The Sustainability Syndicate: Shared Responsibility in a Trans-organizational Business Model

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The sustainability syndicate: Shared responsibility in a trans-organizational business model

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The final version is available in ScienceDirect.com


Doi: 10.1016/j.indmarman.2013.05.014

Abstract

This paper proposes design principles for the ‘sustainability syndicate’: shared responsibility among diverse stakeholders for sustainability; an agenda for unifying economic and ethical rationales; and plural governance based primarily on markets, contracts and collaborative relationships. The paper suggests a research agenda directed at issues that constrain sustainability syndicates. Syndication's contributions to sustainability build upon its trans-organizational structures for shared responsibility. Syndication works as an insurance cooperative that reduces the financial burden of risk. In addition, members could rent skill sets from other stakeholders, reduce barriers to entry into bigger projects, and improve efficiencies. As underlying sustainability are both economic and ethical rationales for shared responsibility, sustainability syndicates induct diverse non-commercial stakeholders into inclusive settings. A unifying agenda in these settings, as it grapples with externalities and constructs welfare-enhancing solutions, enhances sustainability brand differentiation. Plural self-governance, as it corrects for failures of individual self-governance modes, enables market making and market access, reduces transaction costs in contracting, and enables members to build the trust and commitment necessary for collaborations. Sustainability syndicates obviate the need for command-and-control interventions. Although institutional, performance and instrumental constraints still remain, syndicate business models offer potentially game-changing strategies in sustainability marketing.

Keywords

Business model, Trans-organizational structure, Sustainability, Syndicate, Stakeholder responsibility, Plural governance
1. Introduction

Sustainability strategies demand shared responsibility for two strong reasons. One is ethical, as outcomes unfold in the commons and affect several stakeholders. The other is economic, as efforts are risky and involve substantial financial commitments. The purpose of this paper is to justify and contribute a trans-organizational model that links these two reasons. It proposes that syndication, a business model for shared economic responsibility, accomplishes this purpose when designed using additional principles. Further, the paper identifies current constraints, and proposes a research agenda to develop sustainability syndication.

Unlike generic strategies of product differentiation and cost leadership, sustainability strategies cannot be adequately supported by closed business models. Theory informs us that strategies are intimately linked to business models. Contingency theories advance the notion that the firm's optimal strategy is contingent on its structure. Zott and Amit (2008) review contingencies, and highlight how administrative structures determine flexibility in strategic options. They explain the construct of a business model as: “… a structural template of how a focal firm transacts with customers, partners, and vendors: that is, how it chooses to connect with factor and product markets. It refers to the overall gestalt of these possibly interlinked boundary-spanning transactions (p. 3).” This notion affords the rationale for enquiry into a contingent trans-organizational model for sustainability strategy's success. The present paper contends that syndication, an inherently trans-organizational business model to share responsibility, contributes to this endeavor. For scholars the paper addresses the questions: What are known theoretical foundations for the sustainability syndicate model? Do research issues remain outstanding? For practitioners it addresses: What design principles are salient? What constraints inhibit implementation? The extant theory and practice of syndication advances partial answers to these questions.

Syndication is a formal trans-organizational business model to share responsibilities among smaller participants in risky environments. Its main contributions to practice have hitherto been in multiple stakeholder structures for risk reduction, standards setting, and business development. This paper proposes expanding the scope of syndication so that diverse stakeholders may better address their mutual sustainability externalities: denial of rights to resources, underinvestment in public goods, barriers to entry, the slow pace of innovation, high sustainability risks and uncertainties, or distributed capabilities and information. The main contribution of the paper for practitioners is a set of design principles to evolve the Sustainability Syndicate. Drawing upon recent theoretical literature, it also contributes a scholarly research agenda for sustainability syndication.

