on core capabilities and business practices. Hence, the careful design of partnerships needs to take into account the interplay of membership and topic focus.

Introducing a firm perspective and the notion of competition into the discussion of private governance opens up several avenues for future research. Future research could test empirically the contingencies under which we expect enhancing or undermining effects of competition on the effectiveness of cross-sector partnerships. In addition, some of the competitive tensions that we identified might not only occur between firms but also between other participating actors,

especially NGOs. While competitive forces are much stronger in a corporate context, NGOs compete for resources as well, so that rivalry between different NGOs engaged in the same partnership might also be relevant for the effectiveness of the partnership. Furthermore, competitive dynamics might also play a role between actors from different sectors. Further exploring such dynamics goes beyond the scope of the current article, however.

Inter-firm rivalry will not only play a role within but also between different partnerships. Oftentimes, firms participate in different partnerships simultaneously (Andonova, 2009), the purpose of which are not necessarily always congruent. Future research could address the effect of competing partnerships and the impact such kind of institutional competition has upon their effectiveness. This also brings up questions how firms choose different partnerships and whether they perceive this choice as a competitive decision. Furthermore, future research could address the dynamics of firms' commitment and contribution to partnerships. While we address firm behavior *within* partnerships as driven by competition for private benefits, a dynamic perspective will provide a more complete picture of the competitive processes around partnerships. Firms enter and exit partnerships and change the level of commitment to partnerships over time for competitive reasons; a process which we would expect to affect partnership effectiveness as well. Such a dynamic perspective will provide further insights into the tensions between competition and effectiveness in the private governance of global environmental issues.

## **CONCLUSION**

Adopting a firm perspective to analyze the effectiveness of cross-sector partnerships offers a more sophisticated picture of their suitability as an effective mechanism of private environmental governance. Taking into account the effects of competition for legitimacy and capabilities helps to ground overly optimistic expectations for the contribution of cross-sector

partnerships to address environmental degradation. The undeniable potential and value of firm capabilities needs to be considered in light of the competitive premise under which these capabilities are being developed and deployed. A socially efficient use of firm capabilities in partnerships can only be expected under conditions where competition does not crowd out firm contributions to the functioning of such partnerships with regard to their collective benefits. We carve out the partnership characteristics that determine the effects of competition on the effectiveness and thus the suitability of partnerships as a private environmental governance mechanism. Our analysis suggests that benefits for society at large will be confined to cases where cross-sector partnerships are carefully designed to achieve effective private governance of global environmental issues.

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## FOOTNOTES

<sup>1</sup> Note that throughout the article sector refers to market, state, and civil society, whereas industry refers to different fields of business activities.

<sup>2</sup>In the article we make a distinction between capability and capacity. Whereas capability refers to knowledge and skills, technical systems, and management systems that provide a firm with a distinctive strategic position in the marketplace, capacity stands for a firm's ability to use financial, labor, technical or managerial resources for the specific purpose to address an environmental issue.