

# Assessing the institutionalization of private sustainability governance in a changing coffee sector

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## Abstract

The potential of transnational private governance initiatives to constitute effective alternatives to state-led regulation of global value chains rests on their ability to scale up and become institutionalized in a given sector. This study examines whether such institutionalization has occurred in the coffee sector, the commodity with the most widespread adoption of certified products and over 30 years' experience of private governance, and tests hypotheses on facilitating and inhibiting conditions. It finds that while norm generation around responsible supply chain management and the organizational institutionalization of standard-setting bodies is well advanced, the practice of internalizing social and environmental externalities through the routinized production and purchase of higher priced certified goods continues to be questioned by industry actors. Indeed, conditions that favored normative and organizational institutionalization, such as high levels of industry concentration, product differentiation, and deliberative interaction, are shown to represent barriers to the practice-oriented institutionalization of market-driven regulatory governance.

**Keywords:** certification, corporate social responsibility, environmental governance, private governance, sustainability.

## 1. Introduction

Transnational private governance initiatives have emerged as promising tools to tackle the increasingly global economic and political challenges of our time (Cutler et al. 1999; Mattli & Woods 2009a; Newell & Paterson 2010; Büthe & Mattli 2011; Green 2013). Recent years have seen a particular proliferation of private initiatives attempting to govern the sustainability of agricultural production chains (cf. Fransen 2015; Fransen et al. 2016), driven by two core concerns: First, despite decades of efforts by state and non-state actors alike, the production of many agricultural commodities continues to be defined by smallholder poverty (DeFries et al. 2017). Second, the adoption of sustainable production practices is key for ecosystem and biodiversity protection, as well as assuring long-term supply availability. In the absence of coordinated state action, externally verified certification systems such as Fairtrade, Rainforest Alliance, and UTZ Certified were established to address these challenges (Auld 2014; Lernoud et al. 2017).

When considering these certification systems as representations of private sustainability governance, we can differentiate three approaches that focus on norms, organizations, and practices, respectively. Under the most expansive, normative interpretation, certification systems are examples of a broader set of private governance tools that allow downstream value chain actors (i.e. intermediate buyers and final consumers) to take on a certain social or environmental responsibility and effectively set and enforce rules for upstream production practices (Scherer & Palazzo 2007; Auld et al. 2008; Scherer et al. 2016). From an organizational perspective, one can view standard-setting bodies (and possible meta-governance organizations) as creating private authority over production and trade rules vested in the organization (and, more broadly, the organizational field) itself (Bartley 2007a; Fransen 2018). Finally, from a practice-oriented perspective, certification systems embody a specific type of private sustainability governance that is defined by the private setting of regulative rules in the production process that go above and beyond the legal status quo (Pattberg 2005a; Bernstein & Cashore 2007; Vogel 2008). Such private regulations are rolled out through market-driven incentive mechanisms in which access to differentiated markets and price premiums is only made available to producers that follow the specified rules (Cashore et al. 2004; Bernstein & Cashore

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2007). This type of private sustainability governance – which we can denominate as market-driven regulatory governance – thus represents a specific set of *collective practices* of both participating producers and buyers.

The promise of certification schemes to provide governance in global arenas where state actors were increasingly powerless created much interest in their potential to become legitimate alternatives to the state (Cashore et al. 2004). In response, a number of authors have provided cautiously optimistic (Bernstein & Cashore 2007; Scherer & Palazzo 2007; Mattli & Woods 2009b), skeptical (Auld et al. 2007; Bartley 2007b; Abbott & Snidal 2009; Fransen 2011), or highly critical (Higgins & Lawrence 2005; Raynolds 2009; Graz & Nölke 2012) arguments on the likelihood and preconditions for their institutionalization to occur within global markets. This study sets out to test the resulting hypotheses in a comparative manner using empirical evidence from the coffee sector.

To do so, we must first understand what the institutionalization of private sustainability governance through certification systems means in this context. The definition strongly depends on the interpretation of private sustainability governance described above. From the normative perspective, we may consider that institutionalization commences as soon as downstream market actors share a wide normative agreement that it is their responsibility to ensure products that enter their supply chain fulfill specific socio-economic and environmental requirements, and incorporate these norms into their standard operating procedures by pursuing a range of strategies to that effect (Risse & Sikkink 1999). From the organizational perspective, institutionalization may represent the infusion of certification organizations with value “beyond the technical requirement of the task at hand” (Selznick 1957, p. 17), allowing them to shift their programmatic or ideological goals because they are valued as organizations per se (Selznick 1957; Huntington 1968; Levitsky 1998). Finally, from the practice-oriented perspective, the institutionalization of market-driven regulatory governance through certification systems would represent the broad acceptance and implementation by both supply and demand-side actors of trade practices that effectively internalize social and environmental externalities through the routinized production and purchase of higher priced certified goods (North 1990; Jepperson 1991; O'Donnell 1994 1996; Levitsky 1998). This paper will focus on theoretical arguments and practical evidence related to the last perspective – both because it most closely reflects the theoretical and practical concern over certification “upscaling” and “mainstreaming” (Raynolds 2009; Dolan 2010; Kolk 2013; Panhuysen & Pierrot 2014, 2018; Lernoud et al. 2017; Solér et al. 2017), and because it goes to the heart of the problem-solving effectiveness of private sustainability schemes, as the results will show.<sup>1</sup> However, as will become apparent in the discussion, the different types of institutionalization of private sustainability governance may coexist and indeed influence each other in intricate ways.

Furthermore, I primarily focus here on whether institutionalization occurs at the global level of industry, as the institutionalization of private sustainability governance in niche markets alone suffers from two drawbacks: First, it is continuously confronted with mainstream market forces, which may lead to regulatory dilution and backsliding (Mattli & Woods 2009b; Raynolds 2009; Dolan 2010; Kolk 2013). Second, it is unlikely to affect meaningful socio-economic and environmental change at a scale concomitant with its mission.<sup>2</sup> The coffee industry, where private sustainability certification and verification schemes have existed for over 30 years and cover almost half of the world's production volume, provides a powerful case study to explore whether, how, and why institutionalization at the global level may (not) be occurring, and to test theoretical assumptions to that effect.

The coffee sector inhabits a flagship position in responsible value chain organization. It is one of the largest industries that connects producers from the Global South with consumers in the North and has historically led efforts to make supply chains more sustainable (Gresser & Tickell 2002; Bacon 2005; Kolk 2005; Levy et al. 2016; Lernoud et al. 2017). The concept of what today is known as sustainably certified coffee emerged in the 1980s with the first Fair Trade initiatives and gained prominence in the 2000s, leading to the emergence of numerous certification schemes as important market actors (Giovannucci & Ponte 2005; Manning et al. 2012; Auld 2014; Potts et al. 2014). More recently, the concept of directly traded and single-origin agricultural products emerged first in coffee (Wilson & Wilson 2014) before being replicated in cocoa and other crops. Trends within sustainability governance in coffee may thus be indicative of broader changes in the global landscape of sustainability initiatives.

The study is based on an in-depth analysis of recent literature, documents, and data related to the coffee sector, as well as over 60 expert interviews and observations gathered from fieldwork in Costa Rica, Colombia, Honduras, and Guatemala and the attendance of various industry events between 2015 and 2016.

The analysis finds that the industry-wide engagement of market actors within the coffee sector has contributed to an emerging logic of appropriateness in business practices and a normative institutionalization of the importance of sustainable sourcing practices. However, counter to Bernstein and Cashore's (2007) legitimacy-building framework, this normative alignment has not occurred regarding the *means* to achieve sustainable sourcing; rather more business-friendly alternatives to market-driven regulatory governance (such as internal traceability systems) are beginning to emerge. This development can best be explained by actor-based theories underpinned by a utilitarian logic of consequences. As predicted by Auld et al. (2007) and Vogel (2009), an insufficient increase in demand caused oversupply of certified coffee, reducing its economic benefit to producers. Fitting the political-institutional perspective of Bartley (2007b) and Fransen (2011), the contentious, underlying distributional problems present in the coffee sector constituted a barrier to the institutionalization of market-driven regulatory governance. Finally, critical, system-based theories – such as neo-Gramscian views of power dynamics in buyer-driven value chains (Graz & Nölke 2012; Levy et al. 2016) – provide explanatory power for buyers' motivations to use certification schemes, but do not adequately theorize the ability of producing country representatives to respond with their own interpretations of sustainability, as well as the steady rise of direct impact projects as alternatives to certification. In its discussion, the paper highlights that the normative or organizational institutionalization of private sustainability governance may stem from preconditions that in turn represent barriers to the practice-based institutionalization of market-driven regulatory governance, and derives implications for future research.

## 2. Theoretical perspectives on the institutionalization of market-driven regulatory governance practices

The prospects and necessary conditions for externally verified certification schemes – alternatively conceptualized as non-state market-driven (NSMD) governance systems (Cashore 2002; Bernstein & Cashore 2007; Auld et al. 2009), private governance organizations (Fransen 2011), regulatory standard-setting schemes (Abbott & Snidal 2009), transnational private regulation (Bartley 2007b), and defined here as market-driven regulatory governance mechanisms – to emerge as broadly accepted institutions that effectively address social and environmental problems are widely debated in a number of overlapping disciplines. How optimistic authors are regarding the widespread adoption, legitimacy, and effectiveness of such schemes is closely related to their view of firms' core motivations, as well as schemes' capacity to either change these motivations or align with them while preserving their core mission. We can sort approaches and arguments into two broad camps: those that argue that the evaluation and, consequently, the evolution of schemes underlies a utilitarian logic of consequences; and those that allow that a logic of appropriateness, defined as a situation where actors make “the commitment to fulfill an identity without regard to its consequences for personal or group preferences or interests” (March & Olsen 1996, p. 254), may increasingly apply (Bernstein & Cashore 2007). I start by reviewing the latter somewhat more optimistic perspective before turning to three counterarguments made by supporters of a logic of consequences based primarily on economic, political, or power considerations. This overview further allows us to derive four conditions (moving from most to least likely) for the institutionalization of market-driven regulatory sustainability governance that will be empirically examined in Section 4.

### 2.1. A logic of appropriateness may increasingly replace a logic of consequences

The main proponents of this approach are Bernstein and Cashore (2007) with their theory of how NSMD governance may achieve political legitimacy. In their view, after the emergence of such schemes and a period of strategic struggle guided mainly by the logic of consequences, learning processes may lead to the emergence of shared norms that explain the convergence of standards on key criteria, as well as a “re-definition of disparate interests and the prerequisites for widespread community building” (Bernstein & Cashore 2007, p. 358; cf. Scherer & Palazzo 2007; Mattli & Woods 2009b).

