PERCEPTION OF ENVIRONMENTAL VOLUNTARY CODE LEGITIMACY:
TOWARDS A THEORETICAL FRAMEWORK

Building on existing institutional and economic research pertaining to voluntary codes, this paper focuses on the codes themselves, exploring why some codes are perceived as legitimate and hence are widely adopted while others fail, and proposes an explanatory model concerning code legitimacy, intended to improve understanding of the factors influencing firm decisions to adopt codes.

Introduction

In recognition of the environmental impacts of corporate activity, and in response to public and specific stakeholder challenges concerning corporate responsibility and accountability, firms are adopting voluntary codes that address various environmental aspects of their behavior, from sustainable forestry practices (Rhone, Clarke, & Webb, 2004), to environmentally safe chemical production and distribution, (Moffet, Bregha, & Middelkoop, 2004), to environment-friendly products (Harrison, 2004). Frequently, the codes operate in conjunction with or in addition to laws (Webb & Morrison, 2004): for example, legislation in several jurisdictions provides incentives to those organizations that use ISO 14001 or other approved private voluntary environmental management systems (Wood and Johannson, 2008; Webb & Morrison, 2004). Evidence suggests firms are turning to voluntary codes in large numbers. For example, more than 1.1 million facilities have been certified to ISO 9001 quality management or ISO 140001 environmental management systems standards (ISO, 2007); more than 100 million hectares of forests around the world have been certified to Forest Stewardship Council standards (FSC, 2008); and chemical companies representing ninety-percent of the world’s production are members of Responsible Care, a voluntary program addressing health, safety and environmental aspects of chemical production that is in operation in more than fifty-three countries (Responsible Care, 2008). In fact, on any particular issue, it is not infrequent for there to be several competing codes available to be adopted by firms (Webb, 2004). What makes one code be perceived by firms as desirable or appropriate (legitimate) (Suchman, 1995), so that it is selected and adopted by firms, while others fall by the wayside?

To the extent that voluntary codes addressing environmental issues have been discussed and examined in management literature, the focus has tended to be on explorations of why firms adopt codes. Drawing on institutional theory and economic theory, the explorations have usually focused on the coercive, mimetic and normative pressures that are seen to drive firms to adopt codes; and on the underlying strategic motivations of firms, in keeping with transaction cost economics and agency theory. Notably lacking from both institutional theory and the economic literature addressing voluntary codes has been a theoretical framework for understanding the determinants of code legitimacy: what causes some

1 Wesley Helms would like to thank SSHRC for their support of this paper and research.
codes to gain legitimacy in the eyes of firms and enjoy widespread diffusion, while others fail to attain this legitimacy? Following Suchman’s (1995) definition of legitimacy, a theoretical framework for understanding the determinants of code legitimacy is the focus of attention in this paper. A better understanding of the determinants of the perceived legitimacy of voluntary codes is important because it could enhance the ability to predict which codes are likely to enjoy widespread diffusion, and which are likely to languish and not be fully implemented within firms (Boiral, 2007; Delmas, 2002; Webb, 2004). The framework described here should assist researchers and those developing and using codes in sorting through an increasingly complex, diverse, crowded and dynamic body of codes, and thereby understanding why some codes are adopted and implemented within organizations while others are not.

The paper puts forward a series of propositions outlining identified factors or characteristics affecting firm perception of code legitimacy, and hence code adoption by firms. Drawing upon economic and institutional research on voluntary codes, this paper extends the existing voluntary codes management literature by proposing that certain factors can help explain why some codes are adopted by firms and others not. In particular, drawing on research on institutional embeddedness of economic activity (Granovetter, 1985; Oliver, 1996) and legitimacy (Suchman, 1995), this paper identifies shared, divergent, and emerging themes that constitute the external pressures affecting the perceptions of legitimacy of voluntary codes. In addition this article emphasizes the need to recognize the iterative, evolving nature of code development, in which ‘norm conversations’ among actors create constantly changing institutional pressures that affect the nature, content and ongoing legitimacy of codes in the view of firms who do or could adopt them. A model is proposed to suggest how the identified code attributes influence perceptions by firms of code legitimacy and hence increase the likelihood of code adoption by firms. The first section reviews the literature on voluntary codes. Next, the proposed model is introduced, outlining six propositions for examining how the internal motivations for firms adopting codes and the forces external to the firm influence their perceptions of code legitimacy, and in turn, the likelihood that of code adoption by firms. The paper then concludes with a discussion on how the proposed legitimacy model be used to approach future institutional and economic research on codes.

**Defining Voluntary Codes**

**and the Economic and Institutional Perspectives of Voluntary Code Adoption**

**Voluntary Code Definition**

Following earlier research in this area, voluntary codes are here defined as: commitments not required by legislation or regulations; agreed to by one or more organizations; intended to influence or control behavior; and to be applied in a consistent manner or to reach a consistent outcome (Webb, 2004: 11). Although neither legislation nor regulations require that firms adopt voluntary codes, top management in firms may feel obliged to use them (e.g., a pre-condition for membership in an industry association might be commitment to the terms of a voluntary code, as is the case with the Responsible Care program). Moreover, even though adoption of voluntary codes may not be prescribed by legislation or regulation, voluntary codes may have legal implications (Webb, 2004). In terms of types of voluntary codes, those that have been designed to be applied by firms from multiple sectors such as ISO 9001 and ISO 14001 tend to attract the most attention (and indeed, are the focus of attention in this article), but it should be noted that firms can and do develop their own individual codes (e.g., a firm-specific ethics or health and safety code) that are intended to be applied only to their own organizations (Webb, 2004). While practitioners and legal/public policy commentators have emphasized that the code development process (e.g., who was involved, how they were involved) necessarily has an impact on subsequent uptake by firms (Carmin, Darnall, & Mil-Homens, 2003), this aspect of codes has not been a focus in management literature. This paper puts considerable emphasis on the idea that the code development process is likely to have an impact on acceptance and use of codes -- particularly if certain leading firms
and other actors are involved in the development process (this point has been explored in public policy literature but less so in management literature).

