



CHAPTER

3 A Targets-of-Governance Approach to Explaining Procedural Credibility

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Abstract

This chapter argues that the targets of governance condition the procedural credibility of eco-labeling organizations. Eco-labeling organizations that target large firms and seek global market presence—those that aim big—are more likely to follow best practices than those with narrower ambitions. The chapter details three causal mechanisms through which this relationship occurs. First, the heightened critical scrutiny that accompanies aiming big leads ELOs to demonstrate concern for procedural credibility out of a fear of reputational damages from negative media or NGO attention. Second, as ELOs expand their market presence, they seek legitimacy by including a growing community of stakeholders in decision-making. This heightened inclusiveness socializes key decision-makers in a way that reinforces a commitment to procedural credibility. Third, the increased revenues derived from targeting large firms helps ELOs competently perform the various dimensions of best practice. The chapter outlines a number of testable implications.

Keywords: [targets of governance](#), [aiming big](#), [critical scrutiny](#), [democratic legitimacy](#), [stakeholder democracy](#), [socialization](#), [organizational capacity](#), [global value chain](#), [best practice](#), [multi-stakeholder governance](#)

Subject: [Environmental Politics](#), [International Relations](#)

If ownership, location, and sectoral context do not entirely explain why some ELOs follow best practices more closely than others, then what does? The central argument advanced in this chapter is that there is a strong relationship between *an ELO's governance targets* and its level of adherence to best practices. In brief, ELOs that aim big—those that aim to certify a large proportion of a relevant global market—are more likely to follow best practices. Aiming big affects best practice adherence through three interrelated causal mechanisms. First, targeting a large proportion of a global market exposes ELOs, firms certified to their standards, and any affiliated NGOs to heightened scrutiny from activist groups and the media. As an ELO seeks to expand the proportion of goods and services certified to its standards, it becomes more visible and invites more critical scrutiny. This scrutiny creates a consequentialist imperative to demonstrate concern for best practices out of a fear of material and reputational damages from negative media or NGO attention. Concern for material and reputational damage may affect an ELO directly or indirectly through its NGO and retail partners.

Second, aiming big increases the demand for democratic legitimacy in ELOs. As an ELO expands its certification activities into foreign markets, it must seek legitimacy in the eyes of a growing community of stakeholders in order to gain the political authority necessary to govern. In exchange for legitimation, these stakeholders often appeal for greater influence in decision-making processes related to the eco-labeling standard. This heightened inclusiveness can help build community and socialize key decision-making bodies within ELOs in a way that increases attention to procedural credibility.

Third, if and when aiming big results in concrete gains to market share, ELOs can use increased certification and logo–licensing revenues to augment their organizational capacity. This organizational capacity helps ELOs competently perform best practices associated with standard setting, compliance assurance, and impact monitoring and evaluation. The three causal mechanisms operate in a loose temporal sequence. As ELOs first begin to aim big, concern for critical scrutiny drives adherence to best practices. This is often, though not always, followed by seeking democratic legitimacy through adding stakeholders to key decision-making bodies, thereby creating opportunities for socialization. Finally, once expansion is actually achieved, improvements to organizational capacity help ELOs meet the material demands of adhering to best practices.

In the remainder of this chapter, I specify what is meant by aiming big and how it can be empirically observed. I begin by outlining each of the three causal mechanisms through which aiming big leads to best practice adherence, detailing their origins in past scholarship, and explaining how they relate to one another. Next, I preemptively address some critiques to the aiming big hypothesis. I conclude the chapter by laying out expectations for observable evidence of the aiming big hypothesis as well as observable evidence of alternate hypotheses to be monitored in the case study chapters that follow.

Aiming Big: ELO Strategies for Increasing Market Share

Aiming big is the summary term used in this book for when an ELO demonstrates an intention to certify a large proportion of a relevant global market. This variable is difficult to operationalize in a large-N study, but its presence or absence can be ascertained through careful qualitative research.¹ Evidence of aiming big is primarily observed through who or what an ELO targets for certification. There are a number of ways in which the targets of governance can be used to delineate ELOs that aim big from those that aim small.

p. 62 First, ELOs that aim big often publicly announce their intention to certify the majority of a relevant market, whereas those that aim small publicly disclose their intention to service a small market niche. Evidence of a distinction between the two strategies can be gleaned from an ELO's public statements. In some cases, ELOs will publicly announce a target market share for their standards. For example, the MSC's integrated strategic plan for 2012–2017 sets a target of certifying 20% of global fisheries landings by 2020 (MSC 2012). The 20% target is part of a deliberate market transformation strategy intended to gradually nudge an entire commercial sector toward certification. Consequently, it is a clear example of aiming big. Conversely, other ELOs publicly disclose their intention to create “gold standards.” These standards, which are intended to be achievable by a minority of environmentally progressive firms or products in a given sector, are an example of aiming small, since the ELOs who manage them demonstrate no desire to certify a broader proportion of a given market. Rather, their goal is to certify only the absolute leaders in a given sector or those that conform to a very specific set of values. Biodynamic agriculture ELOs (e.g., Demeter Biodynamic) embody the aiming-small strategy. While such organizations would like to see their underlying values expand to broader sections of the market, they are quite comfortable servicing a particular market niche. Indeed, their business model is often built upon catering to a narrow subset of customers willing to pay a premium for goods certified to their standards.