The clothing industry provides examples of trans-organizational business models that facilitate sustainability strategies. A complex global chain shapes the industry (Eurosf, 2012). Smaller enterprises account for over 80% of the market (Defra, 2011). Water pollution in textile hubs in Asia begets significant health, agriculture, livestock and drinking water losses (Govindrajulu, 2003). State pollution control boards (PCBs) monitor non-compliance with discharge standards and take disciplinary action, through disconnection of water and electricity supply or, in extreme cases, through recourse to court orders. Different PCBs for hubs located in China, India and SE Asia apply differing standards for treated water quality. Courts in southern India have found dyers to be liable in a major local textile hub, and ordered shut downs of all common effluent treatment plants (CETPs) not meeting stringent zero liquid discharge standards. As a result, hubs with less stringent standards, such as those based on biological oxygen demand, enjoy a cost advantage. Dyeing processes migrate to these hubs and create hot spots of pollution. Sustainability challenges for stakeholders here are community water security, discharge from hub units, economies of scale in treatment facilities,
uneven standards across hubs, and uncertain costs of cleaner dyeing technology. A superior strategy is where textile brands and community organizations jointly participate in developing solutions for targeted standards that evolve over a planned trajectory. This strategy requires a contingent trans-organizational business model with shared responsibilities on resource use, innovation and certification. Syndication, which is such a model, would allow more flexible agreements and lesser recourse to PCB or court enforcement. For instance, under the Delhi CETP Act 2000, dyers and textile manufacturers in an industrial estate must entrust CETP management to a society of users. This model involves multiple stakeholders in sharing responsibility for reduction of discharge and for clean technology innovation.

Material pooling of ecologically intelligent fabrics illustrates syndication. Braungart (2002) describes how several innovative textile mills form a “polyester coalition” with a trans-organizational business model. A strategy contingent on this model is to pool purchasing power among manufacturers to favor sustainable materials that are recycled or reused. The coalition involves customers for innovation in materials. This is a well-designed syndication business model in that it allocates responsibility on materials and operations among diverse stakeholders, delivers profitability with lowered ecological footprints, and mixes markets, contracts and collaborative relationships for self-governance.

The rest of the paper advances principles for the design of such trans-organizational models. We begin in the next section with the key design motive: shared responsibility for sustainability. The following section describes syndication as a trans-organizational business model for shared responsibility; outlines key ideas of syndicate theory; and describes previously examined economic rationales for syndication. The next two sections advance additional design principles when ethical rationales for shared responsibility are added to the economy: a value based agenda that unifies the two, and plural self-governance that binds together diverse sustainability interests. The penultimate section weighs constraints that have limited the formation of sustainability syndicates, and advocates directions for conceptual development. A final section concludes with the benefits of syndication.

2. Sustainability and multi-stakeholder shared responsibility

Almost three decades ago the Brundtland Commission, formally World Commission on Environment and Development, defined sustainable development as development that meets the needs of the present without compromising the ability of future generations to meet their own needs. Most definitions now pre-suppose widespread participation in sustainability. Declarations, published by organizations such as the United Nations Environment Programme, World Wildlife Fund, and International Union for Conservation of Nature, repeatedly list global cooperation and inter-country collaboration as core requirements for sustainability.

All definitions appreciate that development will probably cause damage, and lead to conflicts centered on resource utilization decisions. Received principles for preventing damages or resolving conflicts hold a particular stakeholder liable, or assign responsibility to a single organization. The list below is a concise re-statement of these alternative principles.

i. The stakeholder held responsible is the one that can provide the least cost solution. This is derived from Coase (1960) and is the “least cost” principle.

ii. The stakeholder that has greatest authority in the extended organization is held responsible. This is derived from Arrow (1974) and is a “central authority” principle.
iii. The stakeholder that originates the damage is held responsible for its abatement. This is the familiar “polluter pays” principle (OECD, 1975).

iv. The stakeholder that finds a new business opportunity in sustainability should provide solutions. This is a version of “Porter’s hypothesis” (Porter, 1991).

There is, however, another alternative. Young (2004) advances the philosophical premise of shared responsibility in the context of labor justice, and submits that it applies more generally. Shared responsibility is necessary “…both because the injustices that call for redress are the product of the mediated actions of many, and thus because they can only be rectified through collective action. For most such injustices, the goal is to change structural processes by reforming institutions or creating new ones that will better regulate the process to prevent harmful outcomes.” (p. 387). The harmful outcomes prevented by virtue of sustainability enjoin an ethical rationale for shared responsibility.

In practice, multiple stakeholders share responsibility for supplanting key structural processes for sustainability (see Gibson, Hassan, Holtz, Tansy, & Whitelaw, 2005 for a review of processes). Processes minimally solicit community participation to share knowledge. Many go further with demands for community control of protective social structures and civil society oversight. All processes include strengthening the ability to participate in a creative, self-directed manner.

