



# THE PARTNERSHIPS RESOURCE CENTRE

## INSTITUTIONS, PARTNERSHIPS AND INSTITUTIONAL CHANGE:

Towards a theoretical framework

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# **INSTITUTIONS, PARTNERSHIPS AND INSTITUTIONAL CHANGE:**

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## 1. Introduction

One of the goals of the Partnership Resource Centre (PRC) is to execute evidence-based research and further develop a theoretical framework on the linkages between partnerships and value chain development (ECSAD 2009). Within the PRC Trajectory on Global Value Chains, this goal was specified into the explicit objective to improve public knowledge of how partnerships shape or organise the process of inclusion of smallholders and small and medium enterprises (SMEs) in (global) value chains, resulting in more local sustainable competitiveness (Van Wijk and Vellema 2010).

The global value chains trajectory takes as point of departure the multitude of institutional constraints that prevent primary producers and SMEs from exploiting local and foreign market opportunities. Apart from adverse climate conditions, limitations in infrastructure, and health and education issues, market-oriented activities are hampered by the lack of an appropriate institutional business environment. Especially the rural poor often have no proper access to, for instance, credit, technology, or land titles, while their market prospects are insecure (Markelova et al 2009; Poulton et al 2006). Value chain partnerships are increasingly considered to be useful vehicles to tackle these limitations, evidenced in the active promotion of particularly bi-partite partnerships between companies and non-governmental organizations (NGOs). The synergy derived from partnership cooperation can overcome failures resulting from unilateral action by actors confined within one of the societal sectors (Kolk et al 2008). By addressing the institutional business environment, partnerships can play a pivotal role in enhancing the chances for primary producers and SMEs to turn themselves into viable suppliers of local or global value chains (Bitzer et al 2011) in support of sustainable, local economic development.

The aim of this discussion paper is to lay the groundwork for a conceptual framework that addresses the above issues. Since we consider institutional change the *raison d'être* of value chain partnerships, we use a selection of institutional theory as ingredient for developing an integrative theoretical approach. Institutions are concerned with the rules for the behaviour of organizations and individuals, and they are both formal (legal rules that apply to all) and informal (norms and customs that apply to specific groups). Relevant in PRC context are those institutions that prevent or facilitate the involvement of smallholders and SMEs, such as the behavioural rules for buyers when making purchasing commitments to producers, or for banks when lending to smallholders, or the rules for smallholders how they honour their contracts with buyers and banks. Our interest in such institutions ranges from the way they emerge (who dominates this process of emergence, and who wins and who loses from the institution?), the ways in which they are monitored and enforced, to the pressures for change. Our focal point is institutional change, which we consider a socio-political process rather than a technical-administrative procedure. The paper aims to inform and promote discussion on the roles and functions of partnerships in arranging such a process when they intervene in the institutional environment of value chains.

Methodologically the paper explores an approach that rests on a multiplicity of competing theories and encourages theoretical pluralism in order to detect plausible causal pathways in the process of institutional change (Vellema, 2011). Accordingly, our theoretical exercise encompasses three different approaches. The next section reviews key concepts in institutional theory that are useful to explain the existence of market institutions and the conditions under which they change. The institutional approach is subsequently applied to the emergence of private quality standards, which constitutes one strategy for partnerships to induce change in market institutions. The third section addresses the change process itself and describes the concept of 'institutional entrepreneur' in institutional theory to examine the role of value chain partnerships. Section four focuses on the internal dynamics of partnerships. By drawing on cultural theory, it explores how actors agree to cooperate and to deal with risks within this new social arrangement. Finally, in section five, we discuss the potential of the three approaches and explain the dynamics and viability of partnerships, conceptualised as an institutional expression of societal ordering. Our conclusion is that combining theoretical frameworks, and in this paper we selected three complementary frameworks, is a condition for using case studies of value chain partnerships to inform and promote strategic debate about the roles of partnerships in development processes. In future research, we intend to ground research in case studies suggested by our partners and to iterate empirical findings with alternative hypotheses derived from theoretical literature.

## 2. Institutional theory and value chain partnerships

### 2.1 What are social institutions?

The literature on social institutions is not unequivocal in defining precisely what an institution is. However, there is consensus on institutions as the standards for social behaviour that give society stability. They involve the constraints and prescriptions to individuals and groups in the pursuit of their respective goals (see e.g. Goodin 1998: 20; Offe 1998: 200; Scott 1995: 33). Social institutions are "organized patterns of socially constructed norms and roles, and socially prescribed behaviours of occupants of those roles, which are created and re-created over time" (Goodin 1998: 19). Insti-

tutions establish the standards as to what is considered to be normal, what must be expected, what can be relied upon, and which rights and duties are attached to which positions. An institutionalized setting reduces uncertainty because it makes behaviour more predictable, and unburdens social actors from continuously making strategic decisions.

Institutionalism has different meanings in various social science disciplines (Powell and DiMaggio 1991: 1), while there are also significant differences between “old” and “new” forms of institutionalism. Since the present project focuses on partnerships that induce change in market institutions to facilitate inclusion in global value chains, we briefly discuss the main institutional assumptions of two relevant disciplines: economics and organizational theory.

In economics, new institutionalism reacted primarily to the orthodox version of the neoclassical paradigm assuming free agents interacting in an idealized free market. New institutional economics is still based on the neoclassical assumptions but the agents are considered to be constrained by unequal market power among economic actors, cognitive limitations, incomplete information and challenges with monitoring and enforcing contracts. Institutions, or the rules that constrain choice, have historically been developed to reduce these transaction costs in trading (Goodin 1998: 7-10). They channel information about market conditions, goods, and participants, they define and enforce property rights and contracts, determining who gets what and when, and they increase competition in markets – or decrease it (World Bank 2002: 8).

New institutional economics distinguishes between formal and informal market institutions. Formal institutions have written rules encoded in law, whereas informal institutions are embodied in customs, traditions, and codes of conduct. They are “norm-based”, rooted in culture (World Bank 2002: 171-172), or “socially embedded” (Williamson 2000: 596). Formal and informal institutions differ in two important aspects: scope and sanctioning. Informal institutions are smaller in scope as they apply to specific groups and are discriminative against non-group members (Jüting 2003). Formal institutions apply to all under a particular national jurisdiction. They ensure all citizens equal rights and protect them against arbitrary decisions of political authorities, and therefore appear as neutral. Formal institutions are enforced by state organs, involving prosecution and legal sanctioning, whereas compliance with informal institutions is enforced by social exclusion or related forms such as stigmatization, blacklisting, or boycott. The (historically) increasing complexity of market transactions has raised the need for impersonal regulation of the market which gave rise to the development of formal market institutions. Such a transition is part of a broader development in constitutional ordering in which the “rule of man” is replaced by the “rule of law” (Carothers 1998; Stephenson 2003).