Second, ELOs that aim big target large companies that hold considerable leverage over GVCs, particularly downstream retailers. By contrast, those that aim small target smaller companies with limited leverage over GVCs, particularly upstream suppliers or producers. Targeting large, downstream retailers supports an aiming-big strategy by increasing the volume of goods or services certified to an ELO's standards and by utilizing the leverage of downstream companies to drive certification up a GVC. For example, UTZ—one of the world's largest certification and labeling bodies for sustainable coffee, tea, and cocoa—recently announced a pilot standard for sustainable hazelnuts. Consistent with its approach to other sectors, UTZ aims to seize a large proportion of the hazelnut market by partnering with major European retailers like Migros and Jumbo Supermarkets (UTZ 2015). The goal is to convert farmers to sustainable production by creating demand for certified goods and by using the enormous leverage of retail buyers over farmers and producers (van der Ven 2018). By contrast, an ELO that targets upstream or small-scale producers limits the volume of goods/services certified and has limited leverage over the market. For example, Certified Naturally Grown offers an organic agriculture standard primarily aimed at “direct-market farmers producing food for their local communities” (Certified Naturally Grown 2015). The approach deliberately targets a particular segment of farmers and limits the volume of goods certified by marketing to one

p. 63 producer at a time. Evidence of which type of firm an ELO targets can be found in its certification register (the public record ↵ of firms/products certified to one of its standards), public documents that announce its plans for growth (e.g., annual reports), and most accurately, through personal communication with ELO staff.

Third, ELOs that aim big seek to market their eco-labels transnationally. While they may begin by targeting a particular region or country, eventually, they actively seek to establish a presence in new or foreign markets. For example, Bonsucro (the leading ELO for sustainable sugarcane) doubled its membership between 2014 and 2015 by expanding into seven new national markets (Bonsucro 2015). This outward-facing strategy is a necessary step for an ELO that aims to develop the dominant certification in its sector. Indeed, given the global nature of production, it is unlikely that an ELO could certify a large proportion of any good or service by focusing on a particular market or region.² By contrast, ELOs that aim small restrict their certification and labeling activities to domestic markets or particular regions. For example, Salmon Safe (an ELO that certifies land developments and vineyards for watershed and habitat protection) concentrates its certification activities in the Pacific Northwest (Salmon Safe 2015). Evidence of which strategy an ELO adopts can be observed in its past actions and public statements. Those that aim big will often expand gradually into new markets or announce an intention to do so, whereas those that aim small often publicly state that they are targeting particular regions.

In sum, aiming big is an umbrella term that encompasses a number of distinct strategies for certifying a large proportion of a relevant global market. These strategies include setting levels of achievement for an eco-label at a level that immediately encompasses a large proportion of firms in a given sector, targeting large firms with leverage over suppliers, and aggressively expanding into foreign markets. Importantly, evidence of aiming big can be consistently measured across commercial sectors and therefore allows for both within-sector and cross-sector comparison. In the previous chapter, I observed a strong correlation between one of the observable indications of aiming big (transnational market presence) and best practice adherence. This relationship warrants further investigation; hence, the following sections draw deductively on existing research to examine a number of potential causal mechanisms through which aiming big could relate to best practice adherence.

Exposure to Critical Scrutiny

p. 64 To start, past scholarship suggests aiming big affects the degree to which an eco-labeling organization, firms certified to its standard, and affiliated ↵ ENGOs anticipate and/or are subjected to critical scrutiny (Vogel 2010). Critical scrutiny can come from activist groups, the media, concerned stakeholders, or the public. However, groups that play this informal supervisory role often have limited resources to investigate eco-labels and the firms/ENGOs that support them. For strategic purposes, they tend to use “leverage politics” and focus their efforts on eco-labels that aspire to have the broadest reach, market share, and potential impact (Gereffi, Garcia-Johnson, and Sasser 2001; Keck and Sikkink 1998). Hence *who* an ELO targets for governance is importantly related to its exposure to critical scrutiny.

Critical scrutiny can have a concerted impact on attention to best practices in ELOs because it threatens the very currency upon which they trade—their credibility. A third-party eco-labeling organization essentially serves as a trust-broker between producers and consumers within a complex GVC. The value proposition of the eco-label lies in its ability to affirm that a product or service has been produced in a way that is not detrimental to the environment, even if buyers of the product have no way of ascertaining this information for themselves. Previous research has shown that once consumer trust is damaged through fraudulent claims or greenwashing, it is hard to rebuild (Chen and Chang 2013). Thus, if an eco-labeling organization is found to engage in fraudulent practices, the value of its eco-label is essentially nullified and the ELO faces acute material consequences.

The risk of getting caught is heightened when operating in a high-scrutiny environment. As previous research has shown, size, level of investment in reputation, and exposure to foreign markets are key determinants of a firm’s exposure to critical scrutiny and global transparency norms (Bartley 2009; Marquis, Toffel, and Zhou 2011). Thus, in situations where ELOs or firms certified to their standards are large and have significant transnational presence, ELOs are more likely to ensure complete transparency around their operations, set levels of achievement appropriately, and monitor and enforce compliance with their standards. In short, a high level of scrutiny leads to more adherence to best practices. Where levels of

scrutiny are lower, as they are for ELOs with limited transnational presence or smaller clientele, it is easier for ELOs to disregard best practices since the risks of being caught are lower. Thus, while aiming big can augment the proportion of a market certified by a particular ELO, it also increases its visibility and consequently, its exposure to critical scrutiny. This critical scrutiny, in turn, drives heightened adherence to best practices.

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Critical scrutiny can come from a number of sources and be either direct or indirect. Direct scrutiny targets the ELO itself whereas indirect scrutiny targets the firms it certifies. ENGOs are an important source of both direct and indirect critical scrutiny. However, they do not apply their scrutiny evenly. The amount of scrutiny directed at a particular ELO is often contingent on its potential reach and impact. ENGOs have limited resources to devote to scrutinizing eco-labeling activities and must be strategic in where they target their efforts. Activists tend to focus their scrutiny on labels used by powerful firms or those that certify (or intend to certify) a significant proportion of the market. This strategy allows them to achieve the most impact with the least amount of resources, a strategy that has been elsewhere termed “leverage politics” (Keck and Sikkink 1998). ELOs that aim big are therefore high-value targets for critical scrutiny. As an ELO seeks to expand its labeling activities, it becomes more susceptible to critical scrutiny from ENGOs.