In recognition of the considerable diversity among codes, it is possible to develop different code typologies. For example, codes can be classified in terms of who developed them (e.g., by industry, by NGOs, by multi-stakeholder bodies, by governments); their approach (e.g., codes that address only substantive performance criteria, only procedural criteria, or both substantive and procedural criteria), their intended scope of application (e.g., to a single firm, a specific sector, multiple sector, a specific geographic region, or are international and generic in scope and application, and the role of third parties in verification (self declaration or third party certification).

It is possible and not unusual for one firm to adopt more than one environmental code at the same time, and indeed, it is not uncommon for codes to be in direct competition for application to a particular firm and activity (Rhone, Clarke, & Webb, 2004). For example, in Canada, the Forest Stewardship Council’s Principles and Criteria, the American Forestry and Paper Association’s Sustainable Forestry Initiative, the Canadian Standards Association Sustainable Forestry Management Standard, and the ISO 14001 environmental management systems standard all potentially apply to the same activities, and indeed there are Canadian firms that have adopted several of these to their operations (CANFOR /KPMG 2005). Thus, private firms are not infrequently put in the position of having to choose which code or codes to adopt and implement within their organization and operations.

**Voluntary Code Adoption**

For the purposes of this paper voluntary code adoption will be defined broadly to include the following types of implementation strategies by firms: symbolic (loose coupling between practices and codes); tight coupling (adoption that reflects the integration of a code into a firm’s practices); and certification processes (adoption that includes the use of third-party procedures intended to ensure full implementation). This typology of voluntary code adoption is meant to be inclusive and allow for the full range of voluntary code adoption practices available and employed in the marketplace. The authors recognize that this is a broad approach to the issue of code adoption and that other researchers expend considerable efforts to look at particular aspects of adoption. However, the emphasis of this paper is on the perceived legitimacy of codes, themselves, rather than the strategic uses and performance of codes.

**Institutional and Economic Perspectives of Voluntary Codes**

The authors acknowledge that there are many theoretical lenses that have been used to explore voluntary codes, their diffusion, and their performance, including a resource based perspective (Darnall, 2003), a legal/public policy perspective (Webb, 2004), political perspectives (Cusumano, Mylonadis, & Rosenbloom, 1992), and learning perspectives (Terlaak & Gong, 2008). The focus of this paper on institutional and economic perspectives within the management literature is not meant to suggest a diminishment of value of the contributions of these other perspectives. However the authors choose to emphasize what they believe are the two dominant management perspectives on voluntary codes and their adoption -- institutional perspectives in which collectives interact to develop and adopt shared systems of meaning and relating through codes, and economic perspectives in which firms attempt to maximize impact and decrease transaction costs by selecting codes that provide optimal symbolic and operational benefits. Put simply, we believe these two perspectives have the potential to generate considerable insight into the firm level motivations for why some codes are adopted while others are not. In the literature on voluntary codes, institutional and strategic-economic perspectives have been applied, compared, and integrated to explain the phenomenon of voluntary code adoption (Hunter & Bansal, 2007).
Traditionally economic and institutional theories have not discussed or explored the nature of codes themselves. Drawing from Oliver’s (1996) research on the institutional embeddedness of economic activity, it is suggested here that market information is not only incomplete and imperfect, as described by the economic literature (Williamson, 1975); it is also socially constructed. From this perspective the marketplace contains relational structures that reflect the enactment of institutionalized norms and beliefs about what constitutes appropriate activity (Granovetter, 1985; Oliver, 1996). Oliver (1996) proposed that institutional embeddedness will reduce transaction costs due to the ability of norms and social networks to limit opportunism and uncertainty.

Drawing on both perspectives the assumption made here is that economic activity surrounding voluntary code adoption takes place within an institutional context. For the purposes of this paper, transaction cost economics and agency theories are categorized together within the economic perspective of voluntary code adoption. Both theories share the notion of firms as strategic users of voluntary codes for the management of transactions and transactional relationships. Both perspectives also assume that economic actors are rational, efficiency driven, and subject to threats by the self-interest of other actors. At the same time, institutional and economic theories hold similar perspectives on the important influence of both internal organizational pressures and external environmental marketplace pressures on voluntary code adoption but make different assumptions about the source of those pressures, as the next section explains.