Such normative pressure could then lead to the disappearance of the most fundamental conflicts and the emergence of a shared political community in which NSMD systems – that is, market-driven regulatory governance mechanisms – are considered the legitimate and appropriate arena for supply chain governance. At this

stage, strategic calculations are no longer made about participation in NSMD initiatives, but rather about shaping the processes and debates within the NSMD system itself (Bernstein & Cashore 2007). The analysis builds on Cashore's (2002) legitimacy-building framework, in which he argues that for institutionalized NSMD systems to emerge, they must go beyond deriving their rulemaking authority from interest-based pragmatic legitimacy and value-oriented moral legitimacy. Instead the more durable, culturally-focused, cognitive legitimacy (Suchman 1995), based on "a cognitive evaluation that something is 'understandable' or 'to do otherwise is unthinkable,'" must increasingly apply (Cashore 2002, p. 515).

However, institutionalization is not a foregone conclusion for Bernstein and Cashore; indeed, they point out:

*[I]nstitutionalization may continue to be elusive [...] owing to resistance to learning, mistrust, or deep divisions within the NSMD community, whether between firms and NGOs, among NGOs, or because other relevant actors such as indigenous communities may disagree on what governance norms are appropriate. (2007, p. 361)*

For Bernstein and Cashore, key conditions for the process of institutionalization to occur are therefore the creation of forums that allow for the exchange of expert information, the development of best practices, and a learning environment that allows stakeholders to build community and is based on broader global legitimating norms, such as fairness and deliberative processes (Bernstein & Cashore 2007, p. 363). We can hence state the first hypothesis for institutionalization as follows:

### **Hypothesis 1:**

*The more market actors participate in intrasectoral engagement within best practice forums and learning environments, the greater the likelihood that shared new ideas and norms of appropriate business behavior will be generated and diffused that help establish a political community of practice and the institutionalization of market-driven regulatory governance (Bernstein & Cashore 2007).*

## **2.2. A logic of consequences continues to dominate**

On the other hand, a number of authors are skeptical that firms can be swayed from their profit-maximizing motives. Under those circumstances, economic, political, or power dynamics are seen to drive forward – or impede – institutionalization.

### *2.2.1. Economic perspectives*

Abbott and Snidal (2009) view business behavior primarily through a strategic lens, where corporate social responsibility (CSR) is treated as a competitive asset, reputational tool, and risk management strategy to avoid being targeted by shaming campaigns. Guided by their competitive environment, firms will thus seek ways to minimize compliance costs and pursue minimally intrusive ways of fulfilling stakeholder demands such as self-regulation. However, the authors predict that if industry associations or key firms manage to develop sector-wide rules that would raise costs equally for all competitors, firms will be more likely to buy into schemes (Abbott & Snidal 2009). This resonates with conceptualizations of market-driven regulatory governance schemes as rational solutions to an industry's reputational collective action problems (Spar 1998; Potoski & Prakash 2005; cf. Pattberg 2005b).

Taking a similar rationalist-economic viewpoint, Vogel (2009) asserts that successful upscaling of externally verified certification schemes depends on sufficient and consistent economic and political demand signals to provide a continuous business case for engagement. However, the complexity of frequently competing sustainability goals and standards constitutes a "wicked problem" that may overwhelm institutional and individual consumers (Kolk 2013). According to Vogel (2009), this overreliance on market incentives limits the likely success of civil regulations to challenge the regulatory status quo. Auld et al. (2007) add that these limits may be self-reinforcing as non-governmental organizations (NGOs) make the strategic decision to focus on shaming campaigns rather than the stimulation of final consumer demand when recruiting companies to certification schemes, leading to short-term win-win scenarios but few changes in the fundamental market structure. From this rationalist-economic point of view, the institutionalization of the use of certification schemes is thus possible, but only if market conditions are amenable to such developments:

**Hypothesis 2:**

*The more sustained consumer demand exists, which provides a continued economic rationale for firms to participate in certification schemes, the greater the likelihood that the institutionalization of market-driven regulatory governance will occur (Auld et al. 2007; Vogel 2009).*

**2.2.2. Political perspectives**

Bartley (2007b) and Fransen (2011) add a political–institutional perspective which, while seeing firms as political actors in the vein of political CSR (Scherer & Palazzo 2007), conceptualizes transnational private governance as fundamentally political processes where certification schemes arise as “by-product of conflicts over distributional gains” in international value chains (Bartley 2007b, p. 299). Focusing on certification emergence, Bartley is skeptical that voluntary schemes can have significant impacts on such distributional problems, but recognizes that “imperfect systems can sometimes create new points of leverage” (Bartley 2007b, p. 300) if civil society advocates can forge strong coalitions. Tracing the continued evolution of the private governance of such contentious issues, Fransen (2011) sees little likelihood of convergence toward effective sector-wide governance. Instead, deliberative stakeholder engagement may actually reinforce and entrench political differences through “negative trust spirals; increased commitment to own identities as being opposed to the other, heightened differences; and possible conflict” (Fransen 2011, p. 364).

Nevertheless, Fransen (2011) identifies a number of conditions that might avoid the contentious politicization of private governance: on an industry level, geographic and market homogeneity and simple competitive relations might provide a better basis for the convergence of interests; for civil society organizations, organizational and geographic homogeneity and high issue agreement might allow them to create stronger coalitions (cf. Bartley 2007a,b). Issue areas with low distributional consequences to the governance setup,<sup>3</sup> a high ability to objectify the governance issue, and a limited historical legacy of conflict between actors might further help to decrease rather than increase contentious politics between interest groups and lead to effective governance systems. However, the more politicized the issue, the less likely it is that convergence toward strong private governance institutionalization will occur (Fransen 2011):

**Hypothesis 3:**

*The lower the levels of contentious politicization of the governed sector or issue area, the greater the likelihood that institutionalization of market-driven regulatory governance will occur (Bartley 2007b; Fransen 2011).*

**2.2.3. Power perspectives**

Global political economy scholars share this pessimistic assumption. However, in contrast to the more meso-level, actor-centric approaches sketched out in parts 2.2.1 and 2.2.2, this discipline takes a system-centric view of the production chain and the use of private governance therein. Many authors in this tradition adopt neo-Gramscian perspectives when conceptualizing the difficulty of civic movements to successfully challenge the “hegemony” of neoliberal capitalist market structures dominated by powerful multinational corporations. They see a strong danger that private governance schemes are instrumentalized as tools to reinforce unequal power dynamics.<sup>4</sup> Explicitly or implicitly, this perspective is particularly dominant in analyses of the governance of agrifood markets, including coffee (cf. Higgins & Lawrence 2005; Clapp & Fuchs 2009; Curran et al. 2009; Elder et al. 2014).

In this view, corporate actors are likely to dominate the bargaining process and emerge victorious, using their “discursive power” (Fuchs et al. 2009) to strategically re-align the object of private regulation according to their own aims (e.g. Raynolds 2009). The only option left to less powerful challenger organizations is to nudge hegemony toward a Gramscian “passive revolution” in which “a hegemonic system adapts and evolves as it absorbs challenges and preserves essential features” (Levy et al. 2016, p. 366); however, it remains questionable whether the final result will be in line with the movement’s original aims (cf. Guthman 2007; Raynolds et al. 2007). This preoccupation is particularly strong with regard to the mainstreaming of Fairtrade, which is analyzed critically as the “commodification of morality” by some scholars (Raynolds 2009; Bacon 2010; Dolan 2010; Robbins 2013). This perspective thus leaves little room for the successful institutionalization of market-driven regulatory governance in the current neoliberal market environment:

**Hypothesis 4:** *The greater the presence of hegemonic power structures, the less likely it is that the institutionalization of market-driven regulatory governance will occur while maintaining the original mission of civic organizations (Raynolds et al. 2007; Graz & Nölke 2012; Levy et al. 2016).*

In reviewing the literature on the prospects and likely preconditions of the institutionalization of mainstreamed but effective market-driven regulatory governance mechanisms, I have thus identified four main hypotheses that may play out within the governed markets:<sup>5</sup> H1 proposes that deliberative processes, learning, and norm generation may drive institutionalization (Bernstein & Cashore 2007); H2 cautions that institutionalization will be difficult without sustained economic demand drivers (Auld et al. 2007; Vogel 2009); H3 warns that fragmented sectors and civil society actors, as well as problems related to distributional imbalances, may impede institutionalization (Bartley 2007b, Fransen 2011); and H4 asserts that any type of meaningful institutionalization is unlikely to succeed within neoliberal markets with hegemonic power structures (Raynolds et al. 2007; Graz & Nölke 2012; Levy et al. 2016).

With the exception of H4, these hypotheses are not mutually exclusive. H2 and H3 are in closest theoretical alignment, while Bernstein and Cashore (2007) also agree that a logic of consequences dominates actors' choices when private governance initiatives first emerge. Whether alternative norms that succeed in changing the "rational terms of exchange" (March & Olsen 1996, p. 250) are able to emerge then depends on the level, intensity, and quality of sectoral engagement; if such interactions do not materialize, the authors predict a stagnation of private governance initiatives in an intermediate phase with substantially misaligned objectives of different market and non-market actors.

Many of these analyses are forward-looking because they were written at a time when it was too early to empirically examine the likely emergence of institutionalization processes. A decade later, the International Trade Centre (ITC) recognizes that "voluntary sustainability standards are in the mainstream, and no longer a novelty for niche markets" (Lernoud et al., 2017, p. i). It thus seems like an appropriate time to evaluate whether these mainstreaming activities have simultaneously led to a process of institutionalization and which of the four hypotheses may contribute toward explaining recent developments. This analysis will focus on the coffee sector, the most advanced crop that is "poised to become the first sustainable commodity," according to the ITC (Lernoud et al. 2017, p. 2). After summarizing the current status of certification as a private sustainability governance mechanism in coffee, it will examine the existence of facilitating or inhibiting conditions for the emergence of institutionalized private governance of each hypothesis in turn. The next section introduces the methods used in more detail.

### 3. Methods

In order to provide a comprehensive analysis of recent developments in sustainability governance of the coffee sector, this study combines a variety of sources.

First, I conducted a multidisciplinary literature review that spanned the disciplines of political science, political economy, development economics, management, and sociology in order to construct an accurate overview of the most up-to-date reviews of the coffee value chain and its sustainability. I furthermore collected secondary data on the market shares and influence of various actors of the supply chain, relying mainly on published statistics and acquisition and merger announcements in order to identify the current lead firms. I then engaged in primary document analysis of companies' websites, statements, and published interviews to identify their commitments and stance regarding sustainability initiatives.

This secondary data was combined with primary data stemming from expert interviews as well as participant observation during fieldwork in Latin America (Costa Rica, Colombia, Guatemala, and Honduras) between 2015 and 2016. I conducted over 60 semi-structured interviews with coffee producers, cooperative managers, exporters, traders, roasters, and café owners, 53 of which were audio recorded and 10 of which were recorded by hand. The distribution of the different value chain actors is listed in Table 1.

