ABSTRACT

Title of Document: THE POLITICAL ECONOMY OF SOCIAL MARKETS: HOW VOLUNTARY STANDARDS EMERGE, COMPETE, AND SEGMENT INTERNATIONAL POLICY-MAKING

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How do we make sense of the tangled web of voluntary standards that have recently proliferated across the globe? There are over 430 different social and environmental voluntary standards in the world today. Prior to 1990 there were twelve. Most of these voluntary standards exist within industries that contain several other standards and ecolabels. Behind the scenes of this veritable industry of industry standards, we observe a vibrant and yet faintly understood political landscape. In some markets, as in the forest industry, industry actors revolt against NGO-initiated

standards to form competing standards. In other markets, as in the diamonds industry, industry actors, advocacy groups and even states align to create the dominant voluntary standard system for the planet. While still in others, as in the coffee industry, there is such a diversity of standards originating from a variety of actors that few patterns have yet to be discovered. This research explores the logic behind voluntary standards, and proposes a framework to explain and predict the pattern of emergence and competition of standards within an industry. Drawing from existing research in norms evolution, non-state market drive governance, voluntary clubs and corporate social responsibility, I develop two principle arguments. The first, the logic of market integration, suggests that when social movement norms are increasingly institutionalized within markets, the movement itself will gradually take on the forms, character and procedures of market actors. The second extends this logic in order to understand how, why and when multiple voluntary standards emerge, and seemingly compete, within the same industries. Based on the in-depth case analysis of the coffee market, as well as an extended analysis of ten other markets, I highlight how this phenomenon of multiple standards may be understood by examining change along two factors: Industry Political Centralization and Differentiation. The overarching thesis is that standards proliferate where power is more decentralized, and opportunities for differentiation along market segments are highest. Further, that differentiation also follows a pattern: higher, more stringent standards, will occupy higher end market segments, while lower, less stringent standards occupy mainstream market segments.

AN INDUSTRY OF STANDARDS: HOW VOLUNTARY STANDARDS EMERGE, COMPETE AND SEGMENT INTERNATIONAL POLICY-MAKING

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PREFACE

In early 2011, I attended a workshop where the International Association of Infant Food Manufacturers (IFM) was developing a 3- to 5-year strategy for their organization. I did this in my capacity working for AccountAbility, a pioneer in the scholarship and advocacy of Corporate Social Responsibility (CSR) scholarship, which was making a transition from non-profit think-tank and (CSR) advocacy organization to becoming a for-profit consulting firm. Neither one of these organizations fit neatly into traditional typologies; both exhibited attributes of organizations normally at odds with one-another.

The IFM, which includes the major multinational food and pharmaceutical companies Heinz, Nestlé, Mead-Johnson, Pfizer Nutrition, Abbott, Danone and Fonterra, was working to overturn the impression that they, through sales of infant formula, were working counter to the public interest by violating guidelines set by the WHO on the marketing of infant formula. They understood that the market was fraught with defectors – organizations that did not abide by WHO standards for the marketing and sales of infant food formula – but they insisted their firms were not the culprits. They also understood that even though their members acted within the guidelines set forth by the WHO, the reputation of the entire industry, including their own, was being tarnished by the actions of a few rogue firms. One proposed solution was the development of standards, more strict than those of the WHO, which IFM members would voluntarily subscribe to. With proper verification and labeling mechanisms attesting their compliance to these standards, the IFM sought to enhance the reputation of their firms, the products they sell, and the industry.

As a student of political science, I was fascinated by the opportunity to witness the genesis of a new voluntary standard[1]. The workshop I attended seemed to take place at a regulatory and policy-making fault line where public policy, initiated by states, and private policy, initiated by market actors, converged; where private, semi-private or public groups develop competing and/or complementary regulations to curb undesired market practices.

At the end of the two-day workshop I made these observations: first, these firms were not looking for a way to circumvent, compete with, or discredit WHO-established guidelines, but to surpass them – an unexpected goal for these traditional market actors; second, this initiative did not begin with, nor was it in response to, activist pressures; third, the development of voluntary standards was motivated in no small part by protecting their reputation to achieve traditional business goals, but they did not believe that this alignment of business goals would threaten the legitimacy of their standards; and finally, both the organization I worked for, and the IFM were blurring the lines between NGO, non-profit and for-profit. They seemed to morph and transform, taking on the form of 'the other' as the environment shifted. My organization was an early norm entrepreneur advocating for, and promoting norms of, corporate social responsibility across firms and at the World Economic Forum (WEF 2008). Now it is a for-profit consulting organization helping traditional firms

[1] As of April 2014 the IFM had not yet established an independent set of voluntary standards for the production and marketing of infant food formula.

implement CSR programs in their organizations. The IFM, an industry association consisting of some of the largest and most powerful multi-national corporations, was working to outshine the WHO by promoting more rigorous norms for the marketing and sale of infant food formula. The role of firms and advocacy groups has been described as contentious and competitive with respect to the promotion and adoption of emerging social and environmental norms, but this is not how it seemed to be playing out.

What I observed confused the boxes, categories, and typologies that I had come to understand, and raised questions about the processes and institutions involved in shifting marketplace norms. It challenged not only the traditional view of state-market relations, but of the dynamic between non-state actors within the sphere of non-state transnational governance. I did not understand the process by which, or the driving mechanisms that would explain why, norm entrepreneurs transformed into for-profit firms. I did not understand why firms resort to any form of self-restraint or governance outside the pressure exerted upon them by advocacy groups. More confusing still, was why the IFM chose the route of developing its own standards rather than use the WHO to enforce greater transparency within their industry. Now there would be multiple standards within the same industry – one backed by states, and the other by firms, and outcome that many would consider a failure of non-state international policy making.

If voluntary standards are to replace policy in the absence of state regulation, how can we understand the existence and persistence of multiple alternative standards within the same industry? Underlying these research-oriented questions is a more important normative question: is this a desirable outcome for proponents of progressive social and environmental policies, or is the marketplace acting to subsume social movements in order to turn a profit? What the following research study will show is that these two outcomes may not be mutually exclusive at all.

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> Indeed, in our modern world standards are arguably the most important manifestation of power relations.
>
> Lawrence Busch 2011, p 28

There are over 430 different social and environmental voluntary standards[2] in the world today (Ecolabel 2013). Prior to 1990 there were twelve. In 2009, 18% of these standards were run by organizations that described themselves as for-profit, 8% were government run, and the majority was run by non-profits. Most of these standards exist within industries that contain several other standards. Behind the scenes of this veritable industry of industry standards, we observe a vibrant and yet faintly understood political landscape. In some markets, industry actors revolt against NGO-initiated standards to form competing standards. In others, industry actors, advocacy groups and even states align to create the dominant voluntary standard system for the planet. While still in others, there is such a diversity of standards originating from a variety of actors that few patterns have yet to be discovered.

[2] This is a tally of social and environmental voluntary standards that use some form of labeling to communicate to consumers adherence to a set of voluntary standards. The label in these cases is called an ecolabel, usually directly on the product packaging.

This research explores the logic behind voluntary standards, and proposes a framework to highlight and understand the pattern of standards within an industry. The rise of standards is split into two broad periods in time – before the mature development of a social market, and after. The first period explores the emergence and transformation of a social movement into a formal organization that uses voluntary standards to promote new norms into the marketplace. The principle mechanism of change in this first period is, as other scholars have explored (Cashore 2002; Bernstein and Cashore 2007; Finnemore and Sikkink 1998; Prakash and Potoski 2007; Segerlund 2010), the struggle to establish legitimacy for the social movement, as well as for the formal organization that aims to promote the norm through voluntary standards. In this study, I examine the rise of voluntary standards guided by the premise that as the norm is institutionalized into the marketplace, social movement organizations that aim to convert market actors will gradually tend towards integration into the marketplace. I present a foil to Taylor's claim that these organizations are "in the market but not of it," (2005) and propose that they are "in the market, and part of it."

The second period of time explores the integration of voluntary standards into the market, which may, and more likely does, involve the rise of other voluntary standards. The logic of this period is explored through observation of change in two key variables: Industry Political Centralization and Differentiation. The overarching thesis is somewhat paradoxical: that standards proliferate where there is more competition - political competition, as observed through the variety of political organizations within an industry, as well as market competition. I observe a tendency towards greater multiplicity where industry power is decentralized and fragmented, and opportunities for differentiation along market segments are greatest. I also observe that in highly concentrated industries that have fewer market segments and consumer-facing brands, there is a lower likelihood of any voluntary standard existing, or that it would be captured by dominant industry players, therefore a greater need for state involvement. In addition to the differences across industries, we observe a pattern of standards within industries. Specifically, that standards will not aim to compete directly against each other – that is to say, within the same market segment – but will occupy different segments in an attempt to cover varying constituencies across the market. Further, this segmentation also follows a pattern: higher, more stringent standards, will occupy higher end market segments, while lower less stringent standards occupy mainstream market segments.

The governance of markets through voluntary standards is very much a function of the political and economic realities of that industry (Manning, Boons, von Hagen and Reinecke (2012). In the world of voluntary standards the political bleeds into the economic, and the economic informs the political – the two can not be separated. Thus, the traditional dichotomous perspective between governance, normally the purview of states, and markets, is not an accurate description of this new reality. Instead, in the world of voluntary standards, market actors are political actors

(Coen 1997; Fligstein 1996). They gain legitimacy through direct engagement with the public as they co-create policies based on a segmented market-based version of global governance. In this world, both firms and NGOs act to serve the political wishes and desires of a constituency defined by the confluence of production and social norms.

This rise in market-based governance systems comes at a time when people around the world have shifting expectations related to government and business. Politics, it seems, is being played out within the marketplace. In a survey of over 10,000 men and women across 31 countries, Havas Worldwide (Havas 2013) reports that more people have faith in nonprofits or NGOs (from 55% to 69% depending on age) than in their national governments (30% to 40% depending on age) (Ibid. p 11). These sentiments are reflected in how citizens choose to affect change in society; only 7% of respondents claim to have run for, or served in, public office, whereas 17% boycotted a company or product for irresponsible behavior (Ibid, p.7). When asked what makes a “good citizen,” 35% said being a responsible consumer, versus 29% who said voting in local and national elections (Ibid. p.8). This definition of a good citizen not only reflects weariness about how well government can channel individual contributions into social change (over 50% believe it is easier for them to influence business versus governments), but of which institutions bear responsibility for social change. When asked to rate their agreement or disagreement with the statement "Businesses bear as much responsibility as governments for driving social change," (Ibid, p 16) over 60% agreed.

This is the social and political context within which private standards are emerging. A politically relevant environment defined by doing rather than voting, and on individual and business over political parties and government. In this context, the study of private standards and market-based governance; the study of business in society and of consumer behavior, is not a secondary matter for political science, but a central and highly relevant space for the study of international politics.

1.1 Focus of This Study

This study examines the emergence and competition of voluntary standards systems that appear in response to changing norms, and act to further the norm across a newly norm-infused market, or ***social market***[3]. The story of social markets is of the battle between political organization and market organization. On one hand, certain actors and organizations – primarily those of the advocacy, activist and NGO world – aim to develop standards across the entire industry to shape, shift, and transform an industry's production and trade practices towards great ethical responsibility (Buthe and Mattli 2011; Conroy 2007; Vogel 2005, 2008). On the other hand, market actors

[3] Social Markets is introduced by Archon Fung quoted here "To the extent that consumption and investment decisions depend not only on preferences about the price, quality, or features of products or about the risk and return characteristics of securities but also on preferences concerning the labor and environmental consequences of production processes and corporate policies, social values become important components of economic markets. When markets become infused with such value, they can appropriately be called social markets." From Fung, Archon Making Social Markets: Dispersed Governance and Corporate Accountability. In Market-Based Governance: Supply Side, Demand Side, Upside and Downside, ed. John D. Donahue, Joseph S. Nye, Brookings 2002. Washington dc. P. 150

fight to maintain independence and competitiveness while being responsive to changing norms and buyer expectations. It is a battle between politics and markets. Both are sources of power that dictate the economic and political conditions within which citizens must live (Fligstein 2011). In the world of voluntary standards, politics and markets collide and struggle for supremacy in the world of new governance. In social markets, the world of politics and markets are not separate, but present an interesting case for a renewed perspective on the relationship between these two spheres (Buthe and Mattli 2011).

This research starts from the position that the explosion of voluntary standards across the globe is a reflection and consequence of the shifting nature of international politics in which the lines between public and private, state and market, consumer and citizen are blurring (Ostrom 2010). Understanding this new political landscape will require the analysis of market forces as political forces, corporate power as political power, and voluntary standards as a form of international regulation (Bartley 2007, 2009; Cashore 2002a; Haufler 2003a, 2003b). Where power is increasingly expressed, within an "increasingly institutionalized transnational arena of discourse, contestation, and action concerning the production of global public goods, involving private as well as public actors" Ruggie (2004, p504).

I will not attempt to evaluate the value of the norms these organizations are promoting. Nor will I be weighing in on substance of the standards, or engaging in comparative analysis of standards (Meidinger 2002; Meridian Institute 2001).

Instead, I argue that voluntary standards, and the ensuing development of social markets, are institutional forms that promote political bargaining and act, albeit imperfectly, to synthesize public preferences related to the public interest (Fung 2002). Therefore, prior to an exploration of their effectiveness, or the normative value of the change they seek, or the impact they hope to have, we must begin to understand how they work. I am therefore motivated by the following question:

What process best explains the emergence of voluntary standards systems, and what factors lead to the rise of multiple competing standards within the same industry?

There are two premises that guide how these questions will be explored. First, that shifting norms left unaddressed, or insufficiently addressed, by states may, if sufficient support for these norms exist, motivate the rise of private institutions of regulation and global governance. This will require an analytical framework that places the emergence of voluntary standards systems within the greater context and study of norm evolution (Checkel 1999; Cortell and Davis 2010; Finnemore and Sikkink 1998; Segerlund 2010). I will adopt the norm evolution lifecycle, and adapt it for the study of non-state actors within the scope of norms on the production of goods and services that flow across the globe.

Second, that competition or the rise of multiple private standards systems within the same industry provides unique insight into the political character and nature of global governance and international politics. Understanding the logic behind their emergence is necessary to understand competition among standards, which is key to addressing an important popular sentiment: that competition and multiplicity leads to consumer confusion, and *greenwashing*[4]. Scholars echo this sentiment when competition is examined as a battle between activists and industry, and the rise of industry-led standards are in response to the flawed attempts of activists to ensure sufficient legitimacy to enable all political bargaining to occur within their standards organization (Bernstein and Cashore 2007). Instead, I argue that competition and multiplicity is the "normal" state of affairs for standards organizations, therefore understanding the patterns of competition will provide insight into the future of private governance systems, and help inform policymakers as to the proper role of the state and state regulation.

Patterns of competition across standards can be further understood by examining the calculus that potential new entrants into the social market may face, a calculus informed by two factors. First, the distribution of power as observed through the ***political centralization*** of a social market will determine the costs for new entrants – is it easier to develop a new standard, or align with existing standards. Second, ***opportunities to differentiate*** oneself within and across social market segments will determine the possible benefits for new standards. The result is a web of policies segmented by market niche, set by private organizations, rather than states, that contradicts an ideal of uniform international law across states.

[4] Greenwashing occurs when firms adopt standards or practices for the sole purposes of public relations promotion rather than to have the desired impact originally intended by social movement advocates.

1.2 Shifting Norms and Unsatisfied Preferences

Voluntary standards emerge in response to shifting norms and unsatisfied public preferences. Trade liberalization, as promoted by the WTO, means that states cannot place "any restrictions on the importation of products solely because of the way in which they were produced." (Conroy 2001, p. 1) Clothes from Bangladesh cannot be banned from import no matter what the conditions of the factories where they are produced, or how many people die from these conditions. Wood, paper or other timber products cannot be banned no matter how destructive the production methods were to the originating forests, or how contaminated rivers were left as a result. Even food products cannot be restricted based on the chemicals used in their production. Driven by a concern that countries would throw up barriers to freer trade, officials at the Uruguay Round of trade negotiations explicitly excluded "production and process methods" (PPMs) from the agreement that formed the WTO in 1993 (Ibid., p2).

The dictates of international rules embodied by the WTO are clear, no laws restricting imports based on means of production can be made. Yet, environmental and social movements intent on reining in unfettered globalization are continuing to grow (Ayres, Jeffrey M., Beth Schaefer Caniglia, Sean Chabot, Marco G. Giugni, Michael Hanagan, Tammy L. Lewis, Gregory M. Maney et al. 2002; Chatterjee 2012; Epstein 2001; Mertes 2009; Starr 2000) as activists seek ways to satisfy their policy and regulatory preferences. Within this vacuum of regulation –fueled by the friction between the benefits and costs of trade liberalization, the rise of free market ideals popularized in the Reagan-Thatcher years and the rise of deregulation, institutionalized by a variety of regional and bilateral trade agreements, and formalized at the international level by the WTO – emerge innovative non-state forms of governance aimed at aligning global production methods with shifting transnational norms (Conroy 2001, p.3)

To understand the rise of voluntary standards as non-state forms of governance, this study begins by understanding how they rise in response to shifting norms.

1.3 Norms, Rationality and Voluntary Standards

The theoretical approach applied in this study is based on developments in IR around norm evolution (Checkel 2007; Finnemore and Sikkink 1998; Kahler 2000; Lutz and Sikkink 2000; Zurn and Checkel 2005) while intentionally drawing attention to the "strategic social construction" of preferences that influence behaviors, especially among market actors (Checkel 2001; Finnemore and Sikkink 1998; Payne 2001; Saurugger 2010; Sikkink 2002). I accept the normative nature of shifting preferences and how they give rise to new organizational platforms, then turn my focus towards how these new organizations act to promote change and influence behavior in a newly configured rational preference set. The principle points of departure and contributions are three-fold:

Legitimacy: I challenge the imperative declared by Buchanan and Keohane (2006) that the "legitimacy of global governance institutions matters" writ large, since, as I argue, it matters far less for *these* institutions of global governance. I challenge the resulting focus on legitimacy as a primary explanatory factor surrounding the creation of organizational platforms of private governance (Bernstein and Cashore 2007). Specifically, this challenges a) the premise that the struggle for legitimacy defines how voluntary standards emerge and compete, and b) informed by scholarly work on institutional theory and the development of legitimacy through ''mimetic isomorphism'' (Ashworth, Boyne and Delbridge 2009; Deephouse 1996; DiMaggio and Powell 1983, 2000; Tolbert and Zucker 1999; Zucker 1987) or mimicking of the most prominent entities in the field to gain legitimacy. For voluntary standards, this specifically relates to the copying of organizational forms related to multilateralism using stakeholder-based open and consensus based governance structures (Zurn 2002, 2004; Zurn and Stephen 2010). Instead, I accept the premise by Bernstein (2005) and restated by Bernstein and Cashore (2008) that legitimacy is "the acceptance of shared rules by a community as appropriate and justified," but differ in that voluntary standards organizations can and do go straight to the political consumer for this legitimacy. This results in a shift away from the scholarly notions of institutional design that ostensibly reflect, express, and enable legitimacy, namely the procedural elements that promote an open, consensus-based, and multistakeholder form of governance (Bernstein and Cashore 2007, Prakash and Potoski 2007, Zurn 2004). Buchanan (2003) declares that "civil society groups have focused their collective efforts on issues relating to procedural legitimacy, including accountability, openness, and transparency, potentially to the detriment of efforts to bring about more fundamental change." I argue that more fundamental change may be on the horizon within social markets.

Market Integration: I develop a three-stage model that builds upon the strategic choice of firms and proposes the inevitable integration of voluntary standards with market principles and dynamics.

Multiplicity: I view competition of voluntary standards, or multiplicity, as the inevitable normal state of affairs for private governance and voluntary standards. However, multiplicity is not a failure of policy or execution, but a model for how international policy-making can emerge. Instead of a dualistic state-market dichotomy, multiplicity proposes a segmented and diverse mosaic of policies where higher-level standards align with higher market segments, and mainstream standards with mainstream market segments.

These are important points of departure because they challenge existing scholarship on legitimacy as an explanation for the rise of competing systems and the need to establish legitimacy within voluntary clubs, or that these organizations of global governance will adopt and mimic the tenets of multilateralism (Zurn 2002, 2004; Zurn and Stephen 2010). Anticipating critiques, I will address the question of how these forms will gain legitimacy at all by showing how the gradual and constant affirmation by citizen-consumers acts as a necessary mechanism of legitimacy. The norm itself will have to battle for legitimacy, but once established, legitimacy shifts to the market dynamics.

Finnemore and Sikkink propose a norm lifecycle of three stages (1998) to help explain, as well as provide a foundation for further research into, the emergence and institutionalization of norms in the international system. Their framework was intended to address the emergence of norms, not the non-state actors that emerge in response to these norms or the specific organization platforms that they operate from. Nor was their framework intended to address the specific market-based nature of the subject of this study. Thus, in an attempt to tie the emergence of voluntary standards to the shifting normative context that leads to their creation, this study will adopt and adapt the norm lifecycle to reflect the emergence of voluntary standards and social markets.

Like these previous authors, this study highlights the process of “strategic social construction” (Ibid., p15) where the different behavioral logics dominate different stages of the lifecycle. It is premised on the important fact that norms and rationality can not be separated in the study of international relations. That the normative contexts within which actors operate determine their preference sets which, in turn, inform their rational decision-making. In some cases, as would be the case for the citizen-consumers that form the important demos to a market-based governance system, the powers of socialization alter the normative context and individual preferences that lead to rational decisions inconsistent with decisions intent on maximizing material gain. This is the case when citizen-consumers pay premiums for ecolabeled products (Arnot, Boxall and Cash 2006; Bird and Hughes 1997; Hiscox 2011; McGoldrick and Freestone 2008; Pelsmacker, Liesbeth, Driesen and Rayp 2005) that are otherwise equivalent to their non-certified substitute products. In other cases, an altered normative context that approaches a threshold of acceptance among the demos, thereby shifting their preferences, can lead to a strategic context that alters the material benefits to political actors. This is the case when firms, as political actors responding to changing norms or consumer preferences, can extract economic or competitive advantages by satisfying those preferences. While firms in these scenarios often tout their actions as socially responsible and normatively motivated, they are also making very hard-nosed rational decisions to maximize material benefits or minimize material loss. Thus, understanding the organizational platforms that act to extend new norms in the marketplace provides important insight into the rise of corporate social responsibility.

Voluntary standards and corporate social responsibility are intertwined, but not interchangeable. The voluntary standards that properly shift the material consequences of firm behavior promote acts of social responsibility. The firm, as "learning organization," (Zadek 2006, 2007) acts in response to an external environment that holds it accountable for its actions. In an environment void of environmental and social norms, its "architecture of accountability" (Donahue and Nye 2002) is limited to economic factors – a scenario that would align with Milton

Friedman's claim that a firm need only be concerned with shareholder wealth (Friedman 1970). Yet, in a social market, voluntary standards act to alter a firm's architecture of accountability by either raising the stakes for non-compliance to a norm, or creating some economic benefit for adherence to it. Voluntary standards thus create the space where norms and market concerns overlap, and provide an interesting case for the continued study of where norms and rationality overlap in IR (Checkel 1997; Kratochwil 1991; Muller 2004).

The analytical framework guiding this study attempts to highlight this hand-off between norms and rationality by starting with the norm lifecycle first proposed by Finnemore and Sikkink (1998), examined by others (Sikkink 1993; Sikkink and Lutz 2000; Checkel 1991, 1997, 2001) and adapting it, with insights gained from Lisbeth Segerlund's study of Corporate Social Responsibility (2010), to the unique nature of non-state actors and marketplace norms by focusing on the emergence and competition of voluntary standards – the organizational platforms formed by early norm entrepreneurs to promote and expand a new norm in the international system. The focus on these organization forms, their relationship to forms of multilateralism as conduits to enhanced legitimacy, their relationship with stakeholders, and their means by which they choose to deliver private regulation in the public sphere, contributes to the scholarly discussion of organizational theory in international relations (Bernett and Finnemore 2004). It does so by expanding the notion of international organizations to market-based organizations that gradually take on less bureaucratic forms, while still creating "the underlying mechanisms and logics that […] allow social order to be created and sustained." (Hurrell 2007, p14) My framework adopts a similar three-stage model, and derives its logical foundation and generates research hypotheses from the following two arguments:

1.4 The Argument

1.4.1 The Logic of Market Integration

While a battle for legitimacy was once relevant for standards organizations to assert their authority in the marketplace (Bernstein and Cashore 2007), behaviors based on this battle become less relevant as the social market matures. After socialization pushes a norm towards greater legitimacy and acceptance, the preferences of citizen-consumers are reconfigured, and the basis for future rational choices by market actors reflect that reconfigured socio-political context. The organizational platforms that emerged to expand the norm in the socialization stage respond to this reconstituted reality by shifting their strategies, policies and procedures in order to take advantage of this change. They now focus on reconfiguring the costs-benefits calculus for firms to adhere to new norms. An increased and sustained adoption of a norm will occur when socialization and the *logic of appropriateness* is replaced by a *logic of consequence* (March and Olsen 1996).

