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

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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.

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.

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The clothing industry provides examples of trans-organizational business models that facilitate sustainability strategies. A complex global chain shapes the industry (Eurosif, 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, Korschun, & Sen, 2009; Clarkson, 1995; Donaldson & Preston, 1995; Freeman, 1984; Jones & Wicks, 1999; Margolis & Walsh, 2003; Mitchell, Agle, & Wood, 1997; Sheth, Sethia, & Srinivas, 2011; Smith, Drumwright, & Gentile, 2010; Vandenbergh & 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 & Wicks, 1999; 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