Convergent and Divergent Themes

The institutional and economic context. The institutional and economic literatures pertaining to voluntary codes both emphasize that actions by firms is constrained by an environment that is made up of firms as constituents of a regulated interdependent collective ‘market’ (Granovetter, 1985; Pfeffer & Salancik, 1974; Porac & Thomas, 1995; White, 1981). Voluntary codes are a component of these regulated interdependencies only insofar as they serve as voluntary ‘contracts’ constraining firm action, taking the form of conscious or preconscious rules and sometimes representing ‘regulators’ or decentralized institutions (Black, 2007). From an economic perspective the environment is synonymous with the marketplace, where firms conduct transactions (Akerlof, 1970). Economic organizational research focuses on transactions and contract decisions made to overcome informational uncertainty in the information asymmetric environment, and the subsequent opportunism that may occur (Williamson, 1975). The institutional perspective puts forward the idea that the history and the structure of an organization’s environment establishes socially constructed norms to which organizations, as isomorphic entities, react and conform. These norms are reflected in institutions and are the sources of coercive, normative, and mimetic isomorphic pressures (DiMaggio & Powell, 1983). Marketplace pressures are manifested less as rational strategic thinking about increased transactional efficiencies and more as preconscious norms impacting organizational choice. Despite reflecting different pressures both theories reflect a relatively tight coupling between firms and their environments that is characterized by the need for continual awareness of the perceptions and actions of other firms.

The nature of voluntary codes. Both economic and institutional literatures traditionally view voluntary codes as stable and formalized environmental ‘rules’ with both pragmatic and symbolic value (Christmann & Taylor, 2006). In particular, recent research on use by firms of ISO 9001 quality management standards and ISO 14001 environmental management standards emphasizes the actual and ‘symbolic’ contractual power of the standards where voluntary codes are treated as decentralized or, in some cases, formalized institutions (King & Lenox, 2000; King, Lenox, & Terlaak, 2005). However the origins and nature of a voluntary code’s influence are distinctly different between the two perspectives, and are not discussed or explored in the literature.
From the economic literature, voluntary codes provide information about the transactional processes in an organization that alleviate uncertainty and increase efficiencies codes signal increased transactional security to potential partners in the marketplace and provide a framework by which institutions and the marketplace can monitor firm transactions (Christmann, 2007; King, 2007). The economic perspective has treated voluntary codes largely as rules or laws that require compliance and include enforcement mechanisms (Grief, 1997). This characterization puts emphasis on voluntary codes as deterrents/constraints and the impact of codes on performance.

From the institutional perspective a voluntary code is a code of conduct internally generated and/or adopted by a firm, group of firms, or an industry. A voluntary code is often in a continuing state of institutionalization with environmental norms pressuring firms on an on-going basis to adopt the code and refine organizational functioning. “Institutional theory focuses on the reproduction or imitation of organizational structures, activities, and routines in response to state pressures, the expectations of professions, or collective norms” (Oliver, 1996: 149). Despite strong environmental pressures, organizations also act strategically and respond to the normative pressures of voluntary codes within their environment. Using an institutional theory perspective, Boiral’s research has largely emphasized the notion that ISO standards reflect rational myths (Meyer & Rowan, 1977) “to which organizations superficially committed themselves” (Boiral, 2007: 1). Voluntary codes may reflect best practices as well as environmental value systems. When standards are perceived as legitimate by members of a field, organizations experience pressure to adopt them.

Both the economic and institutional perspectives on the nature of voluntary codes share the idea that voluntary codes offer an exchange for legitimacy -- specifically adoption of a code of conduct in exchange for potential marketplace transactional security and enhanced environmental credibility. However, not surprisingly, with different perspectives on what constitutes the environment and what defines a voluntary code, both theories propose different underlying motives for adopting voluntary codes.

Motives for voluntary code adoption. Voluntary codes offer desirable potential outcomes from both institutional and economic perspectives by increasing legitimacy as well as transactional stability, efficiency, and predictability for adopters within the marketplace environment. As noted earlier, traditional economic perspectives hypothesize that organizations adopt voluntary codes to reduce transactional and marketplace uncertainty (Akerlof, 1970). Likewise, institutional perspectives predict that successful organizations are driven to reduce uncertainty and conform to norms that grant credibility to institutions and enhance a firm’s survival prospects (DiMaggio & Powell, 1983). Both theories embrace the notion that firms are driven to reduce ambiguity and be perceived as legitimate in the environmental marketplace. As was the case with differing perceptions regarding the nature of the transactional environment and voluntary codes themselves, the economic and institutional literatures diverge on the underlying motivators behind voluntary code adoption.

Economic models emphasize that the constraints accompanying voluntary codes are adopted for strategic reasons, specifically; the adoption of the voluntary code will provide some marketplace advantage. Voluntary codes are accepted when firms gain increases in operational and transactional efficiencies while reducing transactional and information uncertainty (King, 2007). From a transaction cost perspective, organizations are motivated to adopt standards when they perceive that potential clients or partners fear opportunism and lack information regarding their organization. The decision to become certified for a specific voluntary code becomes a calculated exchange decision regarding whether a voluntary code will assist the organization in meeting contractual or transactional interests (reducing uncertainty and increasing efficiency (Delmas, 2002)).
The institutional perspective emphasizes that firms are motivated by the desire for credibility and conformity pressures that increase adaptation to institutional norms (DiMaggio & Powell, 1983; Scott, 2001). The impact of highly institutionalized environments on voluntary code adoption has been studied, specifically the impact of coercive, mimetic, and normative pressures on firm certification rates within marketplace environments. Guler, Guillen, and Macpherson (2002) found that diversity in national and cultural contexts influences adoption of ISO standards. They found that greater numbers of coercive influences, governmental agencies in the marketplace, normative pressures (reflected by the number of national quality experts), and increases in mimetic pressures and social capital, created an environment with greater numbers of ISO 9000 certificates per organizational country of residence. Firms were motivated to conform to voluntary codes due to coercive, mimetic, and normative pressures in order to increase their legitimacy in the marketplace. Delmas’s (2002) research regarding the diffusion of ISO 14001 EMS standards provides another relevant example of institutional pressures. Her research identified that ISO 14001 adoption rates varied significantly depending upon the institutional context. “In December 1999, 52% of the 14,106 ISO 14001 certified facilities were located in Western Europe and 36% in Asia. ...U.S. certified facilities accounted for only 4.5% of the total of ISO 140001 certified facilities in the world... The U.S. institutional environment seems [to act] as a deterrent to ISO 14001 adoption... The opposite is true in Europe (Delmas, 2002: 91).” Unlike the study of Guler and colleagues (2002), the neo-institutional economic research of Delmas concluded that the regulatory, normative, and cognitive aspects of a nation’s institutional environment impact the perceived efficiencies of ISO 14001 and, specifically, that government incentives encourage efficient codes as well as increase adoption rates (Delmas, 2002).