In this situation change will increasingly be explained by an organization's response to market concerns instead of advocacy concerns. The mechanisms of persuasion and socialization give way to mechanisms of competitiveness, strategic choice, and market differentiation. This will change the character and nature of the social market. Where once activists and advocacy groups dominated a social market, it will increasingly be the domain of business and business-oriented organizational platforms. The principles and procedures of legitimacy recede and give way to principles of market competition. The battle for legitimacy will be fought early on in the development of a social market, but once established, becomes a less important factor for change and future development.

This argument motivates the discussion of legitimacy and reputation as a principle explanation for the formation of standards organizations and clubs. This explanation, while critical in explaining the early rise of some organizations, no longer applies to more developed social markets that we are now able to observe, and it does not help explain the rise of competing systems.

1.4.2 *The Logic of Multiplicity*

In the world of market governance, failed political bargaining between groups need not carry tremendous costs. The processes and procedures emulating the multilateralism of traditional international organizations – deliberations within general assemblies, open consensus-based governance, stakeholder involvement, etc. – are designed to lower the costs of political bargaining (Abbott and Snidal 2009). However, when external factors within the social market align, the barrier to entry into the social market can be low enough that the costs of creating a separate standard are less costly than participating in extended political bargaining within the dominant standard system. In such a situation an insurgent standards group is more likely to develop a new policy or standard rather than trying to integrate into an existing system. This cost-benefit calculus defines the bargaining between market-based political actors. Understanding the conditions that inform this cost-benefit calculus is key to understanding the logic of multiplicity. These factors are proposed and explained later in this section.

While competition among standards is pervasive, it is not complete. Some social markets have one dominant standard, others see direct competition between two or three standards, and other markets see to accommodate several standards organizations in a seemingly non-competitive environment. This logic is not greatly influenced by the procedural elements that exist in the first standards organization. This is observed from the recent split between the dominant Fairtrade Labelling Organization and Fairtrade USA, even in an open multi-stakeholder pseudo-democratic organization, reaching consensus among like-minded parties can prove insurmountable, even after many attempts at reconciliation. This suggests that the bargaining game need not be limited to NGO-firm conflicts alone – a widespread gap of existing scholarship – but also between NGOs. Paradoxically, it may be far more difficult to alter the policies of an entrenched multistakeholder organization with multiple NGOs that it would be to influence a more centralized organization.

Bargaining costs can be so high that it may not even be attempted (Abbott and Snidal 2009).

Explaining how, when and why multiplicity emerges will draw on the logic of market integration and understand the conditions that will lead to variability in competition. The ideals of multilateralism (Zurn 2002, 2004; Zurn and Stephen 2010), including stakeholder participation and consensus-based governance that mimic international political governance and aim to increase the legitimacy of standards organizations do not explain the emergence of competing systems. Instead, standards are understood as being responsive to the political landscape of the industry as well as market demands, including the competitive imperative of their client firms.

Standards also must emerge in a political environment where NGOs, industry associations, powerful lead firms and other standards organizations exert influence and control in a social market. Increased dominance by fewer key political organizations[5] increases the cost of a new potential standard to venture out on their own. In a highly centralized political environment, incentives are skewed towards falling in line with the powerful players. On the other hand, if there is a diversity of power-players that compete against each other – that is to say, a decentralized political environment – new standards have choices, and can opt to emerge along side a variety of power players, seeking alliances from a variety of choices. Thus, a decentralized political environment lowers the cost for new entrants.

[5] I refer to them as political organizations because they have the power to influence behavior within social markets.

To explore the potential costs of competition, I focus on an *industry's political centralization*. This political context – whether there is a high or low degree of political centralization, I posit will be helpful in assessing if, when and how standards entrepreneurs choose to align with existing standards or start their own. When centralization is high, competition is high, therefore the costs of starting a new standard organization will be high. Alternatively, when centralization is low, there are a variety of alliances to be made in order to compete, barriers to entry are lower, and therefore more likely that alternative systems emerge.

However, just because the costs to entry are lower, it does not mean that the benefits exist for the creation of a new standard. The costs of new standards that simply want to compete with existing standards can be very high. Instead, when there are ample opportunities for differentiation in a more stratified and segmented market, the benefits for developing a new standard can be more attractive to new entrants. Thus, the second key factor that informs the logic of multiplicity is *opportunities for differentiation*. When there are more opportunities for new standards organizations to differentiate, there are greater potential benefits for starting new standards, therefore a higher likelihood that multiple systems emerge within the same social market.

These two logics will be further explored in the following chapter, and will form the basis for the development of a framework for standards and a theory of multiplicity.

1.5 Categorization of Voluntary Standards

This study is interested in the emergence of, and interactions between, environmental and social voluntary standards. These voluntary standards have been described as one type of organization within the larger institutional context of regulating transnational business activities as expressed in Abbott and Snidal's formulation of Transnational New Governance (TNG) (2009). Abbott and Snidal propose a map depicting the wide range of forms the institutions of new governance could take. In their conception, (TNG) relies on the actions and interactions of three primary regulatory actors: the state, NGOs, and firms. Created through the initiatives of some combination of these primary three actors, the web of governance organizations can, when successful, take on a life of their own in the pursuit of transnational "regulatory standard-setting" (RSS). The authors introduce a map of various RSS schemes placing them within a "Governance Triangle" based on the degree to which each of the three central actor groups participate in their formation. The three points of the triangle show institutions formed by the exclusive initiative of NGOs (e.g., Rainforest Alliance), States (e.g., WHO Codes, German Blue Angel ecolabel), or firms (e.g., Sustainable Forest Initiative). Inside the triangle are three spaces that reflect institutional forms created through a mix of NGOs and firms (Fairtrade Labeling Organization), NGOs and States, States and firms (ISO 14001, UN Global Compact), and a center area listing institutions formed through the equal collaboration of all three actor-groups (Kimberley Process, ILO).

Building on Abbott and Snidal's categorization of private power, Green (2013) proposes a new typology to that she argues is required to move towards a comprehensive theory of private authority in the global public sphere. Highlighting the importance of private actors to public actors, she distinguishes between two types of authority based on their relationship to public power: delegated and entrepreneurial. Authority, she argues, is "relational and requires the consent of those who are subject to it." (Ibid. p6) In which case, private authority is understood as "situations in which non-state actors make rules or set standards that other actors in world politics adopt." (Ibid. p6)

Delegated authority is conferred to non-state actors by the state. Explained as a simple principal-agent relationship, states are the principals that circumscribe a set of tasks to non-state actors as their agents. When private authority does not originate from the state, it is considered entrepreneurial. In this second type of authority, private actors must seek legitimacy and persuade others to adopt their rules and standards.

This distinction is an important contribution, specifically for highlighting the role of non-delegated private authority. The idea that authority exists and pervades the international arena even outside any delegation from the state is an important shift in international relations theory. She argues that private authority does not occur in a vacuum, so the role of the state in produce, trigger or promote private authority is necessary. Even the absence of state delegation is in fact a trigger that enables the rise of entrepreneurial private authority – in this way, state authority is always fundamental to the rise of private authority, in its presence or absence.

This study will consider both types of authority, although without any attempt at categorizing them in this way. What is more pertinent to the scope of this paper is not whether authority is delegated or entrepreneurial, but how the private forms of governance interact with each other in their pursuit of private authority through voluntary standards. This *interaction* between forms of transnational business regulation is increasingly gaining attention in the field of international relations (Cashore and Stone 2014; Eberlein, Abbott, Black, Meidinger and Wood 2014; Gulbrandsen 2014; Overdevest and Zeitlin 2014). While interactions can happen across private and public forms of regulation, I focus on understanding how interactions between voluntary standards lead to various outcomes for social markets themselves. Building on studies that show divergence and convergence between standards organizations (Manning, Boons, von Hagen and Reinecke (2011), I will explore the mechanisms that would lead to, not only divergence or convergence along standards, but of consolidation or diversification of organizations within social markets,

In order to focus on these interactions between organizations of private regulation, I re-aggregate where others have disaggregated. What scholars have called "the most intriguing" (Bernstein and Cashore 2004a) of the new institutional forms, and others have insisted are the "most conceptually distinct and authoritative form of non-state governance to arise in the last 50 years," (Bernstein and Cashore 2004a) encompass those forms created with nearly no involvement from states whatsoever. In addition to the distinction of being created through the collaboration of non-state actors, they are designed to leverage the incentives, structures, and mechanisms of the marketplace. This categorization of non-state market based governance systems, requiring no state involvement, has formed the basis for an extensive research program (Bernstein and Cashore 2004a, 2004b, 2007; Cashore 2002; Cashore et al. 2007; Auld, Balboa and Bernstein 2009; Fridell 2007; Leys 2003).

Yet, as transnational private governance matures and its scope, influence, and complexity increases, further understanding of their true nature demands a review of existing definitions and frameworks. While segregating and isolating governance types is necessary, it is also appropriate to re-aggregate if the similarities across organizations are important enough to understand how they may, together, impact the development of organizations. Bernstein and Cashore's typology of non-state market based governance systems leverage market incentives to induce change among actors (Bernstein and Cashore 2007), but the same dynamic can occur when states act to induce similar change, as is the case of the state-sponsored German Blue Angel label, or even the US Department of Agriculture's (USDA) involvement in organic certification. In between pure hard-law on one hand or voluntary standards on the other, there lie varying degrees of market-based governance systems that may be examined against similar variables of change. Distinctions between the many systems sitting along this axis but not be altogether that clear for there to be a strong argument to typologize a purely non-state system versus a some-state, or all-state system. The definition of non-state market drive governance (NSMD) drives a wedge between a system like the Forest Stewardship Council (FSC) and the Kimberley Process because the latter involved coordination at the state level, even while the FSC can also coordinate directly with states to encourage adoption of their standard as domestic policy (Gulbrandsen 2010).

Making NSMDs distinct from state programs is important for its ability highlight the rising importance of private spheres of power. Yet, it also constrains analysis to a reduced subset of systems. Comparisons between purely private standards and those with some state involvement can be helpful in understanding the relationship between the two and their joint impact on a market. There are important similarities across TNG organizations that span the State-NGO-Firm spectrum that are important enough to study, namely: when and how states get involved; will purely non-state systems arise to compete against state-supported systems; do systems differ in their impact on the social market; which systems are more effective?

Bringing these various organizations together strengthens our ability to highlight how State involvement can lead to differences in outcomes when other variables are held constant. In Bernstein and Cashore’s (2007) framing, an NSMD would not include the German Blue Angel ecolabel because it is created at the impetus of the state. Nor would it include any of the voluntary standards or ecolabels developed with any state involvement, including: Nordic Swan, Green Seal (USA), Ecologo (Canada), or any of the 25 nationally sponsored eco-labels. Organics standards are often created and certified through state agencies, but this does not tell the entire story of ethically grown foods. In the US, for example, USDA standards and the entry of large multinationals into the now multi-billion dollar organics food market has left an opening for other, non-state bound, ethical food standards to emerge (Courville 2006; Harrison 2008; Howard and Allen 2006, 2010; Sawyer, Ker and Hobbs 2008). These are evidence of multiplicity within the ethical food market, and can not be studied in isolation of the state-based standards. These state-based standards function like non-state based labeling initiatives. While standards are agreed upon within a state agency, participation is voluntary and rewards are sought out in the marketplace. Distinction between state and non-state voluntary standards leads to analytical limitation that persists in Abbot and Snidal's model as well (2006). State-based initiatives, such as the ones listed above, are categorized differently from the non-state initiatives that seek to achieve similar ends, such as the FSC, FLA, or SFI. The categorization problem is highlighted even more when the FSC and SFI are seen as categorically distinct when they are actually two competing systems within the same norm-market nexus.[6] Creating separate conceptual categories for groups that use similar methods to achieve change within the marketplace limits our ability to compare across systems and answer one of the most fundamental questions for TNG: how does State, Firm, or NGO involvement change outcomes?

[6] In other words, they establish competing standards to address the same emerging norm, sustainably grown forests, within similar markets, in the United States.

While some cases may fit well in one type versus another, there is evolving a global sphere of governance with significant overlap and coordination and interactions between states and private actors (Eberlein, Abbott, Black, Meidinger and Wood 2014, Overdevest and Zeitlin 2014). This evolving governance sphere demands of scholars the ability to compare across schemes – whether purely private or not. In order to understand the levers of power for market-based governance systems outside the influence of hard law, this research will aim to study governance systems that are primarily private in nature, but will also seek to compare them against systems that involve some state coordination. Thus, the appropriate starting point is the social market. By social market I mean the marketplace context where a particular norm-set of ethical production meets at product or industry. For example, the coffee social market is where the norms of improved environmental and social conditions surrounding the production of coffee as expressed in the coffee sold to consumers. The forest social market is less product-specific, but encompasses improved environmental practices surrounding the harvesting of lumber for a variety of wood, paper and pulp products which range from paper used by consumers or to create books, to wood furniture.

There are several ways to "slice and dice" voluntary standards, and distinguish them across a variety of factors. This study starts from the position of understanding their similarities first, then highlighting the factors that can inform differences in their evolutionary path. From this starting point, all voluntary standards begin with, broadly, similar intentions: to *set rules, principles or guidelines with the intention of addressing social or environmental externalities of market actors and not covered by state laws and do it without being coerced*. It should be noted that this study is focusing solely on standards that target a change in the behavior of market actors. Specifically, it involves a change in the production methods of certain products or services. One key strategy that these standards systems use – a strategy designed to impose market-based incentives on members, and distinguish members from non-members – involves the use of product labeling, or ecolabels.

I am not interested in creating separate categorizations for these voluntary standards based on whether they were purely private versus some mix of private and public, or whether they were created by firms as a direct challenge to an NGO-based organization, as is the case with the Sustainable Forest Initiative. Nor I am interested in separating out voluntary standards organizations by their economic aims – whether they are nonprofit or for profit organizations does not matter for the study of how they interact with the social market. As already noted, there are over 430 different social and environmental voluntary standards that use ecolabels in the world today (Ecolabel 2013). In 2009, 18% of these standards were run by organizations that described themselves as for-profit, 8% were government run, and the majority was run by non-profits. Most of these standards exist within industries that contain several other standards (Ecolabel 2013).

1.6 Methods and Data Collection

The primary goal of this study is concept formation, elaboration and refinement through descriptive inference rather than theory testing (Ragin 2004). That said, I do delve deeply into potential explanatory factors, including tallying of indexes based on a survey of key variables across voluntary standards organizations and social markets. I aim to extend of how and why voluntary standards emergence and compete. Given the inchoate nature of these systems, there lacks a comprehensive analytical framework that is sufficiently broad and inclusive to be able to propose incisive hypothesis around the phenomenon; especially related to what I argue is an essential facet of these systems: the existence of multiplicity within social markets. This study will extend current scholarship by refining the concepts related to the emergence and competition of systems, propose logics of interaction between and among systems, and explore frameworks for the benefit of future hypothesis testing. I will make use of case-based research strategy (Yin 2011) in order to meet two following goals: 1) substantiate and corroborate a three-stage framework exploring the emergence of voluntary standards and the overarching thesis of *market integration*; 2) examine the *logic of multiplicity* – why some social markets have more multiplicity than other markets, and why some markets have none at all.

Descriptive and explanatory case-based analysis has been selected as the best strategy to achieve the two aforementioned goals. Yin (1984, p. 23) defines a case study as an empirical inquiry that "investigates a contemporary phenomenon in depth and within its real-life context” which is particularly suitable when “the boundaries between phenomenon and context are not clearly evident.” He further notes that the case-study inquiry is useful for dealing with the unfortunate situation of having more variables of interest than data; consequently, it incorporates evidence from multiple sources and relies on theory to guide data collection and analysis. According to Yin (1984), a case study thus is an all-encompassing method covering the logic of design, data collection, and data analysis. Yin’s observations form the basis for the reasoning in this study to use case-based analysis, which is summarized in the following three points.

First, due to the underexplored nature of voluntary standards systems, specifically the interaction between and among systems, there lacks a common analytical framework that can be applied to the concept of multiplicity. Second, while existing literature is robust and accurate in placing these systems within the broader context of private forms of global governance, there is insufficient research focused specifically on the interaction effects between systems. Third, while there may be sufficient cases from which researcher can gather and examine data for large-n statistical analysis, the appropriate questions and hypotheses related to the interaction of systems within social markets remains underexplored. A case-based strategy is used here in order to hone in on the general concepts of multiplicity and potential analytical frameworks, furthering the goal of identifying the relevant data to be gathered for future hypothesis testing.

This does not mean that the case-based analysis is only qualitative in nature. Instead, I will gather and present data that is quantitative in nature, including the development of various indexes to measure change within and across systems. While the data is quantitative, there are insufficient observations in this study in order to employ a methodologically quantitative analysis of my data. Instead, the indexes created and examined in this study are used to elucidate observations related to the logics of market integration and multiplicity that form the overarching argument for this study. Below I elaborate on the methods and data collection related to these logics...

1.6.1 Market Integration

I am proposing logic behind how social markets evolve, and seek to understand this pattern. The analysis is descriptive in nature, although I do seek to organize the observations into a dataset from which I derive two key indexes representing degrees of change related to market integration within and across voluntary standards organizations. Observations will focus on the way in which a social movement transitions from its earliest stages of emergence, formalizes into a voluntary standard organization, and eventually makes its way into the marketplace where it will attempt to change the status quo of business practices to align with the movement's normative cause. I expect to see evidence that the social market will evolve from being subject to influences and powers of advocacy and activism, to being itself a reflection of the market within which it operates. More specifically, the coffee social market will aim to enhance and improve its legitimacy in its earliest stages, but gradually adopt the practices, processed, incentives, language and strategies of market actors. In this observation, change will occur over time, and more specifically defined by the three stages of growth I propose as a framework for observing social market development.

I organize my observations into a Market Integration Dataset. The market integration dataset is intended to explore logic of market integration – that social markets tend away from legitimacy and toward market integration. The two principle observations within the dataset are 1) an index for the value of legitimacy (accounting for attributes of procedural and constituent legitimacy), and 2) an index for the degree of integration towards the market, including the adoption of market norms, incentives and actors.

The market integration dataset provides a snapshot of the voluntary standards within the coffee social market in August and September of 2012. I use a variety of sources to create the dataset including several interviews with representatives of the standards organizations, as well as practitioners in the social market from roasters, intermediaries and retailers of certified coffee. I also leverage information gleaned from informal contacts and conversations in 2011 with experts in the field of certification, including consultants and members of the ISEAL Alliance (The International Social and Environmental Accreditation and Labelling). I also gather information from publicly available data on the standards and the organizations available on the Internet. Having been the subject of much research over the past several years, these organizations have become quite efficient at making data and documents available, as well as making themselves available for interviews, with one exception. The FLO has set a policy not to respond to individual requests for interviews, but instead has focused on making much of their information available online. While this dataset aims at quantifying and testing data about changes within the social market, it remains limited by the number of cases to be analysis, specifically the number of standards organizations within the social market: eight. Thus, the data can only be described for general patterns, but tests for statistical significance would have to be performed in future research. In Chapter 5, I narrow down the observation of Market Integration into two indexes, which consolidate details about the organizations. These two indexes are elaborated on below.

1.6.1.1 Procedural Legitimacy Index

The adoption of elements meant to increase an organization's legitimacy, as measured by elements of procedural and constituent legitimacy is expected to decrease across social markets where the earlier standards will adopt higher levels of procedural legitimacy and later standards will have lower levels of legitimacy.

I focus on procedural legitimacy to limit the index to a composite of values that are more quantifiable and objective in nature than other aspects of legitimacy, such as perceived legitimacy or pragmatic legitimacy (Suchman 1995). As I have argued in the previous chapter, these procedural elements of legitimacy, derived and adopted from existing literature on the institutional design of new governance

(Bäckstrand 2006; Bernstein and Cashore 2007; Buchanan 2003; Held & Koenig-Archibugi 2005; Payne and Samhut 2004, Vallejo & Hauselman 2004) are a good proxy for the battle for legitimacy as a whole based on existing scholarly arguments which suggest the imperative a key institutional and organizational elements that characterize a battle for legitimacy (Bernstein and Cashore 2007; Vallejo and Hauselman 2004). This point is worth emphasizing as it informs the data selection used in this chapter to create a proxy for the otherwise nebulous and intangible virtue of legitimacy for purposes of measuring, or at the very least, determining the existence of legitimacy among standards organizations. According to Buchanan (2003), civil society groups have focused on "their collective efforts on issues relating to procedural legitimacy, including accountability, openness, and transparency" (p673). Bernstein and Cashore 2007 raises the same issue but provide some detail on what these procedural elements may be, which correspond well with observable and measurable organizational elements. First, the greater the range of members in an organization, while more difficult to gain support, once achieved, it will enjoy greater legitimacy than systems with narrower ranges of members. Second, procedure structures that ensure stakeholder access and deliberation, and accountability to those affected by decisions, enhance legitimacy. Finally, legitimacy can be observed when the norms an organization supports are widely accepted (this can be measured as a function of the range of stakeholders included in the organization). I elaborate on these two categories of legitimacy below. The goal of the analysis in the following section is to understanding, first, if the FLO met the requirements of legitimacy based on these two categories of attributes. I will show that it did, which indicated the rejection of the hypothesis that subsequent standards organizations emerge when there is a lack of legitimacy in the original and dominant standard. Second, I assess how much subsequent systems adopted these elements of legitimacy. I will show that these elements of legitimacy are gradually rejected by standards systems.

Vallejo and Hauselman (2004, p3) note that legitimacy "depends on the level of acceptance by the different direct stakeholders and external audiences. Issues of representation, inclusiveness and transparency will be critical to building the necessary trust for legitimacy. Additionally, legitimacy depends on the ability of the process to engage the stakeholders in a meaningful dialogue in which they feel ownership and the possibility to derive benefits. This requires full transparency, openness and respect." This belief leads to their conclusion that a central tenet for the legitimacy of a governance system is "a process of negotiation and power balance" (p2) Distilling the observable elements required for this legitimacy, I list the following: a multi-stakeholder membership organization; direct participation of stakeholders in policy making; institutional checks on power; a process to report grievances; third party verification of compliance

In addition to developing the necessary processes, Cashore and Bernstein (2007) argue that a broad list of stakeholders, evidence of a widely accepted norm, is also necessary for legitimacy. I add to this by arguing that not all stakeholders are alike. A long list of for-profit businesses may not be as strong a contributor to legitimacy as a broad mix of advocacy groups, industry associations, the UN or other international non-governmental organizations, umbrella organizations (such as ISEAL) or even States. Thus, the quality – so to speak – of the stakeholders in addition to quantity should also be considered. These include: environmental and social groups; the UN; States; umbrella organizations (such as ISEAL, The International Social and Environmental Accreditation and Labelling Alliance); industry support.

1.6.1.2 Market Integration Index

The index value for the increased integration of market dynamics, norms, principles, and people into the organization is an innovation in the perspective of voluntary standards. The observation of these data is based on the premise, fundamental to this study and this research program, that the market itself is a valid political arena within which governance emerges, where political bargaining incurs, and where legitimacy is sought.

The market integration index is created by consolidating and coding for information on the organization (is it for profit, or non-profit), the details of the constituency base (are the organization's members and constituents all firms, all activists, or a mix?). Moreover, since the organization's leadership is both a reflection of the organization's culture and goals, as well as a factor that influences these facets of the organization, I observe how an organization's leadership may change as the social market matures. Finally, I code to differences in an organization's strategy through a combination of publicly available information and interviews. Additional details on the coding of this index are provided in Chapter 5.

1.6.1.3 Factors Influencing Market Integration

One key premise of the market integration argument is that aspects of the organizations change as a social market develops. There is one key point in time that was already surpassed in the social market – that the social movement has been formalized into a voluntary standards organization. This represents the second stage of social market development. After this stage, the social market enters into a stage of market institutionalization, which is to say that it begins to shed the elements of advocacy and activism while taking on the characteristics of market actors, albeit with the new norm-set internalized into their operations and strategies. Yet there are degrees of social market development even in this final stage. As the social market continues to develop, the legitimacy of the market is further affirmed, and the need for organization-level political legitimacy wanes.

The change happens temporally – the longer a social market, built upon the tenets of a newly established norm-set, operates, interacts, and delivers on its promise, the more legitimacy the market becomes, and the more the organizations will have to contend with the dynamics and constraints of the market. In a social market where comparisons can not be made across several organizations, the important independent variable would be time. The change also happens in an ordinal fashion. As each new standard emerges, it pushes the social market further towards legitimacy and integration with the market, and removes the conditions that would force new organizations to comply with the requirements of legitimacy set by the original social movement. New organizations will be less likely to take on the procedural elements that original systems once fought to establish as key elements of their legitimacy, and opt for greater reliance on brand differentiation and segmentation (targeting new and specific constituent base in the market). Given the degree of multiplicity present in the social market, there are sufficient observations to compare across organizations – that is to say the ordinal value or position of standards organizations represent change along the independent variable.