Assessment requires municipal councils to inform multi-sector stakeholder groups and communities adequately in advance; consult and deliberate with them; hold public hearings of draft regional growth plans; consolidate and share findings; and negotiate with related stakeholders or government agencies. Stakeholders in Stewardship Councils specifically include environmental and social organizations, sector bodies and corporations, community groups, indigenous peoples' organizations, certification, legislative and adjudication bodies. Shared responsibility is evident in the practice of carbon disclosure by corporations to help assess the industrial sector's plans to curb emissions, necessary for public agencies to determine caps and allocations of discharge permits.

A scholarly perspective on rationales for shared responsibility derives from stakeholder theory. Scholars of organizational design have developed stakeholder theory over three decades (for instance, Bhattacharya et al., 2009, Clarkson, 1995, Donaldson and Preston, 1995, Freeman, 1984, Jones and Wicks, 1999, Margolis and Walsh, 2003, Mitchell et al., 1997, Sheth et al., 2011, Smith et al., 2010 and Vandenbergh and Cohen, 2010). The theory explains how organizations balance the economic and non-economic ends of diverse stakeholders, and argues against organizational behavior being inevitably motivated by nothing more than narrow self-interest (Brickson, 2007, Jones and Wicks, 1999 and O'Higgins, 2010). One of its branches, Instrumental Stakeholder Theory, proposes that organizations achieve non-economic outcomes that stakeholders desire if they engage in certain instrumental behaviors (for example, Jones & Wicks, 1999). Stakeholders in business, civil society and government – with diverse organizational identities, different responsiveness to incentives, and differing capabilities, preferences and beliefs – share responsibility for these behaviors.

Yet corporations also fail to shoulder responsibility. O'Higgins (2010) reviews discretionary approaches to corporate social responsibility and furnishes evidence of frequent inadequacies in practice. An implication is that firms lack the capability to design trans-organizational models that share responsibilities. A single stakeholder operating with a closed organizational model is bound to shirk full responsibility or liability. Trans-organizational models are necessary to devolve more optimal, realistic and fair allocations of responsibility among these stakeholders. Both contingency theory and instrumental stakeholder theory support this implication. We therefore forward the following principle for design of sustainability syndicates.
Proposition 1. A diverse set of stakeholders shares responsibility for successful sustainability strategy.

Diversity is a strategic strength in the sharing of responsibilities. Yet it is rarely that diverse stakeholders have trans-organizational structures available. We next examine how a syndication model fills this gap between strategy and structure.

3. Shared responsibility in syndication

This section traces the origins of the economic theory of syndication, reviews syndication theory and practice in financial and corporate management, and proposes the design principles for a sustainability syndicate. The original meaning of syndication is a coming together for financial gain. An early mention of syndication is in a Harvard Business Review article on the legal role of a financial syndicate manager (HBR, 1929). The theory of syndicates has foundations in group decision making (Amershi and Stoeckenuis, 1983, Arrow, 1974, Holmstrom, 1982, Pratt, 2000 and Wilson, 1968). Its elements include group utilities, joint probability assessments, evaluation measures, risk pooling and sharing rules. Management science models using these elements have analyzed the benefits of syndication for many applications: trans-organizational design, financial instruments, banking, insurance, and betting. The theoretical development in Wilson (1968) provides an operational definition of a syndicate as a “group of individual decision makers who must make a common decision under uncertainty, and who, as a result, will receive jointly a payoff to be shared among them.” (p. 119).

A major economic motivation for syndicates is risk sharing among team members. Pratt (2000) reviews models of risk sharing in syndicates and generalizes many analytical results. Syndication for risk sharing is seen in bond issues, insurance cooperatives, oil exploration and underwriting. Pichler and Wilhelm (2001) research stability in syndicate membership, creation of entry barriers, and qualification of lead players. Often a lead bank is proactive in forming the syndicate – which could comprise a few to several dozen banks – to underwrite initial public offerings by a target issuer. Financial syndication mechanisms can (a) identify the lead member to authorize as issuer; (b) select member banks; (c) prescribe an economic agenda with shared responsibility among members; (d) negotiate sharing agreements for joint payoffs; (e) limit under-performance and legal risks; (f) diversify deals to reduce unsystematic risk of the portfolio; and (g) diminish uncertainty by increasing future deal opportunities. Research has led to several crucial conclusions: the issuer should generally use negotiation mechanisms rather than competitive bidding to select syndicate members (Hansen & Khanna, 1994); greater legal risk encourages increased membership in financial syndicates (Esty & Megginson, 2003); deal flows are more prevalent than portfolios as motives for syndication (Manigart et al., 2006).