Sociology and organizational theory are sceptical toward rational-actor forms of organizations, and emphasize social structures that constrain or shape actor’s actions, choices and decisions. Institutionalization is considered a state-dependent process which limits organizations in the options they can pursue. Environments and culture are major determinants of organizational behaviour (Powell and DiMaggio 1991: 12). However, significant differences can be found between “old” and “new” institutionalism.

Old institutionalism explains the limited rationality of organizations by conflicts and vested interests that result in trade-offs and alliances. The organizational structure is considered to be influenced by informal interactions (coalitions, cliques) that may deviate from formal structure and constrain such structure. Old institutionalism tends to focus on organizations embedded through multiple informal personal ties with local communities. It accepts that individuals follow their own interests and strategy, but that does not lead to organizational rationality. Organizations cannot be directed by individuals (Powell and DiMaggio 1991: 11-14). The relationship between a social actor’s motivation and social institutions is reciprocal. Individuals shape institutions but institutions, in turn, generate social actors who get used to and internalise some of the values the institutions embody. Thus besides curbing opportunistic behaviour, institutions perform a positive function by providing social actors the “socially validated standards as to what is preferred and licensed” (Offe 1998: 200). They influence people’s perceptions of their interests, and their views on the legitimacy of particular targets for, and types of political action (Chang 2002: 556).

New institutionalism in organization theory tends to downplay conflicts of interests within and between organizations, and seeks answers for the limited rationality of organizations in the formal structure. New institutionalism stresses that institutionalism is a cognitive process; rather than norms and values, taken-for-granted scripts and rules constitute institutions. It focuses on organizations embedded in environments that are non-local, including either organizational sectors or fields (e.g. industries, professions, national societies). Such environments influence the organizations by creating lenses through which actors perceive the world. The focus is therefore more on inter-organizational structures (Powell and DiMaggio 1991: 11-14).

## 2.2. Institutional change

Institutions can only be effective when they fit in their social environment. Offe (1998: 202) speaks in this respect of the “dual nature” of institutions. They socialize and consolidate beliefs by disciplining and licensing, but, in order to be effective, they must make sense and be fit for their mission. Social actors must be able to trust institutions. Prescribed behaviour must result in the expected outcome. If not, the institution may lose parts of its constituency and become contested. Generally speaking, there are two, often related, instances where a market institution may lose its fit with the environment: when its constituency changes or when the market changes.

Institutional change may take four different forms (Jepperson 1991: 152):

- (a) Institutional formation, which is an “exit from social entropy”. This involves radical changes, such as the institutionalization of the self as an entity that is differentiated from nature or God.
- (b) Institutional development, which represents “institutional continuation rather than an exit”. The change takes place within the context and rules of the existing institution and may be considered an adjustment.
- (c) Deinstitutionalization involves an “exit from institutionalization, toward reproduction through recurrent action”. An example is the deinstitutionalization of gender as central socioorganizational vehicle.
- (d) Re-institutionalization, which represents an “exit from one institutionalization and entry into another form, organized around different principles or rules”.

Only two of these forms seem applicable to the changing of market institutions to make value chains more inclusive to SMEs and smallholders in developing countries: institutional development and re-institutionalization. Especially the latter form of change is relevant because in most developing countries that are in the process of ‘building institutions’ (World Bank 2002) institutional change usually stands for imitating models that already exist in other countries. The advantage of imitation is that it saves time as it avoids reinventing the wheel. However, imported institutions carry the risk of not performing as anticipated, because the constituency and the markets differ. Foreign institutions have grown out of a specific cultural, economic, and political infrastructure that may have other outcomes under different conditions.

## 2.3 Institutional compliance

To be effective, institutional change needs to be implemented. All who operate under the changed institution must comply with the new formal or informal rule or norm. Compliance is rule-consistent behaviour (Börzel 2000; Faure and Lefevre 1999). The issue of compliance has often been empirically analysed in the context of international relations literature about the design and enforcement of new international treaties. Such treaties require cooperation among states to form and enforce ‘regimes’, which are social institutions at the international level. A central problem in cooperation is free-riding and options to reduce such behaviour have therefore been prominent on both policy and research agendas. Even though the level of analysis and the type of stakeholders under these inter-governmental institutions differ from those related to value chains, the compliance mechanisms at work in international regimes serve as a model for the analysis of compliance in respect of other types of institutions. Regime theory on compliance teaches us particularly what compliance or non-compliance actually is and how it can be promoted and enforced.

Defining compliance is challenging because there is no clear cut boundary between compliance and non-compliance. Strict compliance with institutions is almost never achieved, and it hardly seems realistic to make everyone comply entirely with the norm. Rather, the key issue is to keep deviance from the norm or standard within an “acceptable level” (Chayes and Chayes 1993: 198). Compliance is actually a goal, a final stage of a process in which divergent interests and problem perceptions are reconciled through a process that involves interpretation, contestation, negotiation, cooperation and conflict (Börzel 2000).

In the institutional literature, the causes of deviance and advancement of compliance have been explained from three different angles that are coined as “managerial”, “enforcement”, and “normative” approaches. In the managerial approach, it is assumed that actors voluntarily enter into a cooperative agreement and, hence, have a propensity to comply. Deviance or noncompliance is considered to be either temporary, for example during transitional periods; partial, when actors comply with some elements of a rule but not with others (Mitchell 1994b); or unintentional (Chayes and Chayes 1993). Unintentional non-compliance may occur due to ambiguous language in the provisions so that stakeholders do not know precisely what is expected from them, or may be caused by the incapability of stakeholders to fully carry out their obligations because of technological or financial limitations. Consequently, compliance is promoted through clarifying and specifying the rules, by removing the barriers to comply with problem-solving based on capacity building, dispute settlement and transparency (Tallberg 2002), and “jawboning”, i.e. pressure through strong persuasion rather than sanctions (Chayes and Chayes, 1993).



The *enforcement* approach involves collective action and game theory models that assume actors take decisions based on a cost-benefit rationality. Within this approach, compliance is based on influencing actors through incentives that raise actors' cost of non-compliance such as high probability of detection through monitoring and severity of sanctions (Tallberg 2002; Young 2001). From this viewpoint, the managerial approach is overly optimistic about the actors' willingness to comply, particularly in respect of deeper forms of cooperation that involve more demanding changes and that would require more robust enforcing mechanisms (Downs et al 1996).