Given the three-stage analytical framework that guides this research, some historical perspective is required in order to evaluate the motivations behind organizational change at different stages of its development. While the need to show credibility and legitimacy will dominate an organization's early formation, it will be the characteristics of the social market, the political centralization and the opportunities for differentiation that will be explored as later-stage explanatory factors of change. Since, it is the organization's *decision process* related to these environmental conditions that I am seeking to observe and identify, the method of within-case observation will be used to study the case of the coffee social market from its earliest stages of development through the stage of market institutionalization and multiplicity (Collier, Mahoney and Seawright 2004, p96).

The purpose of the in-depth case analysis is two-fold: first, to test the assumptions around the three-stage analytical framework and the mechanisms, motivations and variables that promote change from one stage to another; second, it will allow the identification of a set of data points for the independent variables to be compared across standards organizations, allowing for the testing of hypotheses following the logic of market integration and the logic of multiplicity discussed above. Thus the "case" in this analysis will shift from the coffee social market to the voluntary standards organizations that constitute the multiplicity of standards within that social market. While still qualitative and case-based in nature, the analysis is a cross-case small-N research method relying on a set of data and measures to compare across cases. The set of hypotheses in this part of the analysis will focus on the logic of market integration in order to understand the motivations behind the emergence of competing organization, the changing nature of these organizations, as well to create a pattern of behavior surrounding the segmentation of standards within a marketplace.

1.6.2 Multiplicity

Multiplicity occurs after a social market matures and other variables begin to replace legitimacy as dominant factors of change. This observation requires a snapshot of several social markets and evaluates the validity of certain key independent variables to explain differences across these markets. These observations will provide the necessary test of external validity for the logic of multiplicity, and the perception of competition across social markets.

Principally, I am aiming to explore differences in multiplicity – higher or lower multiplicity. However, the degree of multiplicity is symptomatic of differences in conditions of the social market (independent variables elaborated on below) that lead to other realities as well. A situation of very high centralization of power leads to the lowest multiplicity, but it also means that there is the highest likelihood that no standards exist whatsoever. If a standard does emerge, it will be because the dominant powers of the industry coordinated at the highest levels, which is more likely to involve the coordination with states, the United Nations, or similar international non-governmental organizations (IGO). In other words, I am looking for higher or lower degrees of procedural legitimacy. Further, since one standard dominates, there is the lowest likelihood that market segmentation occurs, that is to say, that differing standards or labels will exist for different consumers. The degree of market segmentation is also observable in the dependent variable. If there is fewer market segmentation, but lower levels of centralization, existing standards may be more inclined to compete directly for constituents, thus the presence of direct competition is observed.

The social markets to be tested are selected to provide variance across quadrants with focus on degree of multiplicity. These include the following social markets: Forest, Fisheries (wild, not farmer, fish), Tourism, National Brands (several products), Diamonds, Infant Food formula, Organic foods, Gold Mining, Banking and finance, Sugarcane, Tea, and Clothing (textiles).

1.6.2.1 Factors Influencing Multiplicity

The logic of multiplicity provides a framework for understanding competition within social markets. Competition emerges from within the business sector and non-profit sector, so the logic must incorporate factors from both. In its simplest form, standards entrepreneurs, whether from within firms or NGOs, or independent actors, survey the environment within which they seek to emerge and choose the path towards the greatest benefit relative to costs. As an indicator of the cost to compete within an industry, I evaluate ***political concentration*** within the industry. The premise is that more concentration industries, where power is centralized economically and politically, will be more difficult to penetrate and compete within. Instead, politically centralized industries will grow more centralized as standards entrepreneurs will be less inclined to bear the cost of creating a separate nucleus of power; unless, the benefits of differentiation and segmentation are high.

To determine centralization of power, I examine five factors including: *industry concentration* as measured by portion of industry revenue controlled by top firms; *power asymmetries* as measured by Gereffi et al. (2005) model of governance power within markets; *state based concentration* measured by whether or not the industry is connected within and segregated by state economies; *industry associations* centralization based on the presence of major international industry associations covering the majority of the industry, and *major NGOs* which evaluates the power and presence of one or a few major NGOs that would dominate the market.

The ***opportunities for differentiation*** provide the benefit side of the equation. The logic of differentiation is that standards will be more likely to emerge when there are greater opportunities to differentiate products based on branding and market segments. While coding is done to evaluate the degree of opportunities within a social market, there is also a qualitative difference in the segmentation of markets that will inform how multiplicity will occur. Segmentation of standards follow the segmentation of the industry, where product segments based on psychographic differences in the population of consumers will lead to product-level segmentation, and retailer-level segmentation based on the retail brand power will lead to company level standards.

To determine opportunities for differentiation, I examine four factors including: *Producer/Buyer Driven* based on the type of industry; whether or not *Standards Target Consumers*; either with ecolabels or other means of communication; whether there is strong *Brand Recognition* of certified product or service, and whether markets are segmented based on *Consumer Psychographics*. These will be elaborated on in Chapter 6.

1.6.3 Data Collection

Data collection will involve a variety of sources and coding methods, including a qualitative analysis of the coffee social market in case form, a dataset of key variables for the various competing standards organizations within the coffee social market, a separate dataset of organizations across a number of other social markets, and a case analysis of these same social markets. The original research in this study is obtained field research and participatory observation during 11 months at AccountAbility in NYC where I engaged in dozens of conversations and meeting, and was involved in a three-day intensive workshop where an industry association (the International Association of Infant Food Manufacturers) debated the possibility of developing their own standard. Extensive interviews in Pittsburgh with Thread International, a standards organization in the textile social market, interviews with members of the coffee social market, as well as a multi-year, multi-city and state collection of data on coffee prices across the US.

The Coffee Social Market Case Study up to the point of multiplicity, which includes the early stages and emergence of the fair trade movement, the formalization of the fair trade movement into an international standards setting organization, as well as its initial penetration into the market place, will be researched using a list of primary data collected through semi-structured interviews, as well as secondary data provided by these organizations or available to the wider public, and other research on these organizations.

Semi-structured interviews were conducted with a list of officers working within the voluntary organizations in the coffee social market, as well as with business owners, ISEAL advisors, and CSR experts at various corporations. Interview notes transcribed and categorized into a research spreadsheet and used as input to the case study and the creation of the dataset on multiplicity. Secondary source material was obtained directly from the interviewees. These include annual reports, strategic documents not available on-line and internal research documents.

The Coffee Multiplicity Dataset used in the analysis of multiplicity in the coffee social market was created primarily from secondary source material, with important components sourced from primary source material obtained from interviews. New research was performed on coffee pricing in order to test a relationship between the stringency of standards and market segmentation. Coffee pricing was obtained from over 100 locations across the United States from 2009 through 2012 and documented in a spreadsheet used for future analysis.

The Global Multiplicity Dataset was created from material available from an ecolabel dataset at ecolabelindex.com. The dataset contains information on 411 different standards uses information from the ecolabelindex.com repository as well as data obtained from secondary source material from a variety of publicly available sources.

Furthermore, extensive interviews across a period of over 12 months with the Chief Executive Office and Chief Operating Officer at Thread International, a for-profit social venture company developing an ecolabels for socially sourced recycled fibers used in clothing.

1.6.3.1 Why was the Coffee Social Market Selected?

Given the varied state of maturity across social markets, the ability to observe change across all stages, including sufficient observation of multiplicity, is not always possible. I have selected one of the earliest social markets and pioneers of ecolabeling, the coffee social market. It provides an example of a strong, seemingly dominant early voluntary standard that “checked all the boxes” relative to principles of multilateralism and legitimacy, yet still contends with a rich and diverse group of competitor coffee standards, some from other NGO and others from firms.

1.7 Outline for Remaining Chapters

This introductory chapter has introduced the research problem, highlighted its significance in the field of international relations, provided an overview of the analytical framework used in this research, highlighted the organizations observed, and described the methods and sources of primary and secondary data.

Chapter 2 reviews existing literature in order to highlight the gaps this research will address. Specifically, it highlights the inconsistency of using legitimacy as an explanatory variable for multiplicity, and shifts the focus of explanatory variables on the social market itself. Namely, the political and economic conditions of the social market and how they can explain the rise of voluntary standards. These variables include the political and economic centralization of the industry within which the social market operates, but of which are good indicators of the potential or challenges for new standards organizations to thrive. The political centralization of an industry is a new variable that I introduce in this research and acts to formalize and measure the often discussed but rarely measured overlapping space between politics and markets. The more decentralized an industry, the more opportunity for new standards organizations to arise. Likewise, since a key driver of firm behavior is the opportunity to differentiate itself and its products within a marketplace, the segmentation of the marketplace and the opportunity to differentiate also acts as a key variable to understand, and predict, multiplicity within a social market. I derive a set of testable hypotheses from the logic of market integration and the logic of multiplicity, and fit them into the three stages of an organization's lifecycle.

Chapter 3 will review the coffee social market through its three-stage lifecycle to test the validity of the lifecycle to be applied to the formation of voluntary standards. The chapter will also begin testing hypotheses related to the factors that explain change from one stage to another, namely that the focus on creating a perception of legitimacy is instrumental in the early creation of the organization, but the factors of change quickly shift towards the economic and political conditions of the coffee market. The case used in this chapter is of the earliest and dominant standard in the social market, the Fair Trade standard as designed and implemented by the Fair Labeling Organization (FLO).

Chapter 4 provides an in-depth case-based analysis of the competing organizations in the coffee social market. In order to test the hypotheses related to the logic of market integration, namely that the organizations will tend towards market dynamics and steer away from the forms and functions of legitimacy as reflected in their governance structures, processes and procedures, leadership and strategic direction. It will also provide preliminary observations on the economic and political factors that will best explain the rise of multiple systems. The data derived from the study of these systems as documented in this chapter will be input into the Coffee Social Market dataset and used as input into the analysis in the following chapter.

Chapter 5 analyzes the data derived from the observations in chapter 4. Here I hone in on the elements of procedural legitimacy and market integration in order to further test hypotheses from the logic of market integration. Using data I compiled into the *market integration dataset*, I show gradual decline in the adoption of the procedures and organizational forms of early stage voluntary standards seeking legitimacy, with a notable exception with the 4C – the market's explicit mainstream and least stringent standard. I will also show gradual increases in the elements of market integration across organizations, where each new standard takes on additional elements of market integration.

Chapter 6 analyzes data across several social markets in order to test whether the hypotheses surrounding the logic of multiplicity withstands this preliminary test of external validity. While quantitative analysis is more appropriate to test external validity, the number of cases for social market in the way defined in this study can never be high enough to enable a statistically valid analysis. Thus, I rely on the qualitative analysis of several cases as well as the codification of variables derived from these cases.

In Chapter 7 I return my focus back to the coffee social market in order to examine potential patterns of multiplicity within a particular market. Since multiplicity appears to be the expected outcome when certain conditions of centralization and differentiation are encountered, then understanding how these multiple systems interact and engage with each other is a critical component of understanding their governing relationship with their constituents, stakeholders, and the citizen consumer. Two key observations are made. First, that multiplicity does not necessarily mean overlap. Instead, different standards will occupy different market segments – a natural outcome of differentiation. Second, that there are indications that there may be a relationship between the type of market segment and the standards themselves, where higher standards target higher-end consumers and lower standards target mainstream market segments.

Adopting the liberal pluralist perspective (Galston 2002), I do not take a normative position on the standards or norms being observed. I will not value the inherent appropriateness of standards system or norm-set over another, and will not seek to determine the "good." I will also not attempt to evaluate whether standards have the desired policy impact, or if they are more effective with state involvement. Instead, what is of interest is the process that competing institutions engage in to achieve their social, political, and environmental goals. The intent is to step beyond the constructivist analysis of norms evolution to understand how new norms are institutionalized within the marketplace, and how this institutionalization can change a marketplace. The goal is to provide some order to the complex mesh of voluntary standards that have emerged onto the scene over the past few years.

2 VOLUNTARY STANDARDS, A FRAMEWORK

> In the absence of a common language for understanding what the multitude of different sustainability initiatives might actually mean to any one of us, the very promise that such initiatives are meant to bring is undermined.
>
> Jason Potts, 2010 State of Sustainability Review

In this chapter I argue that the current state of literature and research surrounding the emergence and competition of voluntary standards does not correspond well with the logic of the marketplace that they operate in. Highlighting the gaps in the literature provides the necessary context for the analytical framework proposed in this study. This chapter will review the logic surrounding the behavior of firms in the face of changing norms and expectations, and show how existing frameworks related to private authority (Buthe 2004; Cutler, Haufler and Porter 1999; Green 2013), transnational business regulation (Eberlein, Abbott, Black, Meidinger and Wood 2014) and interactions between various forms of private regulation, of non-state market based governance in particular (Bernstein and Cashore 2007, 2008; Cashore 2002a, 2002b; Cashore et al. 2004), voluntary clubs (Prakash and Potoski 2007), corporate social responsibility (McWilliams and Siegel 2001; Vogel 2004; Zadek 2004, 2006a,b, 2007), and of voluntary standards themselves (Manning, Boons, von

Hagen and Reincke 2012)_ – help advance the field, but do not correspond well with observations of multiplicity and interactions between standards. .

This study builds on these studies, but contributes in several key ways. First, I extend the understanding of corporate social responsibility by showing how voluntary standards interact with firm policies and lead to practices aligned with the notion of corporate social responsibility. Tying these two concepts together is critical in gaining a more nuanced and complete understanding of both. Second, I provide a broad perspective on the specific form of transnational business regulation by examining the interactions between standards as key influencers and factors that lead to social markets. Third, I contend that existing theories on voluntary standards focus on legitimacy and firm motivations (Buthe 2004; Mattli and Buthe 2011; Cashore et al 2004; Prakash and Potoski 2007), but do not explain the unique environments that shape how standards evolve and change over time. Most importantly, the notion of multiplicity has been described, but very little research has gone into why multiplicity appears to be the normal state of affairs for voluntary standards. Beyond the dynamic of convergence and divergence (Reinecke, Manning and von Hagen 2012), I aim to understand the conditions that can help explain differences in multiplicity or competition across social markets.

One key point of divergence from existing literature is the perspective that new forms of market governance must first and foremost work to develop legitimacy, which requires taking on multilateral, stakeholder and consensus based, open forms of governance (Bernstein and Cashore 2004a, 2004b, 2007; Prakash and Potoski 2007; Zurn 2004), before gaining power in the marketplace is inconsistent with the rules of social market behavior as informed by the micro behaviors of citizen-consumers, or the strategic behavior of firms. Instead, I argue that legitimacy is critical for organizations at the very earliest stages of a social market, but becomes far less so once the credibility of the norm writ large is established. This is due to the fact that voluntary standards emerge to shift the material consequences of adopting a new norm, which motivates firms to incorporate it as a strategic imperative and seek ways in which to align their market presence to the norm.

This opens up an opportunity for several voluntary standards to emerge without the need to reestablish legitimacy in the marketplace. Once the norm is adopted as a strategic imperative for firms, legitimacy is considered established, and the market subsumes the norm. These latter stage standards, which have been categorized as competing standards, focus on the strategic nature of self-regulation and corporate social responsibility for firms and gain conversion and success by understanding and leveraging the opportunities inherent in the market within which they operate. What motivates these new standards and explains their emergence and competition is therefore not legitimacy, but political and industry centralization and market segmentation. These will be explained through the analytical framework elaborated on in this study. In brief, this chapter will highlight the strategic nature of firms, and show how the evolution of the learning organization (Zadek 2001), which corresponds well with IR perspectives on the internalization of norms for state actors, provides a strong basis for the development of an alternate framework for understanding voluntary standards as market based governance systems. This new framework will be based on two logics – the logic of market integration, and the logic of multiplicity – that will guide the development of hypotheses surrounding voluntary standards in the marketplace. I then present these hypotheses that will be tested in this research and provide a brief overview of the explanatory variables to be explored in the remainder of the dissertation.

2.1 Two Central Questions

a) Does the battle for political legitimacy always explain how and why voluntary standards behave? More specifically, how important is the open, multi-stakeholder, democratic institutional form that aims to promote its own legitimacy in the development of social markets?

b) What explains the emergence of competition (multiplicity) as important form of interaction among standards within the same social market?

2.2 The Complex Web of Private Regulation

There are many labels to describe the emerging phenomena of global governance through private authority. Early studies point to industry self-regulation (Haufler 1999) as nascent forms of what would eventually become the widespread norm of corporate social responsibility (Vogel 2005, 2008), where corporations voluntarily restrain activities to reduce negative, or promote positive, social and environmental impacts. The focus on multinational corporations and their voluntary programs and codes of conducts as key actors in private regulation was necessary to shift the gaze of political scientists towards the important role of non-state actors in international affairs. Among several important contributions, this focus on non-state actors added to the important work within the liberal tradition of international relations that sought to explain cooperation in an anarchic system of states. Regime theory, popularized in the 1980s (Ruggie 1975; Keohane and Nye 1977; Krasner 1983; Kratochwil and Ruggie 1986), showed how cooperation among states is possible through the convergence around regimes, or the "principles, norms, rules, and decision-making procedures around which actor expectations converge." (Krasner 1983) Yet, as Haufler notes, regime theory neglected to include private sector actors into their analysis (2001). Ruggie extends the critique by observing on the literature that "whatever role other transnational actors might play in the context of international regimes […] were filtered through the prism of their influence on governmental or intergovernmental policy processes."(2004 p.4) This call to incorporate private actors gained traction and led to a serious program of research around how private actors themselves begin to set the terms of the debate through private forms of voluntary standards, regulatory schemes and governance (Porter 1993, Haufler 1993, 1997, Cutler *et al.* 1999).

The phenomenon of global governance, and even private regulation, is far more complex and varied, and instead is observed to be a reconstituted complex web of private and public actors (Ruggie 2004). In addition to the influence of private actors, whether they are corporations or civil society organizations, or the behavior of states (Keck and Sikkink 1998), they can also create a web of governance on their own, and often in the absence of government (Rosenau and Czempiel 1992). This view now expands the perspective of power, and the power to govern, within international relations beyond states and adopts a conceptual perspective that more accurately reflects reality: that international relations is highly shaped by the activities not only of states and corporations, but of a wide variety of other actors made up of some combination of states, firms, and civil society.

Abbott and Snidal moved to spread a wide net and incorporate these disparate forms of governance into a framework that includes organizations that are, to varying degrees, a mixture of state, NGO and firm interactions (2009). They reorganized these private and public forms of authority under the umbrella of transnational new governance (TNG). Tied in one form or another to the organizations under this umbrella is a diverse and divergent body of literature, with a variety of scholarship goals.

This study focuses specifically on the type of governance that is interested in reigning in business activity. I align with recent scholarship on Transnational Business Regulation (TBG) that teases away the practices, organizations and forms of private regulation of business from those that exist to alter state policies (Eberlein, Abbott, Black, Meidinger and Wood 2014); an important distinction and helpful framing for this study. This scholarship has seen an explosion of recent research from which this study inherits much of its conceptual heritage. Research on the governance of transnational business has identified conditions for emergence with special emphasis on gaining legitimacy – a necessary precondition for effectiveness (Buthe 2010; Cutler et al. 1999; Dingwerth 2007; Djelic & Sahlin-Andersson 2006; Graz & Nolke 2008; Hall & Biersteker 2002; Vogel 2009). Given the inchoate and complex web of private forms of TBG, most studies have started where it is appropriate to start, by examining individual initiatives (Gulbrandsen 2008; Tamm Hallstrom 2004). While others shy away from focusing on private forms alone, have highlighted private and public partnerships (Donahue and Nye 2002; Backstrand 2008; Borzel & Risse 2005; Pattberg 2010) or multi-stakeholder collaborations (Abbott & Snidal 2009). Others, as in the body of literature on voluntary clubs, have highlighted firm motivations to adopt voluntary forms of TBG (Prakash and Potoski 2005). Certainly, the dominant thread in understanding the emergence of private regulation has focused on the process of gaining legitimacy as a means of authority (Bernstein and Cashore 2007; Black 2008; Meidinger 2008; Richardson and Eberlein 2011). What these studies do no adequately address are what Eberlein, Abbott, Black, Meidinger and Wood (2014) call *interactions* between TBG schemes.

I believe it is worth pausing here to reemphasize that the focus on legitimation of private governance organizations, and specifically voluntary standards – which is a dominant thread in this scholarship – does not consider fully the influence of other systems on each other, nor the interaction between new voluntary standards on the market within which they operate. Yet, since multiplicity is the norm (of the over 440 social and environmental voluntary standards in existence today, most of them coexist with other systems in the same industries and markets), understanding interactions between and among systems should be crucial in understanding when and how these organizations emerge.

Eberlein et al. (2014) propose an analytical framework to help organize the debate and focus research programs around interactions. They provide a broad analysis of existing research, and propose a framework where existing and future research may fit. Their matrix appears comprehensive along two axes: dimension of interaction, and component of regulatory governance. Yet this framework maintains a dyadic perspective on private regulation wherein one organization has an impact on regulatory governance. The dimensions of interaction are thorough, including the following questions: who or what interacts; what are the drivers and shapers of the interaction; the mechanisms and pathways; the character of the interaction; effects of the interaction; and what change over time is there. The potential impacts on regulatory governance also appear thorough, and include: goal and agenda setting; rule formation; implementation; monitoring and information gathering; compliance and enforcement; evaluation and review. My research steps back from this dyadic relationship between organization and governance, and seeks to understand the relationship between voluntary standards and how these co-evolve and co-create social markets. I am therefore less focused on the components of their regulatory governance outlined by Eberlein et al.'s framework. A more appropriate use of their framework for this study is to apply their framework to the social market as a whole.

That said, I acknowledge the important work on the relationship between TBG and state regulation (Bartley 2011; Eberlein and Newman 2008; Meidinger 2001; Wood 2003), but emphasize that more work needs to be done in the area of interactions between voluntary schemes in order to understand them as unique organizations themselves. Below, I begin with an understanding of firm corporate social responsibility to provide a context for interactions between firms and voluntary standards, then examine the role of legitimacy as key influencer and explanatory factor for these interactions. I will argue that legitimacy is an important element for early stage voluntary standards, but does not explain interactions (multiplicity) in later stages, nor does it explain if/when new organizations emerge.

My contribution to this literature is clear: to expand and further the study of interactions between voluntary standards systems, and within social markets. I will demonstrate how voluntary standards co-evolve within social markets based on key elements of those social markets, as well as the order within which a voluntary standard emerges where early-stage standards schemes will seek legitimacy through its procedures and organizational forms, and latter-stage standards schemes will integrate more full with market dynamics. Further, the state of multiplicity – increased interactions – within a social market will be determined by the political centralization of that market, and opportunities for differentiation.

2.3 Theories of the Firm and Social Responsibility

To understand how voluntary standards engage and interact with firms, we must understand how firms make decisions. Regulatory issues surrounding globalization and corporate expansion are inextricably linked to issues of corporate governance and codes of conduct. Since transnational new governance (TNG) institutions aim to regulate transnational business activity (Abbott and Snidal 2009), and their means of regulation necessarily exclude hard laws and regulation, the rise of Corporate Social Responsibility (CSR) is seen as an important response by firms to align behavior with social and environmental goals. As Abbott and Snidal put it, TNG as pertains to international business regulation has “the expressed goal of controlling global production through transnational norms that apply directly to firms and other economic operators.” (Abbott and Snidal 2009, p505) The rise of TNG and CSR go hand in hand, but the two are not one and the same. Understanding the logic of CSR is critical to understanding the logic behind the emergence and growth of voluntary standards.

The CSR debate falls into two dominant camps representing competing perspectives on the role and responsibility of firms. On one hand is the classic liberal, or shareholder theory of the firm, most prominently defended by Milton Friedman, that insists on a uniformly profit-focused firm (Friedman 1970). In this view there is no role for corporate social responsibility; any investments that do not directly yield returns to the shareholder is contrary to the proper role of the firm and would account to unethical behavior on the part of managers. The firm, this view holds, shall not be involved in acts of charity more appropriately suited for groups, private or public, whose objective function is the meeting of social goals and public provisions. This *apparently* draws a sharp line between the pursuit of social causes and profits.

On the other side of the debate is the stakeholder theory of the firm. This view holds that firms are accountable to the varied needs and interests of a diverse set of stakeholders (Brenner 1992; Donaldson and Preston 1995; McWilliams and Siegel 2001). The list of stakeholders is different for every firm but would generally include some degree of representation from employees, suppliers, community members, and customers. This perspective is at once descriptive, normative, instrumental, and managerial (Donaldson and Preston 1995, p66). It is *descriptive* in its attempt to provide a model for what the corporation is. It is *normative* in its attempt to argue how the firm *should* behave. It is *managerial* when it provides a sufficient roadmap to guide corporate managers. And it is also *instrumental* when it establishes a framework to guide the necessary research on – and in often supporting the claim of – an economic relationship between stakeholder sensitivity and economic performance.

