

## CHAPTER 19

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INTERNATIONAL  
STANDARDS  
AND STANDARD-  
SETTING BODIES

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STANDARDS AND BUSINESS–GOVERNMENT  
RELATIONS

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STANDARDS prescribe the behavior or characteristics of people or inanimate objects, often in technical terms. They play a central role in domestic and international product and financial markets. Standards for the sterility of medical instruments, for instance, prescribe safe methods for sterilizing instruments or spell out how long thereafter they may be considered sterile given specified packaging and storage conditions. Food standards may specify pesticide residue levels that are considered harmless for human consumption if found on the skin of an apple or prescribe methods for laboratory testing of beef or milk for artificial growth hormones (or natural components, such as fat content) so that food safety inspections and consumer labels provide reliable and comparable information—an increasingly contentious issue in international trade (e.g., Ansell and Vogel 2006; Büthe 2008c). Accounting standards specify how and when

corporations may report profits or losses from business transactions and changes in asset values to make corporate financial reports comparable for investors within and across countries (e.g., Mattli and Büthe 2005a, 2005b). And standards for data privacy prescribe methods for safeguarding consumers' financial information and constrain the commercial use that airlines, retail stores, and other businesses may make of data that they have gathered about their customers' purchasing habits, for instance through transnational e-commerce (e.g., Henry Farrell 2003, 2006; Bignami 2005; Newman 2008). In short, standards are ubiquitous, shaping many facets of modern life.

Setting standards is consequently a form of writing or negotiating rules—rules that are usually intended to govern or shape the behavior of a far broader group of actors than those who directly participate in writing the rules (see also Kerwer 2005: esp. 620 ff.). As instruments of governance, standards are similar to norms, yet standards are explicit, which social norms need not be (Brunsson and Jacobsson 2000a: 12 f.). Standards also differ from government regulations in that the use of, or compliance with, a standard as such is not mandatory. Only if a standard is referenced or incorporated in a law or regulation does it become legally binding.<sup>2</sup>

Standards can be contested, and conflicts of interest are quite likely in standard setting since standardization almost always entails (at least for some) a change from previously differing practices. Nevertheless, standards often elicit compliance—convergence or harmonization of behavior or products in accordance with the stipulations of the standard—even if compliance is not mandatory. Why?

Focusing on businesses as the “target” whose practices or products many standards seek to change, we can identify five general reasons for compliance, with distinct implications for business–government relations.<sup>3</sup> First, businesses may adopt or implement a particular standard simply because it provides a superior solution to a technical problem (Brunsson and Jacobsson 2000b: esp. 127 ff.). In the early years of the electrical age, for instance, alternating current won out over direct current as the standard for electricity grids virtually everywhere because it had better physical properties, including that it could be easily transformed to higher or lower voltages, allowing greatly reduced losses in the transmission of electrical power over long distances (e.g., Hughes 1983). The cost savings of a superior technology in such cases can bring about convergence on a single standard by atomistic economic actors without any need for coordination (see also Büthe 2008b). When the preferences of private actors are aligned in this way (game theorists would consider it an example of a “harmony” game), governments matter only insofar as they must refrain from interfering with private choices—and keep others from doing so. In the case of direct versus alternating current, Thomas Edison and others whose patents gave them a great commercial stake in direct current technology sought to use their near monopoly position in the market and their influence with governments to block the adoption of the superior technology as the new standard. All of these attempts failed in the end, but only after protracted battles (see McNichol 2006).

Second, network externalities can create economic incentives for implementing a standard (Katz and Shapiro 1985). Network externalities arise whenever the usefulness of doing things in a particular way increases with the number of others who have made the same choice or when the value of a product increases with the extent to which complementary products are available. The larger the number of people who speak a language, for instance, the more valuable it is to know or learn that language (de Swaan 1988: 52 ff.). Similarly, having a cell-phone, fax machine, or network-able computer is only useful to the extent that it can send and receive a signal that allows me to connect with those with whom I want to communicate. These benefits of the size of the “network” are positive externalities to the extent that they are not reflected in the cost of producing nor the price of acquiring the good and therefore create an incentive to comply with the most commonly used standard. Some argue that such network externalities are quite rare (Liebowitz and Margolis 1994), but many find them to be pervasive (e.g., Tirole 1988; Shy 2001; Grewal 2008;). What are the implications for business–government relations? Network externalities can make compliance self-reinforcing, but governments can still help establish or reinforce the equilibrium by enshrining a standard (such as which side of the street to drive on) in laws or regulations. On the flipside, once network externalities reinforce the use of a particular standard, *not* switching to a different, technically or otherwise superior standard becomes individually rational even when it would be highly beneficial to switch if all (or many) did so (David 1985; Pierson 2000). Network externalities can thus create a need for politically costly government intervention to overcome “excess inertia,” as illustrated by the (failed) attempts in the US to move from old imperial measures such as foot, mile, and gallon to the metric system (NIST 2002).