In the *normative* approach, the compatibility of new rules with existing norms and beliefs, and regulatory standards is thought to determine actors' willingness to comply (Börzel 2000). Normative compatibility is required to get the new rules accepted so that they generate trust among the stakeholders. This requires institutions to be rooted in the appropriate moral and cultural infrastructure (Offe 1998), to be "ideologically embedded" (Jenkins 2003), or to fit the national "hierarchy of rights" (Chang 2002). The separation of design and implementation functions increases the chances for a normative misfit when "rule targets", those whose behaviour is supposed to change under the new rule, do not accept the new rules agreed upon by "rule addressees", those who generate and adopt a new norm or rule (Börzel 2000). At the global level, states are usually the addressees of international treaties, and they are formally responsible for compliance. However, it is often the behaviour of non-state actors, such as companies, that is targeted for change.

## 2.4 Changing (global) value chain institutions

Value chain partnerships may follow two distinct strategies of inducing change in market institutions to make value chains more inclusive to smallholders and SMEs. Institutional change may be promoted by changes in the chain-internal governance by designing and adopting private quality standards. The second strategy is through local value chain facilitation where organizations that are external to the chain induce institutional change by forging closer relationships and building trust between value chain actors in a specific geographic context (see for a more comprehensive explanation of the two strategies: project report 2109b, building bloc 2).

For both the vertical and horizontal change-inducing strategies to be adopted and diffused, local stakeholders (the rule targets) must comply with the new norms. This may be a challenging task considering that such change processes in developing countries often involve "reinstitutionalization", the introduction of another form of institutionalization, organized around different principles or rules than local stakeholders are used to. Below we apply the institutional view on the vertical strategy in which quality standards are used as vehicle to induce change in market institutions.

Quality standards are institutional arrangements intended to change the behaviour of producers and retailers connected through supply or value chains. They are "external points of reference by which a product or a service's performance, its technical and physical characteristics, and/or process and conditions under which it has been produced or delivered, can be assessed" (Nadviand Wältring 2004: 56). These external points of reference are socially constructed norms or rules that constrain and prescribe customs and activities of firms and farmers involved in the production or marketing of a product. For example, in order to sell a mango as an organic product, the entire supply chain, from farmer to retailer, must adhere to the norms to produce organically and must cooperate to preserve the organic identity of the fruit until its arrival at the retail shelves.

Quality standards are, in part, social institutions because they are humanly devised rules for behaviour, and horizontal and triadic in nature. They may be formal institutions when they involve legal regulations to which companies must adhere, for instance in respect of standards protecting public health. In such cases, it is the government that acts as third party and enforcer of the institution. However, all sustainability quality standards that have been created without government involvement and adopted voluntarily should be considered as informal institutions. These have a normative rather than a legal base. They are applicable to a specific group of actors rather than to all citizens under a particular national jurisdiction and violation is sanctioned by social exclusion rather than by legal prosecution. Companies intending to operate more sustainably respond to emerging new norms promoted by specific civil society organizations. They intend to change the norms of their corporate behaviour, and therefore necessarily of their suppliers, by adopting quality standards designed either in partnership with civil society organizations, or by themselves or with their business associations. Consumers serve as the independent third party. They judge and eventually sanction the corporate performance on normative grounds through their buying behaviour. Public disapproval of a firm's product may result in a diminishing demand or even a consumer boycott. It is therefore imperative to convince consumers of the trustworthiness and effectiveness of the company's product labels. This requires the firm to show its ability to introduce the quality standard into its entire supply chain, and to ensure that all suppliers in the chain comply with the rules set out in the quality standard.

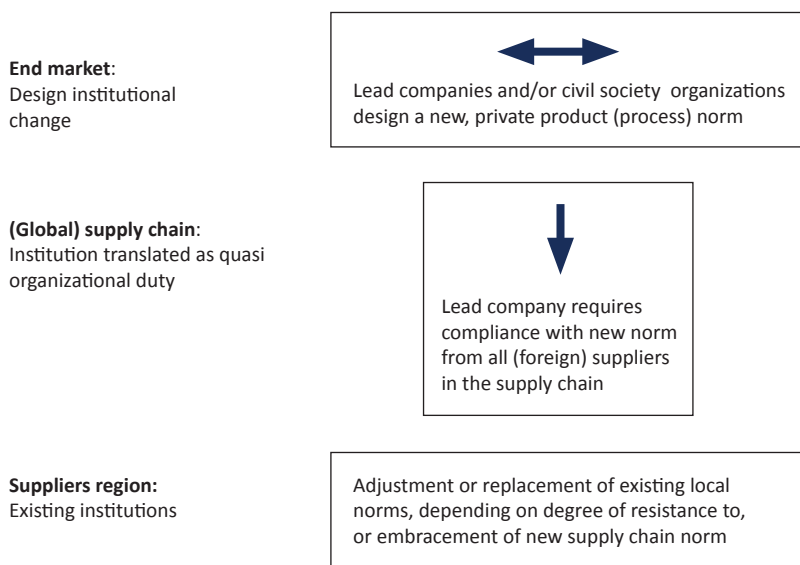
Private sector actors aligned in a supply chain cooperate with one another to bring a new product or service to the market. New quality standards are commonly introduced by the chain's lead firm and then adopted by individual suppliers

and traders in the chain. From a formal point of view, this adoption is voluntarily. They are independent organizations and are free to reject the new constraints and prescriptions in the new standard. However, due to the market realities and the power inequalities among the chain actors, suppliers are de facto often dependent on the lead firm and may feel they have little other option than to adopt the required private rules. This implies that supplying firms may feel more or less forced to adopt the quality standard, rendering the standard a social institution that is not based on a pro-active consent of its prime stakeholders. Rather, in supply chain situations private quality standards resemble what Offe (1998: 203) coins an “organizational duty”, a related social arrangement which is hierarchical and dyadic. Organizational duties are rules for behaviour that are unilaterally imposed by the management of an organization on its employees who have to abide to these rules or run the risk of being excluded from the organization.

Hence, from an institutional theory perspective, private quality standards are on the one hand horizontally designed informal social institutions, whereas on the other hand they are vertical (quasi) organizational duties (Figure 1). Despite the fact that the rationale of many of the sustainability standards is to support primary producers or workers in the chain, the standard’s conditions may still be seen as a more or less imposed duty when the direct local benefit is not visible enough, or when the standard supports some local stakeholders (e.g. workers) but not others (their employers). This ambiguous feature of private quality standards may have a considerable effect on the suppliers’ willingness to comply, and, hence, the standard’s effectiveness.