Examination of these two perspectives shows that they are only tenuously perceived as mutually exclusive or in contradiction. The similarities between Friedman's perspective and the stakeholder theory are evident: *if* stakeholder sensitivity does support economic success (Barnett 2007; Cochran and Wood 1984; McGuire, Sundgren and Schneeweis 1988; Tsoutsoura 2004) then it is also consistent with Friedman's shareholder theory. Furthermore, a more attentive review of Friedman's position shows that the firm's focus on profit is clearly conditioned with the expectation that executives conform to the "basic rules of the society, both those embodied in law and those embodied in ethical custom." (Friedman 1970, p122) While he does not elaborate on this notion of "basic rules of the society," or "ethical custom," it is clear that Friedman expects executives to act in accordance to more than just the law of the land. With this subtle stipulation in place, one can argue that Friedman leaves open the door for managers to evaluate societal norms and expectations when directing the affairs of the firm. These two propositions – that stakeholder sensitivity can lead to greater profits, and Friedman's insistence on moral behavior beyond written law – shows that the two competing views of the firm are effectively overlapping in important ways.

With this reconciliation made possible, it becomes more evident that what is important in the CSR debate is not how to parse the two textbook theories of the firm, but to observe how and why firms act. On this empirical point, there is no debate: a majority of Fortune 500 firms report to be engaged in corporate social responsibility programs (Governance and Accountability Institute 2012), and these firms often due so through adherence to voluntary standards regimes. The implication of the stakeholder theory, and a more nuanced reading of the shareholder theory as proposed by Friedman, both suggest, as observations of firm behavior confirm, that the firm exists within a larger macro-level social frame to which it responds (Granovetter

1985; 1992). Changing societal norms, expectations, and conventions form the macro-level frame that dictates how firms – even staunchly profit-focused firms – behave. Societal norms, values, customs, and conventions can converge to create the appropriate boundaries within which profit-seeking firms operate. The learning organization will necessarily grow to interact within the appropriate social limitations (Zadek 2004, 2007). The firm takes social positions of responsibility based on its interaction with societal norms, conventions, and expectations for CSR. It is thus more important that researchers expand their questions "beyond the purpose or actions of individual business to understand how [CSR] can lead to changes in the underlying social contract that defines the very nature of business." (Zadek 2007)

Let us examine a simple framework of the micro- and macro-levels of CSR change in order to pinpoint the important gaps in understanding that this research hopes to address. At the micro/firm-level, Zadek (2006) conceives of five CSR stages of interaction and learning reproduced in the table below.

Table 2.1 Corporate Responsibility and Organizational Learning

Stage	*What organizations do*	*Why they do it*
Defensive	Deny practices, outcomes, or responsibilities	To defend against attacks to their reputation that in the short term could affect sales, recruitment, productivity, and brand value
Compliance	Adopt a policy-based compliance approach as a cost of doing business	To mitigate the erosion of economic value in the medium term because of ongoing reputation and litigation risks
Managerial	Embed the societal issue into their core management processes	To mitigate the erosion of economic value in the medium term and to achieve longer-term gains by integrating responsible business practices into their daily operations
Strategic	Integrate the societal issue into their core business strategies	To enhance economic value in the long term and to gain first-mover advantage by aligning strategy and process innovations to the societal issue
Civil	Promote broad industry participation in corporate responsibility	To enhance long-term economic value by overcoming any first-mover disadvantages and realize gains through collective action.

Reproduced from Simon Zadek, *The Civil Corporation*, Earthscan 2007

Just as business learns to adapt to changes in the social and normative environment (the micro-level organizational implications of CSR), so too do the actors, stakeholders, and institutions that form the agents of normative change in society (the macro- and societal-level process). Zadek suggests that emergent norms have the potential to evolve into sustained and enduring institutions that impose changes on firm behavior. The stages of societal learning (Table 2.2) overlap considerably with the norm evolution model proposed by Finnemore and Sikkink (1998) and adapted by Lisbeth Segerlund (2010). All frameworks show an emergent stage based in the ideals of activists and NGOs that slowly gain traction and increase adoption within the existing community of practice. Yet for all these authors, including Bernstein and Cashore (2007), whose framework I examine later, show an end-state where the new norm, the new standard, or the new business practice, becomes de fact, internalized, or institutionalized. Yet the final institutionalized and internalized stage is very different across markets and situations. We observe differences in consolidation, competition, and in the character of the end-state. This research aims to fill this scholarly gap. By building on the consensus developed by other authors, I will apply the lifecycle model to voluntary standards, and shift the lens squarely on the final stage of development to understand how and why these systems all mature in different ways.

Table 2.2 Corporate Responsibility and Societal Learning

Stage	*Characteristics*
Latent	Activist communities and NGOs are aware of the issue There is weak scientific or other hard evidence The issue is largely ignored or dismissed by the business community
Emerging	There is political and media awareness around the issue There is an emerging body of research, but data are still weak Leading businesses experiment with approaches to dealing with the issue
Consolidating	There is an emerging body of business practices around the issue Sector-wide and issue-based voluntary initiatives are established There is litigation and an increasing view of the need for legislation Voluntary standards are developed, and collective action occurs
Institutionalized	Legislation or business norms are established The embedded practices become a normal part of a business excellence model

Reproduced from Simon Zadek, *The Civil Corporation*, Earthscan 2007

2.3.1 *Extensive and Intensive Accountability*

One central message from the organizational learning provided above is that "at no time does the individual business move outside of its own "logic" and basis of accountability. At each step, the business sees the sense within its logic of accountability to its owners (shareholders) in extending the boundaries of what it takes into account. But over time, the macro effect is that the business community (say, in a particular market or sector) incorporates norms of behaviour [sic] that in practice imply a greatly extended basis of accountability." (Zadek 2006: 340) This may sound like an optimistic statement, but it follows a logic that requires as a necessary precondition the engagement of external bodies or organizations that will align *intensive* and *extensive* accountabilities for the firm, a phenomenon that recalibrate a firm's cost-benefit calculus. This is elaborated on below.

The concept of intensive versus extensive accountability introduced by Donahue and Nye (2002) serves to draw the line between the public and private roles of organizations and/or actors and provide strong theoretical parallels to the distinction between the two theories of the firm. Public actors are "answerable to a broad range of constituencies whose interests, on a wide spectrum of dimensions, must be taken into account." (Donahue 2008) This "*extensive* accountability" may involve a variety of success factors, metrics, and/or masters. While not all constituents are equal, actors or organizations exhibiting high extensive accountability are forced to juggle the demands of many as part of their publicly focused roles. Extensive forms of accountability dominate governments and also reflect the dominant form of accountability described by the Stakeholder Theory of the firm. Private organizations, on the other hand, are answerable to a much narrower set of masters. Their goals are generally much more focused and success is a function of one, or several, measures. These private actors are characterized and ruled by "*intensive* accountability," also represent the form of accountability described in the shareholder theory of the firm.

Just as the two theories of the firm overlap, these accountability tendencies are only strict in their ideal forms. Well-run government agencies may create organizational metrics only loosely aligned with their extensive responsibilities in order to function efficiently. Likewise, market-based organizations may be induced to accept levels of extensive accountability in order to meet their intensive goals (Donahue and Nye 2002, p7). In other words, aligning their internal goals (meant to serve shareholders) are made to align with external societal goals (environmental stewardship and social good) they successfully infuse markets with a greater degree of extensive accountability. In this scenario, "market dynamics are not driving business away from an 'intensive' accountability to shareholders to an 'extensive' accountability to diverse stakeholders. Rather, what is happening is that intensive and extensive forms of accountability are becoming more similar, and ultimately equivalent." (Zadek 2006, p340) In this sense, firm compliance with extensive goals is achieved when it is forced to realign its basis of accountability by internalizing accountabilities that were once external.

This now helps us frame the important quest in understanding market-based governance systems and voluntary standards: in what ways do these systems act to align the extensive goals of their organization with the intensive goals of member firms? How are *architectures of accountability* altered in order to impose change on member firms and across market industries? These new forms of governance are central to understanding how macro-level institutions align with micro-level behavior of firms. We can comfortably say that voluntary standards organizations (NSMDs or voluntary clubs) act as meso-level agents that bridge the macro goals with the micro incentives. But what factors are necessary for them to develop? Are their procedural elements designed to gain legitimacy necessary preconditions for success? Understanding these institutions is key to gaining insight into one of the most perplexing issues of global governance.

2.4 Legitimacy and Private Regulation

Voluntary standards are not equivalent to CSR, but are one way that firms alter production methods in order to be more 'socially responsible.' Based on the reasoning above, voluntary standards gain their power from being able to align a firm's intensive and extensive accountability. Why is it then that IR literature on the topic of voluntary standards, non-state market based governance (NSMD), and voluntary clubs consider the achievement of legitimacy the necessary component to establish the power to effect change (Wood 2005; Bernsetin and Cashore 2007; Prakash and Potoski 2010; Black 2008; Fransen 2012; Gulbrandsen 2014)? This, in turn, makes the struggle for legitimacy central in explaining their emergence and competition (Cashore, Auld and Newsom 2002; Cashore et al. 2005; Cashore, Auld, McDermott 2007). These authors, and others suggest that "the central, analytically salient benefit that the members receive for producing the voluntary club's positive externalities is the affiliation with the club's positive brand reputation," (Prakash and Potoski 2007, p, 777) a phenomenon that I argue is similar in intent to gaining legitimacy, but in this case, is done through affiliation to a legitimate club. I posit that a firm need not align with a club to gain legitimacy, but can do so on their own once the social market, write large, has matured.

The following section examines how legitimacy has become an accepted influencer on the development of voluntary standards – a claim that I will argue is important only in early stages of development, and less important in later stages.

2.4.1 Legitimacy and Voluntary Standards

That a struggle for legitimacy is inextricable tied to the development of private regulation is a common, and arguably dominant, thread in existing scholarship (Cashore, Auld and Newsom 2002; Vallejo and Hauselman 2004; Cashore et al. 2005; Wood 2005; Cashore, Auld, McDermott 2007; Black 2008; Fransen 2012; Gulbrandsen 2014). The notion that new private organizations seeking to impose rules and restrictions on other actors must first show evidence legitimacy is fully reasonable, and the research and scholarship is sound. However, I argue that it explains only the earliest stages of development for voluntary standards, and captures a moment in time, rather than the evolving and changed relationship between legitimation and organizations of private regulation.

Vallejo and Hauselman (2004) note that legitimacy "depends on the level of acceptance by the different direct stakeholders and external audiences. Issues of representation, inclusiveness and transparency will be critical to building the necessary trust for legitimacy. Additionally, legitimacy depends on the ability of the process to engage the stakeholders in a meaningful dialogue in which they feel ownership and the possibility to derive benefits. This requires full transparency, openness and respect."(p.3) This belief leads them to conclude that a central tenet for the legitimacy of a governance system is "a process of negotiation and power balance." (Ibid., p2) Distilling the observable elements required for this legitimacy, I list the following: a multi-stakeholder membership organization; direct participation of stakeholders in policy making; institutional checks on Power; a process to report grievances; third party verification of compliance.

They are not alone in tying the following two factors together as primary mechanisms of change: 1) that legitimacy is an essential requirement for the rise of private governance, and 2) that legitimacy is manifested in observable institutional and organizational forms. This emphasis on legitimacy has a history in constructivism, and the legitimacy of norms that these organizations of private regulation seek to promote and enforce. In order to property understand the mechanisms that influence how voluntary standards emerge and compete, this study starts with the underlying logic behind the evolution of norms. It is the construction of new norms and the powers of socialization that reach over into the world of rational, material and strategic consequences to motivate the formation of voluntary standards. Voluntary standards, with their governance structures, certifications and ecolabels, form the necessary organizational layer required to align intensive and extensive accountabilities to promote the growth of CSR among rational market actors. CSR and voluntary standards are distinct but highly interdependent phenomena.

2.4.2 The Legitimation of Private Governance

That change in private governance occurs through a process of legitimation stems from a constructivist understanding of international relations, where ideas and socialization, rather than material preferences, empower and influence behaviors (Adler 2002). This conflicts with a material rationalist perspective, the power to govern comes from an ability to coerce or induce rules. Yet coercion and inducement are often unavailable and in short supply (Hurd 2007) in the international order, and certainly often absent in the area of private governance, where legitimacy fills the void. This notion that legitimacy is necessary to empower organizations of global governance is widely noted, and a uncontroversial tenet of international relations (Claude 1966; Buchanan and Keohane's ,2006; Bernstein 2005; Buthe 2004; Buthe and Mathli 2003, 2005, 2011; Esty 2006, 2007; Zweifel 2006; Zurn 2000; Gulbrandsen 2014; Segerlund 2010; Finnemore and Sikkink 1998; Held 2005; Bäckstrand 2006; Bäckstrand and Saward 2004; Held & Koenig-Archibugi 2005; Payne and Samhut 2004; Scholte 2004; Vallejo & Hauselman 2004; Zurn 2002, 2004; Zurn and Stephen 2010). While a struggle for legitimacy is not the only factor that explains the character of private governance (Meidinger 2009; Perez 2011; Eberlein and Newman 2008; Bartley 2011), it remains a necessary precondition for private governance, and will be examine in this study on this specific point: is it always a necessary precondition for the emergence of certain forms of private governance?

Legitimacy, and more specifically political legitimacy, is the "acceptance and justification of a shared rule by a community" (Bernstein 2005). Political legitimacy helps establish the "worthiness of a political order to be recognized" (Habermas 1979, p. 178), and would be necessary in all forms of governance, including those with distinct rulers, by allowing them to be "more secure in the possession of power and more successful in its exercise" (Claude 1966, p. 368). Legitimacy is thus a central tenet for all rule, therefore not uncontroversial for it to preclude the development of private rule. However, how private rule establishes legitimacy is unique in its manifestation. What does private legitimacy looks like and how can it be attained?

According to Held, "democracy bestows an aura of legitimacy on modern political life: laws, rules, and policies appear justified when they are democratic" (Held 1995, p.1). Bernstein suggests that an increasingly globalized world where political authority should extend across state boundaries, global democracy "*ought to*" follow (2011). Yet, this idea or ideal is fraught with limitations, political and practical in nature. Thus, the question remains, what will provide and enable political legitimation in private organizations of global governance? One scholarly perspective extracts the principles, norms, procedures and ideals of democracy and assigns them as requirements for political legitimation of global governance. Buchanan and Keohane's (2006) call for deliberation, participation and accountability to be the central tenets of political legitimacy in a world without global democratic rule, a call that is echoed by many (Esty 2006, 2007; Zweifel 2006; Zurn 2000).

It is this focus on the principles and norms of democracy, as expressed through the democratic procedures and forms of governance within organizations of private governance that will be examined as observable attempts to gain legitimacy. In brief, copying these 'democratic' forms of processes and procedures within organizations of private governance is a key element towards legitimation of these forms, and will be seen as evidence of struggles for legitimacy (Fuchs, Kalfagianni and Havinga 2009). Absence of these forms, will be seen as evidence that legitimation is a weaker explanation for their development within the global sphere.

2.4.3 Voluntary Standards

Not only is a central premise of the early research on voluntary standards that they "aim to establish political legitimacy," (Bernstein and Cashore 2007, p347), but also that this battle for legitimacy explains why alternative systems arise (Ibid, p361). The rise of the competing firm-based systems in the Forest sector, the Sustainable Forest Initiative (SFI), challenged the Forest Stewardship Council (FSC), the dominant NGO-based standards, by challenging their legitimacy to set standards. In response, they begin their own struggle to be considered as, if not more, legitimate than the FSC. While their focus is on the creation of systems, their framework outlines a process that leads to a political settlement between firms and NGOs where the one standard is considered "the legitimate arena of authority." (Ibid., p356) Yet this stage is an ideal form and does not reflect actual observations in the marketplace. This is evidence by the overwhelming presence of multiplicity across organization, where no such "legitimacy arena of authority" was created within one organization, but seems to exist at the level of the social market more broadly. In these cases of multiplicity, advocacy-led standards coexist and compete alongside other advocacy-led organizations, coalitions of firms, and consortiums including both firms and advocacy groups. Even the forest industry, the principle case examined by these scholars, the SFI and FSC continue to coexist and prosper without there being a need to create one universal program.

Bernstein and Cashore (2007) propose that these new competing organizations will "move toward incorporating characteristics of NSMD systems – they engage in ''mimetic isomorphism,'' which is to copy the dominant organization within their field (Suchman 1995, p589). This is premised on the logic that demands legitimacy to gain acceptance, and that this can partly be achieved in the form of organizational procedures aligned with the norms of international global governance related multilateralism – adapted to private organizations as multistakeholder forms – as a key element in informing how voluntary standards emerge and engage with their constituents. This is one key area that I will evaluate, and ultimately disagree with.

Consistent with the dominant thread in international relations (Bäckstrand 2006; Bäckstrand and Saward 2004; Held & Koenig-Archibugi 2005; Payne and Samhut 2004; Scholte 2004; Vallejo & Hauselman 2004; Zurn 2002, 2004; Zurn and Stephen 2010), as well as outside international relations (Elkin 2006,) Bernstein and Cashore, (2008) reassert that effective institutional design is essential in the emergence and development of these private forms of global governance. Systems must be designed to create a learning environment in which stakeholders can 'build community' that taps into shared understanding of legitimacy among participants." (p. 289) This follows their claim that these non-state forms of governance systems "have tapped into increasing democratic pressures on procedural norms" (Bernstein and Cashore 2007, p12). This follows the work of globalization scholars proposing improved public accountability of international institutions, procedures promoting 'stakeholder democracy' calling for increased collaboration and deliberation between business, civil society and states (Bäckstrand 2006; Bäckstrand and Saward 2004; Held & Koenig-Archibugi 2005; Payne and Samhut 2004; Scholte 2004; Vallejo & Hauselman 2004; Zurn 2002, 2004; Zurn and Stephen 2010). A perspective not uncommon for the institutions of global governance that have, since 1945, followed a paradigm of multilateralism that continues to exist (Zurn 2004, p4). Since multilateralism refers to governance of a decision-making mode in which governmental representatives from different countries coordinate their policies internationally, global governance by private authority based on principles of multilateralism will employ multi-stakeholder governance methods (Bäckstrand 2006; Bäckstrand and Saward 2004; Held & Koenig-Archibugi 2005; Payne and Samhut 2004; Scholte 2004; Vallejo & Hauselman 2004; Zurn 2002, 2004; Zurn and Stephen 2010). These international institutions result in a form of *new multilateralism* driven by global social movements that interact and learn from the top-down Multilateral Economic Institutions such as the IMF, World Band and WTO. They take on forms of multilateralism in an attempt to emulate the traditional power centers (O'Brien 2000).

In this research I make several arguments that aim to continue the effort to appropriately conceptualize the political contests between voluntary standards and their impact on social markets. First, I argue that existing research focuses heavily on legitimacy as an explanatory variable and end-goal, which prohibits a more complete understanding of voluntary standards as highly interactive and interdependent with market actors and forces. Bernstein and Cashore's (2007) original framework first sets aside the factors that would influence who is converted, when, how and why competing systems may emerge. Cashore, Egan, Auld and Newsom (2007) revisit earlier studies (Cashore et al 2004) and seek to understand why the FSC failed to gain traction in Finland where firms created and adopted the Finnish Forest Certification System instead. Observations of the Finnish model allowed them to argue that the Cashore, Auld and Newsom (2004) framework on non-state market based governance needs to be updated in two ways. First, that more attention to the type of product being exported provides insight into the way in which systems evolve. Second, that more attention needed to be placed on the role of a particular region within the broader global context (Cashore et al. 2007, p3). This analysis provides insight into how the standards themselves develop. They show how these factors explain why the Finnish sector did not align to the FSC, in contrast to the forest industry in Sweden; the FSC failed to "become a durable form of political authority." (Ibid., p2)

Continuing the efforts of expanding the analytical framework beyond legitimacy is a global value chain perspective (Bitzer et al. 2008; Muradian and Pelupessy 2005). The global value chain literature (Gereffi 1994; Gereffi et al., 2005) has focused attention on the role of power within supply chain, and the role of lead firms in dictating changes to rules, regulations and standards within industries. Here, the few is that power is exerted from within a firm and imposed on smaller suppliers of this firm, which in turn can have a rippling effect within and across the industry. This is an interesting divergence from legitimacy, where power – inherent in the role of lead firms – is imposed without question. Quite simply, to do business with us, this is how you act. This perspective is extremely helpful in shifting the scholarly gaze from abstract notions of power towards a very matter-of-fact perspective. Yet, the lead firm is not always the first mover, and not always the dominant actor new institutional arrangements of private governance (Bartley 2007).

The lens is further expanded with a recent study by Manning, Boons, von Hagen, and Reinecke (2011) who aim to uncover the "relations and influences between standards and standards organizations, adopting firms and other stakeholders."(p. 4) They explore how the national context, unique in the relations between firms and stakeholders, informs how multiple standards emerge. They hone in on three factors. First, buyer preferences, where powerful buyers motivated by the preferences of their consumer segment, can have disproportionate influence on the adoption of certain standards. Second, producer structures, where the prevalence of large producers versus small producers can influence adoption across states. Third, the influence of national intermediaries – often a hybrid mix of political and economic organizations, most easily associated with industry associations, act to promote one standard versus another. This is an important contribution to the literature that otherwise ignore factors outside the tension between market actors and advocacy groups. This study takes an important step towards shifting the perspective away from the tension between NGO and industry to understand how markets influence standards.

This same study introduces the concept of a 'standards market', which expands the dependent variable to include the interplay of various voluntary standards within an industry. They observe the primary drivers of change within these markets being defined by two countervailing forces. On one hand, standards tend to converge around a general set of rules, while on the other hand, standards organizations strive to differentiate themselves from each other. While they introduce the concept of differentiation for standards organizations, I will also examine differentiation but in a fundamentally different way. Here, differentiation is not the goal of the standards organization, but is the outcome of a choice by standards entrepreneurs that balances the opportunities to differentiation amongst standards with the goal of catering to the strategic imperative of differentiation among firms. It is the firms' need for differentiation, guided by various market segments, that motivates the differentiation among standards.

Second, that the nature of the marketplace and competition is not properly understood as a duality between NGOs and firms. In this view, social markets are defined by the interest of firms on one hand, and norm advocates on the other. Instead, the state of social markets is far more complex and better understood as a network of competing actors and interests. Social markets consists of firms struggling against NGO standards, as well as NGOs competing to offer different standards within the industry, firms with their own standards competing against each other, sometimes aligned with NGOs, with other firms or with no one at all.

Third, the idea that mimetic isomorphism occurs is premised on the centrality of legitimacy as a driving force of social markets. That the norms, principles and practices of the early norm entrepreneurs, advocacy groups and activists will carry over into the later stages of norm evolution and define the nature of the organizational platforms that operate to expand the norm. What we observe in social markets are an array of different organizations from various backgrounds, with different goals and organizational forms, including 18% of all certification systems with ecolabels that are for profit organizations – evidence of a meaningful divergence away from mimetic isomorphism, or copying of the organizations forms, processes and procedures of legitimacy. While the earlier forms of these organizations do morph into similar governance forms, the latter stage organizations do not always take on these forms. Why is this the case? Why do some copy an open, consensus based, stakeholder governance model while others operate as hierarchical forms more akin to firms than NGOs.

Earlier studies added a necessary dimension to our understanding of the motivations surrounding firm-based decisions. Yet, the assumption that it is the battle for legitimacy that will explain the emergence of competing systems may not fit well with current observations. Even these authors call for a revision of their earlier framework to "better incorporate how actors assess the strategic importance of particular domestic settings for the broader global governance project in which NSMD systems are embedded," (Cashore et al 2007: 36) a goal that I adopt in this study.

2.4.4 Reputation and Branding as Legitimacy

How is it that firms can be driven to alter behaviors to reduce negative social and environmental costs? Following Ronald Coase's classic work (1960) on market externalities, that in fact, rational actors who can shift the costs of externalities onto someone else (the broader society), would be inclined to overproduce such products that will allow them to do so. This leads to the conclusion that policy solutions should be designed to create incentives or force actors to internalize their externalities, in other words, to incur the costs of negative externalities. Within a domestic market, states can do this by taxing certain production methods. Yet, for a variety of reasons, states, especially, according to Prakash and Potoski, developing country states, are less willing or able to impose the necessary penalties on firms to correct the situation.

Responding to this gap are voluntary clubs. These organizations are able to encourage participating firms to change behavior by offsetting the costs of reducing negative externalities. According to Prakash and Potoski (2007b), voluntary clubs allow firms to commit to bearing the cost of reducing negative externalities in exchange for access to the club's positive "brand." A club's brand signals to outside stakeholders that the firm is engaging in credible programs and policies by attaching the reputation of the club and its members to the individual firm. It allows firms to share the costs of changed behavior while gaining access to the shared and non-rival good of positive reputation. (Ibid., p777) As Bartley notes, "The keys to applying club theory to voluntary labor standards are (1) to consider the limited credibility of individual strategies and (2) to conceptualize reputation as a "good held in common." (2007a. p110) In order to provide this positive reputation, the club itself would need to establish its own reputation and credibility, in other words, the voluntary club would need to develop its own legitimacy – the goal outlined by Cashore et al.

The club theory perspective offers a helpful heuristic to examine the logic behind voluntary standards. This logic uniquely treats motivation as a rational outcome of the interplay between the costs of market externalities and the ability to tap into the benefits of reputation and legitimacy. Clubs "alter firms' cost-benefit calculus to channel their private self-interest in ways that lead to a reduction of negative externalities." (Prakash and Potoski 2007a, p3) Club theory makes three claims that raise questions critical to this study and motivate further research.