Whether addressed directly or indirectly, both the economic and institutional literatures on voluntary code adoption support the notion that firms are motivated by their perceptions of transactional and environmental legitimacy within the marketplace. In a study of ISO 14001 within the Canadian pulp and paper industry, Jiang and Bansal (2003:1065) observed that “even the early adopters of ISO (were led) to value not only its substance but also – to a larger extent- its legitimizing benefits.” Yet theory and research on this aspect of voluntary codes remains limited and tends to treat the legitimacy of codes as a given. This issue is addressed in the next section.

Research emphasis on formalized voluntary codes and voluntary code diffusion. The literature on voluntary codes, standards, certification and private governance reflects a small but growing body of research in the management field. Research in this area has largely focused upon widely adopted codes with formalized certification procedures, such as ISO 14001, the U.S. Chemical Manufacturers Association’s Responsible Care Program, ISO 9001, and numerous financial regulations (Boiral, 2007; King & Lenox, 2000; Marcus, 1999). The study of these widely adopted formalized codes does not address all the codes that do not reach this level of diffusion or perceived legitimacy.

More often than not, this literature implicitly assumes the legitimacy of voluntary codes and fails to address the subtleties of why or whether a particular voluntary code is actually perceived as legitimate by organizational and environmental constituencies. Voluntary codes emerge from negotiations among collectives, compete with other codes for attention, and, on occasion, fail to be adopted and fail to have an impact altogether (Webb, 2004). As the prior discussion of forestry management codes demonstrated, sometimes organizations must choose from a variety of different voluntary codes and select that code which, for example, is perceived as the most appropriate, useful and legitimate. As a collective, voluntary codes exist on a continuum from less invasive to more invasive (in terms of their impact on the firm and other parties, and their resource intensity), and frequently there is competition with other codes that have different intended normative impacts, certification procedures, or enforcement mechanisms (a good example of this is the competition among forestry standards described in Rhone, Clarke and Webb (2004)).
Boiral’s (2003, 2007) intra-organizational research has emphasized the dynamics by which formal ISO standards are integrated into organizational functioning and provides examples of discrepancies in the perceived legitimacy of formalized, widely diffused ISO codes. This research explores the tensions that emerge between managers and staff regarding the process of code of conduct adoption where managers behave as quality enthusiasts while staff implementers may resist implementation due to the anticipated negative impact of procedural change (Boiral, 2003). The tensions evident in the adoption of intra-organizational ISO standards raise doubts as to whether even widely diffused voluntary codes are universally understood as legitimate. Because of the emphasis on broadly diffused codes, voluntary code research has largely assumed that voluntary codes are legitimate and has not fully explored how the code legitimacy is developed.

Although economic and institutional research on voluntary codes explores the strategic use of formal voluntary codes as an adaptive transactional choice, there is no inclusive framework for understanding the dynamics of perceptions about the legitimacy of voluntary codes (Cashore, 2002). What internal and external pressures are most likely to increase the likelihood of adoption and legitimation by industries? The concept of legitimacy employed in institutional theory provides a basis for understanding why some voluntary codes are widely adopted while others are not. Implicit throughout but explicitly unaddressed in management research on voluntary codes is the ultimate goal of increased firm legitimacy. Within the framework of legitimacy, what factors influence whether a particular voluntary code is perceived as legitimate by organizations?

By defining voluntary codes and voluntary code adoption more broadly to reflect its dynamic nature, this paper acknowledges the range and diverse nature of different voluntary code structures, from informal organization-specific codes to formal, government-supported, certification processes. Drawing upon the notion of the institutional embeddedness of economic activity (Granovetter, 1985; Uzzi, 1996) and the prior discussion on the convergences and divergences of voluntary code research, the next section suggests the important role that perceived legitimacy of voluntary codes plays in code adoption and identifies factors that influence this perception.