A similar dynamic is present in retailers that choose to source eco-labeled products. Retailers, particularly multinational retailers with transnational presence and leverage over their value chains, are both a prime target for ELOs that aim big and a focal point for critical scrutiny (Rehbein, Waddock, and Graves 2004; van der Ven 2018). Efforts to increase the market share of eco-labels and sustainability standards often explicitly target large multinational retailers. The rationale behind this strategy lies in the commanding position multinational retailers hold in GVCs. As Mayer and Gereffi (2010, 8) note: “firms with large market shares, whether marketers, retailers, or producers, usually have the option to source from many smaller suppliers, each of which may have few options other than doing business with the lead firm.” ELOs recognize the commanding position of retailers in the global marketplace and often attempt to leverage this position to increase their share of a relevant market. In lieu of attempting to shift the purchasing preferences of billions of consumers or the production methods of millions of producers, ELOs that aim big can strategically target the handful of major retailers that control which products make it onto supermarket shelves. As Gerald Butts, the former President and CEO of WWF Canada, famously commented about WWF’s efforts to transform the global production of commodities like sugarcane: “Coke could make a decision that they’re not going to purchase anything that isn’t grown or produced in a certain way—and the whole global supply chain changes overnight . . . Coke is literally more important than the United Nations.”³

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This retail-centric strategy for market transformation is explicitly documented in the WWF’s communication materials around its certification and labeling efforts (WWF 2012). Retailers are viewed as a key leverage point in GVCs. By moving retailers toward credible production standards, WWF and the ELOs it sponsors hope to transform entire commodity chains. Retailers can be thought of as the stem of a champagne glass, providing a crucial bridge between producers (the base) and consumers (the glass). In targeting a small number of retail firms, ELOs can change the production patterns of millions of producers and the consumption habits of billions of consumers (WWF 2012). Retailers therefore hold the key to ELOs increasing their market penetration (van der Ven 2018).

However, the very qualities that make large retailers high-value targets for ELOs that aim big also render them subject to heightened critical scrutiny. Large, downstream retailers—firms like Walmart, Nike, or Tesco—are often heavily invested in branding or “reputational capital” (Bartley 2009; Fombrun 1996). Yet, their carefully constructed brands are increasingly vulnerable to criticism of the practices of any and all businesses that contribute to their end product, regardless whether they directly own or control these businesses (Dauvergne and Lister 2013, 90; van der Ven 2018). Much in the same way that ELOs engage in leverage politics to expand the market penetration of their labels, so too do activist environmental groups engage in leverage politics and attempt to create change in value chains by targeting global retailers with naming and shaming campaigns. In this way, activists often turn “the global scope of business activity into a source of political vulnerability for global firms” (Vogel 2010, 71). High-profile campaigns have targeted Disney and Nestle for contributing to deforestation in the Amazon rainforest and Apple and Intel for contributing to human rights abuses associated with “blood minerals” (Dauvergne and Lister 2013, 91).

Retailers have become increasingly sensitive and risk averse to such campaigns for good reason. Past research has proven that naming and shaming campaigns have a discernible negative effect on both sales and stock prices (Bartley and Child 2011, 426). These negative impacts are particularly pronounced among

firms with recognizable brand names (Bartley and Child 2011, 439). In seeking to avoid these kinds of negative material consequences at all costs, retailers must exert caution in choosing which ELOs to partner with. Large, multinational retailers are most likely to partner with ELOs that are well-equipped to withstand critical scrutiny. They do so out of a desire to insulate themselves, and their value chains, from ENGO naming and shaming campaigns. In cases where a potential partnership with an eco-labeling organization poses a risk to the retailer's reputation, retailers can use their size and market position to demand changes to the policies and procedures of the ELO. In this way ELOs who aspire to have their standards used by large multinational retailers are often compelled through indirect scrutiny to meet the highest levels of best practice adherence. By contrast, ELOs that develop standards for small and medium enterprises (SMEs) or for businesses positioned upstream in value chains do not face the same level of critical scrutiny. Consequently, they face less of an imperative to adhere to best practices.

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ENGOS that sponsor eco-labeling schemes can also be a source of indirect scrutiny for the ELOs they support. They play a growing role in eco-labeling and have increasingly tied their brands to certification and labeling schemes (Starobin and Weinthal 2010, 13). Many of the best-known eco-labels on the market today—including those managed by the FSC, MSC, and Rainforest Alliance—were initiated by ENGOS. While these ENGOS embrace eco-labeling as a means of leveraging the market influence of powerful actors to achieve environmental objectives, they must also be careful that they do not engage in or condone practices that may damage the credibility of their brands. Any negative publicity directed toward an eco-label affiliated with an ENGO could adversely impact its brand and consequently, affect its ability to raise money from core donors. This potential impact on funding flows from the fact that many ENGO donors remain deeply skeptical about ENGO support for a particular product or business, whether explicit or tacit (Dauvergne and Lister 2013, 148). Hence, ENGOS must be cautious and only partner with ELOs that do not expose their brand to reputational damage. As the risk of exposure to critical scrutiny grows alongside the ambition to increase eco-labeling activity, ENGOS will increase the pressure on the ELOs they support to operate in line with best practices and so ensure that they are unlikely to expose the ENGO to reputational damage.