Absence of a supportive social environment may be a powerful incentive for deviation by the rule targets resulting in institutional failure and high costs for monitoring and enforcement. In this case, compliance should be advanced by changing the normative views through social learning, habitualization and persuasion. Effective institutions change beliefs and norms of the regulated actors (Börzel 2000; Offe 1998; Simmons 1998; Young 2001).

**Figure 1: Private quality standard as mechanism for institutional change**



### 3. Collective institutional entrepreneurship in value chain upgrading

Global value chains are complex configurations that consist of organizational actors operating across geographical boundaries and involved in the design, development and marketing of a product or service to its end use and beyond. Small holder producers and SMEs in emerging economies face the challenge to become and stay competitive players in such value chains while operating in settings with weak regulative systems, limited access to technology, knowledge and capital and bad transportation and communication infrastructure (Mesquita & Lazzarini, 2008). Changes in the institutional environment or resource environment may thus have significant consequences for the competitiveness of these entrepreneurs.

Partnerships among firms, NGOs and governmental actors are increasingly considered powerful mechanisms to foster the inclusion of small holder producers and entrepreneurs in value chains. They bring together public and private actors so as to establish production standards, improve the flow of information, support technology and knowledge development, enhance



vertical and horizontal collaborative arrangements and improve the access to new markets (e.g., Gibbon, 2001; Kolk, van Tulder, & Kostwinder, 2008; McDermott, 2007). Thus partnerships may advance value chain upgrading processes.

In this brief research paper, we argue that the emergent theory of institutional entrepreneurship is well-suited to better understand the role of partnerships in value chain upgrading. I first introduce the concept of institutional entrepreneurship, describing which actors perform this role, in what way and to what effect. I conclude by outlining how this concept may advance research on value chain partnerships.

### 3.1 Who are institutional entrepreneurs?

The concept of institutional entrepreneurship has received substantial scholarly attention in organizational institutional theory. It was introduced to better understand the role of agency in institutional change and refers to “organized actors with sufficient resources who see in the creation of new institutions an opportunity to realize their interests” (DiMaggio, 1988: 14). Scott (2008: 98) defines institutional entrepreneurs as “people (or organizations) who participate in the creation of new types of organizations or new industries, tasks that require marshalling new technologies, designing new organizational forms and routines, creating new supply chains and markets, and gaining cognitive, normative and regulatory legitimacy.”

Empirical accounts of institutional entrepreneurship have shown that the role of institutional entrepreneur might be enacted by a variety of actors such as professional associations (Lawrence, 1999), firms (Greenwood & Suddaby, 2006; Munir & Phillips, 2005), NGOs (Lawrence, Hardy & Phillips, 2002) and governmental bodies (Child, Lu & Tsai, 2007).

Whereas most studies of institutional entrepreneurship focus on a single or small group of actors performing the role of institutional entrepreneur (e.g., Maguire, Hardy & Lawrence, 2004; Mutch, 2007), literature has recently begun to suggest that institutional entrepreneurship is a form of collective action in which actors, with different goals, interests and resources, establish collaborative arrangements to jointly work for institutional change (Wijen & Ansari, 2007). Examples of such collective institutional entrepreneurship are found in the efforts to combat child labour in Pakistan (Khan, Munir, & Willmott, 2007) and the individuals and organizations working against climate change (Wijen & Ansari, 2007).

### 3.2 Why do actors engage in institutional entrepreneurship?

One of the major issues in the emergent theory of institutional entrepreneurship is the question how actors are able to signal opportunities for institutional change since these actors are constrained in their behaviour by the very same institutions they seek to change (Battilana, 2006; Greenwood & Suddaby, 2006). It is beyond the scope of this research to elaborate on this debate. However, simply put, actors are considered to be reflexive agents to their institutional environment and thus able to engage in strategic action to alter existing institutions or create new ones that align with their interests. Yet, actors differ in their degree of reflexivity.

Following DiMaggio’s (1988) seminal definition, actors are more likely to engage in institutional entrepreneurship when they have an interest in creating an alternative institutional order. This motivation can be material or ideological (Colomy, 1998). In contrast to Greenwood and Suddaby’s (2006: 28) suggestion that institutional entrepreneurs are “interest-driven, aware and calculative,” Battilana (2006) suggests that actors may also change the institutional environment and thus act as institutional entrepreneurs unknowingly and even unwillingly.

Institutional entrepreneurs also need particular skills to work for change: social skills to induce cooperation among organizations (Fligstein, 1997); political skills to negotiate, bargain and engage in the horse trading necessary to sustain cooperation in an industry (e.g., Garud, Jain, & Kumaraswamy, 2002; Maguire et al., 2004); rhetorical skills to produce “convincing texts that become part of central and enduring discourses in the field” (Phillips, Lawrence, & Hardy, 2004: 648); and commercial skills (Phillips & Tracey, 2007). Whether institutional entrepreneurs’ calls for change resonate in the industry, however, also depends on the existence of ‘political opportunities’ (Rao & Giorgi, 2006; Rao, Morrill & Zald, 2000) or for that matter macro level ‘cultural opportunities’ (Lawrence & Phillips, 2004).

### 3.3 What activities comprise institutional entrepreneurship?

To succeed, institutional entrepreneurs must mobilize “sufficient resources” around their change project (DiMaggio, 1988: 14). That is, they need to acquire material and cultural resources, power and legitimacy necessary to enlist support for their change project and prevent resistance against it. Institutional entrepreneurs engage in different activities to do so.

*Discursive activities.* Among the modes of action used by institutional entrepreneurs, the most studied appears to be the discursive activities by which these entrepreneurs attempt to enroll others in their change project. Such discourse not only provides a motivating frame and collective identity (Fligstein, 1997), it also presents the issues and problems in such way that they align with stakeholder' interests and values (Maguire et al., 2004; Rao et al., 2000) and theorizes about solutions (Greenwood et al., 2002; Maguire et al., 2004).

*Political activities.* Institutional entrepreneurs are not merely rhetoricians. To mobilize field actors to cooperate and to sustain cooperation, they must also engage in political activities (Garud et al., 2002; Maguire et al., 2004). Thus, bargaining and brokering, allying, offering incentives and a diversity of 'behind the scene' actions may be productive in convincing stakeholders that the institutional project is in their interest (Fligstein, 1997).