A Framework of Internal and External Influencers of Perceptions of Voluntary Code Legitimacy
A Conceptual Model of Perceive Legitimacy as a Mediator of Firm Adoption of Voluntary Codes

Economic and institutional theories make complementary explanatory contributions concerning the underlying reasons for firms perceiving codes as desirable and appropriate (legitimate) and thereby adopting them. Drawing on these two theories, the figure above provides a model of perceived legitimacy.
as a mediator of voluntary code adoption. The model posits that the process of voluntary code development has a significant influence on perceptions of code legitimacy by firms and hence the rate of code adoption. A firm’s perception of a code’s desirability and appropriateness (its legitimacy) will be affected by internal organizational factors and environmental pressures. The position taken here is that if a firm perceives that a code will enhance its efficiency by allowing it to pragmatically and symbolically respond to an environmental pressure, then the code will be perceived by the firm as legitimate. The framework also introduces the concept of iterative norm conversations in generating normative, mimetic, and coercive institutional pressures for the creation and evolution of voluntary codes. It is suggested that ongoing interplay between firms, others actors concerning the meaning and approach of a code can affect a code’s pragmatic, moral and cognitive forms of legitimacy. Six propositions derived from this theoretical framework help to explain how various participants affect code creation, how internal and external pressures influence the legitimacy of codes, and how codes are initiated, adopted, and reformulated through processes of norm conversations that shape the perceived legitimacy and cycles of iteration in generating and adopting codes.

Perceived Legitimacy as a Mediator of Voluntary Code Adoption

Institutional and public policy theorists have proposed that legitimacy plays an important role in contributing to the success of voluntary codes (Cashore, 2002; Black, 2007). Yet no explicit framework outlining the factors that contribute to perceptions by firms of code legitimacy have been developed to explain why some voluntary codes are fully supported and implemented while other codes are not adopted.

Legitimacy Defined

Suchman (1995:574) synthesized the diverse literature on legitimacy to define the phenomenon as “a general perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions”. Legitimacy provides organizations with credibility and increases their chance of persistence or survival within their environments. Organizations, institutions, and voluntary codes perceived as legitimate are less susceptible to attack from their environmental or internal constituents (Cashore, 2002; Suchman, 1995). There are three predominant types of legitimacy: “pragmatic, based on audience self-interest; moral, based on normative approval: and cognitive, based on comprehensibility and taken-for-grantedness” (Suchman, 1995: 1). Pragmatic legitimacy is the easiest to achieve and to lose. Moral legitimacy is more difficult to achieve and to lose while cognitive legitimacy’s taken-for-grantedness is the hardest to achieve as well as the hardest to lose. Traditional strategic perspectives emphasize legitimacy as a resource that organizations actively pursue through the deployment of symbols and environmental manipulation to gain social support. Institutional perspectives emphasize a more passive, yet still strategic, notion of legitimacy where the phenomenon is implicit within the “structuration” of a field. Accordingly, legitimacy is both socially construed and a firm resource upon which marketplace transactions can be based. Suchman bridges the institutional and strategic approaches by stressing that legitimacy is both independently held by organizations and simultaneously construed by environmental actors. Suchman’s work on legitimacy states that organizations continually develop strategies to develop, preserve, and repair their legitimacy. This suggests that organizations should adopt voluntary codes that are socially constructed, or perceived, as being legitimate in order to increase, gain, preserve, or repair their social legitimacy within their environment context.

Institutional theorists have emphasized that economic activity reflects marketplace norms (Biggart & Beamish, 2003); applying institutional theory to voluntary codes within an economic context suggests the question: what constitutes a “desirable, proper, or appropriate” transaction (Suchman, 1995:
1)? From this institutional embedded perspective, pragmatic legitimacy, and more specifically, interest-based exchange legitimacy reflects the economic elements of voluntary code legitimation; legitimacy, in turn, will lead to the creation or adoption of codes in exchange for increased transactional security. From the economic perspective, voluntary codes are viewed as possessing legitimacy when the code of conduct is perceived as reducing transaction uncertainty and perceptions of opportunism within the marketplace.

Legitimacy is sought or attained by firms conforming to the norms of their environmental constituencies, selecting their transactional environments by choosing those marketplaces that best reflect their own norms, and manipulating external constituents through interaction, advocating, and informing unaware parties of their credibility. Organizations actively apply these strategies to pursue, maintain, or to repair damage to their perceived legitimacy. Firms will strategically adopt or select codes that they perceive as conforming to selected constituencies’ perceptions of pragmatic, moral, or cognitive legitimacy within their environmental context (Suchman, 1995). “As a general matter frictions among pragmatic, moral, and cognitive considerations seem most likely to arise when larger social institutions either are poorly articulated with one another or are undergoing historical transitions. Better integrated, more firmly established regimes tend to hold these diverse legitimacy dynamics in close alignment…” (Suchman, 1995: 585) Thus, firms will pursue different legitimating strategic goals (establish or maintain versus repair legitimacy) in response to perceptions of environmental constituencies.

Although Suchman identifies three distinct forms of legitimacy this paper finds that all three forms can be in effect at a given time depending on the nature of the problem, environment, and firm. As Suchman (1995: 573) observes, “the multi faceted character of legitimacy implies that it will operate differently in different contexts, and how it works may depend on the nature of the problems for which it is the purported solution.” The nature of the legitimacy being pursued is perceived by the firm’s environmental and marketplace constituents.

Legitimating strategies provide a framework for understanding organizational adoption (Cashore, 2002). Voluntary codes are created by institutions to conform and manipulate their environment so as to establish, maintain, and repair legitimacy. Accordingly, the development process and institutionalization of voluntary codes impact the perceived legitimacy of voluntary codes. External constituencies and institutions influence attributions regarding the underlying motivations for the development process leading to adoption of a voluntary code. Positive attributions regarding the necessity of the voluntary code will enhance perceptions of legitimacy while negative attributions regarding the necessity of the voluntary code detract from perceptions of legitimacy. More importantly, the degree of consensus versus conflict among different constituents in the field about what constitutes a legitimate code will play a key role in shaping adoption rates. The greater the consensus among differing constituents (e.g. NGOs and other firms in the same industry) will lead to a higher likelihood of adoption. Propositions 1 and 2 are based on the rationale that voluntary codes develop from the pursuit of environmental and marketplace legitimacy.