All participants were assured anonymity in order to increase confidence and the veracity of their statements. Furthermore, I attended nine coffee industry events at various levels of organization: the *Semana Internacional de Café*, a meeting point for large-scale coffee stakeholders, roasters, and traders, in 2015 and 2016; the 2016 Forum

**Table 1** Overview of expert interviews

Interviewee type	Traders	Roasters	Producer organizations	Institutions	NGOs	Fellow researchers
Number of interviews	18	13	10	5	10	6

NGOs, non-governmental organizations.

of the Specialty Coffee Association of America, a gathering of specialty coffee actors; the first General Assembly of the Global Coffee Platform, an incipient platform aiming to become the central unifying force for large-scale sustainability efforts; the first World Coffee Producers' Forum, organized in 2017 in Medellin, Colombia; three producer forums in Costa Rica and Honduras focused on coffee quality and sustainability; and a local consultation regarding the new Rainforest Alliance standard in Honduras. These events provided an in-depth setting to observe the intra-industry conversation regarding sustainability and many opportunities for additional informal dialogue with industry members. They were embedded in a larger data collection effort on field-level impacts of sustainability certifications in Colombia, Honduras, and Costa Rica, in the process of which I was able to converse with a significant number of coffee farmers on their views of the industry and its development and to triangulate the analytical conclusions presented through continuous feedback processes.

## 4. Results

### 4.1. The coffee certification paradox: Widely used, but more widely contested

From a budgetary perspective, to date governance through certification and verification schemes dominates the sustainability picture in the coffee sector: around 60 percent (US\$190 million) of the coffee industry's sustainability budget is spent on certification and verification premiums (Steemers 2016). As we can see in Table 1, in 2015 between 29 percent and 53 percent<sup>6</sup> of global coffee supply was certified under a private sustainability standard, while purchases of certified coffee accounted for 23 percent of worldwide coffee exports (Pierrot 2016). This makes the coffee sector the industry where certification has crossed furthest into the mainstream (Lernoud et al. 2017). At first glance, this should provide an optimistic picture of the relevance and acceptance of certification systems in this sector, but a number of caveats apply.

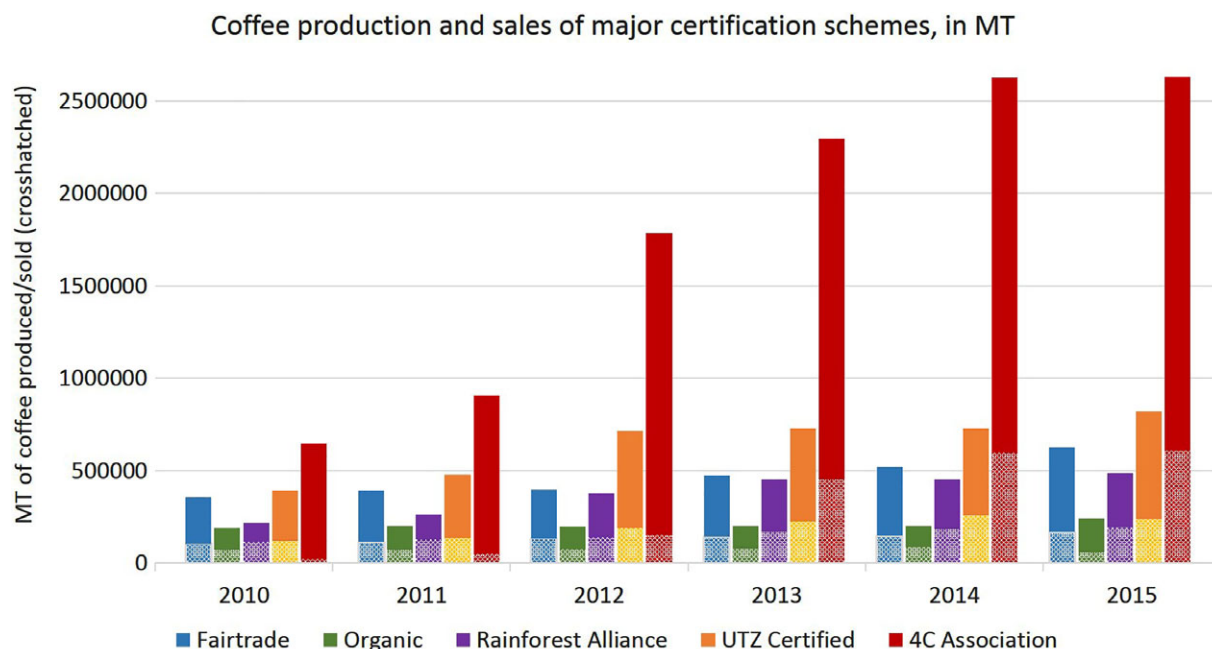
First, we can see in Table 2, as well as Figure 1, that the vast share of "sustainable" coffee and the main increase in coffee volume over the last five years, both produced and sold, came from Common Code for the Coffee Community (4C) verification.

This "Common Code for the Coffee Community" initially aimed to be an entry-level standard that prepared small producers for a quick progression toward other coffee certifications. However, its status as a baseline, meta-governance initiative was put into question by its ascendancy to ISEAL (at the same level as Fairtrade International, Rainforest Alliance, and UTZ Certified) and the use of 4C-verified coffee by roasters as evidence of their

**Table 2** Coffee produced and sold under sustainability schemes

Million bags	2015 sold	2015 % of total world exports	2015 coffee produced	2015 % of total world production
Fairtrade	2.83	2.48%	10.46	6.89%
Organic	2.62	2.30%	5.29	3.49%
UTZ Certified	3.97	3.48%	13.68	9.02%
Rainforest Alliance	3.24	2.84%	8.09	5.33%
4C	10.16	8.92%	43.82	28.90%
Starbucks C.A.F.E. Practices	3.75	3.28%	3.75	2.47%
Nespresso AAA	1.50	1.32%	1.50	0.99%
Total	28.07		86.59	
Correction for double certification	2.07		6.39	
Total certified coffee	26	22.82%	80.2	52.89%

Sources: Panhuysen and Pierrot 2014; GCP 2015; Pierrot 2016; ICO 2016a,b; Willer and Lernoud 2017.



**Figure 1** Coffee production and sales of major certification schemes. Based on data from: GCP 2015; Pierrot 2016; Lernoud et al. 2017.

scaling up of sustainability standards in their supply chains (Fransen 2015; Millard 2017). In recent years, large roasting companies have abandoned the original stepping stone approach, arguing that the 4C code is sufficient to guarantee sustainability in the value chain.<sup>7</sup> Most recently, in 2016, the 4C Association, the multi-stakeholder initiative that originated the 4C standard, transformed itself into the Global Coffee Platform, spun off the 4C standard, and tasked a newly established for-profit entity called “Coffee Assurance Services” with its management and further development, further blurring the lines between 4C and any other externally verified standards in either use or organizational set-up.

However, it continues to show strong substantive differences with other third-party certifications. 4C adherence is primarily guaranteed through self-evaluation, with external verification only occurring every three years and in a small sample of producers. Its code furthermore only includes a limited number of non-negotiable requirements, some of which lie below national law, leading the Institute for Multi-stakeholder Initiative Integrity to conclude that “4C’s standards do not impose stringent enough obligations to resolve the human rights concerns they seek to address” (MSI Integrity 2013, p. 5). Impact evaluations have equally found it to be relatively ineffective in producing on-farm sustainability improvements; in particular, environmental outcomes were unaffected even after eight years of program participation (Kuit et al. 2010, 2016).<sup>8</sup> Finally, according to Coffee Assurance Services, only 41 percent of verified groups apply for re-verification after three years (personal communication),<sup>9</sup> leading to limited continuity and learning opportunities.<sup>10</sup>

While other standards, such as UTZ Certified, Rainforest Alliance, or the popular combination of Fairtrade and organic, contain stricter requirements and place greater demands on the producers that are subject to them, their effectiveness in creating socio-economic and environmental improvements on the ground has also increasingly been questioned.<sup>11</sup> In addition, their growth rates have been much more moderate, with demand for the four certification schemes combined rising from 7 percent to 10 percent of global exports from 2010 to 2015 (Global Coffee Platform [GCP] 2015; International Coffee Organization [ICO] 2016a). We can thus in a first step conclude that coffee still seems far from becoming “the first sustainable commodity” (Lernoud et al. 2017, p. 2), even if sourcing patterns have shown promising trends to date.

Furthermore, at present industry actors increasingly question whether externally verified certification schemes are adequate and cost-effective avenues to reach their goals. This is particularly pronounced in the language of two new industry platforms that emerged almost simultaneously in 2015 and 2016: The Global Coffee Platform (GCP) and the Sustainability Coffee Challenge (SCC).<sup>12</sup>



In the most marked shift away from forward-looking sector support for third-party certifications and verifications, the GCP's "Vision 2020" highlights:

*[W]ith the focus on voluntary certification and verification standards and programs, the sector took an important step towards sustainability. However, [...] the time has come for the coffee sector to [...] take a more collaborative, holistic and aligned approach to sustainability, aligning the different programs and initiatives towards a unified vision and progress framework. (GCP 2016a)*

Equally, the SCC turned its focus away from certification and verification standards, instead working "to better understand the non-certification commitments that are being made by the sector and how these contribute to the transformation of the coffee sector" (Conservation International 2016a).

Simultaneously, the largest coffee roasters have lowered their emphasis on the use of certifications in their sustainable sourcing strategies. As of early 2018, Jacobs Douwe Egberts (JDE) had not published any concrete commitments toward sustainable coffee sourcing for the future (Panhuisen & Pierrot 2018), while Nestlé announced that it would review its commitment to source 90,000 tons of standard-compliant coffee "to re-align it towards a reinforced emphasis on enabling positive impacts on coffee farmers, their communities and landscapes" (Nestlé 2017). Keurig Green Mountain's 2020 target is to source 100 percent of its primary products "according to established Keurig Green Mountain Responsible Sourcing Guidelines" (Keurig Green Mountain 2017), in which certifications are included as one option among many others, including a company-internal traceability program.

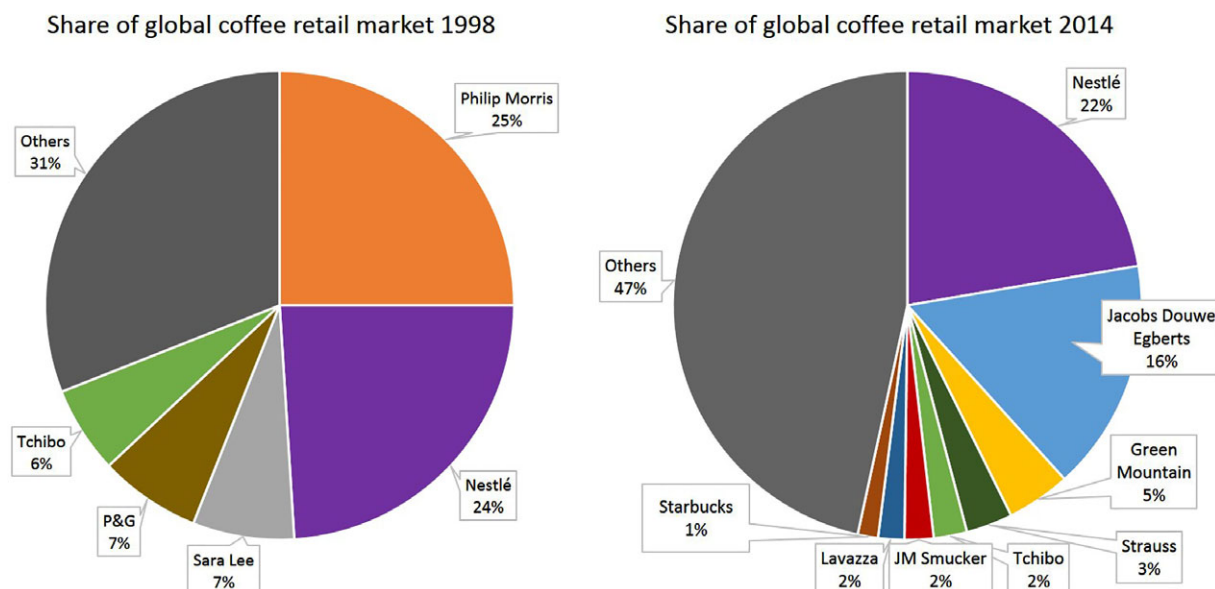
Producing country actors are similarly searching for new avenues to improve sustainability outside of traditional certification channels: The National Federation of Coffee Growers of Colombia (FNC), taking the lead on this issue, has repeatedly asserted in frustration that "standards have focused intensively on environmental sustainability, but [have] left economic sustainability issues behind" (Velez 2015). The FNC thus called for a "Global Economic Accord" based on farmer profitability (Brown 2015), culminating in the first World Coffee Producers' Forum in July 2017. The Producers' Forum was dominated by concerns over the falling real prices of coffee, and the Forum's closing statement called for a study to examine historical coffee and input prices in order to arrive at a sustainable minimum price to be implemented by the sector (Perfect Daily Grind 2017).