First, club effectiveness relies on its ability to increase the club's legitimacy as expressed through what they call "brand value." This is done through three mechanisms, the first is to increase the number of participants in the club and generate a 'network effect' of participation. The second is to increase the credibility of the club and its members. The third is to develop the procedures and processes to ensure protection against the principle culprit of collection action scenarios: free-riding. The free-rider problem "undermines the production of environmental externalities and thereby dilutes its credibility" (Prakash and Potoski 2007b, p778). Solving this problem is central to ensuring the legitimacy of the club's brand, which ultimately provides the value to outweigh costs of joining. The solution lies in avoiding the information asymmetries that cause market failures to begin with. This requires the club to ensure transparency about compliance and performance by establishing monitoring and sanctioning mechanisms. Likewise, a club with a wider network of participants, a highly credible sponsoring authority and effective monitoring and sanctioning systems will lead to higher brand reputation and stronger standing amongst stakeholders (Ibid, p778) This requirement focuses the necessary element of success for voluntary systems on their ability to gain legitimacy, which is done through institutional designs.

Second, while possible, it is difficult for individual firms to gain the legitimacy required to gain the advantages of clubs. Given that legitimacy hinges on a club's ability to create network effects through wide support, and establish verification and auditing from independent third party evaluators, non-club standards will struggle, and likely fail, when competing with clubs (Prakash and Potoski 2007b: 33). Moreover, given the open and consensus-based design of voluntary clubs, firms would always choose to tap into the benefits of clubs rather than fight the uphill battle of graining legitimacy on their own. Simply put, clubs will be more successful that non-club standards, so the latter is a failing strategy.

These first two points present a puzzle: given their logic and conclusions, how can we make sense of the wide diversity of voluntary programs, including those without the procedural elements required to gain legitimacy, those developed by individual firms, and those that now even develop standards for a profit? According to Bartley, scholars who adopt this thinking "imply that making transnational standards effective is merely a matter of getting the rules and incentives right." (Bartley 2011, p30) Even Vogel observes, "the most important civil regulations are multistakeholder codes, whose governance is shared by firms and nongovernmental organizations (NGOs), and which rely on product and producer certifications. Such codes face the challenge of acquiring legitimacy and of persuading both firms and NGOs of the value of their standards." (Vogel 2007, p261)

This focus on institutional design to increase legitimacy needs to be evaluated given empirical observations.

Third, that voluntary clubs enhance a firm's corporate reputation, the necessary precedent for clubs to offer benefits to members. This is a serious implication that may prove contentious in the face of studies that show a value for firm reputation outside voluntary clubs. The contrast between the two views is this: that the marketplace will value a business' reputation, and more specifically, will value its efforts to align behaviors according to ethical standards more when that business is part of a voluntary clubs. In fact, the literature of norms evolution and, specifically, the norm and institutionalization of corporate social responsibility suggests that the product of corporate reputation – the 'market for virtue' (Vogel 2005) - exists in a space that includes clubs, individual codes of conduct, ethical consumerism and a variety of informal changes in markets.

Given this important body of literature and its claims, it will be important for this study to evaluate the value of legitimacy, as developed through key institutional design elements. It will also be necessary to evaluate if, by what logic and under what conditions, do individual firms develop their own voluntary standards when a club exists in the same social market. Likewise, it will be important to understand the contours of a market for corporate reputation – does it exist only for members of a club, or can all market actors tap into this market on their own? It is therefore important to understand CSR and how norms permeate markets as conditions for the relevance of voluntary clubs.

Moreover, brand benefits from joining clubs are important, but the brand of the club does not always speak to the brand the company is trying to portray or the brand of the product they are trying to sell. In this case, contrary to what Prakash and Potoski suggest (2007a), clubs do not "fail" when their brand is not strong enough, they just encourage the emergence of other clubs. This is not, as this study proposes, a failure of the system rather than it is a evolution of market competition co-determining how voluntary standards develop and social markets grow. This will determine the profile of a social market without relegating it to failed or successful. These terms are not appropriate in this analysis.

Ultimately, the aim for voluntary club theory is to answer the question of why firms adopt voluntary standards, which can in part be answered by the model proposed by voluntary clubs. What it does not address sufficiently is the rise of competing systems and the rise of non-club standards.

2.5 Social Market Framework

Lisbeth Segerlund's study (2010) of the rise of corporate social responsibility as a global norm provides a thorough review of the evolution of the norm based on Finnemore and Sikkink's norm evolution model (1998). While the seminal study by Finnemore and Sikkink examined the behavior of states vis-à-vis rising norms of human rights, and several others have taken the mantle to examine norms influence on domestic politics (Cortell and Davis 2000) or multilateralism (Martin 1992), and approach the question of how norms affect international institutions (Cortell and Davis 1996), this dynamic is severely understudied. Specifically, the study of norms on non-state actors and their impact on the development of private regulation is not well theorized or understood. Segerlund applies the model to non-state actors influenced by new international norms. This crossover from states to firms and NGOs is imperative for understanding how norms can influence actors and change behaviors within the Transnational New Governance universe.

Segerlund bases her study on Finnemore and Sikkink's norms emergence life cycle, but just like the original study, Segerlund focuses on socialization as the driver of change. The norms evolutions life cycle claims that institutions emerge in response to shifting norms, but it does not expand on the logic of the institutions that emerge. They note the rise of new institutions, but what these institutions are and how they result in changed behavior is a drastically understudied phenomenon. This gap is even more evident when, as in Segerlund's study, normative shifts are influencing the behavior of profit-minded market actors. While she examines the social context, she does not address the strategic context in which "actors strategize rationally to reconfigure preferences" (Finnemore and Sikkink 1998: 888). In order to know this, we must understand how new institutions emerge to alter the "behavioral logics that dominate different segments of the life cycle." (Ibid: 888)

Segerlund shows that socialization can act to steer firms in the direction of new norms. But socialization without a rational justification of changed behavior is unsustainable in the marketplace. Self-interest, Cass Sunstein (1997) writes, not virtue, is the motivating force of political behavior. In the long run, a rational justification must be based on the rudimentary drivers of political power. Likewise, marketplace change will have to be rooted in those elements that drive their power: profits, costs, competitive advantage, etc. It is this rational justification that new institutions *must* provide for firms adapting to new norms of CSR. NGOs that promote voluntary standards and their associated certification systems and ecolabels are not themselves incarnations of CSR. Instead, what they do is provide the institutional structure to allow firms to benefit or be punished by their adoption of CSR norms and behaviors. They accomplish the necessary precedent for firms to change: create a market value for firm reputation and a market for virtue (Vogel 2006). Whereas early norm entrepreneurs shift payoffs for firms through negative campaigns or organized boycotts, latter stage institutions will utilize more sophisticated market-based mechanisms to provide the incentives required to allow for the widespread adoption of new norms.

The lack of insight into the diverse set of new institutions leads Segerlund to accept that, after a “tipping point” where a norm becomes far more widely accepted, a stage of consolidation exists where the once-varied expressions of the norm begin to normalize and institutionalize in the same way. This stage, corresponding with Zadek’s Consolidating stage for CSR (see Table 2.1), shows evidence of common business practices, voluntary standards, and steps towards legislation. With consolidation complete, the norm becomes a widely accepted fact of life. This inevitability towards internalization exists in the Finnemore and Sikkink model (1998), in Bernstein and Cashore’s model (2007), and in Zadek’s (2006) shown in Table 2.2 Yet, consolidation does not seem to reflect the diversity of actors, institutions, or norm expressions in the world of voluntary standards. And internalization, while perhaps true for the norm, may not correspond well with the diversity of standards that cater to the same norm. While Segerlund may have observed consolidation around norms of human rights, the reality may point more towards a divergence of practices around a particular norm rather than a consolidation or convergence. If there were a consolidation around what it meant to provide human rights, there would be one standard that all firms abide by. Instead, there are at least 71 different standards (Ecolabel Index 2012) worldwide that offer some degree of social standards related to human rights. Some follow a variant of ISO standards 14024, the ISO Guide 65, or standards from the ILO, but all take the freedom to adapt the standard for their own. While the standards for human rights do tend to converge around a similar set of norms, a central question remains: why not one standard? What seems evident is that there may be some nebulous consolidation around the norm of human rights, but there is a significant divergence around what that means in practice.

Segerlund's study takes the first step at applying Finnemore and Sikkink's norms lifecycle to a political environment where non-state actors are the primary players. However, the study maintains a constructivist analysis that emphasizes socialization as an explanatory factor for change. This is the natural starting point for constructivist-based analysis, but must be revisited when seeking to understand the rise of organizations that capitalize on the changing preferences, identities and social context within the marketplace; a journey that demands rationalist explanations. Since we are aiming to explain change in market actors, market structures, dynamics and incentives must also be understood. Institutions leading to a norm cascade function by effectively altering incentive structures for enough actors to lead to a cascade of adoption. By aligning the *architecture of accountability* of firms and brining together their internal and external behavioral influences. Incentives may be purely social, in which case socialization is a sufficient explanatory factor, or they may be material. In a study of market actors, any exemption of material factors will necessarily be limited.

Standing on the foundation set by Segerlund's study and its insights into how "material and rational considerations are not sufficient to explain" (2010: 33) the rise of CSR, I will accept that socialization and the struggle for legitimacy is a key and central part of early stage norm evolution and the organizations that aim to expand the norm. Yet, heeding the call from Cashore et al (2007) I will build upon existing frameworks with the goal of examining the waning role of legitimacy within social markets, and the increased role of political economic factors of change. The empirical challenge to the assumption of institutional consolidation and convergence, require a slight modification to the norms lifecycle proposed by Finnemore and Sikkink and adapted by Segerlund, and will form the analytical basis for this study.

2.5.1 Three-Stage Analytical Framework

Voluntary standards organizations rise in response to changing norms, and also act to further the norm across a newly norm-infused market, or social market. Their growth is co-dependent with the rise of the norm: as the norm grows and tends towards full socialization or internalization, the manner in which these organizations interact with the marketplace changes. These are the organizations that shift incentives for market actors, gradually transforming the logic of action from appropriateness towards consequence. As this transformation occurs, the governance systems also shift accordingly.

In the early stages of norm evolution, norm entrepreneurs, advocacy groups and activists dominate a social market. The emerging standard organization acts according to the logics dictated by norm entrepreneurs, and is caught in a struggle for political legitimacy. As the social market matures, the standard organization will be engaged in the objective of converting market actors the new norm. This process, corresponding to a *norm cascade*, has been associated with socialization, but will be examined here as the pivot point from an environment dominated by a logic of appropriateness, or socialization, towards one where the new norm can now represent material benefits to market actors leading to a logic of consequence. This argument is based on the necessity to incorporate the logic of corporate social responsibility into the standard lifecycle since it seeks to align its strategies with the choices made by firms. Since a norm cascade is when mass conversion happens, it is the critical point at which socialization becomes less important and firm logics increase in relevance. Increasing political legitimacy was necessary for socialization prior to a cascade. Since the cascade is evidence of successful socialization, other factors necessarily become relevant after it. This is the very point of these standards organizations: to align the norm with market incentives, turning socialization into material advantage. At this stage, change is informed by the political and economic conditions of the social market, specifically the degree of ***political centralization*** of the marketplace. As I will explain later in this chapter, this variable goes beyond a simple assessment of the concentration of the industry, but evaluates the political concentration, which includes market concentration, as well as the relative power concentration of existing market and non-market actors (e.g., states, NGOs, IGOs, industry associations, etc.).

As the social market develops, greater integration with the market occurs, and concerns around political legitimacy further decline. Traditional market actors continue to discover material reasons to adopt the norm, and likewise, new standards organizations emerge. Observations of a *multiplicity* of organizations conflict with theoretical claims of consolidation and conformity of institutions. Instead, what is observed is a divergence of standards and organizations, albeit loosely aligned with the new norm. Consistent with the tendency towards greater market integration, the factors that will explain development in this stage will be understood through market factors. In this case, competition among standards will reflect competition among traditional market actors where ***differentiation*** is key to competitive advantage. Differentiation aligns with market segmentation and explains divergence of standards.

Table 2.3 Social Market Lifecycle

STAGE 1: Emergence	
Description	Norm entrepreneurs act to further their cause and alter conventional production methods.
Actors	Non-profit, voluntary, advocacy, philanthropy, watchdog, charity
Motives	Ideational Commitment
Dominant Factor of Change	Legitimacy
Dominant Logic	Persuasion, Empathy and ideational commitments
Characteristics	Contentious relationship between advocates and market, or no relationship at all.
Impact	Increase transparency, increase reputational costs to market actors, target firms respond to reduce risk of negative impact.

STAGE 2: Non-Market Institutionalization	
Description	Dominance of state, firms, or NGOs. Increasing political legitimacy drives behavior
Actors	Alliances, standards formalized, non profit and advocacy
Motives	Benefits of Coordination, increasing political legitimacy
Dominant Factor of Change	Legitimacy
Dominant Logic	Political bargaining as legitimacy confronts market realities
Characteristics	Institutions created by advocates to change market practices. Policies set by NGO or lead firm or industry consortium and their allies. Shifting from dualistic to collaborative.
Impact	Policies set with aim to increase influence on market actors. Formalization of movement and certification processes enacted.
STAGE 3: Market Institutionalization	
Description	Market segmentation and supply chain opportunities explain divergence of standards. Competing actors rush to fill untapped market niche. Convergence of norm ensues.
Actors	Standards entrepreneurs
Motives	Market expansion. Norm Expansion.
Dominant Factor of Change	Political Centralization and Differentiation
Characteristics	Competition ensues under market rules. Standards entrepreneurs emerge to expand the norm through various market channels. Pure market players compete. Convergence of norm, divergence of standards.
Impact	Convergence of marketplace towards norm-set, and divergence of standards.

2.5.1.1 The Stages

Stage One - Norm Emergence

It is under the assumption of transparency and perfect information that markets can be considered "efficient," and prices an accurate reflection of product value. In other words, it is only when consumers are fully informed can purchases be considered reflective of their preferences and market demand be considered a fair reflection of aggregate preferences. Misleading information related to quality and production processes distort market demand and lead to inaccurate pricing. In this sense, all markets that do not embed information about social costs and values into their production processes, in order to be reflected in their prices, are imperfect and inefficient. Embedding the costs of environmental and/or social externalities into product pricing is centered on the principle of increased transparency, a prerequisite for the proper functioning of any market.

Increasing transparency about undesirable methods of production is the primary objective of stage one actors. Social movement advocates have access to information, usually through their relationship to subject matter experts (Fischer 2000), and seek to make this information more widely known in an attempt to promote their social cause. Norm entrepreneurs, key early actors in the lifecycle of a norm (Finnemore and Sikkink 1998), expose the social and environmental costs of production through a variety of publicity campaigns against private actors. These agents of change set out to persuade others that the existing norm-environment is no longer appropriate and that new norms of behavior are required. The challenge they are presented with is to alter the world's perception of what is appropriate while doing so within existing standards of appropriateness. One common strategy is to be explicitly inappropriate. From the militant tactics of anti-globalization activists in Seattle 1999, the spray-painting of runway models wearing fur coats, and the chaining onto trees targeted by loggers, putting their lives and reputations at risk while garnering the attention required to shock observers out of complacency to reevaluate their position on relevant issues.

The highly publicized campaigns of social advocates force the hand of firms to alter production methods in favor of socially responsible practices. The threat of future costs or decreased profits is enough to force the hands of the responsive firm. Boycotts and pressure campaigns act to shed light on the socially relevant aspects of market transactions and act as rudimentary mechanisms to promote transparency surrounding elements of production not normally pursued in conventional market transactions - the social norms and values of production. These social advocacy campaigns against market actors represent the earliest form of active norm adherents and are the necessary elements to bring conventional market actors into the social market. Adherents are motivated by altruism, empathy and ideals and use persuasion as their primary method of change.

In the earliest phase of norm emergence, norm entrepreneurs are disparate and organized at grassroots levels rather than within the formal organizations of politics. That changes soon thereafter. Coordination and cooperation enable the movement to share resources and work more efficiently at achieving their goals. Formalizing into international non-governmental organizations allows them to funnel funds and expert opinion, both necessary to continue their operation and develop the cognitive frames necessary to persuade. Norm entrepreneurs at the international level require an organizational platform from which to operate and achieve their goals (Finnemore and Sikkink 1998, p899). This formalization of the movement into organizational platforms is a key element of this study since it is the organizational platforms, in this case the organizations creating voluntary standards, that I am most interested in. Given the centrality of these organizations to my study, and the need to distinguish if, how, and when movements formalize into organizations, I adapt the framework in this study by defining this step as a separate stage, Stage 2 Non-Market Institutionalization.

Stage Two – Non-Market institutionalization

Non-Market institutionalization occurs when the organizational platforms that will be used to further promote the norm into the international system are created and formalized. Whereas the first stage of norm emergence in dominated by activists using "inappropriate" tactics to question the status quo, this stage is characterized by new methods aimed at shifting payoff structures for marketplace actors. They see benefits of collaborating and cooperating, and choose to align with existing organizations of transnational governance or create their own. For the state-based analysis of Finnemore and Sikkink, the once-disparate norm entrepreneurs must work through organizational platforms in order to gain the support of states. They align with UN-related organizations, the World Bank, or other NGOs in order to engage directly with states and influence behaviors. Despite being unable to coerce states, these organizational platforms are able to increase adoption of the norm by aligning with "specific sets of international rules and organizations" (Ibid: 900), and help to clarify the contours of the norm and define what constitute its violation and the sanctions for breaking them. In the context of engagement with states, these include those organizations tied to international law and adopt the rules and procedures of multilateral organizations (Finnemore and Sikkink: 900):

> In most cases, for an emergent norm to reach a threshold and move toward the second stage, it must become institutionalized in specific sets of international rules and organizations. Since 1948, emergent norms have increasingly become institutionalized in international law, in the rules of multilateral organizations, and in bilateral foreign policies.

This study differs in that I am observing changes in marketplace norms, and while these norm entrepreneurs often lobby states for new laws, they are primarily trying to change firm behaviors directly. They develop standards that are voluntary, and use strategies, namely ecolabels, as a way to align firms' incentives with adoption of the new norm. These organizations aim to shift payoff structures of actors in order to achieve compliance, but unlike in the situation of states, governance systems that create voluntary standards use market-based incentives to alter firm behavior. This provides an important split from the norm lifecycle model and changes our insight into these organizations of transnational new governance.

The character of these organizations – that they adopt rules and procedures of multistakeholder organizations – continues to be accepted by scholars (Bernstein and Cashore 2007, Cashore 2002a, Finnemore and Sikkink 1998, Zurn 2004). While this seems to hold true for some voluntary standards organizations – certainly most of the early ones – the idea that they maintain certain procedural forms of governance aligned with the principles of multistakeholder organizations does not always hold true in this study. Existing scholarship assumes that adopting these multistakeholder forms of governance are an important way for market-based governance systems to gain legitimacy, and that the battle for legitimacy is an important explanation for the emergence of competing standard systems. This study shows that while legitimacy is an important factor in establishing the earliest voluntary standards within a social market, later standards systems need not rely on legitimacy, nor do they need to maintain the procedural forms associated with attempts to bolster legitimacy, specifically, adopting the principles, procedures and governance structures of multistakeholder organizations in order to be effective agents of change or promoters of new norms. Thus, shifting the explanation of competition away from legitimacy, I focus on the market-based nature of these voluntary standards as they seek to shift incentives for firms to adopt new norms. Only through the imposition of market incentives can an effective market-based governance structure exist, and a norm cascade be achieved.

Stage Three - Market Institutionalization

After achieving success in persuading others of their new norm, a certain contagion occurs and takes the norm through a tipping point towards a cascade. This norm cascade, leveraging a process of international socialization, induces norm breakers to become followers. In their scenario, socialization involves diplomatic praise or censure enforced by material sanctions. Studies have shown how this process occurs in international norms of human and labor rights, the non-use of chemical weapons or the use of mines (Lutz and Sikkink 2001). When enough critical states endorse the new norm, it redefines what is "appropriate" for that relevant subset of states. This contagion occurs because of a successful socialization of states has occurred, and their reputation, legitimacy and international esteem are on line. In the market-based environment, however, a cascade occurs when the organizational platforms of the previous stage successfully align market incentives for firms so as to create market incentives for them to adopt the norm rather than fight it. The organizational platforms of the previous stage shift payoff structures and change the dominant motives for action from a logic of appropriateness, dominated by legitimacy, socialization, reputation and esteem, towards a the logic of consequence[7].

It is a popular notion in the scholarly community that there can be a stage of consolidation of norms, institutions, and standards that precedes the final stage of norm evolution – that of internalization or legislation. This is an optimistic perspective given the belief that competing standards systems complicate the effort of developing widespread policies for industry (Cashore, Auld and Newsom 2004). This framework begins from a different position: that there is a gradual convergence of practices around a newly legitimized norm, but there will also be a divergence of

[7] The logic of consequence applies to the firms that must have market-based reasons for altering production methods, often at their own costs, but these incentives are always predicated on the evolution of the norm across the population of consumers. For these citizen actors, the penetration of the norm remains in the realm of appropriateness, socialization and non-material incentives.

standards, policies, and organizations promulgating the norm. Consolidation will be replaced by segmentation. Segmentation is a function of the opportunities for differentiation within a social market, a key explanatory factor that will be elaborated on in the following section of this chapter.

As the social market develops, which is to say that firms adopt standards for their pragmatic market-related outcomes and incentives, and concerns around political legitimacy decline. Traditional market actors continue to discover material reasons to adopt the norm, and likewise, new standards organizations emerge. Observations of a *multiplicity* of organizations conflict with theoretical claims of consolidation and conformity of institutions. Instead, what is observed is a divergence of standards and organizations, albeit loosely aligned with the new norm. Consistent with the tendency towards greater market integration, the factors that will explain development in this stage will be understood through market factors. In this case, competition among standards will reflect competition among traditional market actors where ***differentiation*** is key to competitive advantage. Since it is the behavior of firms that these standards organizations are seeking to influence, their strive for differentiation is very highly informed by the opportunity for firm and product differentiation and will be ordered according to market segments. Markets are segmented based on the variety group tastes, incomes, geographies, and quality preferences – the same will occur for standards.

While some may see this stage as conflict-based and counter-productive to the social goals aspired to in the earliest stages of market development, the competing systems themselves may view their roles as complementary[8]. The more organizations are competing to offer ethically sourced coffee, for example, the greater the overall awareness of the issue, and eventually, the greater the social impact. The market for virtue is now mature, and there are a variety of ways to benefit from new norms. Unlike previous stages, however, the dominant struggle is not between social advocacy groups and market actors, but between advocacy groups, and among market actors.

[8] See Joint Statement Fairtrade, SAN/Rainforest Alliance & UTZ Certified, http://www.rainforest-alliance.org/newsroom/press-releases/fairtrade-ra-san-utz-statement, https://www.utzcertified.org/en/newsroom/utz-in-the-news/2102-joint-statement-fairtrade-sanrainforest-alliance-a-utz-certified, http://www.4c-coffeeassociation.org/our-services/cooperation-with-other-standards.htmlFebruary 14, 2011. Last accessed May 12, 2012.

2.5.1.2 Arguments, Factors of Change, and Hypotheses

Recall that the analytical framework for this study is premised on the two logics that form the core argument for this study. These are:

1) *The logic of market integration*: Once socialization pushes a norm towards a cascade, the institutions that emerge to expand the norm into the marketplace will seek to increase market adherence to the norm by altering the cost-benefit analysis of market actors. At this stage, the principles and practices of early advocacy groups, including the struggle for legitimacy, and the organizational forms of democratic governance and multilateralism, are replaced by the principles and practices of market expansion. Therefore, we may expect that a more developed and mature social market, as observed through greater multiplicity, will lead to a greater likelihood that organizations will adopt practices, policies and strategies targeting greater market integration, conformity and expansion. Likewise, an increase in multiplicity within social markets will lead to a lower likelihood that standards organizations will adopt institutional elements intent on increasing their political legitimacy.
2) *The logic of multiplicity*: Since voluntary standards systems, like traditional governing systems, aim to increase influence and compliance, we understand their plight as one for increased power to do so. Actors intent on promoting and proliferating norms of ethical production survey the environment within which they seek to emerge and choose the path to power with the greatest benefit relative to costs. Costs and benefits are observed through two variables. First,

costs are evaluated through the political centralization of the social market, where greater centralization of power makes it harder for new entrants to offer alternate solutions (impose their own power), thereby increasing the costs of developing new standards. In highly centralized social markets, new entrants will be less inclined to bear the costs of competing against, and therefore more likely to join, established power centers. Therefore, multiplicity is less likely to occur. Second, benefits are based on the existence of a clear political and market constituency. If a potential new entrant can identify a unique group of people that they will influence and serve, the potential benefits of greater than if all constituencies are currently being targeted and served by existing standards. Therefore, the greater the opportunities for differentiation the greater the potential benefits, and the greater the likelihood that multiplicity occurs.