Models of corporate syndication demand settings to support longer term collaborative relationships. In their organization theory, Sorenson and Stuart (2008) advance the doctrine that settings are essential for syndication. Settings include research consortia, trade associations, investment syndicates, standards bodies, business groups, and boards of directors. Blair, Williams, and Lin (2008) argue that a fourth enforcement mechanism for coordinating outcomes – in addition to organization within the firm, organization through contract, and reputation enforcement mechanisms – is third-party non-governmental standards setting. Corporate syndication mechanisms create settings that (a) influence common business agendas; (b) enhance trust and collaborative relationships; (c) attract organizational leadership; and (d) evolve with greater participation from dyads to networks. Graebner and Eisenhardt...
(2004) contrast corporate syndication with contractual governance of the principal-agent kind. Syndicate members resemble partners, distinct from agents with high conflict potential or from stewards with no conflict potential. Consensus emerges through negotiated compromise, and not through alignment of interests. Syndicates coordinate decisions through formal network contracting, and not through ownership transfers or agency hierarchies. In sum, the above cited literature reveals major economic benefits originating from trans-organizational syndication structures for shared responsibility among commercial organizations.

Syndication's economic potential for sustainability is evident in permits trading. Commercial stakeholders in the economic and ecological system share responsibilities for generating emission reductions over product lifecycles. These stakeholders enter into common decisions to generate, contribute, aggregate, and monetize certificates of emission reduction (CERs). CERs are a form of tradable property rights policy makers assign to innovative organizations that reduce emissions. The syndicate earns revenues from CER trades in permits markets, and devises a sharing rule that allocates portions of joint CER sales revenues to members.

A Sustainability Syndicate, therefore, is a trans-organizational model that allocates responsibilities among members for improved sustainability. As ethical responsibility is of equal importance in sustainability, additional design principles are necessary to expand the scope of syndication beyond economic structures. Principles to accomplish this unify economic and ethical rationales, and bind diverse stakeholder interests together with a mix of self-governance modes. The sustainability syndicate deals with “… the structure, content, and governance of transactions” (Amit & Zott, 2001: p. 511) as do all business models, but shifts emphasis from the “focal firm and its exchange partners” (Amit & Zott, 2001) to trans-organizational structures directed at sustainability strategy. We therefore advance the definitional proposition.

Proposition 2. A Sustainability Syndicate is a trans-organizational model that stakeholders design with the principles of shared responsibility among diverse syndicated members, a unifying sustainability agenda, and plural governance.

The principles of a unifying agenda and plural governance add normative design considerations to business syndication, as they combine ethical with economic responsibilities. The next sections discuss these design principles.

4. A unifying agenda

In a prescient book, Arrow (1974) observes that a ‘coercive fact’ or crisis “may be more persuasive than any speculation about potential benefits from change” in forcing new items onto the agenda of organizations (p. 52). Today the coercive fact of ecological disaster in the imminent future is hard to deny, forcing shared responsibility for sustainability onto the agenda.

Syndicate agendas that unify ethical and economic rationales result in improved sustainability derived from new allocations of responsibility. For instance, syndicated market trades in commodity CERs serve the economic rationale for shared responsibility, as noted above, when syndicate membership is restricted to commercial organizations. Membership diversifies with shared responsibility as noted in Proposition 1, to include communities, civil society and consumers. Therefore, sustainability syndicates apply additional ethical criteria, such as community welfare or reduced health risks, to jointly produced CERs. Diverse syndicate members share responsibility for raising ethical standards
for their joint CERs in a way the single organization cannot. Sustainability syndicates thereby evolve a unifying internal agenda for differentiated CERs. One benefit is to forestall leakage, as syndicate CERs encompass emission reduction from widely dispersed members across potential pollution havens. Diverse interests of local stakeholders guide ambient standards. In support of differentiated CERs, Hamilton and Requate (2012) observe “… efficiency gains exist in developing combined environmental policies that take into account the interaction between ambient standards and emissions standards” in greenhouse gas (GHG) emissions (p. 9).