These signs point toward the continued contestation of certifications as a legitimate avenue of sustainability governance in the coffee sector, as well as critical and continuous cost-benefit analyses by both coffee producers and buyers, even as the industry stands poised to lead the mainstreaming of certification. The next section will examine the evidence for the four theoretical hypotheses given at the outset to explain this lack of institutionalization of market-driven regulatory governance at the global level of the coffee industry.

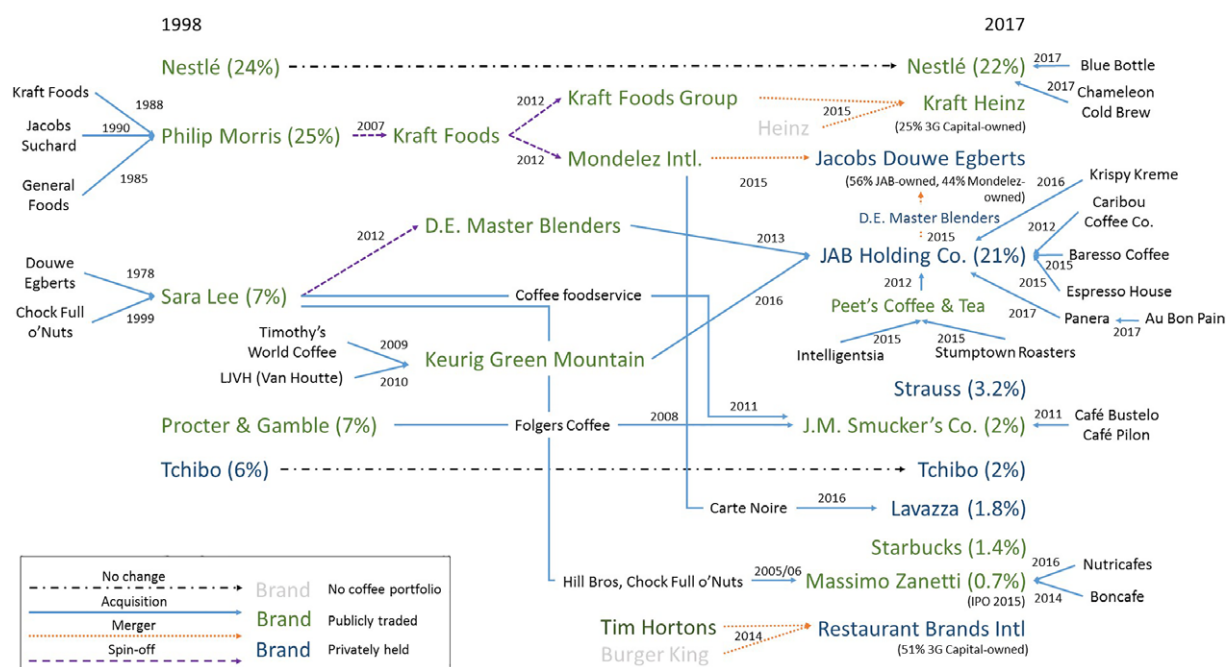
## **4.2. Explanatory factors for the failure of institutionalized private governance to emerge in the coffee sector**

### **4.2.1. Non-existence of a stable political community of practice**

In order for norm generation and diffusion to occur and a logic of appropriateness of participation in market-driven regulatory governance mechanisms to take hold, Bernstein and Cashore (2007) highlight that learning environments and forums for the exchange of experiences and best practices need to be present. In the coffee sector, this applies in particular to the community of coffee roasters, who create demand for sustainably certified coffee through their sourcing strategies and could pass on marginal price increases to their consumer base, especially if they acted in a concerted fashion (Ponte 2002; Kaplinsky & Fitter 2004; Grabs 2017). This process partially rests on the implicit need for a predominantly stable commercial community in which to advance such ideas and engage in continuous dialogue. However, when reviewing the coffee sector, we see a highly dynamic sector where many of the lead players have changed in recent years, necessitating the constant re-introduction of new firms to the alternative normative framework of internalizing social and environmental production externalities through market incentives. In more direct contradiction to H1, the co-existence of a multitude of fragmented industry platforms focused on sustainability in the coffee sector – most of which did not explicitly refer to certification as the appropriate solution framework for sustainability problems – contributed to the broadening, rather than convergence, of competing efforts, further raising the bar for effective norm generation in favor of market-driven regulatory governance.



**Figure 2** Share of global retail market 1998 and 2014. Based on data from: Ponte 2002; Statista 2016.



**Figure 3** Sales, spin-offs, and acquisitions in the coffee marketplace.

When examining Figure 2 on the shares of the global retail coffee market held by individual firms, it becomes apparent that only two companies (Nestlé and Tchibo) have endured as top coffee roasters over the past two decades since certification emerged. The rest of the coffee sector has been undergoing a process of deconsolidation fueled by greater diversity in the marketplace, followed by recent reconsolidation efforts (as illustrated in Fig. 3). Assessing these dynamic changes in the coffee retail community shows serious challenges for the emergence of a political community of practice lead by a logic of appropriateness. In particular, the entry at scale of firms with no prior experience in coffee (e.g. J.M. Smucker's and JAB Holding) and the exit of many large companies that had previously been victims of shaming or boycott campaigns over their coffee purchases (Procter & Gamble [Ramirez 1990; Gresser & Tickell 2002], Philip Morris [Shaw 2010], and Sara Lee [Gresser & Tickell

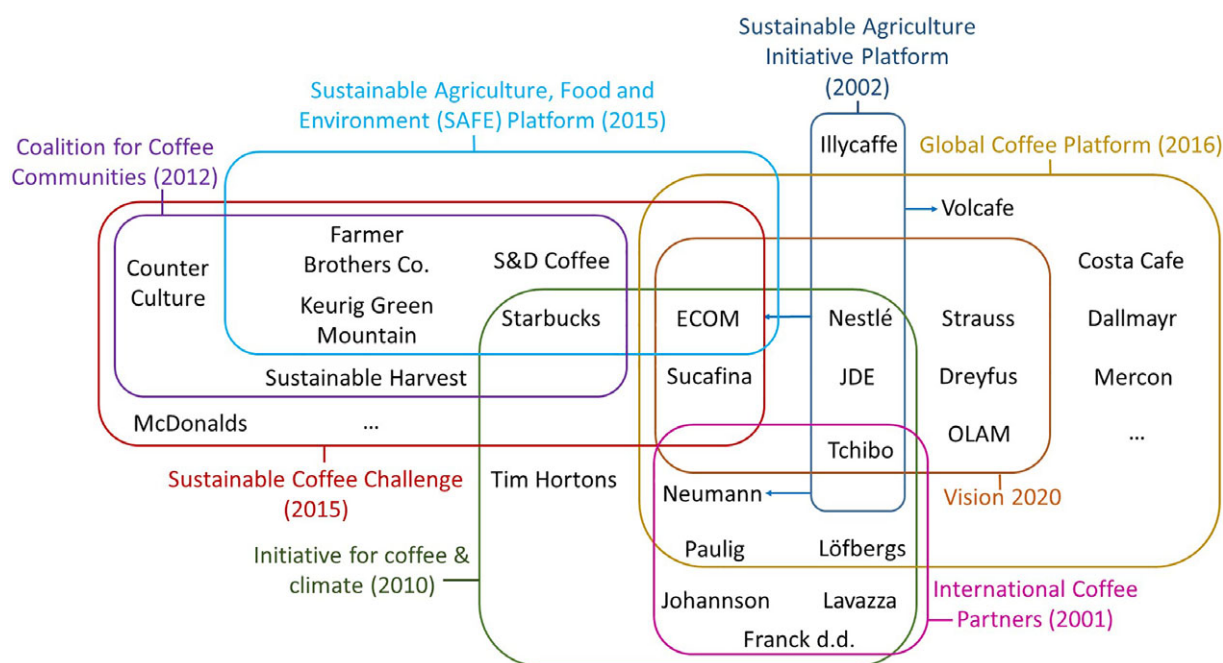
2002]) point toward high rates of turnover that may contribute to a loss of institutional memory connected with the benefits of engaging with stakeholders through certification schemes.

Referring back to Figure 2, we also observe that the share of “other” players has increased significantly, from 31 percent to 47 percent. This is likely the result of the greater size of the coffee sector – production has grown from around 100 million 60 kg bags in 1998 to 152 million in 2014 – and a larger geographical dispersion of consumption (ICO 2015, 2016b,c). Indeed, producing countries and emerging economies currently constitute the fastest growing market segment, but most of these consumers show little preference for sustainably certified goods and prefer low-cost products (Wijaya & Glasbergen 2016). This share of the global market will thus require significant recruitment efforts to join the existing community of practice (cf. Kaplinsky et al. 2011; Wijaya & Glasbergen 2016; Schleifer 2017).

Despite this dynamism in industry organization and reshuffling, we do see a growing sectoral engagement in the quest for sustainability. Section 4.1 mentioned the emergence of the GCP and the SCC. They join a number of platforms that formed to coordinate and encourage pre-competitive activities, as shown in Figure 4 (FOMIN 2015; Coffee & Climate 2016; Conservation International 2016b; GCP 2016b; ICP 2016; SAI Platform 2016). This visualization of respective memberships shows a complex network that industry members are part of;<sup>13</sup> indeed, industry sources speak of a large perceived overlap and of “seeing the same people in different settings” (Steemers 2016, p. 42).