*Relational activities.* Institutional entrepreneurs can jump start change processes by setting up collaborations, coalitions and alliances (Dorado, 2005; Lawrence et al., 2002; Wijen & Ansari, 2007). The work of Lawrence et al. (2002) is particularly interesting in the context of partnership research. Their case study of an NGO suggests that ill-resourced, fringe organizations can still initiate change by collaborating with others. Collaborations that are highly embedded in the institutional environment and consist of highly committed participants are more likely to contribute to institutional change.

*Regulative activities.* In other cases, however, institutional entrepreneurs may act more restrictively by deciding on the definition and meaning of an institutional community's membership rules and the establishment of technical, legal or market standards that define the 'normal' processes involved in the production of some good or service (Lawrence, 1999). New practices may also be imposed from the top by, for instance, governmental bodies (Strang & Sine, 2002; Reay & Hinings, 2005).

*Entrepreneurial activities.* Finally, actors may exploit commercial activities and in so doing contribute to the emergence of new industries. For instance, Lawrence and Phillips (2004) describe how the decisions by one entrepreneur significantly shaped the evolution of commercial whale-watching in Canada. Other studies also support the pivotal role of institutional entrepreneurship in the emergence of the industry of forensic accounting (Lawrence, 1999) and socially responsible investments (Déjean, Gond & Leca, 2004; Louche, 2004).

### 3.4 What are the consequences of institutional entrepreneurship?

As the concept of institutional entrepreneurship implies, institutional entrepreneurs affect institutions. For instance, they may change the practices in an industry (Lounsbury & Crumley, 2007), the identities of actors in an industry (Rao, Monin & Durand, 2003), the jurisdictions of professions (Greenwood, Hinings & Suddaby, 2002) and the patterns of interaction among industry members (Hoffman, 1999; Maguire et al., 2004). Although most studies of institutional entrepreneurship are based on successful cases, recent studies call attention to both failed attempts at change (e.g., Greenwood & Syddaby, 2006) and the 'dark side' of successful change projects. An example of the latter is collective action by firms to combat child labor in the soccer ball manufacturing industry, which were considered to be successful CSR activities. Nevertheless, these actions led to negative impacts for local communities in Pakistan (Khan et al., 2007).

## 4. Cultural theory and value chain partnerships

Partnerships that originate in the domain of value chains represent an interesting combination of organizational activity functional to production and marketing, arrangements between institutionally or spatially remote partners, and a locally embedded socio-political coalition that engineers the political and organisational features of integration and cooperation (Vellema, 2005; MacKenzie 1992). Here, we focus on partnerships as a new social arrangement, with a distinct emerging dynamic and reflecting a mixture of how actors agree to cooperate and to deal with risks. On the one hand, a partnership is defined by its task and relates to the environment through this task (McFeat, 1974), and, on the other hand, it is defined and shaped by the inclusion of social arrangement and institutional modalities available in its environment. The internal dynamics and viability of partnerships are seen as a result of the combination of different institutional modalities, present in the context and crossing the boundaries of the partnership. The combination of institutional modalities shapes an evolving hybrid configuration, which can be undermined by an exclusive focus on management styles and world views associated with a single institutional modality. The effectiveness of partnerships to direct and enable institutional change is a resultant of its capacity to commensurate different institutional modalities in a viable configuration anchoring performance of its function in a specific locality. What needs to be explained is how a partnership, with a new functionality, is able to combine its performance with institutional modalities in its surroundings, and how the evolving structure and culture of a functionally defined partnership feeds back into the institutional modalities.

This perspective on partnerships focuses attention on agency and aims to explain the variety of relationships. Obviously, actors have different appraisals of how to act, and, consequently, how to see the relation with and their dependence on (international) business, NGOs and global value chains. The aim of this framework is to discover what happens inside the partnership organisation from the assumption that this needs to be explained from its embedding in a wider social fabric that selects and regulates activities and functions of the partnership. What needs to be explained is how people agree to work together, interact so as to concentrate on improving performance or on effective interventions, and, for the time being, ignore most of the potential dangers and uncertainties that surround them (Douglas and Wildavsky 1982: 9).


#### 4.1 Cultural theory

This section uses neo-Durkheimian cultural theory as a heuristic device for mapping the institutional modalities in value chain-based partnerships. Neo-Durkheimian cultural theory, or grid-group theory (Douglas 1987, 1996), offers a straightforward framework to categorize organisational and social behaviour. Essentially, grid-group theory distinguishes four social formations or institutional orders as the social and cultural context of individual behaviour. These formations are constructed by measuring both different types of individual and collective responses to incorporation (social involvement or group) and imposition (regulation or grid) (Thompson et al. 1990). The group and grid dimensions can be either strong or weak. For example, a hierarchical formation represents both high levels of integration and rule-based behaviour. Grid-group theory substantiates various modes of social order, and presents limits and organizational constraints within which the individual can move. A partnership may combine different degrees of collectivism and individualism, and contain different levels of freedom to make individual choices. It also reflects the experience of belonging to a social organisation, and of social differentiation within and between organisations (Rayner 1992). Furthermore, as clarified by Hood (2000: 24), it brings out some of the varying and contradictory attitudes about who to blame, how to assess risks or how to put matters right. The institutional modalities are not meant to categorize actors, but to pinpoint conflicting processes, arrangements and perceptions that encompass partnerships.

Cultural theory makes it possible to see the strategizing of partners against their organisational activities and institutionally imposed roles. The work of Hood (1996, 2000) and Mars (1982), both grounded in cultural theory, help to map divergent problem definitions and conflicting perspectives, as well as varieties of actions and negotiations in layered and bureaucratic organisations. They discuss behavioural responses to integration and imposition, and relate these responses to the cohesion of groups acting in an institutional context. An essentialist view on the social position of partners does not help understand the realities of partnerships.

The following describes a variety of ways in which groups come and hold together; such as accounting for actions, loyalty to an organisation, social responsibility, and trust in the competence of others. The four cultural biases distinguished by a neo-Durkheimian perspective are summarised in table 1. This table flags the existence of various perspectives on incorporation into a bounded social group, and it suggests various responses to the imposition of rules and conventions. It is important to realise that these perspectives do not necessarily coincide with specific and bounded actors groups.