A sustainability syndicate's unifying agenda is instrumental in long term financial success for all members. Early findings qualified claims for financial benefits for commercial corporations from socially responsible investing (King & Lenox, 2001). But later studies report clear evidence of superior financial performance, in particular from eco-efficiency and corporate sustainability performance (Aggarwal and Dow, 2010, Derwall et al., 2005 and Epstein, 2008). Corporate sustainability settings yield demonstrable value. Potowski and Prakash (2005) assert the value of goodwill for firms gaining admittance into “green clubs” such as 14001. Sustainability branding delivers significant economic value for the individual commercial organization: more than a third of the largest hundred companies in the OECD countries' voluntary report on sustainability; even smaller firms adopt certification standards such as the ISO 14000 (for other sustainability reporting frameworks, see also Elkington, 1998 and Nikolaeva and Bicho, 2011). Ethical rationales for shared responsibility provide further opportunities to differentiate. By mitigating damages that are visible and accessible to its diverse members but invisible or inaccessible to the individual commercial organization, the syndicate inimitably sets itself apart. Sustainability foot-printing today assesses the entire lifecycle of products and services (Rothenberg, 2007). Syndicates insure themselves against public relations debacles as all members adopt sustainability credos, collaborate across tiers of the value chain, and engage in biodiversity preservation and conservation efforts. We therefore advance the proposition.

Proposition 3. An agenda that unifies ethical and economic rationales for shared responsibility achieves superior sustainability value through differentiation.

A unifying agenda among multiple stakeholders is rife with stresses that at best disrupt coordinated activity and at worst threaten trans-organizational survival. Heterogeneous governance modes offer mechanisms designed to pre-empt or resolve conflict, but each has its limitations.

5. Governance modes

Principles to assign liability listed in Section 2 expect public agencies and courts to issue mandates and procure compliance via “command-and-control.” Self-governance, on the other hand, supports shared responsibility with incentives. Basic self-governance modes are market transactions, contracts and collaborative relationships. There is evidence that self-governance is superior to command-and-control, as the latter leads to over control and is more expensive to implement (Tao, Yang, & Zhou, 2000). This is because: (i) command-and-control requires passage of specific acts in state parliaments; (ii) self-governance sets collaborative, flexible and evolutionary targets that command-and-control cannot; (iii) it entails high monitoring costs and needs information on cost-of-abatement; and (iv) increased democratization and participation in sustainable development ensue from self-governance (Stavins, 1995). Despite their advantages over command-and-control, self-governance modes display deficiencies.
5.1. Market failures

Market failures routinely explored in the economics literature are due to uncertainties and information asymmetry problems (for instance, see Akerlof, 1970 for a classic illustration). Sachs (2008) discusses four macro-reasons why markets fail in delivering sustainable economic activity: profitability is inadequate for investment in research and development; adoption and diffusion of innovation is too slow; larger forces such as demographic trends result in market distortions; and infrastructure is absent for market access.

In addition, market failures stem from externalities. Externalities are defined as by-products of exchange, with costs and benefits that open markets do not formally include in the pricing system. They have significant economic roles and impacts, and yet externalities are not commodities that organizations can trade on open markets in any meaningful manner. Significant market failures are due to society’s inability to fully account for costs or enforce collection of due revenues for externalities. Some externalities are favorable and positive – such as trust, loyalty, ethical values and some network effects. However, many are negative – such as ambient pollutants, GHG emissions, stakeholder marginalization and deforestation (for several classic examples see Arrow, 1974, Coase, 1960, Sachs, 2008 and Stern Review Report, 2007). Negative externalities are the collateral problems of closed business models where shareholders exclude other stakeholders. A narrow self-interest drives strategies contingent on such models, but that very self-interest is the source of collective disasters. Negative externalities are then borne by stakeholders invisible to such closed organizational models. The literature recognizes that the sole use of market mechanisms can neither curtail consumption of natural resources, nor encourage technological capacity to meet present and future needs (for instance, Salzman, 1997). The following proposition summarizes.

Proposition 4. Information and externality problems limit ability to self-govern shared responsibility with the market mode.