Notably, although all of these groups and platforms focus on “sustainability” and, individually or in their entirety could thus arguably be seen as a “political community” similar to the one described by Bernstein and Cashore (2007), none of them are currently united under the umbrella of a certification system. The closest approximation of such a community may have been the 4C Association – but as noted, it dissolved in 2016 and re-emerged as the GCP, which no longer considers certification or verification as its focal sustainability strategy (GCP 2016a). The others, in turn, focus primarily on direct engagement projects, intra-firm traceability tools, or broader goals for the future of the coffee sector.

This development points toward an interesting alternative hypothesis regarding the learning processes in best practice forums described by Bernstein and Cashore (2007) as pathways toward the establishment of the political legitimacy of NSMD governance. Even when NSMD governance institutions and allied actors pursue sectoral engagement strategies that successfully raise attention to sustainability problems in specific business sectors and convince companies that “something needs to be done” by them to address such problems – in effect, representing the cognitive legitimacy or the institutionalization of broader corporate responsibility in the expansive



**Figure 4** Overlap between sustainability platforms in the coffee sector. Source: Author's illustration based on data from: FOMIN 2015; ICP 2016; SAI Platform 2016; Coffee & Climate 2016; Conservation International 2016b; GCP 2016b.

normative understanding of private sustainability governance – the developments in the coffee sector show us that it is difficult to predict what lessons companies will learn during such engagement. In this instance, rather than considering NSMD systems as a “legitimate arena of authority” (Bernstein & Cashore 2007, p. 356), coffee market actors appear to have agreed that taking more direct influence on their value chains (through internal management systems, on-the-ground climate change resilience, or rural development projects, and public-private partnerships with regional coffee institutions) is the way forward for private sustainability governance in coffee.

From a political CSR perspective, in which corporations adopt increasingly political roles in co-defining and solving global problems through Habermasian deliberative decisionmaking processes (Scherer & Palazzo 2007), the ongoing shift of focus from market-driven regulatory governance to other types of sustainability action may reflect the added expertise of companies that contribute to ever more effective solutions to the problems at hand. On the other hand, the multiplication of learning forums may also have allowed for the spread of alternative, more business-friendly ways to manage identified problems. Here, “forum-shopping” (cf. Busch 2007) might undermine, rather than strengthen, the legitimacy and authority of third-party certification systems and impede the emergence of strongly institutionalized market-driven regulatory governance mechanisms.

In the case of coffee, the evidence to date suggests that we can at least partially reject H1, because intrasectoral engagement within best practice forums and learning environments appears to have led demand-side companies to “learn the wrong lessons” with respect to market-driven regulatory governance, and moved them further toward “pre-competitive” engagement, such as distributing planting material or sponsoring small-scale development projects. The next sections analyze whether theories based on a logic of consequences can explain the failure of market-driven governance practices to institutionalize.

#### 4.2.2. *Non-existence of sustained demand for certified products*

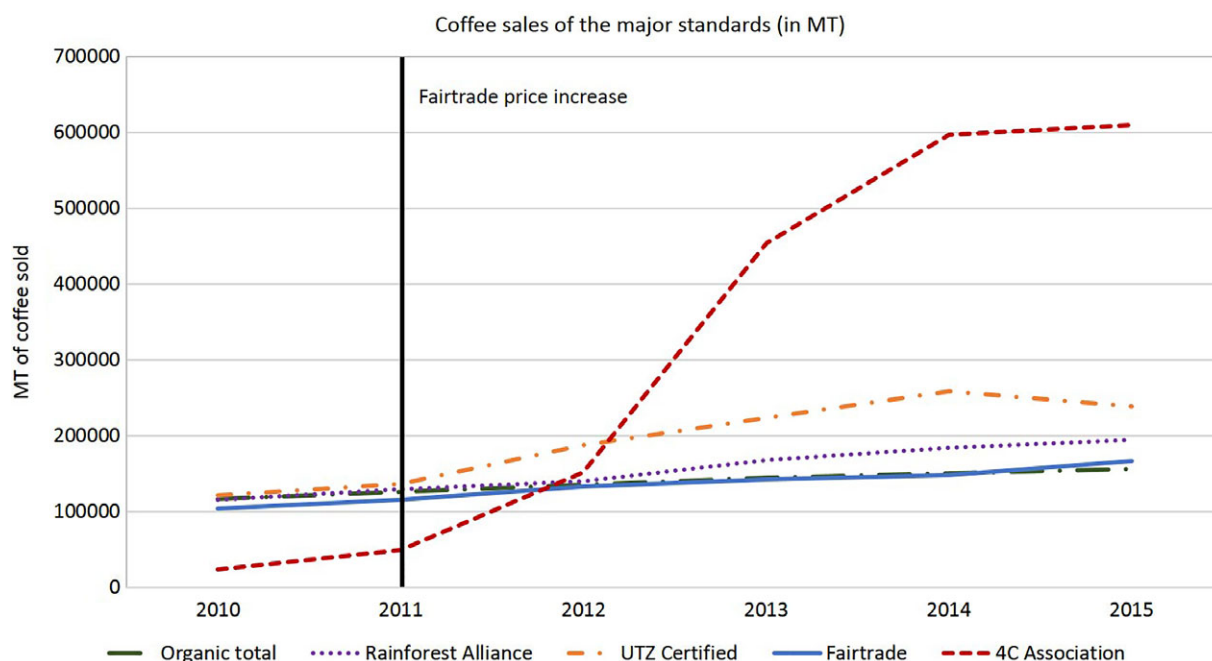
Auld et al. (2007) and Vogel (2009) cautioned that if sustained consumer demand did not match supply it would be extremely challenging to establish a continued business case for certification schemes, impeding their emergence as legitimate governance institutions. The coffee sector provides clear evidence for this argument, as oversupply-driven declines in price premiums are creating high levels of disenchantment with certification schemes in producing countries. Instead, producing country actors turn toward new avenues of value creation, such as market support schemes, geographic indications, and quality differentials.

When we examine Figure 1 and Table 3, it is clear that there is significant oversupply of certified and verified coffee in the world market. Only between a quarter to half of the coffee produced under a sustainability scheme is also sold as such.<sup>14</sup> This oversupply, in turn, has dramatically decreased the price premiums available for certified products. Take the example of Honduras: in 2007, on an average baseline price of US\$1.20 per pound, it was possible to receive premiums of around \$0.20 per pound of Rainforest Alliance coffee, \$0.10 per pound of UTZ Certified coffee, and \$0.03–\$0.04 per pound of 4C-verified coffee. In 2016, the price premiums paid were \$0.06–\$0.08 for Rainforest Alliance, \$0.03–\$0.04 for UTZ certification, and at most \$0.01 for 4C verification, with many buyers refusing to pay a premium for 4C, but requiring it for market entry.<sup>15</sup> While the Fairtrade premium is fixed at \$0.20 per pound, most cooperatives struggle to bring the majority of their production volume to market under Fairtrade conditions.<sup>16</sup> Furthermore, as Figure 5 shows, after the introduction of an increased Fairtrade minimum price (from \$1.25 to \$1.40) and price premium (from \$0.10 to \$0.20) in 2011, sales of Fairtrade-certified coffee remained at almost the same volume over the next five years as supply continued to increase, while demand for lower-priced “sustainable” coffees (such as 4C and UTZ Certified) rose at noticeably higher rates.<sup>17</sup>

**Table 3** Share of coffee produced under sustainability schemes that is sold under the same scheme in 2015

Certification	Percentage produced sold as certified
Fairtrade	27%
Organic	49%
UTZ Certified	29%
Rainforest Alliance	35%
4C	23%

Sources: Panhuysen and Pierrot 2014, GCP 2015, Pierrot 2016, ICO 2016a,b, Willer and Lernoud 2017.



**Figure 5** Coffee sales of major certification schemes. Based on data from: GCP 2015; Pierrot 2016; Lernoud et al. 2017.

Such differentiated purchasing strategies are possible for roasting companies because, as Fridell points out, “most ethical consumers make little distinction between various ‘sustainability’ initiatives, which gives corporations considerable flexibility in determining their strategies to carve out territory in niche markets” (2007 p. 78). In the case of coffee, brand loyalty and the importance of alternative attributes, such as taste and price, make final consumers (apart from a small but loyal core of Fairtrade supporters) reluctant drivers of demand change (Harbaugh et al. 2011; Ingenbleek & Reinders 2013). As the founder of the Dutch Fairtrade initiative reflected:

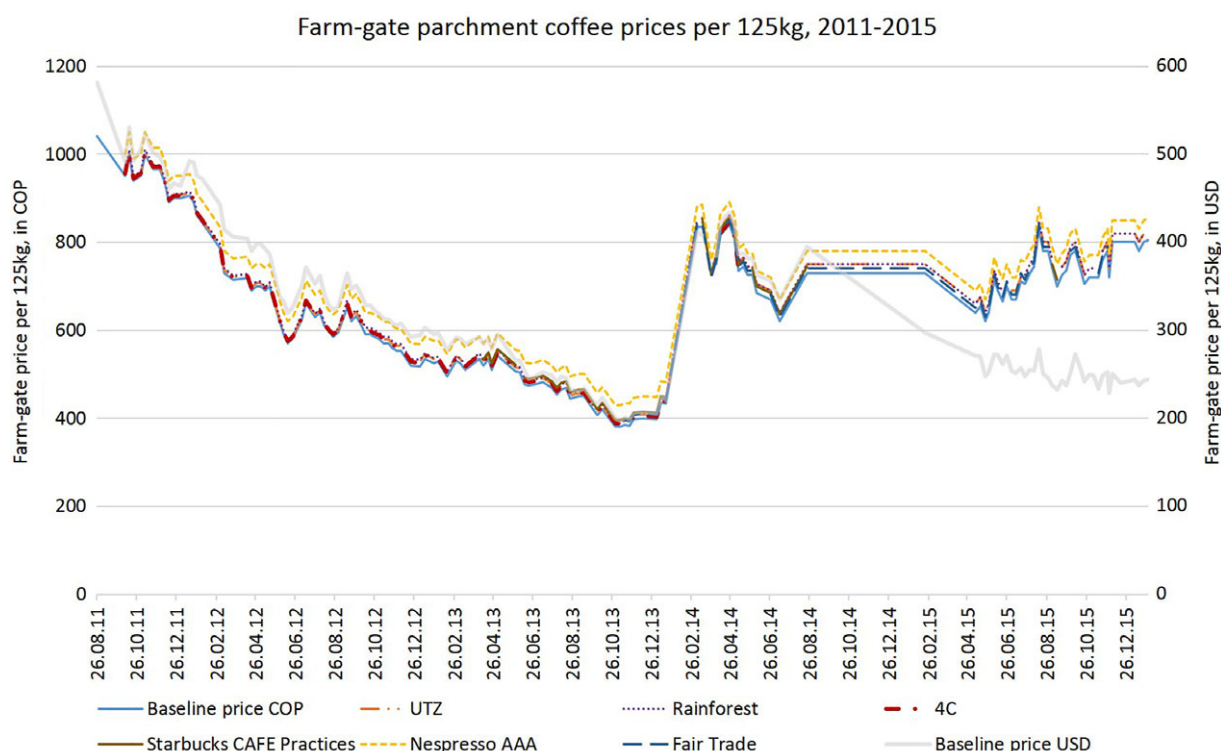
*I was convinced that power would be with the consumers, but it turned out otherwise. Even taking into account the socially-desirable responses in the market research, consumers are agenda-setting to a very small extent, a very small push factor. The market is made by the choices that producers and retailers make. (Ingenbleek & Reinders 2013, p. 466)*

Market forces, in turn, will strongly favor less ambitious initiatives (Raynolds et al. 2007) and oppose approaches that are “against market principles,” such as minimum pricing or the payment of substantial price premiums (Bitzer et al. 2013; Ingenbleek & Reinders 2013). For instance, in direct opposition to the functional theory behind market-driven regulatory governance, the director of sustainability of a large US roaster reported during a 2017 webinar that:

*[W]e had to differentiate from single certifications; committing to one certification could have skewed demand and prices and the overall goal for our partnerships was to source sustainable coffees without falsely increasing the price paid at origin. (Innovation Forum 2017)*

Under such market conditions, certification participation has transformed into a questionable business case for producers (Kuit & Waarts 2014).