Demand for Democratic Legitimacy

The second mechanism through which aiming big can improve adherence to best practices is by increasing calls for inclusiveness and representation in ELOs. The argument, in brief, is that efforts to increase market share by expanding into new markets or targeting a broader group of firms subject ELOs to heightened demand for democratic legitimacy, and ELOs acquire democratic legitimacy by engaging in practices of “stakeholder democracy” (Bäckstrand 2006). Essentially, stakeholder democracy entails opening up decision-making procedures to diverse groups of stakeholders. In this way, the process through which ELOs gain democratic legitimacy is akin to the process through which firms gain a “social license to operate” (Gunningham, Kagan, and Thornton 2004; Prno and Slocumbe 2012). As ELOs seek to gain democratic legitimacy, their core decision-making bodies (i.e., boards and technical committees) become more inclusive. This inclusiveness creates a diversity of opinions and perspectives within the ELO and initially creates an environment in which actors engage in strategic bargaining in service of their individual interests. However, over time and through sustained interaction, shared problems and common understandings of appropriate solutions emerge and the group dynamic can shift toward deliberative problem-solving (Joerges and Neyer 1997). Inclusiveness creates an opportunity for sincere and meaningful deliberation (Dingwerth 2007). Best practices provide an appropriate solution to a problem faced by all stakeholders engaged in bargaining, namely, how to agree on a standard that safeguards an eco-label's credibility and prevents all stakeholders from incurring reputational damages.

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In order to understand where demand for democratic legitimacy comes from, it is important to first recognize that eco-labels, as forms of TNG, have no prior basis of authority. There is no overarching hegemon compelling firms to certify their products to a particular eco-labeling standard. Thus, the ability of an ELO to increase the proportion of relevant firms certified to its standards depends on its ability to generate public acceptance and political legitimacy (Dingwerth 2007). Political legitimacy is defined as “the acceptance and justification of shared rule by a community” (Bernstein 2005, 2011, 20). The requisites of political legitimacy are determined by the interaction of the community of actors affected by a governance arrangement with broader institutionalized norms in a particular issue area (Bernstein 2011, 19; Suchman 1995). In the context of eco-labeling, the community of actors affected by an eco-label may include the producers a label aims to govern, retailers who buy eco-labeled products, ENGOS with an interest in the

environmental issue addressed by an eco-label, and members of the general public. These diverse stakeholders interact with a broader series of global norms which call for the democratization of global environmental governance (Bäckstrand 2006; Koppell 2008). The result is that political legitimacy often demands, at least in part, the inclusion of different stakeholder groups in the decision-making bodies of ELOs. This inclusiveness forms the basis upon which ELOs obtain democratic legitimacy, and therefore, the political authority necessary to govern. As Gulbrandsen (2010, 172) notes: “inclusiveness in standard development and governance bodies enhances the legitimacy and rule-making authority of non-state governance institutions.”

Which groups and what markets an ELO targets for certification has an important bearing on the demand for inclusiveness within ELO decision-making bodies. As ELOs seek to expand their global market presence, the community of stakeholders capable of granting or withholding legitimacy grows and becomes more diverse. In part, this broadening and deepening of stakeholder involvement flows from critical scrutiny. As Fransen and Burgoon (2012) find, firms often see multi-stakeholder collaboration with environmental groups as a way to mitigate future reputational risks. The imperative to collaborate on eco-labels is even stronger when large firms or highly visible issues are involved. As Risse (2000, 22) notes: “the more an issue is subject to public scrutiny, the more likely it becomes that materially less privileged actors have access to the discourse.” However, the other incentive for stakeholder democracy stems from the requisites of gaining a social license to operate. Quite simply, ELOs need to prove to their clients and stakeholders in new markets that their standards are fit for purpose, regionally relevant, and address the concerns of key stakeholders.

Much like businesses operating in markets with socially conscious consumers, ELOs must behave in a way that affords them a social license to operate. A social license can be defined as “the demands on and expectations for a business enterprise that emerge from neighborhoods, environmental groups, community members, and other elements of the surrounding civil society” (Gunningham, Kagan, and Thornton 2004, 308). Importantly, the composition and size of the communities capable of extending a social license grows as an ELO expands in visibility, market presence, or enters into new markets or communities (Prno and Slocumbe 2012). Engaging in practices of stakeholder democracy is one of the most straightforward and visible ways in which ELOs can help ensure their social license to operate (Lawrence 2002, 77). For example, while the Roundtable on Sustainable Palm Oil (RSPO) initially convened with exclusively European members, it quickly moved to include stakeholders from Malaysia and Indonesia in order to gain legitimacy and project influence in major producer countries (Schouten and Glasbergen 2011). Thus, as ELOs attempt to expand outward, they must also work harder to obtain a social license to operate by increasing their attention to practices of stakeholder democracy.

Demand for stakeholder democracy comes from both business and civil society stakeholders. Mainstream ENGOs like the WWF have been quite open about wanting the certification schemes they support to be the largest in the world and have “stressed the need for some flexibility to accommodate business interests” (Gulbrandsen 2010, 174). Often, this flexibility means allowing industry actors some decision-making power in ENGO-led ELOs. Similarly, businesses value the credibility that comes from working in partnership with NGOs (Dauvergne and Lister 2013). In practice, this often means that industry-led ELOs will offer NGO representatives a seat at the table. Significantly, neither side has an incentive to increase stakeholder democracy if the ambition of the governance effort is quite narrow. NGOs that seek to award a gold standard eco-label to a small group of environmental leaders in a given sector have no incentive to open decision-making processes more broadly to industry stakeholders. Nor do industry groups have an incentive to allow NGOs any influence if the ambition of their eco-labeling efforts is confined to a small proportion of the total market for a given good or service.

As practices of stakeholder democracy increase in line with targeted market share, so too does attention to best practices. The behavioral logic at work here is socialization, defined as the “process of inducting actors into the norms and rules of a given community” (Checkel 2005, 804). Socialization is premised on the constructivist assertion that interests and identities are open for redefinition and can be changed through exposure to the opinions and beliefs of others (812). As the inclusiveness of an eco-labeling organization grows through practices of stakeholder democracy, the variety of interests represented in its decision-making bodies expands as well. These interests may include producers, distributors, retailers, industry associations, civil society groups, academics, and policy-makers, among others.