5.2. Contractual incompleteness

Incompleteness in contracting arises due to failures to (a) anticipate contingencies and situations; (b) devise joint courses of action; (c) write explicit clauses for contingencies; or (d) monitor and enforce agreements (Hart & Holmstrom, 1987). These contractual failures are extremely costly to fix. Transaction Cost Economics (TCE) takes a descriptive approach to implications of incomplete contracting (Williamson, 1986). Arrow (1974) argues that contractual approaches can only partially solve information problems, and organization relationships will be necessary. Seshadri and Mishra (2004) argue that contractual agreements on simpler exchanges support more complex relations between the same parties. In recent work, Kashyap, Antia, and Frazier (2012) find evidence that governance of franchise systems improves when contractual incentives interact with extra-contractual incentives. These interactions subjugate short term self-interest to long term joint interests (Feinman, 2000 and Macneil, 2000). We therefore advance the proposition.

Proposition 5. Incompleteness limits ability to self-govern shared responsibility with the contractual mode.
5.3. Relationship termination

Collaborating partners cannot assure continuity in relationships. Wilson (1995) shows that continuation or termination of well-established relationships is contingent on several factors. Relationships are of finite duration; continuity is an ideal. High expectation of future exchange is unrealistic (Crosby, Evans, & Cowles, 1990). Terminations of relationships adversely affect other stakeholders besides the terminated business entity. Even the possibility of termination forces restrictions on relationships that lead to hoarding of information that parties acquire during the course of their exchange, and thwarting verifiability of claims that may accompany termination. TCE formally recognizes that these restrictions are costly to overcome (Williamson, 1986). Firms terminate their relationships if they perceive costs of relationship continuity to outweigh rewards (Dwyer, Schurr, & Oh, 1987). These considerations lead to the following proposition.

Proposition 6. Restrictions from termination limit ability to self-govern shared responsibility with the relationship mode.

5.4. Plural governance

Multi-stakeholder organizations can and must exploit complementarities of self-governance modes for shared responsibilities. Cannon, Achrol, and Gundlach (2000) argue that plural forms of governance safeguard inter-firm exchanges. They recommend managers mix these modes for complex governance structures and not treat them as mutually exclusive alternatives. Wang, Bradford, Xuc, and Weitz (2008) show a favorable impact of ‘trust with contracts’ in mixed-mode governance structures (consistent with Kashyap et al., 2012). Contracts provide recourse to limit the risk stakeholders face from violations of trust. Parties improve on their market performance when they write future-looking terms into the contract. Relationship complexity and continuity improves with the insurance offered by fall-backs to simpler agreements. Co-management, a mix of market-based, bureaucracy-based and community-based self-governance, illustrates plural governance of shared responsibility. Among Commercial Stakeholder Organizations in the marine products industry co-management has proved its worth (Stephens, 2006 and Yandle, 2003). In sum, plural self-governance obviates the use of command-and-control; which then only provides deterrence value as a credible punishment strategy. We therefore forward the following proposition.

Proposition 7. Market failures, contractual incompleteness and termination of relationships make it necessary that sustainability syndicates support shared responsibility with plural governance.

The previous sections have outlined design of a special kind of syndicate, the sustainability syndicate, as a contingent trans-organizational model for sustainability strategy. A sustainability syndicate unifies ethical and economic reasons to share responsibility, and mixes mutually supporting self-governance modes. We next identify opportunities for conceptual development of sustainability syndication, and point to further research directions.

6. A research agenda for sustainability syndicates

Our proposed research agenda takes on key constraints that discourage the formation of sustainability syndicates. First, an institutional constraint obstructs managers from fiduciary duties toward shared responsibility. Second, a performance constraint frustrates evaluation of the sustainability agenda.
Last, the instrument constraint distorts the mix of incentives from self-governance modes. For each we catalog promising research questions for syndication that arise from recent theory and path-breaking practice.

The institutional constraint obligates managers to resist changes in fiduciary duties that accompany shared responsibility. Under usual forms of incorporation, managers owe a direct fiduciary duty to shareholders to maximize their own organization's wealth. Sustainability syndicates re-orient managers to joint stakeholder gains which are indirect pathways to shareholder wealth, partially controlled by other organizations. What fiduciary dissonance will arise between direct organizational and indirect syndicate routes to shareholder wealth? Similar dissonance accompanies managerial choices between long term versus short term strategies. Policies related to company practice, tax regimes and regulatory environments change the balance in these choices. What corresponding policies serve to re-orient fiduciary duties in favor of syndication? Benefit Corporations are a class of corporations that replace fiduciary duty to shareholders with an obligation to create a material positive impact on society. Their mission is to uphold a new standard of conduct that does not increase liability to non-shareholders. B-Corps claim that stakeholder network effects lead to financial advantages, justifying this mission even for their closed business models. How may sustainability syndicates adapt the B-Corp manager's responsibilities to fiduciary duty for a trans-organizational model?