In fact, consider in Figure 6 the representative example of farm-gate prices of a prominent and successful coffee cooperative in Colombia that engages in multiple certification schemes and adjusts its buying prices weekly according to global market conditions (Ovando Palacio 2016). It is clear that the price premiums of certification and verification schemes are negligible when compared to the intertemporal price volatility and changes in the exchange rate between the US dollar, in which coffee is traded on the world market, and the local currency. For instance, we can see that between August 2014 and 2015, the only reason Colombian



**Figure 6** Parchment coffee prices of a representative cooperative in Colombia. Source: Ovando Palacio 2016.

farmers' prices remained relatively steady in the face of global price declines was the simultaneous depreciation of the Colombian peso against the US dollar. For farmers, selling at the right moment or being able to lock in a price through hedging instruments may thus have a greater effect on economic sustainability than participating in a certification scheme. A number of robust impact evaluations have similarly found little to no impact of most certification price premiums on farmers' income and livelihoods.<sup>18</sup> Arguably, this discrepancy shows that coffee certification systems have had limited success in adequately reconfiguring markets to internalize social and environmental problems, leading to producer drop out. As noted, only 41 percent of 4C-verified farms reapply for verification; similarly, document analysis drawing on publically available lists of Rainforest Alliance certificate holders shows that only around 65 percent of coffee producers in 2014 maintained their certificate until 2017.<sup>19</sup>

This failure of certification systems to provide effective solutions for achieving economic sustainability has led to renewed institutional efforts in producing countries to stabilize farm-gate coffee prices, for instance through minimum pricing, price stabilization funds, the regulation of export-level coffee quality, and international promotion activities (Lora 2013). Coffee farmers are also supported through a variety of other public measures, such as producer income assistance (e.g. in Colombia during the 2012–2013 harvest; Minagricultura 2016), and assistance in disease prevention and post-outbreak replanting (National Federation of Coffee Growers of Colombia [FNC] 2013; Avelino et al. 2015). Other recent initiatives have been the pursuit of geographic indications based on specific regions as a strategy to access specialty markets (Teuber 2008), and the aforementioned FNC's call for a "Global Economic Accord" based on farmer profitability (Brown 2015) which led to the first World Coffee Producers' Forum in July 2017 (Perfect Daily Grind 2017).

This development seems in line with Auld et al.'s prediction that government might "move in with a newly invigorated sense of mission" if certification is seen as unable to progress further (2009, p. 192).<sup>20</sup> Importantly, it is governments and parastatal institutions from the South that are taking up the torch after Northern-driven private governance arrangements did not provide them with the results they expected. This leads us to analyze the politicization of coffee certification schemes as a third possible explanatory factor for the failure to institutionalize.



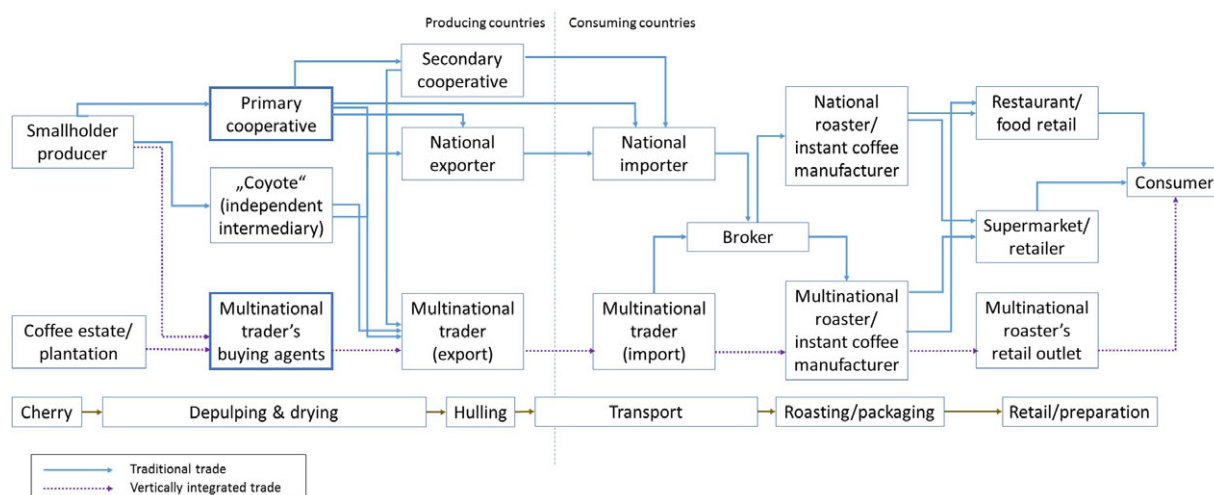
#### 4.2.3. Existence of highly politicized issue areas

Drawing on Bartley (2007b), Fransen (2011) argues that convergence toward a legitimate, effective, industry-wide governance scheme is more difficult in cases of industries with some or all of the following characteristics: there is an extensive historical legacy of conflict between actors, and such contentious politics continue to date; the governance set-up has high distributional consequences and the governance issue is difficult to objectify; complex horizontal and vertical relations and geographic and market heterogeneity exist; and civil society organizations are organizationally and geographically heterogeneous and have low issue agreement. Without exception, all of these conditions apply in the coffee sector, leading to a powerful explanation for the continued contestation of certification schemes as governance institutions.

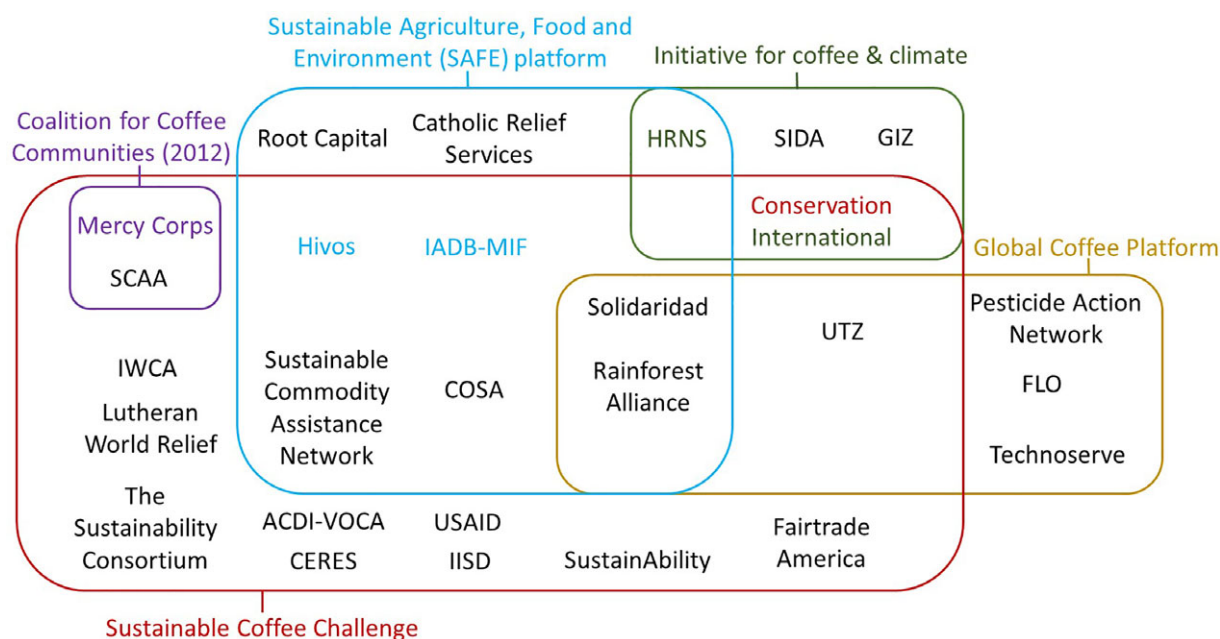
Indeed, the first coffee certifications were established as a private solution to the public sector's failure at finding cooperative solutions to the enduring conflict over low and volatile coffee prices (Auld et al. 2009). From 1962 until 1989, coffee production and consumption volumes were aligned through the International Coffee Agreement (ICA), which was moderately successful at stabilizing and maintaining prices within a reasonable price band (Ponte 2004). However, the Agreement lapsed in 1989, causing prices to drop to less than half of the ICA target range within weeks of the failed talks (Green & Auld 2017). In the wake of the ICA's demise, re-establishing price floors as a form of producer protection became a defining characteristic of Max Havelaar and other Fair Trade movements (Auld et al. 2009). Yet as seen in Part 4.2.2, the rise of a variety of market-based schemes without effective price control has undermined this core function of private governance, leading to the continuation of emotionally charged, contentious politics over distributional outcomes in new settings such as the World Coffee Producers' Forum.

The coffee sector furthermore also fits Fransen's (2011) characterization of high complexity and heterogeneity. Figure 7 shows a schematized coffee supply chain, where high levels of complexity, especially in the traditional trade linkages (solid lines), are immediately apparent. The geographical heterogeneity *between* producing and consuming country actors leads to diametrically opposed preferences as to the preferred outcome of coffee certifications (i.e. providing an effective price support vs. assuring social and environmental sustainability in a cost-efficient manner); while the geographical heterogeneity *among* producing countries sets them up for high degrees of competition and the heterogeneity of consumption origins creates widely different markets. As noted, in many of these markets sustainability certifications play a negligible role in the consumption decision.

The sector's geographic and market heterogeneity further impedes the mobilization of a unitary civil society movement pushing for effective private regulation. Even within a single certification – Fairtrade – the coordinating bodies representing Latin American, Asian, and African producers frequently disagree on strategic questions (Fairtrade International [FLO] 2010).<sup>21</sup> Furthermore, a growing number of NGOs (compare Fig. 8) have moved toward alternative direct partnership models in the learning forums mentioned above that focus on a range of different sustainability questions rather than supporting certification efforts. In the latest and most direct move



**Figure 7** The schematized coffee supply chain.



**Figure 8** Participation of NGOs in alternative sustainability platforms. Source: Author's illustration based on data from: FOMIN 2015; ICP 2016; SAI Platform 2016; Coffee & Climate 2016; Conservation International 2016b; GCP 2016b.

toward that end, the Sustainable Agriculture Network (SAN), an alliance of Northern and Southern NGOs that had until 2017 collaboratively set the standard for Rainforest Alliance certification, decided to “stop working with certification in agriculture” and relinquished full ownership of the certification scheme to the NGO Rainforest Alliance (who continues to be a member of SAN). In an explanatory post, they noted that “after working with this tool for over 20 years, we could look back and conclude that certification was not the best approach to improve the sustainability of most farmers in the world” (Sustainable Agriculture Network [SAN] 2017) because of its complexity, cost relative to value, scalability, and effectiveness.