2.5.1.3 Factors of Change

Changes in two factors that influence how social markets evolve are explored: an industry's ***political centralization*** and opportunities for ***differentiation***. Since voluntary standards systems, like traditional governing systems, aim to increase influence and compliance, we understand their plight as one for increased power. Changes in their behavior are crudely explained by their drive to increase power. Therefore, the factors that influence their evolution are necessarily those that will vary their degree of power and influence in the marketplace. *Each of these factors of change represents an aspect of power specific to market-based governance systems*. Successful governance systems will need to gain strength in each of these, but dominance in one factor tends to reduce the need for strength in another factor. For example, if a voluntary standard gains control of an industry that is highly politically centralized, which can happen with the participation and buy-in of all major parties, or the involvement of states – say, for example the Kimberly Process – then differentiation become less relevant for that system. If the Kimberly Process were to fall apart, then product and brand differentiation may motivate actors across the industry to take on standards of their own.

Each of the variables, elaborated on below, will influence how a system attracts adherents, achieves compliance, creates alliances, influences consumer behavior, and achieves its goals. Since these factors are proposed to inform us of social market development, they will also be examined for their ability to explain if and how competing systems emerge. The basic premise behind these factors is that emerging standards systems will evaluate their opportunities to operate based on the barriers to entry into a social market where a) the more political power is centralized, the more difficult it is to compete politically, and b) the less opportunity for differentiation, the less benefits there are to exist. These variables, along with some corresponding hypotheses are elaborated on below.

Industry Political Centralization

Power is influenced by the political context within which a standards system operates and will be measured as a function of two observed elements of the social market: political concentration and industry economic structure. Industry political centralization is the political equivalent to industry economic structure, where the number and size of major players in that industry measures the concentration of power. For political concentration, this includes the number and size of industry associations and NGOs playing a key role in the governance of the industry. Economic concentration is the fragmentation of the industry based on the number of firms that earn the majority of revenues. Both are elaborated on below.

Political Concentration: A standard that enters a social market where industry players are highly organized will be faced with very different conditions than one that enters a highly fragmented political context. This variable builds upon earlier studies that focus on a battle for legitimacy (Bernstein and Cashore 2007, 2008), but does not assume that multiplicity occurs when legitimacy fails. Instead, it is not legitimacy that fails, but the ability to compete politically that encourages new standards to emerge. A dominant political system shares attributes with a highly legitimized system: strong NGO support, industry support, even state support. But, a standard system may have all the attributes of a highly legitimate system, but still attract competitors. This is the case in the ethical coffee market, where the Fair Labeling Organization (FLO) gained checked off all the boxes for legitimacy, and was perceived as legitimate by competing standards organizations (as per interviews described in chapter 4), yet other systems still emerged. I argue that this occurs because there are alternate political powers within the coffee social market that new standard systems can align with, and these multiple spheres of political power increase the likelihood that multiple systems emerge.

A key attribute of industry political centralization is that power asymmetries occur and the main locus of power will always have more power than newly formed political powers. Centralization occurs when major states are involved in an international non-governmental organization with standard setting objectives, as would be the case in the World Health Organization's standards on infant food formula marketing. Centralization occurs when there is one controlling industry association, or an existing consortium of NGOs, aligned with major firms and states, creating a set of standards aimed at the industry as a whole. In a decentralized power scenario, there are several, credible and legitimate, sources of political power. There may be several prominent industry associations, or NGOs functioning within the market.

Another key element of political centralization relates to the industry governance structure, or supply chain power distributions, as proposed by Gereffi, Humphrey and Sturgeon (2005). The capacity to govern without government – or governance – is highly relevant in an increasingly market-based globalized world. The power to regulate, set standards, and alter behavior exists within markets as a separate dynamic from the regulatory influence and governing power of states. Markets exist in hierarchical forms where certain actors – lead firms – can impose behavioral mandates on firms and actors subordinate to them within the market's supply chain. In other words, governance already exists within markets, even before the insertion of formal structures political scientists call 'non-state market driven governance systems'; even before the introduction of NGOs, with their social causes and public interested campaigns, enter into a market intent on changing behavior. According to Humphrey and Schmitz (2004), supply chain governance is necessary as it determines much of the following four market-critical parameters: what is produced; how it is produced; when it is produced; how much is produced.

Lead firms within various sectors (often several firms) control these parameters thereby imposing supply chain governance over subordinate firms wanting to engage the same market. Governance within a marketplace has power over *what* and *how* production will occur. This is of central importance to the study of market-based governance since they aim to achieve changes in precisely that – the *how* and *what* of production processes and ends. The study of governance power within *supply chains* is important in understanding the power dynamics within a newly formed *supply network*. Gereffi, Humphrey, and Sturgeon (2005) develop a theoretical framework to explain governance patterns in global supply chains. They highlight three variables that explain how global value chains are governed and change, and from these three variables, build a typology of 5 different global governance supply chains each representing different degrees of power asymmetries. On one end of the spectrum is the Market Governance Supply Chain representing a system with minimal power asymmetries across actors. On the other end, are hierarchical governance systems representing transactions internal to a global firm where there is near-complete control for the center over suppliers across the globe.

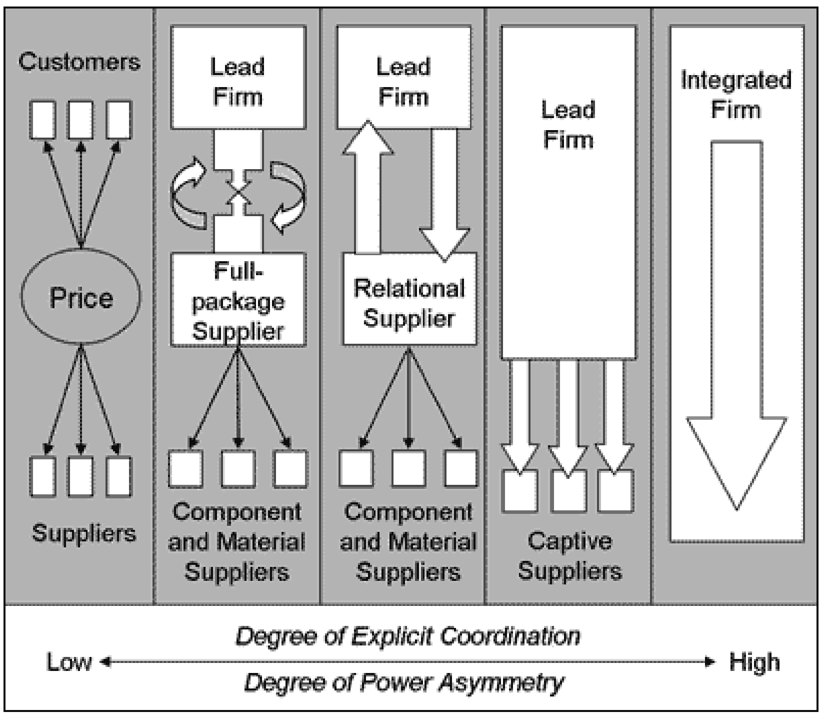
New voluntary standards organizations seeking to manipulate production means and outcomes seek first the consent of actors who will be subject to these changes – in other words, they seek the *power to govern*. Yet when NGOs enter new markets with the goal of establishing a social market, they enter a market with pre-existing power dynamics and governance structures. And just as with the international order of states, power is not ceded easily. Supply-Side success is a direct function of the system's ability to alter supply network structures to shift power to the social market. This power enables the governance system to align supply network actor goals with its own goals.

According to Gereffi et al., there are five basic value chain governance ideal types, referred to as supply-chain structures in this research, from lowest power asymmetry to highest (see Figure 2 below):

1. *Markets:* Representing the lowest presence of power asymmetries (the most equal across suppliers and buyers), where the most important element of this governance type is that there are very low costs for buyer and suppliers to switch to new trading partners.
2. *Modular value chains:* Suppliers produce goods according to buyer specifications. Supplier owns and takes responsibility for competencies, technologies, and capital outlays.
3. *Relational value chains:* Interactions between buyers and sellers are complex with high asset specificity creating mutual dependence which may be managed through reputation, family, or ethnic ties. In other words, trust between actors is critical to managing relationships.

4. *Captive value chain:* Here, because suppliers face significant switching costs, they are highly dependent on buyers. These value-chains are characterized by a high degree of control by lead firms.
5. *Hierarchy:* This represents a vertically integrated value-chain where managerial control, often within the same firm, dictates production specifications to suppliers.

Table 2.4 Value Chain Typology and Power Asymmetries



Source: "The Governance of Global Value Chains." Gereffi, Gary, John Humphrey, and Timothy Sturgeon. 2005

Economic Concentration: "The term "industry structure" refers to the number and size distribution of firms in an industry. The *number of firms* in an industry may run into hundreds or thousands. The existence of a large number of firms in an industry reduces opportunities for coordination among firms in the industry. Hence, generally speaking, the level of competition in an industry rises with the number of firms in the industry. The *size distribution of firms* in an industry is important from the perspective of both business policy and public policy. If all firms in an industry are small in size, relative to the size of the industry, it is a ***fragmented*** industry. If a small number of firms controls a large share of the industry's output or sales, it is a ***consolidated*** industry. The type of competition in fragmented industries is generally very different from that in consolidated (or concentrated) industries.

Beyond the relevance of legitimacy and once a social market is already established through, as we observe in this study, the legitimacy of the primary mover in the standards market, other factors influence the shape of the social market. Standards organizations themselves will shift towards market interests and the social market as a whole does so as well. As an organization shifts, market realities begin to inform their behavior. To understand what market variable in particular inform social markets, we begin with Michael Porter calls the ***industry environment*** within which a standard operates. Porter states "the essence of formulating competitive strategy is relating a company to its environment." (Porter 1980: 3) Since this study proposes that standards organizations take on the attributes of firms within developed social markets, it follows that in order to understand social markets, it is essential to understand their industry environment.

According to Michael Porter, competition within an industry is not mere coincidence, but is determined by the economic structure of that industry. According to Porter there are five key forces that determine the structural environment of an industry and explain the degree of competition therein. The greater the intensity of the five forces, the greater the competition in an industry. These five forces are: Threat of new entrants; Bargaining Power of suppliers; Threat of substitute products; Bargaining power of buyers; Rivalry among existing firms.

A complete examination of these five forces provides analysts a rich and textured array of qualitative and quantitative data from which to understand the competitiveness of an industry. Given that our analysis is of the competition amongst standards, not firms themselves, a complete assessment of the Five Forces would be inappropriate. What is of note to this study is how greater competition within an industry makes coordination amongst firms more difficult. Since standards aim to alter firm behavior, a highly competitive industry will impose significant coordination costs increasing the likelihood that alternative systems emerge. However, the number of firms in an industry does not tell the whole story. An industry with a hundred firms competing for 9% of the market share with the other 91% controlled by one powerful firm (think of Microsoft Windows dominance in the computer operating system space), is very different than an industry with only 10 firms each controlling 10% of the market. In the scenario described, the industry with more firms is actually less competitive than the one with fewer firms. The number of firms within an industry does not, by itself, provide sufficient evidence for fragmentation. Instead of number of firms, the key metric that informs industry competitiveness is the fragmentation of an industry. Industry fragmentation refers to the concentration of firms within an industry.

A highly concentrated industry where a few firms gain a high level of control within an industry leads to threats of monopoly and oligopoly – both would trigger important and necessary policy choices to protect the public interest. To a lesser degree, highly concentrated industries, where a few firms control a large portion of sales and production within an industry would result in less competition and greater opportunities for coordination amongst firms. I extend this premise to standards. More concentrated industries are more difficult for new standards to emerge because firms can coordinate more easily to present a challenge to emerging standards. However, if a standard does break through the challenges presented by firms, it is more likely to become the de facto standard since, in order to have created the standard, it would have successfully aligned with the powerful firms within that industry; the industry's market leaders. Other emergent standards would be faced with the challenge of overcoming the alliance between the existing standard and the market leaders. The costs of coordination for firms and standards organizations are inversely related in concentrated industries: firms have lower costs to coordinate whereas standards organizations face higher costs. In other words: the more concentrated an industry, the less likely the existence of a standard. However, if a standard does exist in a highly concentrated industry, there is less likelihood of a multiplicity of standards.

Conversely, in a highly fragmented industry, coordination costs for firms are high, whereas costs for standards organizations are low. Therefore we can hypothesize that the more fragmented an industry the more likely the existence of a voluntary standards. Furthermore, once a social market is created by the existence of a standard, the costs of creating a new standard drop even more, leading to a higher probability that there is a multiplicity of standards.

A widely used and intuitive measure of industry concentration is the four-firm concentration ratio, or CR4. This measure calculates the combined share of the market of the four largest firms in an industry. The higher the CR4 ratio, the more concentrated an industry. Data of industry concentration based on the analysis of the 4 (CR4) and 8 (CR8) largest firms within an industry is taken from the US Department of Commerce information gathered from the most recent US census and based on the standard North American Industry Classification System (NAICS).

When Industry Political Centralization is low, we observe: lower power asymmetries; multiple major industry associations; multiple major NGOs; economically fragmented industry. When Industry Political Centralization is high, we observe: higher power asymmetries; economically concentrated Industry; few strong industry associations; major NGO or state-based voluntary program; alliances between lead firm(s) and international NGO.

Differentiation

Early norm entrepreneurs use the risk of differentiating a firm for negative practices in the early stages of norm emergence to motivate adherence, and the opportunity to differentiate for positive behavior through eco-labeling is a primary motivator once a standard is firmly established. While protecting the company brand is foremost in explaining early adherence, latter stage adherence, and the choice of which standard to adhere to, is a function of product-level brand differentiation. For product brands, a key driver of differentiation opportunities lies in the industry itself, specifically: market segments. Differentiation opportunities and market segments are discussed below.

Firm brands are worth billions of dollars. Although an abstract notion to some, social advocacy groups have understood the immense value of brand reputation, and have learned how to leverage it to achieve their ends. When norm entrepreneurs appear in the earliest stages of social market development, they attack a company by linking the company name and image to a negative social or environmental reality. If the linking is successful, billions of dollars of value in market capitalization can be lost[9]. Firms are extremely sensitive to brand reputation because, once lost, it can take years, and billions of dollars to recover. In 1999, it was reported that a group of Belgian school children got sick after drinking Coca-Cola from the can. The Belgian government reacted by banning the sale of Coca-Cola for ten days to identify and resolve the issue, a move that cost the company hundreds of millions of dollars in sales. The reaction from the state was costly, but the market reaction was what really hurt: investors panicked plummeting the price per share, and erasing billions of dollars of company value. According to a study by the Global Branding Consultancy, Interbrand (2010), the year Toyota issued a massive recall on faulty gas pedals, it lost 16% of its total brand value, from $31 Billion to $26 Billion, which reflects perfectly

[9] The total net-worth of a company based on the market value of one share multiplied by the total number of outstanding shares.

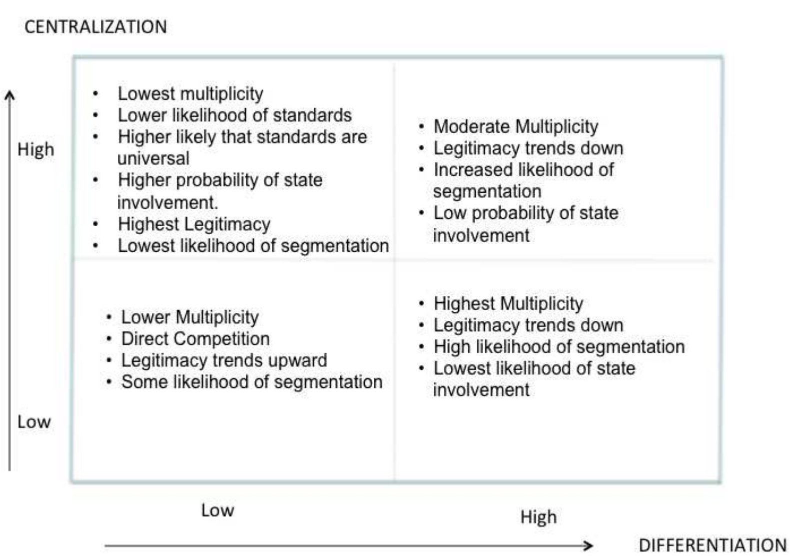
on its total market capitalization, as the total loss in share price from its peak before the recall to November was 16.2%, or $25 Billion in market capitalization.

Yet, branding is not relevant merely at the corporate level. It is also an important variable in product reputation, sales, and positioning. A distinction must be made between corporate-brands and product-brands. One notable observation in social markets is that early stage advocacy groups target firm-brand reputation, whereas later stage certification systems try to offer product-brand reputation a boost. And much like differences in market segmentation, competing standards systems will emerge to offer different branding options loaded with a different set of product implications than those associated with a dominant certification brand.

A market segment refers to the sub-population targeted by the business and can be compared to a governing body's constituency (Goldstein 2007). This can be based on a group's demographic characteristics (age, gender, education, income level, political leanings, etc), geography, or behavioral characteristics. Business-to-business market segments exist as well and can vary according to geography, customer type (industry, size of the organization, position in the value chain), or buyer behavior (relationship and loyalty to suppliers, usage patterns, and order size). A system's policies may be more relevant to one segment versus another, which may influence who and how franchisees are converted, and how competing systems emerge. Understanding the market segment that a system operates in is necessary to understand how competing systems emerge. Competing systems may choose to target a whole new segment of the marketplace with new standards rather than compete directly in the same segment. Market segmentation will also inform us on who becomes a franchisee and why – actors outside the target segment may feel unthreatened by a standard system, whereas actors competing within the same segment will feel compelled to act.

Market segments provide the governance boundaries for systems. Trying to impose a system of standards on a group of actors in a separate market segment may be like trying to get another country to ratify a law passed in another country. A coffee retailer that sells to working class buyers in less developed countries are likely to have no interest in becoming fair trade franchisees. Likewise, a food seller places little value on a product certified USDA organic unless they're selling their products in the United States. These market realities are key structural factors that may help explain latter stage development of voluntary standards, most specifically how and why competing standards emerge to compete.

Table 2.5 Multiplicity Matrix



When differentiation opportunity is low, we observe: producer driven supply chain; business-to-business product offering; low brand recognition of products and/or services; market segments not based on consumer psychographics (e.g., geographic). When differentiation opportunity is high, we observe: buyer driven supply chain; consumer-facing product and brands; high brand recognition of products and/or services; market segments based on consumer psychographics. A matrix summarizing the relationship between the standards and the state of multiplicity and standards competition within an industry is provided above.

3 THE ETHICAL COFFEE SOCIAL MARKET

> Though its roots lie in the Alternative Trade (ATO) movement […] Today, Fair Trade pursues a ‘‘mainstreaming strategy’’ which aims to achieve rapid growth in market share by encouraging corporations, governments, major retailers and other large economic actors to support Fair Trade.
>
> Taylor 2005, p 134

The following chapter presents the emergence and development of ethically produced coffee through the lens of the Three Stage model presented in the previous chapter. It validates the framework of this study by highlighting the distinct motivations, logic and characteristics of each stage of growth, and endorses a key argument for this study: that social markets will tend towards greater market integration, transforming movements into businesses, activists to entrepreneurs, and standards to brands.

The coffee social market began as a movement embedded within a loose network of activist and disparate actors gradually transformed itself from movement, to political organization, to market actor. Throughout this transformation, activist and advocacy interests, are gradually replaced with those of markets and market actors. While the attempt to gain legitimacy is a crucial element to the early formation of the political organization in Stage 2, that goal is eventually overtaken by the need to provide essential business services to producers. The principle factors explaining producer participation in the Fairtrade Labeling Organization (FLO) are market-based: access to new markets information, training and credit. This would not have been the case in an industry dominated by large producers. Instead, it was the economic conditions of the marketplace – highly decentralized and fragmented – that presented the FLO with a key opportunity to empower small producers. The character of the coffee social market is highly dependent on these industry realities.

The decades-old once-disparate fair trade movement has been formalized as a product labeling and certification system regarded as a bellwether in non-state market driven governance, voluntary clubs and standards organizations. The original grass-roots movement of alternative trade organizations (ATO) is now represented by the organization of 24 labeling and producer organizations called the Fairtrade Labeling Organizations International (FLO). The FLO is the organization responsible for coordinating activities of 19 national labeling initiatives across 23 countries, 3 producer networks, and 2 marketing organizations.

At a time when networks move to the center of global governance studies, the FLO stands out as a meta-network connecting a variety of networks, which in turn, include a variety of networked member organizations encompassing for-profit and not-for-profit organizations. Adding to the complexity of the meta-network, within each sub-network exists a stream of producers, retailers, and intermediaries representing the unique supply chains of a product or industry - coffee, tea, chocolate, fruits, crafts, and other products represent distinct supply chain verticals. While some general observations may be made with regard to the overall design and emergence of fair trade norms in economic markets, a more targeted focus will aid the analysis of this study.

3.1 Stage One - Emergence

In the emergence stage of social market development, social norms are supported and provided by non-market actors, norm entrepreneurs who may act to persuade others of the value of the norm. In this stage, the norm is considered latent, but emergent within markets. The dominant factors of change are legitimacy: legitimacy of the new norm versus the status quo. In the case of the coffee social market, very few opponents to the movement raised concerns in this first stage of development.

Emerging norms surrounding the ideals of fair trade are best understood within the larger socio-political framing of global poverty. Global economic trends related to free trade and the ideal of comparative advantage within a globalized economy has been challenged as flawed in their worldwide application (Florini 2000). The growing opposition to powerful global economic interests argues that the benefits of globalized trade are unequally distributed and serve to widen the gap between rich and poor (Goldsmith and Mander 2001; Nader 1993; Stiglitz 2002). Worse, as dependency theorists claim, the unequal terms of trade relegate less developed country producers to the inevitable fate of global serfdom (Munck and O'Hearn 1999). They argue against the dominant ideal of free trade while taking on the mission to achieve fair trade. Yet the fair trade network of alternative trading organizations began even before issues of trade related to globalization penetrated the popular consciousness of liberal minded activists in the North (Nicholls and Opal 2005).

The middle of the twentieth century saw the emergence of organizations intent on promoting social and economic healing after WWII, including the major international organizations such as the World Bank, the International Monetary Fund, and the General Agreement on Tariffs and Trade. Many of these groups had differing tactical objectives but shared the unifying, although somewhat vague objective, of reaching out to poor communities in the "third world." Oxfam, originally created as a national relief committee to persuade the British government to allow essential supplies to German citizens during the naval blockade of the Nazis, eventually broadened its scope to include the relief of suffering arising as a result of wars or of other causes in any part of the world (Renard 2003). Oxfam's network of field staff placed it in a unique position to begin exporting crafts created by these very communities in need of economic development. This trade-based approach to poverty reduction was consistent with the organization's goals of helping communities develop the skills to enable their own development. Producer crafts were purchased directly from the community and sold through volunteer-run Oxfam retail shops. Early retail success encouraged expansion of their "fairly traded" products and quickly become the organization's main source of income. As anti-free trade activist movements became popularized in the 1990s, Oxfam Trading changed its name to Fair Trade (fully, Oxfam Fair Trade Company). In 1998, after a review of Oxfam's trading practices, the organization decided to shift its buying practicing away from direct sourcing of Fair Trade products, to fair trade importers creating the earliest stages of an alternate supply chain of fair trade production. Oxfam continues to sell Fair Trade products through their more than 830 Oxfam shops in the UK.

Contemporaneous to Oxfam's initiatives, several other groups, many of them faith-based, began trading in directly sourced goods with the objective of improving the lives of the world's poor. The evangelical Church of the Brethren created SERRV International (Sales Exchange for Refugee Rehabilitation Vocation) to promote economic development through the "just and direct"[10] purchase and marketing of goods from developed country communities. It continues to function as a non-profit selling approximately $6 Million worth of goods from over 30 countries (Conroy 2007: 304). The Mennonite Central Committee established a market for Puerto Rican embroidery through the SelfHelp Crafts of the World organization. Known today as Ten Thousand Villages, it includes more than 160 nonprofit retail stores in the U.S. and Canada with sales of approximately US $20 million (ibid, p305).

Later organizational manifestations of the development-through-trade movement, called Alternative Trading Organizations (ATOs), emerged with the more self-conscious goal of cutting out the middleman by providing producers direct access to developed country goods. The German ATO now known as Gepa represented one of the earliest examples of a unique market-oriented not-for-profit organization. In other words, it provided real economic value to traditional market actors by providing direct access to third-party products. Yet at the same time, its stated mission was (and continues to be): to promote disadvantaged producers in the South, influence

[10] Church of the Brethren Network. http://www.cob-net.org/serrv.htm, accessed April 26, 2010.

consumer preferences in the North, and change structures of international trade through advocacy[11].

In 1989, several of these ATOs, including Ten Thousand Villages, SERV, Gepa, formed the International Federation of Alternative Trade (IFAT). It was an alliance of cause-oriented trading organizations seeking to increase their knowledge and marketing channels through collaboration. In 1994, Oxfam's network of retail shops merged with other ATOs to form the Network of European World Shops (NEWS), consisting of over 2500 shops in 13 European countries. Also in 1994, U.S. based ATOs, including wholesalers, retailers, and producers, formed the Fair Trade Federation (FTF) with the stated goal of providing economic opportunity to disadvantaged artisans and farmers worldwide.