Research in recent years has built a rationale for trans-organizational models with new fiduciary duties for managers. Chesbrough and Appleyard (2007) argue that whole industries are experimenting with open models. Does sustainability syndication favor some industries and not others? Ehret and Wirtz (2011) link several theories of business strategy to explain how specialization leads to opening of business models. Are more successful syndicates in industries that exhibit greater specialization, composed of more specialized members? Leading management theorists have recently recast durable frameworks of competitive advantage as collaborative shared value across profit/non-profit boundaries (Porter & Kramer, 2011). Kotler (2011) designates diverse stakeholder roles in the “environmental imperative.” Hult (2011) interrogates marketing and organization scholarship to address the boundary-spanning role of marketing. What corresponding changes manifest in syndicate managerial functions? Do managers advance their careers when they collaborate with not-for-profit organizations? Day (2011) points to a growing gap between any individual organization's capabilities and its own market imperatives, and proposes “open” marketing with jointly adaptive efforts dispersed across partner networks to close the gap. Do syndicates provide a superior formal structure for joint adaptation? These converging streams of research provide direction to future investigation of syndication's contribution to opening business models, and in redefining fiduciary duties for shared responsibility.

The performance constraint leads stakeholders to disagree on evaluations of a unified agenda for sustainability. Absence of universally accepted performance measures confuses strategy. Even for closed business models, measures that unify ethical and economic performance are very complex and inaccessible to practitioners (Hubbard, 2009). Epstein (2008: 169–177) provides a detailed list of performance measures in sustainability, some of which scholars have integrated into marketing performance (for example, Sharma, Gopalkrishnan, Mehrotra, & Krishnan, 2010). Specific extensions of these measurements to trans-organizational performance are a research priority. What measures of the syndicate's unified agenda are acceptable to all stakeholders? Does unifying ethical and economic performance demand other measurement frameworks? Epstein and Widener (2011) offer one such framework that incorporates stakeholder reactions.
The resource-based view (RBV) applied to syndicates offers directions for scholarly research on syndicate performance. RBV of the firm, a major paradigm in strategy research, has made the case to measure and relate performance to resources at both the organizational (Barney, 1991 and Wernerfelt, 1984) and the sub-organizational level of functional performance (Cho and Pucik, 2005 and Ray et al., 2004). In contrast, a RBV of the syndicate requires stakeholders to measure trans-organizational performance and external resources – factors or inputs necessary to the organization's performance but not subject to its direct control – where research has been sparse. Which stakeholder resources have stronger effects on performance with a unified agenda? Do stakeholder internal resources have synergies with a syndicate's external resources? How do pooled resources interact with internal and external stakeholder resources? Hult, Ketchen, and Arrfelt (2007) researches a culture of competitiveness and knowledge development in supply chains, both trans-organizational resources, from RBV perspectives. Latent measures and causal models to evaluate a unified agenda are challenges for research.

The instrument constraint demands that stakeholders subject self-governance instruments to plural incentive-compatibility requirements. Incentive-compatible requirements ensure that the member’s expected payoff from rational behavior in the syndicate exceeds its expectations from non-participation. Self-governance modes use instruments such as sharing contracts or reverse auctions to satisfy incentive-compatibility. When these modes are used exclusively these instruments are well understood; but research is sparse for their mixed use in plural governance. Plural incentive-compatibility for instruments gains complexity for diverse stakeholders in permit trading systems (Hung & Shaw, 2005). How do contractual instruments within syndicates interact with forward pricing market instruments? For instance, how do sharing rules for the member’s portion of joint revenue in syndicates interact with pricing mechanisms for tradable property rights? Diverse syndicate members must reach consensus on what constitutes their fair share of economic gain from trades in exchange for property rights that safeguard their welfare. As self-governance is an alternative to command-and-control, it is critically important that this consensus remain independent of court directives. How do syndicates monetize contributions and allocate shares with non-commercial member organizations? Research on instruments and mechanisms has largely been confined to economic motivations, overlooking incentives for collaboration among non-business stakeholders on a unifying agenda.