Certification organizations have also switched to a strategy of cooperation rather than confrontation, repositioning their expertise and networks as ideal preconditions to become partners for rural development projects, consultants in sector transformation, and stakeholders in broader public–private partnerships (Fransen 2018). For instance, the Rainforest Alliance is rolling out Nestlé’s “Nescafé Better Farming Practices” project to 12,000 farmers in Sumatra (Millard 2016), as well as assisting Caffé Nero’s sustainable farming training program in Latin America (Mace 2016). Fairtrade International, in turn, recognized in its 2016/2017 Annual Report that:

*[T]he [commercial] landscape has changed significantly in recent years, with some companies starting to move away from independent standards and certifications to create their own corporate sustainability schemes [or] looking at different ways of addressing supply chain challenges such as child labour and gender inequality. (FLO 2017)*

In response, in 2017 it launched an “Offer to Business” under which “Fairtrade will launch new services to companies beyond existing standards and certification such as supply chain management” (FLO 2017).

While select NGOs, such as Danwatch, still engage in shaming campaigns (Hjerl Hansen 2016), the majority of civil society organizations thus appear to be switching from the contentious confrontations of industry on paying higher and fairer prices for sustainable coffee – a typical “problem that require[s] a fundamental redistribution of power” (Bartley 2007b p. 300), where the optimal result is market-driven regulatory governance – to more collaborative approaches focused on development assistance, where the optimal result is a partnership based on philanthropic donations as a “minimally intrusive way” (Abbott & Snidal 2009, p. 60) of fulfilling stakeholder demands. Such direct-impact projects, focused, for instance, on farmer training in good agricultural practices,



gender equality, or climate change resilience, are particularly popular with JDE, Tchibo, and Keurig Green Mountain (Tchibo 2014; Jacobs Douwe Egberts [JDE] 2016; Peyser 2014).

The rationalist–economic and political–institutional explanations leave one question open: Why have companies that pursue a logic of consequences continued to purchase sustainable coffee at all, if there is little pressure from either final consumers or NGOs? The fourth hypothesis, drawn from global political economy analysis, can shed more light on companies' underlying motivations.

#### 4.2.4. Existence of hegemonic power structures and passive revolutions

The fourth hypothesis calls for a close examination of multinational companies' power and their influence on the interpretation and implementation of certification schemes. Conceptualizing the coffee sector as a Gereffian buyer-driven global value chain, I find a shift toward the instrumentalization of certification schemes as traceability and reputation management tools, as predicted by neo-Gramscian scholars. Yet after sectoral structure changes and considerable learning in recent years, alternative traceability schemes are rising in popularity, signaling a future decline of the use of certifications.

Examinations of power relations in international trade are frequently conducted through the lens of a Gereffian Global Value Chain (GVC) analysis. Gereffi (1999)'s seminal work makes the distinction between producer-driven and buyer-driven commodity chains. Crucially:

*[T]he main leverage in buyer-driven chains is exercised by retailers, marketers, and manufacturers through their ability to shape mass consumption via strong brand names and their reliance on global sourcing strategies to meet this demand. (Gereffi 1999, p. 43)*

Studies that have applied the GVC approach to the coffee value chain concur that the buyer-driven typology clearly describes the global coffee commodity chain (Fitter & Kaplinsky 2001; Ponte 2002; Bitzer et al. 2008; Bamber et al. 2014).

Implemented in such buyer-dominated chains, certification systems have struggled to change the prevailing norms of appropriateness within the market system, and have instead been quickly adapted as supply and risk management tools that increase the coordination and information exchange between actors (Muradian & Pelupessy 2005). While early commentators worried about the financial cost of certification acting as an entry barrier for farmers, especially with falling price premiums (Barrett et al. 2001), it is increasingly common in today's market for buying agents (local or multinational traders) – the second level of actors in Figure 7 – to be responsible for the coordination, implementation, and quality control of smallholder certification; furthermore, they also assume auditing and coordination costs and incorporate those expenses in the final coffee price (Grabs et al. 2016; Steemers 2016; Grabs 2017; Solér et al. 2017). The main achievement of this model is to add an increasing number of coffee farmers into the self-defined “sustainable” value chain for green coffee buyers, who value it for providing relatively cost-effective traceability and plausible deniability of serious human rights violations (Levy et al. 2016).<sup>22</sup>

Yet, the atmosphere of continuous spin-offs and mergers and acquisitions described in Section 4.2.1 and rising competition among an oligopolistic group of buyers has created competitive pressure that led coffee companies to refocus on their financial bottom line (Gretler 2015; Key 2015), and may have decreased buyers' commitment to sustainability actions, particularly those that involve per-unit premium payments.<sup>23</sup> In addition to their cost, from a purely functional perspective, market-driven regulatory systems may not be the best risk management option at the disposal of large companies. As third-party certifications have expanded, so has the media's scrutiny of them, and scandals have occurred more frequently (Weitzman 2006; Deith 2016; Humbert & Braßel 2016). These and similar criticisms have dampened large companies' willingness to associate their brand with third-party labels (Verma 2015).

As roasting and retail companies gained greater familiarity with the sustainability vocabulary and exchanged experiences in one of the above forums, they have thus frequently preferred to create company-owned schemes, such as Nespresso AAA and Starbucks C.A.F.E. Practices (Levy et al. 2016). Tchibo has emulated Nespresso and Starbucks, as has McDonald's, most recently, in their quest to create company-specific sustainability sourcing guidelines and standards (Tchibo 2014; Patton 2016). The design of such internal schemes shields companies from being associated with third-party scandals; furthermore, it allows them to differentiate themselves in a

hypercompetitive market, as well as shape the definition and implementation of sustainability to extract maximum value, be it through improved quality, supply chain management, or supplier control (Muradian & Pelupessy 2005; Fuchs et al. 2009; Raynolds 2009; Dauvergne & Lister 2012; Bartley 2014; Elder et al. 2014; Auld et al. 2015). A number of multinational traders are also creating their own verification schemes that cater specifically to the needs of coffee roasters that may not have enough in-house expertise to do so themselves, but are looking for cost-efficient alternatives to third-party certifications (Millard 2017).<sup>24</sup>

Levy et al. (2016) showcase how in this environment dominated by more powerful incumbent firms, collaborating civil society organizations engage in the process of passive revolution by making strategic concessions and stabilizing re-alignments of their platforms, such as converging with industry on a definition of sustainability, professionalizing standard systems as the providers of supply chain services, and shifting their focus from empowerment to productivity. On the one hand, this impending switch back toward self-regulation supports the more critical perspectives of global political economy scholars on the ability of certification systems to work as effective private governance mechanisms; on the other, it provides a cautionary tale of the risk of backsliding when private governance schemes are unable to kick-start significant normative changes.

## 5. Discussion and conclusion

Examining the presented evidence from the coffee sector in its entirety, we can thus draw three conclusions on the institutionalization of private sustainability governance in this industry. First, in a broad normative sense, a notable shift seems to have occurred in both large roasters' discourse and actions regarding their responsibility for sustainability in their own value chains. This industry-wide awakening has to date culminated in two sector-encompassing initiatives, the GCP and the SCC. Second, in an organizational sense, certification organizations have also come into their own, establishing themselves as influential authorities on value chain sustainability and creating an organizational basis that allows them to branch out into the provision of services other than those related to their original mandate. Finally, in a practice-oriented sense, the originally proposed solution pathway toward achieving sustainability of certification schemes – the internalization of social and environmental externalities through standard-setting and price incentives – has seen the least amount of institutionalization and is currently being questioned on all fronts.

One possible caveat is that the present analysis has intentionally focused on finding instances of institutionalization on the global industry level. On the other hand, it is widely recognized that national markets have a strong influence on branding in general and the development of certification schemes in particular (Manning et al. 2012); similarly, the specialty coffee segment of higher-grade Arabica beans has been an early promoter of certified coffee because of the possibility of selling at a higher price point, and the Specialty Coffee Association is a strong force in the push toward sectoral sustainability. There thus exists the possibility that institutionalization is moving forward in different ways at national or subsectoral levels. While it goes beyond the scope of this paper to analyze these trends in detail, it can be noted that the trend toward flexibility in sustainable sourcing strategies indeed originated in the specialty sector, with initiatives such as Nespresso AAA, Starbucks C.A.F.E. Practices, and the establishment of the SCC. Given the available evidence, the specialty segment thus seems to form part and parcel of the general pattern discussed. Likewise, despite differences in national-level consumption patterns, the current strategy of large roasters to use mergers and acquisitions to assemble global portfolios of national-level brands means that strategic supply chain management decisions, including marketing and sustainability strategies, are increasingly concentrated in multinational corporations such as Nestlé or JAB Holding, which is likely to align national-level trends (Grabs 2017; Panhuysen & Pierrot 2018).

Which of the examined theories can contribute toward explaining this outcome? The analysis has found that Bernstein and Cashore's (2007) framework for legitimacy building correctly predicted that increased sectoral engagement may shift underlying ideas about business behavior. However, the authors did not sufficiently distinguish between a normative alignment on the subject of ends (taking up responsibility for supply chain sustainability) and such alignment on the subject of means (using NSMD/market-driven regulatory governance practices); thus, while most of today's coffee roasting companies at least pay lip service to sustainable sourcing and many go far beyond in their on-the-ground engagement, the normative pressure proved insufficient for them to relinquish their core business practices based on competitiveness and buy-low-sell-high profit maximization

and switch to sustained high-volume purchases of certified coffee. This reluctance can be explained by a combination of the rationalist–economic (Auld et al. 2007; Vogel 2009) and political–institutionalist (Bartley 2007b; Franzen 2011) perspectives: in the politicized conflict over distributional gains, companies refused to submit to civic pressure to overturn basic free market principles, knowing that their relative market position allowed them to manage their CSR strategies in flexible ways without facing long-term consumer backlash. Lending partial support to global political economy perspectives on power dynamics in buyer-driven value chains (Raynolds et al. 2007; Graz & Nölke 2012; Levy et al. 2016), this paper further finds that the mainstreaming of certification to date can largely be explained by buyers' use of certifications as a cost-effective traceability and reputation management tool – but that this use is likely to disappear as traders and roasters themselves are developing alternative schemes that fulfill the same function. Yet the systemic lens of the neo-Gramscian hegemony framework seems less well-equipped to deal with other simultaneous developments, such as the rise of renewed state action in stabilizing local farm gate prices, or the emergence of direct-impact and partnership projects between roasters, NGOs, and producing country actors.