Socialization affects the way these groups interact with one another by gradually altering the bargaining dynamic between stakeholder groups. In a manner that is analogous to international negotiations, efforts to govern eco-labeling standards may initially resemble strategic bargaining wherein each stakeholder group attempts to maximize particular utilities at the expense of others (Joerges and Neyer 1997). Industry stakeholders will attempt to use their influence to ensure that eco-labels do not impose undue costs on industry. ENGO stakeholders will push to make sure that eco-labels impose behavioral changes on industry in a way that achieves tangible environmental objectives. However, over time and through sustained interaction between stakeholders, the interests of these disparate groups may become aligned as socialization creates common problem definitions and shared approaches for dealing with them (Haas 1992; Joerges and Neyer 1997, 619).

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In this context, all stakeholders confront the common problem of having to reach a compromise over standard content. Additionally, neither NGOs, nor industry, nor other stakeholder groups want to risk the reputational damage that can accompany being associated with a non-credible standard (Chen and Chang 2013; Gourevitch, Lake, and Stein 2012). However, negotiations about standard content—the specific rules and criteria that outline the conditions for awarding an eco-label—can be lengthy and give rise to intractable differences in multi-stakeholder governance bodies. For example, a number of the ASC’s standards were severely delayed by insurmountable differences between stakeholder groups about the use of antibiotics in seafood farming, genetically modified crops in food sources, and other substantive issues. Focusing on the procedural dimensions of standard setting and governance provides a solution to the dual challenge of reaching a compromise and preserving credibility. It offers a pathway through which all stakeholders can work toward credibility without becoming mired in debates about specific standard content. This shift toward using procedural rigor to strengthen credibility has previously been observed in transnational NGOs. Gourevitch, Lake, and Stein (2012, 5) note: “when their virtue is challenged, NGOs seek to enhance their credibility by adopting autonomous governance structures, increasing transparency, professionalizing their staff and processes and integrating into the community of NGOs.” Many of the actions encompassed in this statement are captured in best practices. Thus, in multi-stakeholder environments, best practice adherence frequently emerges as a shared solution to the collective problem of credibility. Crucially, this kind of bargaining and compromise does not occur in a decision-making environment dominated by one kind of stakeholder or an environment where stakeholders have limited exposure to one another. It is the condition of inclusiveness that allows socialization to occur and gradually shift the group dynamic from strategic bargaining with a goal of maximizing individual utilities to deliberative problem-solving aimed at maximizing collective utilities (van der Ven 2014). Inclusive decision-making occurs more frequently in ELOs that aim big because they seek the political legitimacy needed to authoritatively govern new markets.

This process of socialization leading to best practice adherence can occur even when the motives for increasing inclusiveness in ELOs are purely strategic. As Bernstein and Cashore (2007) note, industry-led ELOs often strategically enlist environmental groups to bolster their credibility. However, over time this decision can allow shared norms to emerge as environmental NGOs exert influence over understandings of environmental problems from the inside. Thus, while stakeholder democracy in ELOs may initially be driven by consequentialist concerns like gaining social license to operate and reducing exposure to critical scrutiny, the socialization that results from stakeholder democracy can help ratchet up attention to best practices by presenting them as a solution to the shared problem of credibility. Stakeholder democracy is more actively practiced by ELOs that aim big since the requisites of political legitimacy become more demanding as an ELO expands.

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Improvements to Organizational Capacity

The final mechanism through which aiming big increases attention to best practices in eco-labeling is through strengthening organizational capacity. The causal logic at work here is considerably more direct than in the previous two mechanisms. Quite simply, organizational capacity—defined in terms of an ELO’s monetary and human resources—increases as an ELO’s revenues increase through greater market share. An infusion of extra cash and personnel can allow ELOs to invest more heavily in following best practices, many of which require time, skill, and money. Thus, adherence to best practices increases as organizational capacity increases. Significantly, this causal mechanism only becomes operative once an ELO’s strategy to aim big has resulted in actual improvements to its market share.

In many ELOs, income derived from logo licensing is a key source of revenue. For example, the MSC derived 72% of its total income in 2013/2014 from royalties accrued through logo licensing (MSC 2014). The ability of an ELO to license its logo is linearly related to its market share and the volume of goods or services it certifies. The greater the number or size of companies using an ELO's label, the greater the revenues from logo licensing. These revenues can subsequently be invested into strengthening organizational capacity by hiring more staff, launching new programs, or investing in organizational infrastructure.

Organizational capacity is related to procedural credibility because many dimensions of best practice adherence are resource intensive. Put simply, they require a considerable investment of time and money. For example, an ELO that fully adheres to best practices monitors its environmental impact to ascertain whether its standard is making a difference "on the ground." However, monitoring and evaluation (M&E) is not a simple or cheap exercise. It often involves concentrated costs in the form of dedicated staff resources, investments in specialized equipment, and professional communications firms to disseminate findings. The MSC, for example, employs two full-time and three part-time staff members just to run its M&E program and produce a yearly impact report. This is a significant investment for any ELO, even one the size of MSC.