**Table 1: Dimensions of and responses to incorporation and imposition in partnerships**  
(A summary of neo-Durkheimian cultural theory)

<p><b>Fatalist culture</b> <b>Contrived randomness and reciprocity</b></p> <ul style="list-style-type: none"> <li>• Acceptance of uncertain procedures and unpredictable rewards;</li> <li>• Stratified individuals alive at margins of organisational patterns;</li> <li>• Individual bargaining outside formal reward system and exploit personalised relationships in situation of limited choice;</li> <li>• Permanently failing organisations and perception that economic survival is not linked to performance;</li> <li>• Minimum anticipation and lack of disposition to take responsibility: ad-hoc responses to events.</li> </ul>	<p><b>Hierarchical culture</b> <b>Administrative control and transparency</b></p> <ul style="list-style-type: none"> <li>• Elaborate organisational apparatus of controllers and overseers at all levels of the organisation; greater managerial grip;</li> <li>• Division of labour and differentiated roles; confidence in organisational competence;</li> <li>• Excessive trust in technical expertise and tight bureaucratic procedures;</li> <li>• Binding prescription and inability to learn; error inducing organisation;</li> <li>• Fairness consists of equality before the law; conceal evidence of failure.</li> </ul>	 <p>Grid</p>
<p><b>Individualistic culture</b> <b>Entrepreneurial partnership and performance by competitive individuals</b></p> <ul style="list-style-type: none"> <li>• Freedom to enter and to exit transactions;</li> <li>• Relationship is subject to negotiation and dependent on the ability of individuals to shape their work as they choose;</li> <li>• Boundaries are provisional and failure stems from lack of co-operation;</li> <li>• Unchecked private gain at the expense of what is supposed to be a collective enterprise;</li> <li>• Pursuit of personal rewards; dependent on effort.</li> </ul>	<p><b>Enclavist or egalitarian culture</b> <b>Brokerage, delegated negotiation and obstruction</b></p> <ul style="list-style-type: none"> <li>• Failing negotiation and unwillingness to accept higher authority to break deadlocks; lack of ability to resolve disputes and feuds;</li> <li>• Sending a delegate as negotiator; strong relations between group members;</li> <li>• Shared opposition to outside world keeps group bounded together;</li> <li>• Respond collectively to opportunities provided by company;</li> <li>• Clash of cultures; close territories and put blame on the system.</li> </ul>	

Source: Vellema, 2002, drawing on Hood (1996, 2000), Mars (1982), Douglas (1987).

Note: The vertical *grid-axis* represents the degree to which life and behaviour of individuals is circumscribed by conventions and rules or by externally imposed prescriptions; it reflects the extent to which space for individual negotiations is reduced. The horizontal *group-axis* represents the degree to which individual choice is constrained by group choice; it reflects the extent to which an individual’s life is circumscribed by the notion of solidarity of the group he or she belongs to.

#### 4.2 Organisational variety: unpacking the hybrid nature of partnership

Partnerships can best be understood as an evolving institutional arrangement, which engineers both the political and organisational features of integration and cooperation. The aim of a cultural theory perspective is to explore the underlying patterns of control and regulation, and, to discuss the partnership’s managerial capacity to respond to failure (cf. Hood 2000). The type of approach adopted by a partnership to solve newly arising problems is largely dependent on existing thought-styles about co-operation and regulation inside the company (cf. Douglas 1987, 1996). The theoretical orientation in this section helps to describe the messy mixture of institutional modalities as an unintended outcome of how partnership arrangements are embedded in local societies; rather than as an intentional nurturing of different institutional cultures. The framework proposes to consider four modalities of control and regulation as interdependent social practices receiving variable emphasis during the evolution of value chain partnerships. Four cultural biases, situated in social relations and organisational backgrounds, seem to capture the different institutional perspectives, or modes of social engagement:

- Fatalist culture                      Contrived randomness and reciprocity
- Hierarchical culture                Administrative control and transparency
- Individualistic culture              Entrepreneurial partnership and performance
- Enclavist/egalitarian culture      Brokerage, delegated negotiation and obstruction

In this approach, the internal level of organisation is presented as a product of circumstance (Douglas et al. 1998). The resulting organisational variety allows partners to pick a form of interaction that suits their current interests. As a consequence, partnerships may entail a lot of strategizing, as well as numerous collisions between divergent perceptions on the actual content of the social relationship. The institution of partnerships is an unspecified mixture of coercion and

control, of persuasion and conventions, and of converging self-interests. A task of research, proposed by cultural theory, is to picture the extent to which such a hybrid institutional complex is able to regulate organisational life. Correspondingly, it raises the question what happens if institutional perceptions are incommensurable (Richards, 2005)?

Hood (1996) interprets hybridity in real organisational architectures as a reaction to the limitations of typical forms of control, specifically those based either in hierarchical relationships or in individualistic relationships. This is a central to any institutional analysis grounded in cultural theory, as Hood (2000: 11) writes:

*“ Cultural theorists are not the first to have noticed that in matters of organization and management, we tend to formulate ideas about reform through a process of reaction against what we see as an unsatisfactory status quo, rather than beginning the process of institutional design from a genuinely ‘zero base’. But that observation is central to their ideas about what sustains organizational variety. ”*

The more reliance is placed on one organisational recipe, the more likely such a decision will give rise to resistance from those who have alternative preferences about how to organise contract growing (Hood 2000). Apparently, sustainability of the organisation strongly relies on the efficacy of available forms of governance in handling unexpected events.

The hypothesis investigated here is that co-operation essentially depends on a capability to incorporate divergent interests and variant cultural notions of solidarity into one organisational framework, partially functional to production and marketing. Neo-Durkheimian cultural theory can be used as a heuristic device for mapping the diverse organisational formations wherein partners interact, and for describing the evolving managerial, administrative and working relations in a partnership. Such an exercise results in a characterisation of organisational cultures specifying the hybrid nature of partnership arrangements. This outcome underscores the prominent role of divergent opinions and perceptions on mutuality in a partnership relationship and, correspondingly, the existence of an array of management practices.

#### 4.3 Management and sustainability of hybrid organisational structures<sup>1</sup>

Hypothetically, a partnership can be a robust organisational form because it is able to incorporate cultural and organisational diversity into its constitution, even though this is not the way in which the scheme is supposed to work. Partnerships may choose from a variety of management styles and organisational models. Disappointment over the capacity of one approach to deliver satisfactory results, leads to increasing support for one of the other options. Moreover, in problematic situations they may opt for extreme measures, such as imposing hierarchy or pure business deals, which rule out the cultivated mixture of cultural notions and social frameworks attached to partnerships in the beginning (Hood 1996: 221). Local actors, of course, will not readily accept the organisational visions accompanying interventions following from this search for managerial recipes. For example, an increased emphasis on either hierarchical control or individualist performance may become incommensurable with more personalized, reciprocal and culturally sensitive relationships. Yet, in cases of failure, managers may be inclined to turn to a confined set of instruments, while the range of existing social practices in partnerships entails a much wider set of organisational relations. The adopted managerial approach may clash with the various cultural notions existent in organisations and communities aligned to the partnership.