3.1.1 Analysis

The early stages of the Fair Trade social market consisted of some notable characteristics. First, most, if not all, vendors were not-for-profits that depended heavily on volunteers. Further, since many of these organizations were founded from within other nonprofit or religious groups, their organizational culture and goals were primarily philanthropic, and their approach decidedly not market-oriented. For example, as nonprofits, they paid a higher price for products they sourced directly from craftspeople, yet sold them at prices comparable to similar products that were not fairly traded. Products were sold exclusively at ATO outlets with other fairly

[11] GEPA Facts and Figures, 2008-2009. http://www.gepa.de/p/index.php/mID/1/lan/en accessed April 26, 2010

traded products. While innovative supply-chain tactics were used, specifically direct sourcing from LDC communities, to form a market for socially responsible production methods, little was done to alter conventional markets, change mainstream consumer demand, or infuse competing market products with the same social values. The result was a parallel market for socially-minded production with limited growth potential and no influence on existing conventional markets. The fair trade market before its institutionalization stage resembled a charity network rather than a social market.

In the 1990s, the fair trade network of alternative trading organizations was a vast, well organized, community of shared norms. There was little contention with regards to its broad goals and, although decentralized and independent, the mission of this network of traders was unambiguous and unified. Organizations achieved the overall goal through the organic, unplanned, creation of an alternative market for products benefiting a social cause and funneled ethically minded consumers towards their distinct marketplace. The network was composed entirely of actors and organizations fully dedicated to the overall cause of the movement. The loose nature of the community was not organized for political bargaining, and gathered few foes at that point (Murray and Raynolds 2000). There were many years of building trust amongst consumers and growing at a modest organic rate, enabled it to successfully create a norm infused market for directly sourced crafts from underprivileged communities (Nicholls and Opal 2005).

Preliminary observations on the emergent stage of the ethical coffee social market can be explained by the distinct nature of the actors and the structure of the network as supply chain. Network actors in the emergent stage are advocates, nonprofits, and NGOs driven by an unambiguous social cause. They represent a strong community of shared norms, but do little to hybridize into powerful market actors. Actors in the emergent stage of this market gained supply chain advantage by sourcing directly from producers (this advantage may have been more the result of them having little choice but to source directly, rather than a deliberate strategy on their end), freeing them from the dependence on trade intermediaries. This made them the exclusive purveyors of fair trade goods and crafts, a market niche they filled collaboratively with others in the network. Since ethically sourced goods were sold through charity organizations and wholly dedicated fair trade retail outlets, the market for these norm-infused goods remained within the realm of philanthropy for the sellers and buyers. The relationship between producers and their buyers was based on principles of philanthropy (Murray and Raynolds 2000), for example 22,000 volunteers ran and operated more than 830 Oxfam stores in the UK alone, and other volunteers operated the Mennonite and church run organizations. Likewise, buyers who were necessary to keep the project afloat were engaged in transactions that took place in a parallel universe to traditional markets; they were pure ethical consumers engaged in a non-profit marketplace. So, while their purchases in, for example, a ten thousand villages retail outlet, contains all the elements of a market-based transaction, since the retail outlet is fully dedicated to the parallel network based on philanthropy, it becomes very difficult to tease apart the market-based intentions of the purchase where the consumer has a preference for a product, over the philanthropic actions of the consumer.

On the demand side, power was gained to the advantage of their movement from the well-established roots and expansive distribution of outlets. Market growth and the expansion of their mission were in direct relation to the expansion of their network of actors. Little attempt was made to expand the provision of ethical goods beyond their dedicated outlets thereby inhibiting mainstream penetration. This was a direct consequence of the nature of the actors within the network. Despite the innovative framing of their mission with “trade not aid,” the movement constituted volunteers run by charities, religious organizations, or NGOs, deeply entrenched in the charitable motives for their actions. The network shared a common purpose but did little to coordinate more aggressive initiatives to infuse markets with the values they prescribe. Nor did they attempt to coordinate common standards beyond the general intent of poverty reduction through trade. In effect, the actors within the network were not guided by traditional market forces - forces which some believe enable self-organization (towards greater innovation and efficiencies) or spontaneous coordination - but by social goals. The movement was so entirely advocacy focused that even pressure campaigns against what they considered irresponsible production methods were not used. Mainstream retailers, suppliers, and producers regarded the movement from the outside seeing no threat to their competitive positioning among consumers. This induced no change within the marketplace and created no social market beyond the small, highly cohesive, community of ATOs.

Table 3.1 Stage One Summary

STAGE 1: Emergence	
Description	Descendants of an early network of charitable and faith-based organizations with common goals, yet under no common direction or leadership, formed the core of the fair trade movement. Instead of aiming to alter existing norms of production, they developed a parallel but distinct market for goods that promoted their normative cause.
Actors	Norm entrepreneurs were volunteers, from non-profit, advocacy, or philanthropy, organizations. Notably missing were watchdog organizations. The reason for this is that the fair trade movement did not engage in changing traditional market behavior until they were more formally organized in stage 2 and 3.
Motives	The only thing binding these early disparate actors together was their ideational commitment to supporting developing country craftspeople and producers through trade.
Dominant Factor of Change	Actors sought to gain legitimacy and credibility as representatives of distant craftspeople.
Characteristics	No relationship with traditional market.
Impact	Developing and growing the network of like-minded organization seeking to promote the ideal within their community. Increase awareness of the 'trade not aid.'

3.2 Stage Two – Non Market Institutionalization

Non-market institutionalization occurs when the disparate network of social advocates, NGOs, non-profits, and activists cooperate on the formation of a formal organization aimed at promoting their overlapping social preferences and altering the status quo. These organizations are the cornerstone of new governance studies and constitute a variety of forms including private-public cooperation, industry self-regulation, and conglomeration of firms, NGOs, and states, and non-state systems. While the organizations that constitute this non-market institutionalization are many, they come together under the umbrella of the Fair Labeling Organization (FLO). The FLO formalized the disparate network of advocates, volunteers, and charitable organizations that were the early norm entrepreneurs for fair trade. It was in this stage of development that the fair trade movement gained institutional credibility and prepared itself for a more coordinated penetration of the market.

In 1981 a Dutch missionary with PhDs in Political Economics and Theology, Frans van der Hoff, participated in the launch of Union de Comunidades Indigenas de la Region del Istmo (UCIRI), a cooperative of small scale coffee producers who pooled their resources to gain competitive advantage and bypass oppressive local coffee traders. Eventually, through van def Hoff's contacts and leadership, the cooperative partnered with the Dutch ecumenical development agency, Solidaridad, with the goal of establishing a direct source alternative trading organization for Mexican coffee to be sold in European ATOs.

Faced with the limited scope and reach of ATOs - as Renard notes, in the context of the rhythm and lifestyle of contemporary Western European societies, going to an alternative store to buy only one or two products represents such an effort, even for the most convinced consumers, that such an inconvenience tends to count more than the higher prices of the products (Renard 2003). Van def Hoff, along with Nico Roozen, a Dutch economist, and Solidaridad, launched the Max Havelaar Foundation in 1988. They embarked on the project of integrating direct source coffee into larger conventional market distribution and retail channels. Mainstreaming required the establishment of some preliminary operating procedures meant to enhance creditability among actors outside the movement, but also to create the material incentive for firms to sell their product, namely the establishment of a certification process and label to applied to existing coffee brands. Thus the fair trade labeling initiative began: a certification label for coffee that was sourced according to Max Havelaar fair trade standards, intended for distribution and sale in mainstream retail outlets. This was the first organization that can be tied back to the theoretical claims of Finnemore and Sikkink (1998)- that institutions emerge to alter incentives and push emergent norms towards a cascade of adoption.

With this tactical shift in product marketing and distribution, fair trade pivoted away from the alternative trading network of non-profits, church groups, and charities, in favor of mainstream markets. Similar certification models that aligned with the original Max Havelaar standards and goals were soon adopted in the US and the UK under the Transfair and FairTrade labels (Nicholls and Opal 2005). What follows for fair trade is the process of institutionalization. Formal institutions, such as the one at the center of our study - the Fair Trade Labeling Organization - established policies to operate within and across conventional market industries. While Max Havelaar's product line was wide, this study will focus on the most popular fairly traded product, coffee.

The network of fair trade promoting organizations coordinates policies, procedures, and standards through the umbrella organization, Fairtrade Labelling

Organization. It is under this organization that the fair trade market was formalized and agreed upon social values are promoted. The function of this organization is to promote a set of norms and social values across markets, usually requiring changes in the behavior of some key market actors and/or the promotion of some products over others.

First, it imposes social policies on producers requiring them to comply with the following principles: democratic decision making within producer organizations (a central element for procedural legitimacy); does not discriminate against any social group; training opportunities, no child labor, no forced labor, access to collective bargaining processes and freedom of association of the workforce, condition of employment exceeding legal minimum requirements, adequate occupational safety and health conditions and sufficient facilities for the workforce to manage the Fairtrade Premium (profits earned from traders paying minimum prices on goods)[12].

Second, it tackles the hitherto intractable problem associated with global trade under free-market economic policies. This norm-set is enforced through regular audits of member organizations and complies with the following policy principles: direct purchasing from producers; transparent and long-term trading partnerships, including up-front payment for goods when necessary; agreed minimum prices; focus on development and technical assistance via the payment to suppliers of an agreed social premium.

[12] See fairtrade.net last accessed January 2014

Finally, certification requires producers comply with a set of environmental standards aimed at promoting sustainable agricultural practices. These include: "minimized and safe use of agrochemicals, proper and safe management of waste, maintenance of soil fertility and water resources and no use of genetically modified organisms. Fairtrade Standards do not require organic certification as part of its standards. However, organic production is promoted and is rewarded by higher Fairtrade Minimum Prices for organically grown products" (Ibid)

3.2.1 *Tying the Network Together*

Given the disparate nature of the early fair trade movement, the evident first-step towards a more formal organization is consolidation. After Max Havelaar was successfully established, the loose organization of fair trade advocates around the world sought to tighten their relationship and improve communication and coordinate by establishing the International Federation of Alternative Traders. Members consisted of alternative trade organizations (ATOs), associations, and charitable organizations dedicated to the mission of promoting fair trade. Regional associations with similar goals, such as the European Fair Trade Association, and the Network of European World Shops dedicated specifically to members focused on crafts, followed soon after. These organizations continue to exist today, yet the organizational model that gained the widest global reach in terms of membership, programs and pounds certified, was the business-oriented one originated by Max Havelaar in the Netherlands. Throughout the 1990s, a number of similar regionally-focused certification and labeling organizations emerged: *Transfair* in Germany, Austria, Luxemburg, Italy, the United States, Canada and Japan, *Fairtrade Mark* in the UK and Ireland, *Rättvisemärkt* in Sweden, and *Reilu Kauppa* in Finland. It is these certification and labeling organizations that would eventually organize under the umbrella of the Fair Labelling Organization (FLO). The aim of the FLO: to establish worldwide standards and certification rules.

Table 3.2 Fair Trade Development

Date	Event
1986	Equal Exchange, North America's first Fair Trade cooperative, established to import coffee from Nicaragua
1989	Farmers and activists launch the first Fair Trade certified label, "Max Havelaar", offering third-party recognition and a label for Fair Trade products
1990	Creation of **EFTA**, European Fair Trade Association
1994	Fair Trade Federation formed as first network of organizations in North America
90s	The Max Havelaar initiative is replicated in several other markets across Europe and North America
1997	Fairtrade Labelling Organizations International (FLO) established to unite the labeling initiatives under one umbrella and establish worldwide standards.
2002	FLO launches a new International Fairtrade Certification Mark. The goals of the launch were to improve the visibility of the Mark on supermarket shelves, facilitate cross border trade and simplify export procedures for both producers and exporters.
2004	FLO splits into two independent organizations: FLO International, which sets Fairtrade standards and provides producer business support, and FLO-CERT, which inspects and certifies producer organizations and audits traders.
2007	The three major Fair Trade producer organizations become part of the governance structure of FLO. Fair Trade retail sales top $2.5 Billion USD worldwide

3.2.2 Developing Procedural Legitimacy

The FLO's alliances were wide and included all major fair trade organizations. The certification and labeling organizations formally coalesced under the FLO, while donors and advocacy groups remained official partners with the FLO. National labeling initiatives dominated coffee standards for some time, and their prominence at the international level in the first decade of the new millennium was uncontested. In 2004, Fair trade members and organizations gathered for a Fair Trade symposium that formed part of the UN Conference on Trade and Development (UNCTAD) in Sao Paulo. Nearly 200 attendees, including government officials, the most prominent being the Brazilian Minister for Agrarian Development, Miguel Rosetto, agreed on a Fair Trade Declaration that actively challenged the UNCTAD to support greater trade price stability and fairness in commodity markets around the world. This declaration, signed by 90 organizations from 30 countries, was entered into the official UNCTAD record and was hand-delivered to UN Secretary General Kofi Annan. Their perceived legitimacy is made evident by their ecumenical reach across the vast fair trade network, the diversity of their members, and power of their partners.

As correctly observed by Raynolds (2000), the struggle to forge a legitimate alternative to traditional capitalist markets and their "socially and environmentally destructive practices" (p. 297) dominated the FLOs second stage of development, and its successes in this area proved lasting, serving as the benchmark for political prowess in private governance.

FLOs governance structure began with large ambitions to unite and wide and diverse group of fair trade advocates under a multi-stakeholder umbrella. When faced with criticisms that its structure did not weigh sufficiently in favor of the disadvantaged, FLO adjusted and left an indelible mark on the political character of the organization that remains today. Although FLO's original structure was designed to ensure voices from the original movement were heard, the shift towards formalization was immediately criticized as more impersonal (Taylor 2005, p140). While a seeming inevitable consequence of formalization, the critique is notable for the fact that it was voiced. Franz van der Hoff Boersma, an adviser to one of the original fair trade advocacy groups UCIRI (The Union of Indigenous Communities of the Isthmus Region)[13], noted that although the FLO took important steps to democratize the fair trade network, it remained "a pyramid decision-making structure, where the top often does not communicate with the base" (Taylor 2005: 140) In the context of other's comments that the institution remained dominated by Northern Interests, (Raynolds and Taylor 2003) we come to understand the struggle between the two major groups within FLO: consumer interests in the North, and producer interests in the South.

FLOs response was to increase producer participation, and ensure an institutionalized balanced participation of other groups. The current FLO governance structure includes: General Assembly: 50% Producer groups, 50% Labeling groups (northern marketing organizations). A Board elected by the general assembly and must include: 5 representatives from the Fairtrade Labelling Initiatives (LI); 4

[13] see here http://www.uciri.com/English/home.html , last accessed March 26, 2014

representatives from Fairtrade certified producer organizations (at least one from each of the regional producer networks); 2 representatives from Fairtrade certified traders; 3 external independent experts. Three committees appointed by the Board: Standards Committee; Finance Committee; Nominations Committee. Leadership Team and Permanent Staff.

FLO also maintains strong partnerships with that aim to promote United Nations Millennium Development Goals through funding of fair trade. These include: UK Department for International Development; Inter-Church Organization for Development Cooperation, Netherlands; Irish Aid; Norwegian Agency for Development Cooperation; Swiss State Secretariat for Economic Affairs. In addition, it maintains formal partnerships with a variety of organizations that work to promote fairtrade producers and related programs in the global South.

These partnerships, as well as the organizations key decision to separate the management of its certification tasks under FLO-CERT, speak to priorities and culture of the FLO. The organization took the necessary steps to ensure a level of political legitimacy with the advocacy organizations responsible for its birth. Producer rights would be institutionalized, and additional producer support was formalized in the dispatching of Producer Liaison officers to offer commercial support to these constituents. FLO used the power of its position to encourage, to much success, the adoption of democratic ideals throughout the supply chain through the creation of producer-network collaborative organizations. In other words, not only were the procedural legitimacy prerequisites set at the FLO umbrella organization but the network of producers and some labeling organizations would also adopt these procedural elements (Taylor 2003, p8).

Consistent with the culture of advocacy and activism, FLO did not actively seek to include participation of major business organizations within their official governance structure. Their advocacy-led image remain untarnished until their shift towards mainstreaming, leading to tensions within the network that remains relevant today as FT USA moves to split from FLO. The tension speaks to the political platform of the FLO and exposes the paradox of these market-based governance systems. Their market success is conditioned on converting major firms to adopt their principles, yet participation of these major firms, or, as is the case with FLO, merely increased intent to work with them, threatens the organization's culture and legitimacy among the originators of the movement who claim it is a 'business-centered model' and ignored the concerns of poor farmers (Jafee 2007, 226). This prompted the former president of FLO, Paola Ghillani to refute that "I understand the concerns, but I think in our governance model we are including stakeholders' representatives," (Ibid, p 227) reinforcing the focus on procedural legitimacy and the inclusion of stakeholders as a necessary element to strengthen legitimacy.

Case in point for FLO: when Carrefour, a major department store in France, and Starbucks began promoting fair trade products, advocates forewarned of a threat to the nature of fair trade. These organizations were critical contributors to the explosion of fair trade products in the marketplace. Yet, they maintained a loyalty towards traditional agro-industrial practices as well. This tension gave rise to the term "fairwashing" where large firms were criticized for selling only a small portion of their product line as ethically sourced as a tool to promote their responsible actions, but doing very little to alter their traditional practices. Fairwashing was a major threat to the legitimacy of the FLO, but it is a waning threat. Given FLOs tremendous success at luring in producers, the limits to FLOs growth was market demand. Supply of fairtrade certified coffee outpaced demand, a fact that drove producers to seek alternative paths to market (Taylor, p23). This was a key development leading to the emergence of alternative coffee standards organizations.

3.2.3 Analysis

There are two key takeaways from this second stage of FLO development. First, while formalizing the disparate advocacy and volunteer-led original fair trade movement into an organizational platform, the FLO adopted the processes, procedures and structures to promote legitimacy. These include the adoption of a multistakeholder governance structure, the creation of a general assembly, the inclusion of all stakeholders in decision-making, the institutionalized balance of power between stakeholders from the global north with those from the global south. While it is difficult to evaluate the degree to which adopting this structure and procedures was essential to earning the legitimacy and credibility to act as the face of the movement, there is evidence outlined above that indicates that they fell back on these procedures to defend against criticisms that they were subject to traditional corporate powers and were failing to represent the interests of the original movement and its stakeholders. The reach of their adherence to these elements of procedural legitimacy extends beyond their organization to the coffee producers. They require farmer and producers to organize into cooperatives that must adhere to democratic rules and regulations, effectively, in important ways, copying the structure of the FLO.

Second, managing the delicate task of appeasing advocates of the original movement and turning towards the market, the FLO had to figure out how to encourage buy-in from businesses that are primarily concerned with the costs and benefits of adopting fair trade standards. On the one hand, the implementation of a minimum-price created significant incentives for producers to rush to adopt the FLO standard, creating an early oversupply of certified beans (I will show in the next chapter how this eventually led to the creation of alternative standards). A powerful supplier base and consistent widespread branding initiatives allowed them to develop a parallel market for coffee: the creation of a whole new industry of small-batch roasters and traders focused on beans from small producers, popularized by FLO and the rise of the specialty coffee market.

On the other hand, promoting its strong brand, strengthened by the legitimacy of being the one standard-bearer for fair trade, allowed businesses to charge premiums to sell its products, and benefit from joining the FLO. These two key facts allowed the FLO to act as the necessary bridge between the social movement and eventual market institutionalization, explored in greater detail in the next section and chapter.

Table 3.3 Stage Two Summary

STAGE 2: Non Market Institutionalization	
Description	Dominance of NGOs, advocates and activists from emergence stage. Increasing formal organization by tying in loose network of partners and promoters into political alliance. Political legitimacy through procedures drives behavior.
Actors	Advocacy, activists and producers.
Motives	Benefits of Coordination, increasing political legitimacy, developing standards and unifying brand.
Dominant Factor of Change	Creating the organization to allow for political bargaining, while most importantly, asserting the organization's place as the rightful legitimate representative of the fair trade movement
Characteristics	Institutions created by advocates to change market practices. Policies set by NGO their allies.
Impact	Standardize the movement and its goals with certification rules enacted.

3.3 Stage Three – Market Institutionalization

The policies of the previous stage established certain levels of legitimacy, began creating market segmentation opportunities for market actors, and set the stage for a fair trade brand to enter the mainstream marketplace. Changes in these key factors led to the further development of the social market by imposing change on market actors and institutions. The following section examines the dynamics change as the fair trade social market evolves. With a solid international alliance of NGOs in place, the dominant factors of change in this stage are expected to revolve around market actor responses to upgrading opportunities, and the development of the fair trade brand.

Market actors generally responded positively to the introduction of fair trade. Producers began forming cooperatives under the guidelines required for fair trade participation. With the proper policies in place to secure a multitude of small coffee producers, fair trade fostered the spontaneous emergence of a multitude of small traders as the natural buyers from these smaller cooperatives. Their size, versatility, and openness to new brand development enabled them to form a veritable alternative coffee value chain that formed the core of the fair trade social market. The following section outlines the third stage of social market evolution and shows how fair trade policies altered supply chain dynamics enabling "stepping up" of system norm franchisees, and supported the promotion of independent brand owners align with the fair trade social market.

FLO chose to operate in a variety of industries and products. In order to gain an understanding of the relevant industry conditions and how they impact social market development, this study will focus on the dominant fairtrade market, coffee.

3.3.1 Matters of Market Integration

The coffee industry provides an example of the more general issues related to a global commodities market. Dominated by a handful of multinational corporations after the breakdown of an international coffee regulatory agency, coffee growers were faced with sharply threatened terms of trade as prices dropped in an uncontrolled international coffee exchange. Until 1989 coffee was regulated by the International Coffee Agreement (ICA), "the main intergovernmental organization for coffee, bringing together exporting and importing Governments to tackle the challenges facing the world coffee sector through international cooperation. Its Member Governments represent 94% of world coffee production and over 75% of world consumption,"[14] which sought to control prices by setting limits on country production. Much like the OPEC oil cartel, the ICA's objective was to maintain a relatively high and stable floor on prices (between $1.20 to $1.40 per pound) by controlling supply and production. When this collective agreement intent on maintaining the shared interest of minimal prices fell apart, private interest reigned. Individual producers and producer countries rushed their proverbial cows to the shared pasture. Production increased dramatically while global demand remained the same causing a sharp decline in coffee prices (from $1.16 per pound in 1988 to $0.52 per pound in 2003) (Gresser and Tickell 2002) and risking the livelihood of millions of small farmers across the developing world.[15]

This momentous change in global trade was not to the disadvantage of all. The global coffee industry is controlled by a handful of powerful multinational corporations who benefit from this new "free" trading regime and lower prices. While coffee *roasting*, importation, and distribution is highly centralized – five companies buy nearly fifty-percent of the global supply of green coffee beans (Gresser and Tickell 2002, p6), and eight companies control the export of over fifty-percent of the world's coffee production (Nichols and Opal 2005) – coffee *production* consists of a diffuse, independent, and unorganized collection of 20-25 million farm workers.

[14] See http://www.ico.org/mission07_e.asp?section=About_Us last accessed March 24, 2014

[15] see for additional details and graphs: Daviron, Benoît et al. 2005. The coffee paradox: global markets, commodity trade and the elusive promise of development. Zed Books. p.224 and Ponte, Stefano. 2004. "Standards and Sustainability in the Coffee Sector: A Global Value Chain Approach."

Estimates indicate that seventy-percent of the world's coffee is produced on plantations smaller than 62 acres, and approximately fifty-percent on family farms of less than 13 acres (Gresser and Tickell 2002). This significant disparity in reach, access, capability, and wealth between producers and the large coffee companies provides clues to the power dynamics within coffee supply chains. This post-ICA state of affairs contrasts with the prior world when managed prices reduced the negotiating power of some supply chain players to the benefit of producers.

The international coffee supply chain shows how power structures can exist within markets. Power exists when certain actors, often called lead firms, can impose behavioral mandates on firms and actors within their supply chain. The study of power dynamics within supply chains was introduced by sociologist Gary Gereffi to help explain why the active participants in economic globalization - those who integrated into the world economy to benefit from the expansion of trade – did not always end up benefiting from globalization (Gereffi et al. 2005). Gereffi's value chain analysis examines the distributional patterns of globalization's benefits, asking the important question: is there a causal link between globalization and inequality? His central thesis is that the distributional effects within supply chains determine who benefits, and who loses, from the globalization (the dispersal of manufacturing, distribution, and retail) of industries, and that these distributions can largely be explained by power dynamics within supply chains. The winners, Gereffi claims, are those that can gain supply chain power to benefit their terms of trade. The unsurprising conclusion from his framework is that the structure of supply chains and the expertise within them results in the concentration of power, and therefore economic benefits, in the hands a the few - often buyer driven - multinational firms concentrated in the Global North (Gereffi 1994a).