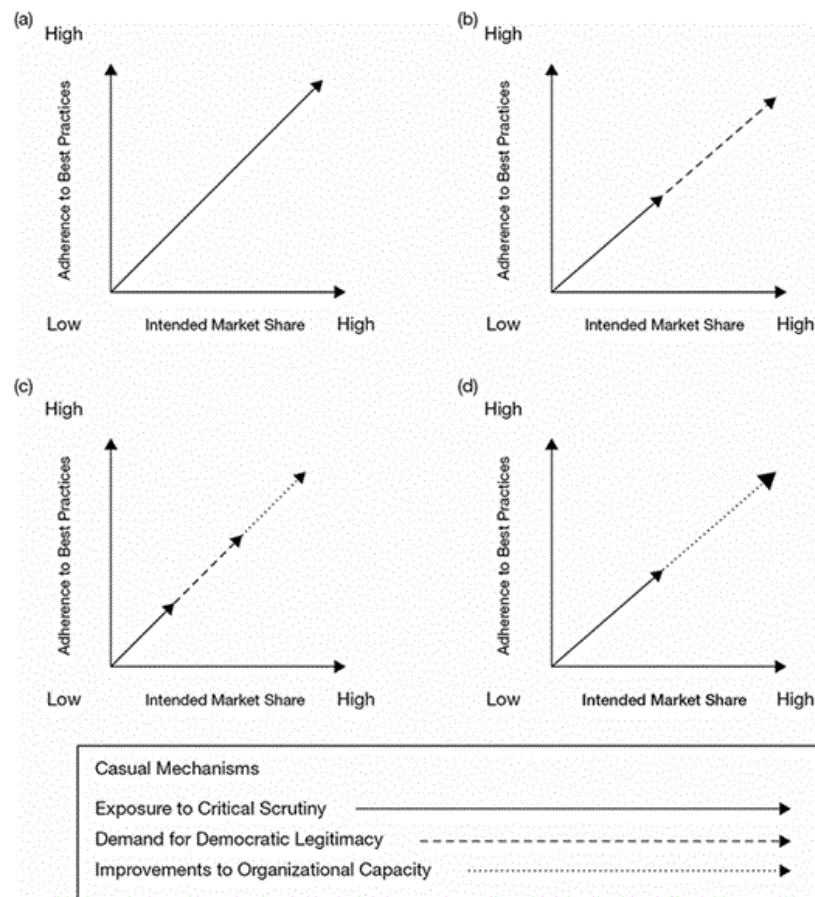
Yet M&E is only one dimension of a credible standard system. Other areas of best practice demand time and resources as well. ELOs need to develop rigorous compliance systems and ensure that auditors remain current and consistent on the criteria used to award or revoke an eco-label. They must conduct stakeholder mapping exercises to make sure ↴ that all relevant parties are consulted in matters pertaining to standard setting and maintenance. Often, this involves setting aside resources to include vulnerable stakeholders in standard setting by subsidizing their travel costs or holding stakeholder meetings in disparate regions. ELOs that are in full conformance with best practices also set aside resources to make their labels accessible to smaller businesses that would not otherwise be able to afford certification and logo licensing fees. Many ELOs employ communications staff to maintain transparency across their operations, rigorously documenting any procedures related to the development and maintenance of their standards. All of these systems require time, money, and human resources and are more easily accomplished in ELOs with high levels of organizational capacity. Consequently, ELOs that successfully aim big are likely to have superior organizational capacity and are therefore better positioned to follow best practices.

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The Relationship Between Causal Mechanisms

The three causal mechanisms just reviewed are temporally related, albeit loosely and inconsistently—this relationship is diagrammed in figure 3.1. In all models, the causal effect of aiming big on adherence to best practices is consistent. However, the relationship is equifinal, and the operative causal mechanisms can vary from case to case. In each instance, aiming big leads to heightened exposure to critical scrutiny and triggers a concern for best practice adherence. However, following this initial response to critical scrutiny, one of four causal sequences can occur. These sequences are captured in diagrams a through d in figure 3.1.

Figure 3.1



Causal relationship and mechanisms leading to best practice adherence

In diagram a, aiming big leads to best practice adherence solely through a concern for critical scrutiny. This sequence is most often observed when an ELO has only recently undertaken plans to expand its market-presence. The concern for best practice adherence reflects an anticipation of critical scrutiny, yet the ELO has not yet had time for socialization or organizational capacity to play a role. In diagram b, aiming big initially triggers a concern for best practice through critical scrutiny, which in turn creates demands for democratic legitimacy. For example, a concern for critical scrutiny might lead an ELO to balance stakeholder groups within its key governance bodies. The resultant socialization within these governance bodies helps further improve adherence to best practices for reasons outlined earlier in this chapter. In diagram c, all three causal mechanisms operate in turn. Aiming big triggers a concern for critical scrutiny and increases demand for democratic legitimacy. Once these processes have occurred and some higher level of market penetration is achieved, enhanced organizational capacity begins to strengthen the ability of the ELO to adhere to best practices. This is often the case in long-established transnational ELOs (e.g., the FSC). Lastly, in diagram d, aiming big operates primarily through a concern for critical scrutiny and is followed eventually by enhanced organizational capacity. Diagram d reflects the fact that socialization does not always occur within key governance bodies, even if an ELO faces concerted pressure to make its governance more inclusive.

The hypothesis and causal mechanisms proposed invite a number of critical questions that can be preemptively addressed here. The first is the question of causal direction. One may rightfully wonder whether aiming big precedes best practice adherence or vice versa. After all, it is possible that best practice adherence is what leads ELOs to aim big in the first place. Here it is important to recall the costs, time, and loss of control associated with best practice adherence. As explained in chapter 1, adherence to best practices entails acute monetary costs, loss of control over standard setting and decision-making, and heightened critical scrutiny. The decision to adhere to best practices is not one that ELOs make without a sound rationale for doing so. Thus, while it remains possible that particularly value-driven ELOs might follow best practices out of pure altruism, it is far more likely that best practice adherence is driven by a purposive and strategic market strategy. Namely ELOs that aim big adopt best practices to facilitate growth and market penetration. Best practice adherence offers a measure of insulation from the critical scrutiny that accompanies certifying larger firms in global markets. Consequently, it is more likely that best practice adherence is a result of aiming big than a cause of it. However, if the inverse causal direction were correct, this would become immediately apparent in the case study chapters to follow.