Third, information asymmetries in the market can create economic incentives for businesses to adopt standards. Standards reduce information asymmetries between buyers and sellers and thus can help overcome the “lemon problem” (Akerlof 1970), which depresses quality and size of markets. By producing to explicit and broadly recognized standards, a manufacturer may lose some ability to compete on quality or price, but standardization reduces customer uncertainty and the transaction costs that otherwise might arise from the need to test each item. And since this standardization is beneficial to the buyer, too, repeat or bulk buyers may demand compliance with certain standards as a condition for placing an order. In such private contractual relationships between buyer and seller, references to standards are used as a shorthand in communications to ensure consistent product quality or other characteristics of the goods or services or the conditions under which they are produced.<sup>4</sup> Governments need not have any direct role here, but they play an important supporting role in that private contractual promises of compliance with a standard are valuable (outside a tight reputational context, Milgrom, North, and Weingast 1990) only to the extent that they are enforceable in a rule of law system.

Fourth, social pressure or political-legal incentives from third parties may induce a company to comply with standards that are seen as embodying “best

practice.” A business that does not implement widely accepted standards for workplace safety may face higher insurance premiums and/or higher risks of being found negligent in the event of a workplace injury, even when the standards are not mandated by government regulation. More direct pressure from activist NGOs has led many businesses to commit at least rhetorically to various “fair trade” standards (Levi and Linton 2003; Cashore, Auld, and Newsom 2004; Kirton and Trebilock 2004; Jaffee 2007; Reynolds, Murray, and Wilkinson 2007). One key motivation for businesses to support such standards is to forestall (or minimize the scope of) government regulation. Moreover, companies may be assured a more prominent voice when standards are set (and updated) by non-governmental bodies than when they are fixed through government regulation (Haufler 2001). Government regulations may here induce adoption or use of a standard without mandating it, for instance by requiring that clothing that does *not* meet a standard for reduced flammability be labeled as “flammable” (WTO 2005: 33).

Finally, compliance with any particular standard may be outright required by laws or regulations, even when the standard itself might have been developed by a private body rather than a public (government) agency (e.g., Hamilton 1978; Salter 1988; Cheit 1990; Braithwaite and Drahos 2000). Business–government relations are naturally central to any analysis of what gets written into those laws and regulations—an issue discussed in greater detail in the literature on lobbying and the political power of business (e.g., Stigler 1971; Vogel 1989, 1996; Smith 2000) and in the chapters by Crouch, Hart, Schmitter, Vogel, and Wilson and Grant in this volume.

As the examples above illustrate, setting standards is an important means for shaping the behavior of firms and other economic actors. Governments may or may not be directly involved in this element of the governance of markets, though compliance with, or implementation of, a standard is often a function of public policy and business–government relations at other stages of what Abbott and Snidal (2009) have called the “regulatory process,” consisting of agenda setting, negotiation of standards, implementation, monitoring, and enforcement. Those who are able to set standards that elicit compliance are therefore exercising power in the Dahlian sense of getting others to do something they would not otherwise do (Dahl 1957). This understanding of international standard-setting as an inherently political process (Mattli and Büthe 2003) calls for a systematic understanding of international standard-setting bodies and what enables some to win out over others when setting standards entails conflicts of interest.

In the remainder of this entry, we first differentiate two key problems that arise from economic interdependence and are commonly solved or ameliorated through standards. We then sketch how the international integration of product and financial markets has internationalized these problems and led to a shift from local and domestic to international standard setting. We then differentiate and discuss the operation of four types of bodies that set standards for the international economy.

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