P1: The perceived legitimacy of firms participating in the voluntary code development process will increase the perceived legitimacy of the voluntary code among adopters.

P2: The rate of adoption of voluntary codes among firms will vary in direct proportion to the perceived legitimacy of the code and the range of constituents who share similar legitimacy perspectives.

The Code Development Process: Who is at the Table?

Although the voluntary code development process has been largely unaddressed by the management literature the position taken here is that the perceived legitimacy of a code is affected in important ways by who is at the table in the code development process. Different voluntary codes are developed by a variety of stakeholders including agencies, non-governmental bodies, and firms that use a
variety of code development approaches (Charmin, Darnall, & Mils-Homens, 2003). DiMaggio and Powell’s (1983) original work on the underlying pressures behind institutional isomorphism can assist in understanding some of the underpinnings of perceived code legitimacy. Specifically, the roles of coercive, mimetic, and normative isomorphic pressures, as reflected by the developers of the voluntary code, should enhance perceptions of a voluntary code’s legitimacy. The role of coercive pressures, defined as political or informal pressures exerted on organizations, should add to the perceived legitimacy of the process. For example, government agency participation or oversight during the code development process can increase the perceived legitimacy of a voluntary code. Guler, Guillen, and Macpherson (2002) demonstrated that the increasing role of government players in the marketplace was positively correlated with the number of ISO 9000 certificates. In their interpretation, this functioned as a pragmatic exchange of code adoption for legitimate marketplace standing. Governments therefore, may serve to enhance the development of voluntary codes and the perceived legitimacy of the firms that adopt them. From an economic perspective, if government signals support for a voluntary code, this may also stimulate further use of voluntary initiatives as a way to avoid more restrictive government regulation, thus increasing the code’s legitimacy by the potential adopters themselves.

The position taken in this article is that the concept of mimetic pressures-- firms modeling their behavior after the actions of others perceived as successful -- is quite relevant to understanding how legitimacy plays an important role in code development. Established industry leaders carry significant legitimacy and their behaviors and decisions within established institutional contexts influence decision-making in newer organizations within their environmental context (Scott, 1987). The presence and participation of established institutions during the development process is therefore likely to increase perceptions of the legitimacy of voluntary codes. For example, Dow Chemical initially sponsored the Chemical Manufacturers Association Responsibility Code, a code that was quickly adopted by the remainder of the sector (Moffet, Bregha, & Middelkoop, 2004). Because of its status as a leader of the chemical manufacturing sector, it is arguable that mimetic pressure played a role in inducing industry-wide adoption of the voluntary code.

Finally, normative pressures, reflecting constituent beliefs or professional group norms, will influence the perceived legitimacy of codes. When industry-wide groups and professional associations are present and agree on the necessity of voluntary code adoption, the perceived legitimacy of voluntary codes increases (DiMaggio & Powell, 1983; Scharpf, 1997). Specifically, the presence of industry-wide, group norms encourages perceptions that voluntary codes supplement and enhance established practices and values. Greater industry knowledge also encourages perceptions that transactional efficiencies will be reflected in the standards.

When coercive, normative, and mimetic isomorphic pressures are all present and governmental/regulatory bodies, industry leaders and groups all participate in the development of voluntary codes, the perceived legitimacy of those codes should increase significantly. Conversely, as the breadth and number of groups participating decrease, so should the perceived legitimacy of the voluntary code. Proposition 3 and 3A-3C are based on this reasoning.

P3: The greater the breadth of organizational participants involved in the voluntary code development process, the greater the perceived legitimacy of the voluntary code among adopters.

P3A: An increase in the number of government agencies that participate in the voluntary code development process will lead to a significant increase in the perceived legitimacy of the voluntary code among adopters.
P3B: An increase in the number of industry-leading firms that participate in the voluntary code development process will lead to a significant increase in the perceived legitimacy of the voluntary code among adopters.

P3C: An increase in the number of industry and professional associations that participate in the voluntary code development process will lead to a significant increase in the perceived legitimacy of the voluntary code among adopters.

**Internal Factors as Moderators of Perceived Legitimacy**

Both the institutional and economic literatures imply that the practical and transactional benefits of voluntary codes should moderate institutional perceptions of the legitimacy of proposed voluntary codes. Transaction cost economics and institutional theory both suggest that the process of public certification has ‘symbolic’ value within marketplaces and environments, and may increase sales and shareholder value along with the increased operational benefits (Terlaak, 2007; Boiral, 2007).

The public act of certifying a voluntary code signals legitimacy to the marketplace. In two studies voluntary code certification had symbolic value by signaling legitimacy and providing incentives to organizations to move toward adoption as a matter of strategy (King, Lenox, & Terlaak, 2005; Boiral, 2003). For example, highly visible and large firms in an industry with high levels of pollution were more likely to publicly certify under the Chemical Manufacturer’s Responsible Care Code. King, Lenox, and Terlaak, (2005) found that firms with greater physical distance between clients and with numerous foreign clients were more likely to adopt ISO 9000 quality management standards. In this way, organizations may perceive that potential clients or partners fear opportunism, lack information about the organization, and be particularly motivated to demonstrate their legitimacy to consumers or potential partners.