The analysis has furthermore shown that conclusions on the state of the institutionalization of private sustainability governance are highly dependent on the specific definition – and relatedly, the dependent variable – used. Furthermore, as Table 4 shows, different forms of institutionalization will have varying facilitating or inhibiting conditions that might stand in direct conflict with each other. For instance, the normative institutionalization of private sustainability governance, that is, achieving industry-wide recognition that buying firms (and consumers) hold responsibility for the social and environmental conditions present in value chains and should take some action to that effect, is more likely in situations where buying firms are concentrated, while products are differentiated and hold brand or quality attributes that are recognizable by consumers. Both of these conditions increase the likely pressure that civil society and consumers can exert on firms to showcase some form of CSR. Broad norm socialization is also more likely to occur the more industry-level interaction and deliberation on a topic such as sustainability occurs in a number of different forums.

These conditions also facilitate organizational institutionalization: initially, certification organizations will find it easier to strategize when target firms are concentrated and large customer bases that can be mobilized exist. Later, their institutionalization as an organization that goes beyond the provision of certification services will also be more likely the more chance they have to become involved – and act as experts – in different initiatives for sustainability, especially those that are involved in deliberative solution-finding. Continuously engaging in confrontational activism, conversely, is likely to lead to their exclusion from such forums, as well as exclusion from lucrative partnership projects that may provide them with financial resources and influence (Stroup & Wong 2017).

Yet paradoxically, most of the facilitating conditions for normative and organizational institutionalization are likely to negatively affect the institutionalization of market-driven regulatory governance from a practice-oriented perspective: the more buyers are concentrated, have market power over producers and consumers, and engage in deliberative processes in a number of forums on the best way forward for sustainability, the less likely it is that

**Table 4** Facilitating and inhibiting conditions for the normative, organizational, and practice-based institutionalization of private sustainability governance

Likely impact on:	Normative institutionalization	Organizational institutionalization	Institutionalization of market-driven regulatory governance practices
<b>Economic and value chain conditions</b>			
High level of buyer-level industry concentration	Positive	Positive	Negative
High level of differentiation of final product	Positive	Positive	Negative
<b>Political and societal conditions</b>			
High level of confrontational activism	Negative	Negative	Positive
High number of forums in which issue is being discussed	Positive	Positive	Negative
High level of deliberative interaction	Positive	Positive	Negative

relatively less popular methods – such as the payment of premium prices for certified goods – will emerge as the agreed-upon means of pursuing sustainable sourcing strategies. Further, the more differentiated the final product, the more important brand recognition and other alternative attributes (such as taste, provenance, and quality) become and the less likely it is that buying firms will want to submit their entire sourcing strategies to stringent criteria such as externally verified certification.

This dilemma is linked to the “contradiction of concentrated retailing” (Bartley et al. 2015, p. 216), wherein the market power of large, well-known buying firms creates attractive conditions for civil society-led efforts to engage in “naming-and-shaming” campaigns with the goal of efficiently changing industry standards, given that such standards can be dictated by concentrated buyers (cf. Dauvergne & Lister 2010, 2012; Elder et al. 2014). Yet the dominance of concentrated buyers simultaneously contributes to threats to the independence of certification initiatives and a latent danger of cooptation and a move toward business-friendly solutions (Burchell & Cook 2013; Bartley et al. 2015; Levy et al. 2016).

We can thus see that conditions that are likely to advance the normative and organizational institutionalization of private sustainability governance may adversely constitute barriers to the institutionalization of market-driven regulatory governance as the preferred method to pursue such goals. Nevertheless, among producers this method of internalizing social and environmental externalities has been one of the most widely accepted solutions to overcome the deep distributional conflicts at the core of many international value chains. Further research is needed to test both whether alternative methods of private sustainability governance have a similar potential for equilibrating economic and societal concerns, and whether comparable trends can be observed in the development of other sectors (such as forestry, fisheries, or other agrifood chains, such as cocoa, tea, or soy) in which market-driven regulatory governance has risen in prominence. For instance, similar trends in terms of buyer-driven, highly concentrated value chains with differentiated end products can be found in the cocoa and tea sectors, two sectors where sustainability standards are also on the rise (Dolan 2010; Lee et al. 2012). Conversely, the forestry and soybean sectors tend to have less concentrated supply chains, more geographical (North–South) diversity in production, less consumer-facing differentiation, and early industry engagement in arenas that had a stronger focus on market-driven regulatory governance (Cashore et al. 2004; Elgert 2012; Garrett et al. 2013; Auld 2014). Here, alternative outcomes regarding institutionalization may be observed.

Finally, going beyond the study of private governance, the proposed differentiation of various types of institutionalization, and the insight that they may not always be in lockstep or might even be mutually exclusive, has important implications regarding the appropriate units of analysis – discourses, organizations, or on-the-ground actor behavior – as well as epistemological strategies of investigating any institutional set of norms and rules at the domestic or international level. In particular, it suggests that in addition to studies of norm socialization and diffusion and the emergence of organizational fields, a strong research emphasis should be placed on how norms are translated and adapted into behavioral strategies of individuals, firms, and governments.

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## Notes

- 1 It should nevertheless be noted that the authors cited in the theoretical section do not necessarily see practice-based institutionalization as their *only* dependent variable, or as the only or most important way in which transnational private governance initiatives may influence global production conditions. Indeed, many cited authors have explicitly considered

private governance, its institutionalization, and problem-solving potential from normative or organizational perspectives (e.g. Bartley 2007a,b; Cashore et al. 2007; Bernstein & Cashore 2012). While I focus here on the third type of institutionalization, and draw out theoretical insights from cited work, I therefore re-embed this focus in a broader reflection on the choice of dependent variable in the discussion section.

- 2 I will, however, return to the possibility of subsectoral instances of institutionalization in the discussion section.
- 3 These are identified as issues where the issue to be governed is not immediately related to the power relation between business and societal actors, such that *who* governs will not immediately affect *how* is governed. Fransen's (2011) case study of labor standards is the counterexample: here, governance has direct distributional consequences, and thus convergence toward a single standard is seen as prohibitive.
- 4 Compare Peine and McMichael's assertion that "governance is a euphemism for private power (exercised through the market)" (2005, p. 19) and Graz and Nölke's view that "[g]overnance in this respect encompasses both the narrow sense of regulation, deregulation or re-regulation on specific issue areas and the institutional framework embedding such rules, and the larger sense of self-reproducing unintentional domination through which a structure of thought and action can be so internalised that they appear as natural and inevitable" (2012, p. 13).
- 5 This overview does not contend to provide an exhaustive enumeration of all necessary and sufficient conditions for institutionalization to occur; clearly, other factors, for instance at the level of standard organizations and their interaction (Fransen 2015; Fransen et al. 2016), may also matter. As it is impossible to satisfactorily cover all potential conditions in the space allotted, I focus on market (actor) dynamics and leave other hypotheses for future analyses.
- 6 Because of the parallel existence of multiple certification standards and the frequent practice of certifying the same producers with several schemes (multi-certification), it is difficult to accurately estimate the total share of certified coffee. The reported range follows two established practices: The ITC (2017) assumes 100 percent multi-certification and thus takes the largest standard as a lower bound for certified supply, while Pierrot (2016) calculates an estimated share of around seven percent multi-certification based on industry information. Indeed, because of the differences in geographical and topical targeting, 100 percent multi-certification is highly unlikely to occur. However, I include the full range of upper and lower bounds for the sake of completeness.
- 7 Interview with coffee roaster, 2016.
- 8 As a full review of the 4C standard, its requirements, and impacts is beyond the scope of this paper, I limit myself to summary comments here and refer interested readers to the cited documents for more in-depth discussion. It should, however, be noted that, surprisingly, very little peer-reviewed literature on the 4C Code, its stringency, and its impacts exists, despite its meteoric rise in adoption rates in the coffee sector.
- 9 According to CAS, this number is based on their current database (as of November 2017) and the following considerations apply: (i) the Units can merge with one another, distorting the statistics; (ii) the database was implemented in December 2015, so missing old data not input in the database can also interfere with the accuracy; and (iii) the 4C Code 2.0, which introduced the "No Reds Policy" for re-verifications, was only introduced in May 2015. Until the end of June 2016, the Units could still apply for verification under the old code.
- 10 Some might argue that this dynamic underscores the entry-level aspiration of the 4C code, and that these groups may have moved on to more stringent standards. However, when comparing supply and demand volumes in Figure 1 we see that there has not been a simultaneous shift in the demand or supply of alternative standards, leading us to believe that many of these groups go back to conventional production rather than participate in "premium" standards. Furthermore, most coffee produced under the 4C code is *Robusta* coffee, while the other labels are generally geared toward the higher-quality *Arabica* coffee variety, which is sold at a higher retail price point, making the transition between certification systems more difficult.
- 11 For comprehensive meta-reviews, see Kuit and Waarts 2014; Bray and Neilson 2017; DeFries et al. 2017.
- 12 The Global Coffee Platform emerged out of the dissolution of the 4C Association and its combination with the Dutch IDH Sustainable Trade Initiative's Sustainable Coffee Program, and is driven forward mainly by Nestlé and JDE; whereas the Sustainable Coffee Challenge is financed by Starbucks and implemented by the NGO Conservation International.
- 13 This visualization of membership is not comprehensive; only the largest traders, roasters, and retailers are shown.
- 14 While the company-owned schemes (Starbucks C.A.F.E. Practices, and Nespresso AAA) tend to be demand-driven and have a better demand-supply spread, their high quality requirements mean that only a small share of coffee produced by participating farmers is accepted into their scheme. There is little information available on the amount of coffee rejected because of quality considerations.
- 15 Interview with Honduran trader, 2016.

- 16 Interviews with producer organizations, 2015, 2016.
- 17 This data is based on on-the-ground demand data of FLO-certified cooperatives, but includes demand for both FLO and Fair Trade USA-certified coffee. Despite the 2012 split between FLO and Fair Trade USA, Fair Trade USA has been slow to develop its own certification system – which was in a pilot testing phase in 2016 – and mainly works through unilateral recognition of the FLO certification; thus, to date little has changed for Fairtrade producers on the ground that sold mainly to the US. However, once Fair Trade USA starts to certify large plantations, coffee cooperatives in the Fairtrade system may have to deal with considerable competition from larger actors. On the other hand, the simultaneous split of Fair Trade USA from FLO considerably impacted the amount of products sold under an FLO license in consuming countries. Here, we can observe a 36 percent decline in certified coffee sales volume – and relatedly, licensing fee income – between 2011 and 2012 from FLO Annual Reports, which is likely to reflect the share of US sales of Fairtrade products.
- 18 For a comprehensive overview, see Bray and Neilson 2017.
- 19 Author's own calculations.
- 20 Compare also Bartley's 2014 overview of the "re-centered state" and its influence on sustainable timber production.
- 21 Interview with NGO representative, 2016.
- 22 Interview with traders and roasters, 2016.
- 23 Interview with coffee trader, 2016.
- 24 Interview with trader, 2016.

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