A second question concerns the relationship between structure and agency in the aiming big hypothesis. Critics may justifiably contend that structural conditions lead ELOs to adopt particular market strategies. In this way, aiming big may be less of a decision and more of a requisite of broader structural conditions. Indeed, past scholarship on eco-labels has found that structural forces play a considerable role in conditioning the form and pattern of environmental certification programs across sectors. For example, Auld (2014, 11), while investigating the initial target market of environmental certification programs for forests, coffee, and fisheries (either local or global), finds that a program's target audience depends on "the character of political and market opportunity structures." Specifically, variation in whether a program aims locally or globally can be explained through the relative openness of domestic versus international policy fora and differences in market structures like levels of international trade, concentrations of multinational companies in GVCs, and barriers to market entry in a given sector.

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While Auld's account suggests the salience of structural forces in determining an ELO's target audience, there remain sound reasons to believe that agency plays a significant role in whether an ELO aims big or small. Most notably—as the case studies in chapters 4 and 5 will demonstrate—there is considerable variation in the targets of governance *within* particular sectors. Even when political and market conditions are held constant, as they mostly are within sectors, ELOs still differ in whether they seek to certify a large proportion of a global market or not.⁴ Of course, it remains possible that other IVs examined in my statistical analysis, specifically those pertaining to ownership, location, age, or focal area, determine who an ELO targets for governance. If this is the case, it should be relatively easy to ascertain the influence of structural conditions through the within-case process tracing performed in the following chapters. Thus, the aiming big hypothesis is not at odds with Auld's assertion that early choices affect target audience. Yet as he acknowledges, "early choices help explain, but do not entirely determine, the striking differences" between programs (Auld 2014, 4). There remains considerable room for agency, particularly in the early choices that ELOs make. Hence, there is analytic value in focusing on the targets of governance as a causal variable in and of itself and not simply an intervening variable for some prior structural condition.

A third question concerns the nature of the relationship posited here. Readers may inquire as to whether the relationship between my IVs and DVs is linear or if it varies depending on the values of the variables. On this question, I suggest that aiming big has the greatest effect when an ELO's level of adherence to best practices is low. Under these conditions, a decision to increase market share can precipitate drastic and sudden improvements in levels of best practice adherence, as it does in a number of the case studies examined in chapters 4 and 5. The nature of the relationship for ELOs that are already highly adherent to best practices is less clear, partially due to a lack of adequate data. Only a handful of ELOs have reached a high level of best practice adherence and those few have done so relatively recently. Thus, any hypothesis on whether the relationship is linear or sigmoidal may be premature.

A related question pertains to whether the hypothesized relationship between the targets of governance and best practice adherence is consistent across time. Here I suggest that the relationship is consistent within the temporal boundary considered in this study (1978–2015). ELOs in my case studies emerge at different times but are impacted by their decision to target or not target broad market share in a relatively uniform

way. Thus, within the range of eco-labeling practices to date, the effect of aiming big appears to be fairly consistent. The answer to whether this relationship will hold into the future is more ambiguous and requires ongoing research.

p. 77 Lastly, one may inquire as to whether aiming big is a necessary or sufficient condition for best practice adherence. On this question, I suggest that it is neither. Aiming big should be theorized as holding a probabilistic relationship to procedural credibility and best practice adherence. One can certainly find outlier cases of large ELOs with significant market share that completely disregard best practices. Similarly, one can find small ELOs with limited market share that maintain high levels of best practice conformance. However, both instances are rare. ELOs that strive to be impactful in global markets rarely withstand the critical scrutiny and demand for democratic legitimacy that accompanies their size for long. When an ELO with significant market share or large corporate clients fails to adhere to best practices, the hypothesized effects of aiming big may simply be delayed or emerge more slowly.⁵ Moreover, ELOs that limit certification activity to domestic or niche markets are often limited in their adherence to best practices by inadequate organizational capacity stemming from low revenues. Thus, while the relationship between aiming big and best practice adherence is not deterministic, it is strongly probabilistic.

Testing the Link Between Aiming Big and Best Practice Adherence

The statistical analysis conducted in chapter 2 provides some evidence for the plausibility of the hypothesis just outlined by showing a strong correlation between transnational market presence and adherence with best practices. However, because measures of aiming big depend on understanding the intentions of an ELO and because transnational market presence represents only one of the dimensions of aiming big, the statistical findings do not constitute an adequate hypothesis test. For this reason, both the causal effect and the hypothesized causal mechanisms through which aiming big operates are better tested through a combination of comparative case studies and within-case process tracing. The qualitative component in this book allows me to investigate causal mechanisms and establish that the intention to aim big is temporally prior to adherence with best practices.

p. 78 The case study chapters that follow draw upon twenty-five key informant interviews conducted with persons in the fields of sustainable aquaculture and carbon labeling. My interview strategy was deliberately designed to build upon the results of my statistical analysis. I began by asking broad questions about what motivates adherence to best practices in order to avoid biasing responses toward certain hypotheses. As the interview progressed, I probed some of the promising findings in my statistical analysis more directly. In taking this approach, my goal was to test the importance of certain promising variables and to see whether they were merely symptomatic of some prior variable that was exogenous to my statistical models. In this way, within-case process tracing helps me to address questions of timing and sequencing.

If the relationship between aiming big and best practice adherence is plausible, then a number of observable implications should follow. First, one might expect to see a significant difference in best practice adherence between ELOs with broad governance ambitions and those that target smaller market segments. This difference should be clearly reflected in the IBP scores of the various ELOs and should also be consistent across sectors. In both sustainable aquaculture and carbon neutral/carbon reduction labeling, one might expect that ELOs with broad mainstream aspirations will have significantly higher IBP scores than those without these aspirations. The absence of meaningful variation between ELOs that aim big or aim small would therefore falsify the hypothesis.