An institutional analysis of partnership relations, using a scheme from neo-Durkheimian cultural theory as heuristic, goes beyond the obvious dichotomy between hierarchy and individualism (Thompson et al. 1990; Dent and Ezzamel 1995). The institutional variety found in partnerships suggests that such cooperative arrangements are more than a simple binary institutional configuration between market individualism and imposed hierarchy. Pursuing only these narrowly defined options may result in error-inducing organisations lacking incentives to learn, due to their confined capacity to respond to financial pressures and production problems, or to social resistance and communication difficulties (Perrow 1984).

Perri 6 (2003) elaborates on the question how a cultural theory framework can help to identify under what conditions institutions, policies and arrangement are viable. He argues that institutions, policies and arrangements have the greatest chance of viability when they exhibit sufficient internal variety of the basic institutional forms, and when conflicts between these forms can be contained by one or more types of settlements. Perri 6 defines viability as the capability of an empirical institution, or a set of empirical institutions, for being sustained within its environment, despite a wide range of external pressures and internal tensions short of *force majeure* so great that no set of institutions could be viable against it (the robustness conditions), albeit (if necessary) with some changes to that setoff institutions, but where those changes are such that most people would consider it to represent the continuity of substantially the same set of institutions.

<sup>1</sup> The discussion in this section builds on earlier research on contract farming, which is considered to be a specific manifestation of a value chain-based partnership (Vellema, 2002)



All institutions are vulnerable to pressures or shocks, but some are clearly more viable than others (6, 2003: 398). Viability becomes a function of the nature of the balance between different basic kinds of feedback in a social system, e.g. negotiation processes or accommodation of conflicts in a partnership. Each organization can balance itself, but beyond that point, feedback between solidarities can go to the extremes and lead to disorganization, as was also pointed out by Hood (1996; 2000). Perri 6 perceives viability as an outcome of settlements between four distinct solidarities or institutional modalities. Settlements are fragile and prone to failure. If we understand more about the viability of institutions, it might also be possible to engage in more intelligent institutional crafting to enhance the viability of settlements.

Perri 6 combines neo-Durkheimian cultural theory with an interest in system dynamics by looking at positive, or self-reinforcing feedback mechanisms and at negative, or correcting, feedback mechanisms operational between the solidarities described by cultural theory. Neo-Durkheimian cultural theory situates institutional failure in a static context, providing a taxonomy of institutional modalities with specific strengths and weaknesses for their viability. A crucial thesis following from this is that the interactions between these four basic solidarities produce a non-linear disequilibrium system. Two basic forces, namely positive and negative feedback can be used to understand the viability of such a system. Positive feedback is about reinforcing characteristics, for example processes of organizational learning or path dependence in technology development. But it can also refer to vicious cycles eventually undermining the institution. By contrast, negative feedback is the phenomenon of resistance or corrective measures. A thesis derived from the neo-Durkheimian model is that solidarities as institutions tend to reinforce themselves and come into conflict in ways that structure particular empirical processes of historical change. Uncontrolled forms of positive or negative feedback can be sources of institutional failure. Both feedback processes are ultimately derived from the same underlying dynamic of institutional self-assertion in reaction to the assertion of other institutions.

Perri 6 (2003) has an interest in cohesion, defined as the degree to which institutional settlements based on negative feedback is able to constrain conflicts with other solidarities. In order to constrain conflict or tension, any arrangements between institutional modalities must take the form of a 'settlement'. A settlement is some social or political accommodation, some pragmatic way of giving structure to co-existence, and therefore some way of limiting the aspirations to consistency and completeness for institutions of accountability.

Four types of settlement are distinguished by 6 (2003: 404-409):

- toleration of a specific institution – no solidarity vetoes or actively undermines another;
- separation or contingency – establishment of institutions that allow more or less distinct sectors with a local hegemony; for example, each form of social organisation is selected because of its appropriateness for a particular task or technology;
- exchange or mutual dependency – institutionalisation of reciprocal support, which is a feature of many complex organizations;
- compromise or hybridity – acceptance of constraints in making claims, usually involving a four-way hybrid that recognises differences, and with capacities to shift between modalities.

For Perri 6 the key to institutional viability consists of attempts to institutionalise some kind or kinds of settlement between the forces of positive and negative feedback, which gives them some space to operate (social systems are inherently dynamic and in disequilibrium, and cannot be made static), but which moderates both the violence of their own oscillations and of their destructive dynamics and of their encounter with each other. This introduces the feature known in system theory as requisite variety. Excluding solidarities would provoke counter-assertion; a viable and consistent social system gives articulation to all four social solidarities. Cohesion in a system is achievable when modalities have a moderating effect on others. A vital institution exhibits sufficient internal variety or external similarity. Viability is a function of the nature of the balance of different kinds of feedback operative in a social system.

Inter-organizational or cross-functional teams or alliances can be expected to play a vital role in the desired improvement process towards sustainability. Perri 6 emphasises that settlements between solidarities are crucial for making institutional arrangements coherent and work towards a common goal. Therefore, it seems wise to realise that partnerships include a social settlement between institutional modalities and that specific measures may be needed to avoid institutional failure. The aim of institutional crafting then is to try to compensate for as many of the organisational weaknesses of each of the solidarities at once, whilst recognising the inevitable instability of institutional arrangements that attempt this.

The challenge is not an optimisation problem but a coping problem. Institutions change in response to the unintended consequences of deliberate attempts to craft their characteristics. It seems worthwhile to develop theoretical models that help to foresee the consequences of such action with reasonable levels of confidence. This provides an alternative for theoretical models that celebrate single kinds of institutions ("more markets" or "more associations") rather than explain institutional failures.



## 5. Discussion

In this paper we explore the theoretical foundations for research of the Partnerships Resource Centre in (global) value chains trajectory. Partnerships are unique due to case specific composition and function, and the outcomes of partnerships are highly contingent on context. This makes it difficult to generalize about what partnerships are and what they do. Usually, researches on partnerships are case studies, with a strong focus on time and place specific events and real life situations. Theory-laden investigation is a methodological answer to the dilemma of case study research and it enables the black box of partnerships to be opened by focusing attention on mechanisms, with causal properties, that produce institutional change.