In his research on ISO standard adoption, Boiral found that tensions existed between different levels of management within organizations (Boiral, 2003). Higher levels of management perceived code implementation as a worthwhile cost with benefits to the company of symbolic value. Lower level managers, on the other hand, responsible for implementing the ISO 9000 code were less likely to support the implementation due to the perception that it increased inefficiency and added costs. In both studies, questions were raised by the researchers regarding the efficiency of voluntary codes, as those who were certified were reported as experiencing little practical improvement from adopting the code. Evidence of free riding by organizations that publicly incorporated the ISO code as a matter of policy but not practice were also present in both studies. Despite mixed performance results both institutional and economic research document tensions during standard implementation that suggest the need to ensure that voluntary codes offer both symbolic value and increases in operational efficiencies.

When the perceived efficiencies and benefits of implementing standards are high (e.g. more stable transactions, increased sales or higher shareholder value), the perceived legitimacy of those standards among participants in the adoption process will increase. When perceived operational costs (e.g. including functional changes, financial costs, or time expenditure) of implementing voluntary codes are high, the perceived legitimacy of voluntary codes among its adopters will decrease. Based upon this reasoning, it is proposed that:

**P4:** The perceived positive value of the content of a voluntary code will increase the perceived legitimacy of the voluntary code among adopters.

**P4A:** As operational costs of voluntary code implementation increase, perceived legitimacy will decrease among adopters.
P4B: As the perceived positive impact of voluntary codes on shareholder value/sales increase, perceived legitimacy will increase among adopters and shareholders.

External Factors as Moderators of Perceived Legitimacy

Beyond the involvement of external institutions in the development of voluntary codes, temporal environmental factors may also moderate perceptions of legitimacy by firms. Once again these external factors are best framed within the institutional notions of coercive, normative, and mimetic pressures (DiMaggio & Powell, 1983). The presence of early institutional adopters may strongly influence the perceived legitimacy of the standard. This is reflected in the earlier example of Dow Chemical Corporation where a code initially adopted by Dow, as an industry leader, was subsequently adopted throughout the industry. The role of coercive institutions in the environment such as the imminent threat of regulation by government agencies may also increase perceived legitimacy (Cashore, 2002; Cashore & Vertinsky, 2000; Guler, Guillen, & Macpherson, 2002). The governments of Australia, Canada, and New Zealand have all published guides on the process of voluntary code development as well as facilitated, coordinated, and formally participated in the development of standards (Gunningham, 2004), and this governmental support of codes can be seen as reflecting an implicit understanding that if voluntary codes do not work, more coercive approaches may follow. Finally, strong normative pressures such as active educational campaigns and issue activity pursued by non-governmental organizations, a negative event within an industry context, or increased media awareness may also have strong effects on code adoption. For example the publicity around the negative impact of deforestation greatly motivated the development of industry-sponsored sustainable forestry practices (Cashore, 2002). Whether stemming from an industry leader, a government agency, a catalyst event, or simply the questioning of taken-for-granted legitimacy by a non-governmental organization, these activities increase pressure for code adoption. Thus, it is proposed:

P5: The immediacy of environmental events, such as code publicity, content related accidents, and media coverage, will increase the perceived legitimacy of the voluntary code among adopters.

P5A: The perceived legitimacy by firms of a voluntary code will increase after it has been adopted by industry leaders.

P5B: The perceived legitimacy by firms of a voluntary code will increase as a function of the imminent threat of regulation.

P5C: The perceived legitimacy by firms of a voluntary code will increase as media and non-governmental organizations increasingly support the adoption of the code.

Iterative Cycles of Norm Conversations

Increased pressures for adoption as well as growth in the voluntary adoption of a code are predicted to enhance discourse between firms in a common environment about the legitimacy of that code. As codes are dispersed across the broader environment and across different constituencies with different environmental value systems and concepts of legitimacy, awareness increases interest among both potential adopters and affected constituents. As voluntary codes are adopted and diffused, these codes are interpreted by more diverse perceptions of what constitutes legitimate activity. For example, firms on the periphery of an industry may have some interest in adopting the standard but have reservations about particular protocols. Municipal, state, or federal government agencies that become aware of the voluntary code may question the role of private sector involvement within historically publicly regulated areas. Similarly, non-governmental organizations alerted to the advent of new codes or
standards may believe that they lack voice in the codification process and initiate a dialogue about the nature of the code or their role in the process of the code development or implementation (Cashore, 2002). From the perspective of organizational strategy, legitimacy in this context reflects a contestable terrain (Seo & Creed, 2002) where different institutions want to exert a voice in the process or stake their respective claims for ideological superiority or control.

When a range of institutional constituents with differing perspectives take an interest in the content or implications of a voluntary code this will stimulate cycles of norm conversations ranging from informal communications through the media to more formal dialogues in the form of meetings of the code’s administering body (e.g. the ISO subcommittees), and generate more pressures for codes to meet broader legitimacy perspectives. These norm conversations stem from heterogeneous views about what constitutes legitimacy and whether the code, in the current environment, reflects interests and ideologies of different constituents. For example, Ashforth and Gibbs (1990: 576) have observed that “strategic legitimacy theorists predict recurrent conflicts between managers and constituents over the form of legitimation activities, with managers favoring the flexibility and economy of symbolism, whereas constituents prefer more substantive responses.” In the context of voluntary codes as more non-governmental organizations, such as consumer and environmental groups, become involved in norm conversations the pressure for more substantive formalization of codes, particularly in monitoring and oversight is likely to increase.