Second, one might expect ELOs that aim big to preemptively adopt best practices as a means of insulating themselves from critical scrutiny. This can be empirically observed when decisions to follow best practice are temporally prior and plausibly linked to decisions to aim big. For example, one might observe an ELO increase its commitment to best practices prior to wooing a large retail client, launching a new mainstream standard, or expanding into a new market. One might also expect the role of critical scrutiny to be explicitly acknowledged by ELO employees in interviews or primary documents. If best practice adherence arises independent of critical scrutiny or is temporally disconnected from decisions about who an ELO targets for governance, then this causal mechanism is incorrect.

Third, one can expect ELOs to become more inclusive in key decision-making bodies as they expand outward and for this inclusiveness to result in increased attention to best practices. The composition of key

decision-making bodies within ELOs should become more diverse as the ambition and scope of their governance efforts expands. In other words, ELOs that aim big should also be predisposed to multi-stakeholder governance. This multi-stakeholder governance model should be plausibly linked to changes in procedural credibility. For example, a shift in the composition of a board or technical committee should precede changes to an ELO's policies around transparency, impartiality, or some other dimension of best practice. Counter-evidence to this causal mechanism would be the lack of a link between aiming big and multi-stakeholder governance or an inverse or neutral relationship between the multi-stakeholder model and best practices.

p. 79 Lastly, one can expect ELOs that successfully increase their global market share and expand their certification and licensing revenues to invest in organizational capacity by hiring new staff and creating new programs as they grow. ELOs that successfully aim big might be observed launching new impact monitoring and evaluation programs, incorporating a broader range of stakeholders into standard development, or improving their training for independent auditors. Of course, it is also possible that the expanded revenues that accompany increased market penetration may not lead to investments in organizational capacity or may have an adverse effect on best practice adherence. In the first instance, increased revenues could generate no new investment in organizational capacity as ELOs choose to redirect revenues toward other activities. In the second instance, enhanced organizational capacity may only serve to create a fixed or rigid bureaucracy that is ill-equipped to adapt to evolving best practices. Evidence of these dynamics can be observed through either static or declining attention to best practices as an ELO increases its revenue streams. Either the lack of an observable relationship between increased revenues and organizational capacity or the inability of large, well-resourced ELOs to competently follow best practices would suggest the implausibility of this causal mechanism.

In short, there are a number of scenarios in which aiming big has no relationship to best practice adherence or the relationship does not function in the hypothesized manner. Of course, aiming big could equally have the inverse causal effect on best practices, and it is important to lay out expectations for this relationship as well. For one, the desire to gain market share could lead ELOs to lower adherence to best practices as they seek to appeal to an ever-broader audience. The observed implication of this relationship would be similar to the racing-to-the-bottom dynamic discussed in earlier chapters (Cashore et al. 2007, 163; Fransen 2011b, 359). ELOs with ambitions to certify a large proportion of a global market might be observed reducing adherence to best practices in a bid to make their standards as easily accessible and affordable to big firms as possible.

Similarly, the positive effect of heightened inclusiveness that I associate with expansion into new markets could plausibly work in the opposite direction. Scholars of multilateral governance have long argued that there is a relationship between group size and diversity and problem-solving capacity (Caporaso 1992). Larger groups that encompass a diversity of interests can struggle to cooperate toward shared objectives. If one applies this insight to ELOs, then one might expect that increasing the number of stakeholders would lead to difficulties in adhering to certain best practices, particularly those around setting measurable environmental goals, ↵ creating robust monitoring and evaluation systems, and establishing firm procedures for reaching consensus. Each of these practices requires cooperation and agreement, which could be hindered by expanding the range of interests represented in ELO decision-making bodies. Evidence of this dynamic could be observed in a decline in attention to these sorts of best practices following a move toward more inclusive governance.

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Lastly, it is possible that my hypothesis overstates the importance of a focus on the targets of governance in general. The statistical analysis in chapter 2 provides a number of alternate hypotheses related to who owns an ELO (public or private, NGO-sponsored or non-NGO-sponsored, industry or non-industry), how it is legally structured (for-profit or non-profit), where it is located (CME or non-CME country, proximate to other ELOs or non-proximate), and which sector it operates in (competitive or non-competitive). Of these relationships, being privately owned or funded, associated with an existing environmental NGO, or legally structured as a non-profit organization were strongly correlated to best practice adherence. Thus, the following chapters look for evidence of these promising hypotheses alongside evidence for or counter-evidence to my aiming big hypothesis. The case studies may reveal that ownership, legal structure, or any of the other hypotheses explored in chapter 2 account for the majority of variation in best practice adherence with the targets of governance playing a trivial role. If this is the case, one can expect these structural variables to take a central role in the accounts of what motivates adherence to best practices in sustainable aquaculture and carbon labeling.

1. Time and resources are the main barriers to operationalizing this variable for large-N research. Determining whether there is an intention to aim big or not requires knowledge of an ELO's motivations and ambitions. This knowledge is best obtained through extensive primary document analysis and interviews with ELO personnel, both of which are more feasible in small-to-medium-n research.
2. With the possible exception of an ELO that certifies a good/service that is uniquely produced in one area (e.g., three quarters of all hazelnuts are grown in Turkey).
3. *The Globe and Mail*, January 13, 2011.
4. It is also worth noting that Auld's (2014) DV is quite different from the IV proposed here. Whereas Auld's principal concern is global ambition, aiming big is a broader concept that encapsulates global ambition as well as the size of firm targeted and ideal level of market penetration.
5. This dynamic has been well-documented in the forestry sector. The Programme for the Endorsement of Forest Certification (PEFC)—an umbrella program that covers a range of national forestry standards—began with the intention of aiming big, but without corresponding attention to best practices. However, this began to change around 2005 when, in response to pressure from large public procurers, the PEFC adopted new conventions on balanced governance, public consultation, and transparency (Gulbrandsen 2014). Thus, it could be argued that the impacts of aiming big were eventually realized, albeit with a significant delay.

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