Three related approaches in institutional theory are reviewed to identify their potential for explaining changes in the institutional environment of value chains brought about by partnerships. The first approach comprises organizational theory and compliance theory. Even though the value chain track focuses on market institutions that facilitate inclusion in value chains, we locate our research in the organizational theory rather than in the stream of new institutional economics, because it is equipped to analyse the process of change of such institutions. Our assumptions largely fit the 'old' institutionalism tradition that explicitly takes into account the role of interest differences and conflict as influential factors in institutional change. Compliance theory in particular seems promising for analysing the effectiveness of value chain partnerships inducing processes changing market institutions either vertically (through quality standards) or horizontally in a particular geographic location. At least for the vertical approach, we have been able to do the groundwork for the development of some propositions about the effectiveness of changes in market institutions along the global value chain.

The second approach discusses the theoretically and empirically rich body of work on institutional entrepreneurship that holds promise for studying value chain partnerships in emerging economies for three reasons. First, the concept of institutional entrepreneurship calls attention to the wider institutional environment in which partnerships are embedded. Partnerships may affect this environment. For instance, a partnership may fail to achieve its goals to change market rules to the benefit of a particular farmer group, yet may still instigate change by contributing to the macro-cultural discourse in a country, upon which *other* institutional entrepreneurs act. Conversely, institutional environments may also affect partnerships. Comparable partnerships may, for example, produce different results because the opportunity structures of the industries in which they operate vary. Knowing under which conditions partnerships may be effective, helps practitioners in their decision-making process about the question whether or not to launch value chain partnerships.

Second, institutional entrepreneurship literature shifts attention to the role of actors other than the ones involved in the partnership itself. That is, institutional entrepreneurs need 'subsidiary actors' (DiMaggio, 1988: 15) who support them in their activities. In the case of climate change negotiations, Wijen and Ansari (2007: 1091) suggest that media coverage was key to the success of the collaboration on climate change, because it was felt that "the whole world was watching and that the negotiations could consequently not fail." Accordingly, research into the role of actors backing partnerships would generate useful insights for the organizations managing partnerships.

Finally, the recent attention within institutional entrepreneurship research for the 'dark side' of successful change offers potentially rich insights into partnerships. Given that such 'dark sides' are also evident in value chains (e.g., the introduction of new quality standards may include some farmers, but exclude others), research in this area could contribute to the development of a 'value chain intervention assessment' (VCIA) tool similar to the environmental impact assessment (EIA) tool.

The third approach we discussed concerns cultural theory, and particularly grid-group theory, to explore concepts that can be used in examining the internal factors and processes that influence the sustainability and effectiveness of partnerships. Analysis of partnerships must be able to make a precise institutional and social analysis of the distribution of efficiency gains and rewards, the type of working relations, the functioning of different task groups, and performance of technologies. Consequently, the purpose of a study based on neo-Durkheimian cultural theory, is to fill the gap left by institutional economists, pointed out by Mary Douglas (1987: 111-112, 124):

*"Institutional economics suggests why a particular institutional form makes more sense to rational individuals in one economic environment rather than another. It does not explain the process by which the institution keeps itself and the environment stable enough to be recognized by the individual making a rational choice [. . .] The most profound decisions about justice are not made by individuals as such, but by individuals thinking within and on behalf of institutions."*

The premise of such a study is that values are systematically related to organisational activity (Richards, 2005). Concrete organisational activities, such as accounting, management or decision making embody institutional values: institutional modalities that select or silence organisational and technological options by determining what possibility looks feasible (Douglas et al. 1998). Partnership managers may opt for congenial solutions rather than more stressful and 'nittygritty' operations in difficult social environments (Hood 2000). Withdrawing from social issues inside and outside the bounda-

ries of a partnership may look convenient, but without fine-tuning with society partnerships will not work. Economy and performance are inseparable from other areas of social life, and consequently, a value chain partnership has to deal with the details of social domains. An exclusive emphasis on technical and rational behaviour denies the social origin of co-ordination procedures and policing mechanisms in a division of labour (cf. Douglas 1987) and, eventually, may erode the social cohesion of partnerships.

## 6. Conclusion

The three theoretical approaches use distinct perspectives on institutions with a focus on variety, constraints and prescriptions, and malleability respectively. They are middle-range theories, a concept coined by Merton in the 1950s, with limited scope, which explain a specific set of phenomena, as opposed to a grand theory that seeks to explain phenomena at a societal level. The three explanations allow a focus on interesting, puzzling, socially significant outcome patterns (Pawson 2000), namely (durable) institutional change resulting from newly formed partnerships functional to marketing and production in value chains. They provide the basis for theory-driven empirical inquiry.

The three approaches can be jointly applied in formulating researchable, alternative hypotheses. It sketches a perspective on how to consolidate within a network of (possibly rival) theories. In a follow up of this theoretical excursion, we aim to confederate empirical inquiry with this network of middle range theories and to work with a limited set of sufficiently abstract assumptions. This makes it possible to borrow, consolidate, and pass on explanatory structures and to relate a set of statements or hypotheses to segregated observations. This way of middlerange thinking encourages making the step from describing regularities or outcomes to their explanation and to develop special theories applicable to limited conceptual range and beyond specific descriptive categories, such as partnerships.

We expect that through theoretical triangulation, i.e. putting alternative theories against the same body of data (Denzin 1970), we will be able to achieve the right blend between theory and empirical research necessary for getting inside the box of causation, i.e. the mechanisms in partnerships producing institutional change. We see mechanisms as pathways of processes by which an effect is produced or a purpose is accomplished (Gerring 2007). Theory-laden investigation is needed to discover the mechanisms, with causal powers and liabilities, at work. Causal process tracing methodology (6, 2008; Blatter and Blumme, 2008) is tailored to case study research and to cross-case analysis and aims to establish a set of contextualised relationships between a range of hypothesised (or candidate) causal process mechanisms. In our study of partnerships, we try to arrive at contingent generalisations. Therefore, we have to find a way of incorporating theory-driven expectations, and to allow competing candidate mechanisms to be assessed in relation to data concerning the mechanisms themselves, and concerning context and outcomes, and to permit new and unexpected findings to challenge assumptions (6, 2008). In this way, the theoretical frameworks discussed in this paper can be combined with deductive inferences and encourage counter-hypothetical reasoning. The three frameworks inform the ways in which causal inferences are drawn for cases under study and to scrutinize the different understandings and directions of generalization within these three approaches.

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