New instruments to differentiate emission reduction efforts by diverse stakeholders are viable as information on actual damage becomes more accurate and delivery of social welfare more urgent. Differentiated CERs unify ethical considerations, such as reducing health risks, with the economic criterion of tradable property rights. Permit price then reflects sustainability quality. Muller and Mendelsohn (2009) observe that differentiating permits is equivalent to “trading stocks of companies on the basis of their share price, not the number of shares (p. 1735).” Welfare consequences of efficiency policies based on quality differentiated permits, mentioned also in Section 4 above, can surpass those of quantity policies based on commoditized permits (Muller and Mendelsohn, 2009; Fowlie & Muller, 2012). What sustainability quality measures suit syndicate use for vertical differentiation – or ‘increase’ in quality? And what suit horizontal differentiation – or ‘taste’ in quality? The literature on vertical and horizontal quality differentiation is a foundation for future research on sustainability quality differentiated permits as tradable property rights.
6.1. Limitations of sustainability syndicates

Some conditions make sustainability syndication unattractive. Firstly, sustainability is not always a constituent generic strategy for competitive advantage. Instead, firms adopt other value propositions for cost leadership or product differentiation. For instance, in fashion clothing, less than 15% of the UK market share is held by sustainability positioned brands (Saicheua, Knox, & Cooper, 2012). However, the competitiveness of a sustainability strategy improves with evolving policy frameworks and consumer tastes (Lash and Wellington, 2007 and Porter and van der Linde, 1995). Secondly, some unavoidable conflicts from divergent goals remain unresolved even with plural self-governance. Failures to reach agreement invite command-and-control outcomes enforced by courts. To avoid this, an evolving legal framework for sustainability envisages roles for covenant negotiators and ombudspersons. Castro (2012) observes that the reception of new laws rely on psychosocial aspects such as “… communication between mediating systems and their publics. This can reveal the power positions of the groups involved in contesting or applauding the laws, how these may be linked to issues of perceived legitimacy… (p. 111).” Just as with legal innovations, syndicates should plan on project specific mediating systems. Finally, communication problems impose limitations. Sensitive information such as know-how is often only partially shared. Credible communication is a hurdle, as lifecycle emission reduction claims from dispersed stakeholders are costly to verify. Outcomes that differentiate tradable property rights on ethical criteria are imperfectly known, and are a source of information rents. These contingency, conflict, and communication limitations will be less deterring, however, as stakeholders prioritize sustainability.

7. Conclusion

The design principles for a sustainability syndicate, developed in this paper, were motivated by the recognition that sustainability strategies are inherently trans-organizational and therefore contingent on trans-organizational business models. The pivotal principle is one of shared responsibility. An established business model for shared business responsibility is syndication. Rules of syndication cover structure of membership, setting of common goals and objectives, and sharing of joint rewards between stakeholders. The additional challenges that sustainability brings to syndication stem from unifying ethical and economic responsibilities among diverse stakeholders. The paper’s main contributions to practice are the set of principles for sustainability syndicate design: shared responsibility, a unifying agenda, and plural governance. The paper advances several research questions to help overcome constraints stakeholders face in building sustainability syndicates.

Benefits of membership make well-designed sustainability syndicates very attractive. Shared responsibility among diverse stakeholders enables members to expand the scope of sustainability solutions. Syndication works as an insurance cooperative for members, and reduces the financial burden of risk. In addition, members could rent skill sets from other stakeholders, reduce barriers to entry into bigger projects, and improve efficiencies. Syndication with shared responsibility also helps avoid free riding, and monetizes otherwise prohibitive investments in public goods. A unifying agenda enables members to grapple with externalities, harmonize their goals, and construct comprehensive welfare-enhancing solutions. Plural governance has several advantages: it corrects for failures of individual governance modes, enables market making and market access, reduces transaction costs in contracting, enables members to build the trust and commitment necessary for collaborations, and obviates command-and-control interventions.
The capability of individual organizations to devise and execute sustainability strategies for the common good without syndication is severely constrained. As pressures mount for sustainable growth, governments are apt to assign property rights where commons are involved to well-structured syndicates, rather than to individual stakeholders. Membership in a sustainability syndicate could be indispensable in the imminent future.

**Acknowledgment**

The author is grateful to two anonymous reviewers for their valuable comments and to Michael Ehret for his helpful inputs. The paper has benefited from feedback at the 37th Macromarketing Conference at Freie Universität, Berlin. This work was partially supported by Singapore Management University, Office of Research Project Fund No: C207/MSS10B010.

**References**


Vitae

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