Finally, norm conversations provide the opportunity for organizations to gain voice in voluntary codes and marketplace decision making. Webb (2004) draws the analogy of voluntary codes as ‘voicing mechanisms’. Voluntary codes provide a context and forum for non governmental organizations, businesses, and regulatory bodies to provide input concerning an issue of importance to them, and hence to provide input into voluntary code content and thereby influence firm behavior. The procedural justice literature indicates that having voice in processes increases perceptions of fairness (Thibault & Walker, 1975). Therefore, as firms and others are provided with more opportunities to exert voice into norm conversations the likelihood increases that voluntary codes and alterations to the content of voluntary codes will be perceived as legitimate.

An example of voice increasing the acceptance and adoption of a voluntary code comes from the sustainable forestry context. The competition among code proponents, reinforced by environmental non-governmental organization boycotts of retailers who were not perceived as meeting acceptable standards of behaviour, and retailer demands that suppliers meet “certified” sustainable forestry standards, led to evolution in the scope and content of standards, and changes in patterns of adoptions over time. (Rhone, Clarke, & Webb, 2004). The foregoing arguments suggest that:

P6: Initial adoption of a voluntary code will generate legitimacy questions that lead to norm conversations among interest groups affected by the voluntary code.

P6A: Norm conversations will lead to greater field consensus around the form and content of the initial voluntary code and therefore increase the scope and rate of voluntary code diffusion.

P6B: The greater the incidence of norm conversations and participant involvement, the higher the likelihood that changes in voluntary codes will be legitimated by actors in the firm’s institutional field (e.g. NGOs, government).
Future Research Directions

Researchers can begin to address the six predictive propositions above for determining whether voluntary codes are perceived by firms as legitimate and the subsequent impact on adoption by firms. Essential to testing these propositions is inclusion of measures to quantify perceptions about the legitimacy of a voluntary code. Both qualitative and quantitative methods such as surveys and field interviews may be appropriate to delineating perceptions regarding the legitimacy of voluntary codes in numerous industries. Questions of particular interest include whether organizational leaders perceive a code as actually legitimate and for what reasons; what individually driven and leadership factors guide perceptions of legitimacy; and, ultimately, what is the impact of perceived legitimacy on organizational performance and success.

An important issue in research on voluntary codes involves when and in what settings the research should be conducted. Traditionally, research has concentrated on highly formalized certification processes rather than less diffused voluntary codes. Future researchers interested in voluntary code legitimacy would benefit from the application of longitudinal studies of the voluntary code phenomena, specifically using the factors identified in this research and mapping their influence over the development and adoption of the code. Topics that need attention include the following: How do different types of firms and other actors become involved in the development of the voluntary code and how do the internal motivations of organizations vary over the process of forming or adopting new standards? How are legitimacy motives made manifest in the process? Do organizations perceive legitimacy and economic motives as compatible or even mutually reinforcing?

The legitimacy frameworks offered by Suchman (1995) and Cashore (2002) provide a starting point for identifying whether or to what extent moral, normative, or cognitive legitimacy impact perceptions of codes and which type of legitimacy influences the adoption of different types of norms. Future researchers may choose to combine the paper’s model and Suchman’s (1995) broader framework to address legitimacy perspectives on both internal and external phenomena in even greater depth. For example, in the context of environmental voluntary codes, how do organizations balance or reconcile perceptions of legitimacy guided by the cost savings of energy efficiency and impact on stock price with normative concerns about being perceived as moral by external constituencies? This paper suggests that organizations may have both economic and institutional reasons for voluntary code adoption. It would be interesting to examine how organizations balance motives that are perceived as different or potentially conflicting.

Access to norm conversations during the development or alteration of voluntary codes provides the context for better understanding the multifaceted nature of legitimacy and the dynamic nature of voluntary codes and norms. The voluntary code literature emphasizes that organizations are influenced by different motivators. Studying norm conversations may provide increased insight into the motives of adoption and a greater understanding of how Suchman’s (1995) forms of legitimacy interact and impact the strategic responses to economic and institutional pressures. Research could also be conducted on how institutions communicate or negotiate within norm conversations and how norm consensus is achieved. Finally the voluntary code literature emphasizes the diverse, changing nature of voluntary codes and how certain codes become increasingly popular and influential. What variables influence whether the pressures exerted by voluntary codes are (or become) normative, mimetic, and coercive? The voluntary code development process seems to reflect normative pressures associated with defining “good practices”. Meanwhile, adoption practices involving increasing numbers of firms may demonstrate mimetic pressures. Finally Ashforth’s (1990) research indicates that public interest group awareness and involvement in the development of voluntary codes points toward more coercive pressures for code adoption. Norm conversations regarding the nature of legitimacy in settings such as ISO committee meetings provide a format for studying this phenomenon as well as for better understanding the
legitimating strategies used by organizations when faced with a new or changing norm. Norm conversations should provide insights into the impact of internal and external factors that predict acquiescence, resistance, as well as the de-institutionalization of voluntary codes and the norms they reflect. Research on voluntary codes has great potential to expand knowledge important to both the institutional and economic literatures as well as to add insight into the role of voluntary codes in self-regulation activities.
References