The ability to "govern" within supply chains means certain actors can influence, or even dictate, the terms of production (what, how, when, and how much is produced, and at what price). Since creating a social market requires infusing the terms of production with social values and norms, explaining the institutionalization of social markets will require analysis of how, if at all, supply chain governance was affected. Since institutionalization is the necessary component for stage two development, and some level of supply chain governance power is required to influence terms of production, one can deduce that promoting social market norms requires the shifting of supply chain powers towards actors engaged in promoting production methods aligned with social market values. A brief analysis of global coffee supply chains in the absence of fair trade standards is required to highlight changes impacted by stage two policies.

3.3.1.1 Intermediary Domination of Small Producers

The nature of coffee production helps shed light on supply chain power dynamics and the pressures on coffee producers. After being harvested, beans must be milled in preparation for export. Since milling equipment is far too expensive for small producers, and their harvests far too small to afford the services of coffee mills, farmers are dependent on another intermediary within the supply chain. Coffee middlemen known as coyotes consolidate coffee beans from several farmers to sell to processing mills. Since farmers in developing countries often live in rural isolated areas with the most rudimentary infrastructures, including roads or other forms of public transportation, and rarely have access to private forms of transportation, any access to the larger marketplace, and their only opportunity to sell their goods, is through these local traders. This, the earliest link in the international coffee supply chain, is extremely exploitative as these middlemen set prices and divvy up farmers to avoid competition. This gross violation of competitive market principles is the very first step in the provision of one's basic cup of Joe.

Closely related to the issue of access to mills and transportation is the problem of credit. Rural farmers, like most rural citizens of non-OECD countries, often can not secure proper titles or documentation for their land, thereby reducing their ability to provide collateral to obtain the credit necessary for the expansion of their business (Nicholls and Opal 2005). This places an immovable ceiling on their business and provides little opportunity to overcome the exploitative relationship with local coffee middlemen since they remain captive to local middleman in order to gain access to mills and transportation – a problem additional funds could help remedy. The weakness of coffee producers is explored in the sections below.

3.3.1.2 No Access to Market Information

Like many other commodities, coffee is traded on public exchanges in London and New York where the global supply and demand of coffee determine global coffee prices. Access to the information and products from these exchanges provides producers with the necessary tools to manage their production and better navigate this commodity market's volatile waters. First, simply having access to price information - a basic requirement for participation in any market - allows producers to adjust production and stocks accordingly. Control of production based on market prices is an essential element to the proper functioning of markets, and one that is flagrantly missing from a large portion of coffee producers. Second, the sophisticated producer may have access to a variety of products to help manage risk and hedge against price volatility. Commodity futures contracts, LEAPS (long-term equity anticipation securities), options, and other securities are fundamental tools for sophisticated commodity traders (notwithstanding their notorious manipulation by speculators). Producers representing more than 50% of global coffee production have little or no price information necessary for them to better manage their production and inventory or negotiate better prices with local middlemen, known as *coyotes* (Nicholls and Opal 2005).

3.3.1.3 Domination of branding and definition of quality

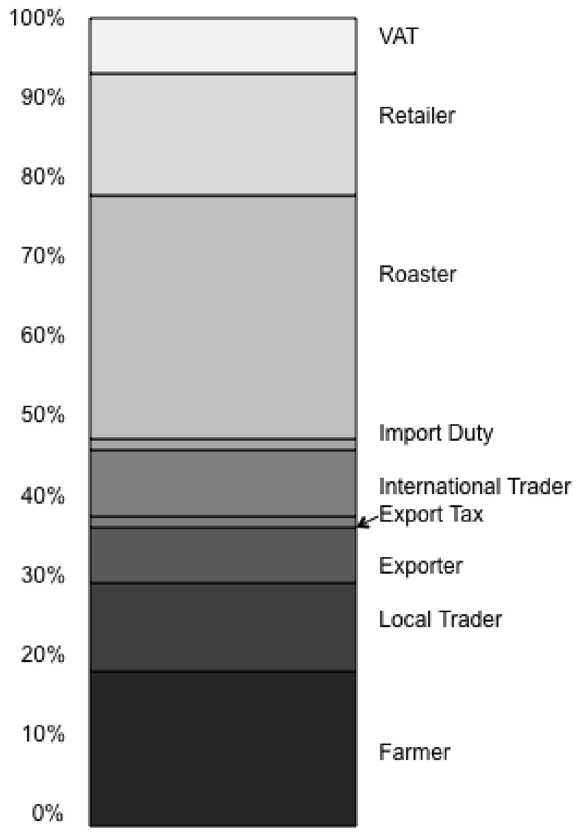
In contrast to the supply-side related issues noted above, the realities of brand power and the definition of quality coffee further exacerbate the position of small farmers within coffee's global supply chain. Perhaps more related to the penetration of fair trade norms within the coffee industry, is the domination of roasters, not producers, in the provision of coffee. Roasters own coffee brands and control marketing of coffee. Since the economics of the coffee supply chain (discussed above) means that roasters usually have no information about production origins, branding, and the association of quality with coffee products and brands, does not incorporate information about production origins or production methods. In other words, roasters did not know or have any economic incentive to know about the origin of the green coffee beans that they roast. As a result, consumers are never exposed to this information and never make the link between the quality of a product and its origin. A relationship between the final consumer and producer is never created. The coffee consumers purchase are rarely, if ever, sourced from a common producer and the calculus of production origin is never made in the consumer's mind. There is thus, no "added value" related to the production origin or methods. The branding power derived from the definition of quality and value rests solely in the hands of coffee roasters. In Gereffi et al's conception (2005), since producers are bound by the dictates of buyers, retailers, marketers, and brand-owners - often residing in western wealthy nations - the coffee commodity chain is considered "buyer-driven," a term used to describe where governance power resides within a supply chain (2005).

The flip side of the branding blind-spot is that the "dark-side" of production methods - environmental costs, the social costs related to unlivable wages due to low commodity prices, etc - are not incorporated into a product's price or into the decision calculus of consumers; social costs are not internalized but exist as ***negative externalities***.

The breakdown of coffee export controls, supply-chain domination by a few large multinationals, farmer lack of technical ability, and reliance on coyotes for market access and market information are factors that led to the weakened position of coffee producers within their commodity's supply chain. Furthermore, brandneutrality vis-à-vis coffee production – in other words, the lack of product differentiation in terms of production or origin – provides no branding power to producers. Ultimate power within coffee's global supply chain is concentrated instead in the hands of coffee roasters and retailers. Vulnerable coffee producers had no ability to alter their fates when coffee prices, following the dictates of supply and demand (although there is room to argue that commodity speculators can artificially inflate or deflate prices), dropped so low that their very livelihoods were at risk. This was the environment that the fair trade certification system entered and wished to change.

Ans Kolk, Corporate Social Responsibility in the Coffee Sector: The Dynamics of MNC Responses and Code Development: "the end of the international coffee regime meant a reordering of the balance of power in the coffee sector and a redistribution of income. From a stable system in which producers and consumers knew the rules of the game, the market became not only much more volatile, but trade and industry in the consuming countries gained considerable power to the detriment of producing-country governments, farmers and local traders. Coffee thus transformed into a more buyer-driven commodity chain (Gereffi 1999). Likewise, for the consuming countries the value added for coffee increased, while the value added and prices for producing countries decreased. For producer countries, earning in the early 1990s amounted to $10-12 billion, with a value in retail sales of $30 billion (UNCTAD, 2003, p. 24). A decade later producers only receive $5.5 billion, while retail sales come to $70 billion. These figures show that producer income has fallen concurrent with increased consumer spending on coffee in Western countries, related to growing interest in specialty coffees.

Table 3.4 Traditional Coffee Supply Chain % Value Captured



Source: Nicholls and Opal, "Fair Trade: Market-Driven Ethical Consumption", 2005.

The transformation of the fair trade movement from a network of NGOs, volunteers, and philanthropic organizations - the mainstay of the first two stages of market emergence - into a market-based solution for the problems addressed in fair trade (stage three) begins with the creation of a formalized certification system. As noted above, this started with the Max Havelaar brand in the Netherlands, and was quickly adopted by other national initiatives, and coordinated at the international level through the FLO.

3.3.1.4 Spontaneous Emergence of Norm Franchisees

Yet if the fair trade initiative was merely a vast network of NGOs and firms coordinating a set of values-based standards it would not necessarily suffice for the infusion of conventional markets with social norms; many such standards organizations already exist that may or may not lead to norm institutionalization. Instead, what distinguishes fair trade from standards organization or voluntary self-regulatory schemes is how the formalization of fair trade certification and labeling fostered the spontaneous emergence of a variety of market and non-market actors that further expanded the penetration of social norms into conventional markets. These fair trade ***norm franchisees*** are either converts to the social market or have share its social cause and have aligned with the fair trade network to further promote the market. In either case, whether they be not-for-profit social advocacy groups working to support producers hoping to sell fair trade products, church fellowships that promote the norm within their community, or for-profit retailers which, be the very act of selling their certified products, norm franchisee activities, by definition, act to further develop the social market and as a result, promote a social norm if production. Analysis of this institutionalizing stage of evolution, and the factors that lead to the emergence of its relevant institutions, is necessary to understand the evolution of norms within markets.

Changes to the coffee supply chain, and consequently, the market for fair trade products, was formed in no small measure by the explicit policies, standards, and procedures, put into place by the network of fair trade certifying bodies. Since the aforementioned issues are a consequence of the nature of the coffee supply chain, so too will the solutions and standards be a function of its unique supply chain. The FLO and the policies and procedures it implemented represent the first institutional form of the social market beyond the disparate NGO-advocacy network of ATOs. Future forms of institutional development may be explained from this first form. Examining how these enable the fostering of additional market and non-market institutions promoting the fair trade market, norm franchisees, is an important and necessary part of understanding the institutionalization of social markets more generally.

The changes below were a function of the social goals of the groups, and the distinct nature of the coffee supply chain. Their aim was to alter production methods, and their possibilities and limitations are defined by the existing supply chain. How they chose to achieve their goals, namely, how they chose to coordinate their efforts, reduce obstacles, and manipulate incentives will define how future market development progresses. Let us now examine market and non-marker actor responses to stage two policies to understand the factors that lead to their integration into the social market.

3.3.1.5 Adoption of Fair Trade Policies

Each intermediary player was important in promoting shifts in power: traders, exporters that purchased from producers, the co-op that helped producers organize, the lenders that gave to producers, traders, exporters, etc, the roasters that developed new brands, these are all norm franchisees that expand the network of norms into conventional markets. Core requirements for licensed coffee importers are summarized in the following five requirements. First, sign TransFair USA's License/Certification agreement to allow you to become an authorized importer, selling Fair Trade Certified green coffee to roasters. Second, Purchase green coffee from producer organizations certified by TransFair's umbrella organization, Fair Trade Labeling Organizations International (FLO). Third, pay at least the international Fair Trade minimum price to coffee cooperatives (US$1.35 per pound for conventionally grown coffee; US$1.55 for certified organically grown coffee). Fourth, submit reports on a monthly basis detailing all Fair Trade purchases and sales. Include supporting documentation (contracts, bills of lading, and invoices) for all Fair Trade purchases made directly from producer groups. Finally, on request of the producer organization, make available up to 60% of the value of the contract in pre-financing or other credit facilities.

Core requirements for licensed roasters are the following six requirements. First, sign TransFair USA's Fair Trade Coffee License Agreement to license you to display TransFair USA's Fair Trade Certified label on your Fair Trade products and materials. Second, purchase Fair Trade Certified coffee from importers licensed by

TransFair USA. Third, submit quarterly reports to TransFair of Fair Trade Certified green coffee purchases and roasted sales. Fourth, pay a certification fee to TransFair USA based on Fair Trade Certified green purchases. Fifth, producers must organize into cooperatives made them more attractive trade partners for importers. These suppliers of coffee beans were now able to manage their product from harvest through milling, and ensured importers a consistent reliable supply. Moreover, providing importers one-stop shopping with access to beans from a number of producers reduced cost and complexity otherwise required to source from small farmers. Finally, a prerequisite to certification of importers is their commitment to long-term relationships with cooperatives.

3.3.1.6 Producer Compliance

The incentives for producer membership in the fair trade network are relatively strong. With the promise of minimum prices, access to new markets, and their liberation from coyote dependence, producers have significant economic reasons for complying with fair trade standards and joining the network. Yet, the incentives go beyond this. By requiring the maintenance of long-term relationships between traders and producers, FLO policies triggered the development of something more significant than would be possible with the simple imposition of minimum prices: it enabled the fundamental alteration of supply chain powers to the advantage of the producers and opened up opportunities for traders.

The supply-chain power relationship between local intermediaries and small producers was asymmetrical to the great advantage of the intermediary. Although, coffee is an easily codifiable commodity and is characterized by low complexity, the supplier capability was so low that the power asymmetries between producers and traders downstream from them were vast (Gereffi 2005). Producer lack of market information, transportation, and scale opened up supply chain opportunities for local traders, who, like any market actor, is ready to fill a supply chain gap left open by other actors. Prior to farmer collective action and the formation of cooperatives, local intermediaries were economic lifelines to peasant farmers who had no access to mills and the larger marketplace. This reality was not missed by the coyotes who saw the game between themselves and producers as zero-sum, and pressured farmers on prices to increase their own margins. Here, simple market-access - being the sole gateway in a supply-chain upon which others depend - grants one a certain level of market power not available in the theoretical conceptions of perfect markets.

By requiring, and encouraging (through a variety of producer support programs) the organization of producers into farmer-owned cooperatives, the once disparate individual farmer can share resources, gain access to transportation and own or control milling operations. Coordination among farmers, promoted through fair trade participation and support, allows producers to absorb the value-add once provided by coyotes, replacing that exploitative relationship with fair trade aligned exporters and/or importers. The immediate financial incentive is clear. Under the fair trade chain, producers retain 11% of retail prices versus 7%. However, since the farmer-owned co-op now replaces the local intermediary, another 6% of retail prices are retained to the eventual benefit of the farmer and community (Muradian and Pelupessy 2005).

Yet, problems of coordination and collective action persist and simply dictating rules of engagement does not assure compliance and participation. Fair trade policies went so far as to address these issues through the provision of necessary auxiliary actors, training and liaison officers provided through FLO's Producer Services and Relations Unit (PSRU), and coordination with credit providers.

Fair trade aligned producer support programs and the policy of long-term relationship based contracts, strengthened farmers standing vis-à-vis potential credit providers. Overcoming the finance hurdle helps free the producer from the grips of the powerful local intermediary who, in addition to being their sole link to the greater coffee market, may also play the role of small lender in times of need (Nichols and Opal: 108). Fair trade requires that participating traders and importers make pre-financing options available to producers as needed (Ibid: 110). The term "pre-finance" is the provision of credit in the form of a pre-payment of a percentage of exports (usually 60%) to be received sometime in the future. The remaining payment is made once goods are delivered. There are two ways in which traders provide pre-financing to producers. The first, the trader provides payment for a portion of an invoice prior to receiving shipment. Funds in this option will come from the buyer's cash reserves. The second option involves a third party lender. Here, the trader helps set up a line of credit at the lending institution for the purposes of advancing cash to the producer. When an order is submitted, the lender advances a portion of the invoice to the producer. When the buyer receives the entire order, they send payment in full to the lender, who will keep a portion of this payment equal to the amount advanced plus applicable finance charges, and forward the remainder to the producer.

Provision of financing to bolster producer operations provides another example of supply-chain power shifts with the fair trade market. Here, the power inherent in being the solitary access to capital and financing for producers is taken away from the coyote and given instead to an ally of the fair trade network of organizations or participating neutral parties. In other words, shifting power from non-aligned market actors to fair trade norm franchisees enables fair trade to impose its policies and promote their norms. In this case, power asymmetries, as understood through Gereffi's framework, when to the advantage of social market norm franchisees, can act to advance fair trade policies.

Complying with fair trade certification practices and standards can be costly. Since banks rarely provide credit for these endeavors, certification costs can become an insurmountable hurdle to many potential producer partners. Lack of credit within the certification systems is a significant barrier to their growth.

Increasing the availability of credit can increase the supply of ethically produced products around the world, and expand the benefits of these systems to thousands of developing country producers around the world. Credit can also be used to fund important intermediary market-actors that distribute, market, and brand ethical products to end-consumers.

3.3.1.7 Why access to credit is a problem

Producers encounter an array of issues that limit their availability to project financing. Part of the problem is due to increased costs and trouble for potential lenders (e.g., high transaction costs, costly site visits, difficulty in assessing risks and difficulty in accessing credit information about producers), while others have to do with problems inherent in the producers themselves (e.g., difficulty meeting bank requirements to provide information, no collateral, improper land titles, no assets or difficult to collateralize). Other problems are inherent in the nature of the transaction between producer and supplier, including uncertainty of demand, and the short-term nature of contracts. While other problems are due to the uncertain and seasonal nature of agriculture production.

The Fair Trade labeling initiative set policies in place that encouraged the provision of credit and led to the vast participation of producers around the world. These include:

Relationship Based Contracts: In order to gain certification, commodity buyers must guarantee long-term relationship-based contracts with suppliers.

Minimum Prices: Fair trade certification requires the payment of a minimum fair trade price to suppliers.

Chain of Custody: Fair trade labeling, branding, and chain-of-custody requirements can be traced back to the producer of origin, thereby ensuring market-power and continued success.

As a result of these policies and strategies, a number of alternative credit organizations have emerged to provide credit to fair trade certified producers. These include, but are not limited to the following:

Table 3.5 Fair Trade Credit Organizations,

Organization	Type
CORDAID	NGO
Douque Coffee Fair Trade Buyer	Fair Trade buyer
Ecologic Finance	Environmental NGO Fund
ForesTrade	Fair Trade buyer
Green Development Foundation	Foundation
Oikocredit	Ecumenical development cooperative society
Rabobank Foundation	Foundation
Shared Interest	Specialist Finance Provider
Triodos	Faire share fund
TWIN Trading	Fair Trade buyer
Verde Ventures	Environmental NGO Fund

Adapted from "Fair Trade: Market-Driven Ethical Consumption" Nicholls and Opal, 2005.

3.3.1.8 Who is The Consumer?

All the producer incentives in the world would be worth little without buyers – the necessary demand-side component for the development of any social market. Yet while common understanding is that consumer demand will drive change, this study asks the more fundamental question: *who is the consumer*? From a producer perspective, they need a buyer of their green coffee beans to step into the supply chain void left open from their severed relationship with local coyotes. The producer does not seek out end-consumers on their own but must rely instead on intermediary coffee traders – importers and roasters – to purchase from them, and work on increasing demand at the consumer level. Note the two necessary conditions: first, that intermediary coffee traders would be interested in buying from producers, and second, that these traders also act to increase demand at the consumer level. If demand existed at the consumer level, but there were no traders interested in buying from producers, or supply chain logistics made it impossible to do so, the market demand would remain untapped. On the other hand, if producer incentives were sufficient enough to gain widespread support, and a few traders – perhaps those with aligned social goals – were encouraged to purchase from these producers, but did nothing to promote the product in the marketplace, then consumer demand would be non-existent, or remain freeze at niche levels. In the fair trade case, we will observe how traders emerged to capitalize on specific market demands, and then acted through brand differentiation to promote fair trade products to consumers.

Traders, importers, roasters and other fair trade intermediaries come from diverse backgrounds and respond to a variety of incentives - both economic and non-economic - to form the backbone of the fair trade social market. Preliminary observations point to the prevalence of three groups of traders. First, ATOs that evolved to adapt to new fair trade policies; second, new non-profit and/or alternative trading groups with strong social advocacy roots; third, conventional market actors capitalizing on the market segmentation opportunities provided by fair trade sourcing. Just as in the analysis of production compliance to fair trade, these traders survive on their ability to leverage newly formed supply chain relations or to shift supply chain powers. In the latter case, their strength comes from their pivotal position within the chain that allows them to create and control powerful branding for fairly traded coffee products. Moreover, we will see, consistent with the analytical framework for this research, as the social market developed, trader organizations shifted from primarily cause-oriented non-profit organizations to for-profit conventional market actors.

ATOs

The oldest ancestor to today's impressive network of fair trade buyers, activists, producers, and advocates is the Alternative Trade Organization (ATO). While earlier ATOs may have purchased directly from a small community or producer, today's ATOs adjusted their practices to fit within a more complex and sophisticated supply chain. For the most part, however, ATOs remained within the intermediary area of the supply chain focusing on importing from a common importer or, in some cases, roasting. These supply chain adjustments were critical to their survival, and were necessary for the survival and expansion of fair trade. Stage two policies and procedures needed to consider the overlapping interests of ATOs to ensure they remained aligned with the system and were able to promote the fair trade label while ensuring their own prosperity.

ATOs evolved from cause-oriented alternative buying organizations, to mainstream economic actors competing within traditional markets and supply chains. Many early stage ATOs were founded by charities and religious groups and remain non-profits today, while many have evolved into variants of hybrid models to accommodate their mainstream economic successes. In 2002 38% of the members of the Fair Trade Federation, the ATO membership organization in North America, were non-profits (Nichols and Opal 2005: 96), leaving a full 68% as variants of for-profit or hybrid organizations. The morphing into hybrid organizations was an innovation the ATOs developed to help deal with the market-oriented priorities of their organization while ensuring their social mission not be compromised. One model is to have a not-for-profit organization own guardian shares of a for-profit ATO. This structure is adopted by two prominent ATOs, Traidcraft PLC, the trading arm of Traidcraft Foundations, and Cafedirect, the UK's leading Fair Trade coffee brand. Both of these ATOs recently issued public share offerings, while retaining important guardian shares by their parent not-for-profit arm. Another model is to share ownership with one or several producer organizations, as Equal Exchange did in 2004. Other examples of this model exist in other Fair Trade product verticals, but Equal Exchange's innovation overlaps with two other organizational structures. In addition to being producer owned, it is employee owner, and shareholder owned, although the 370 outside shareholders, representing $2 million in equity, do not expect any increase in share value, and await returns around 5% annually – numbers that reflect the tempered form of capitalist enterprise these hybrid ATOs have evolved to become (Nichols and Opal 2005: 96).

ATOs transformation was not limited to the legal structure of their organization. Instead, their evolution away from producer-focused model to a consumer-focused model mirrored the shift in Fair Trade goals outlined in stage two. Just as the system's legitimacy increases with greater stakeholder inclusively, the collaborative governance structure allowed for the lockstep evolution of strategies. ATOs that remained producer focused and stuck in a purely non-profit and NGO model were plagued with inefficiencies and big losses. In 2000 Oxfam, for example, was overcome by the basic economic realities of the new Fair Trade world. A study by Mckinsey & Company discovered in the case of one of its products that sold for $36, Oxfam had to spend $54 dollars to get it to market (Nichols and Opal 2005: 100). The most striking thing about his fact is not the amount of money they were losing on this product, but that it took a study by an outside firm to come to this determination! The law of creative destruction went to work on the ATO world allowing some to die and others to thrive. The two most important successes in the coffee market, grossing more than $70 million of fair trade beverage sales in 2009, are Cafédirect and Equal Exchange.

Formed out of an initiative between Traidcraft, Oxfam, Equal Exchange UK, and Twin Trading, Cafédirect aims to deliver fair trade coffee, tea, and cocoa to mainstream markets. Its success reflects both the expansion of fair trade and the market-oriented approach of the organization. Working with a network of over 39 grower associations representing 280,000 farmers, their annual sales for the organization topped $44 million (at a 2008 conversion rate). Their tremendous success has allowed them to positively impact the lives of over 1.8 million people by investing more than $7 million of their profits back into producer communities in the past five years. On the other side of the Atlantic, Equal Exchange, formed in 1986 in the US and converted into an employee owned venture in 1990, grossing more than $35 million in sales in 2009, it is the largest and oldest fair trade company in the US. The very existence of economically sophisticated ATOs placed necessary market pressure on their competitors. Their success led to the proliferation of trader norm franchisees seeking to emulate ATO success and compete in the high quality, and high margin, fair trade coffee market. Expanding our understanding of how traditional market actors reacted to the fair trade phenomena and the success of these and other ATOs will help us tease apart the impacts of our three factors of change in understanding social market development in this market-centric stage of growth.

"ATOs have developed rapidly in the past twenty years, moving from supplying niche market products driven by what producers could make, to offering high quality mainstream products that have taken market share from more traditional players. Their success has encouraged competitor brands to re-examine their supply chains and address worker and farmer poverty, both by launching Fair Trade products and through their own company initiatives." (Nichols and Opal 2005: 104) These shifts in the marketplace are very much a function of the policies that the FLO put into place, and indicate successful market institutionalization.

Importers Roasters Distributors

Coffee importers, roasters, and distributors form the heart of fair trade policy, and impose significant change to two factors of change: value chain segmentation and differentiation. The central narrative emerging from stage three analysis of this social market is that producer upgrading, facilitated by franchisees up the entire supply chain following fair trade policies, informed the penetration and expansion of fair trade coffee across markets. Fair trade's goal to liberate coffee producers from the exploitative relationship with coyotes was made possible by the induction of pivotal intermediary traders aligned with fair trade goals through certification.

Role of Traders in Brand Creation – (Brand Holders)

Long term relationships imposed by FLO enabled the marketing of coffee on the basis of the actual farmer. Consistent sourcing from the same farm allowed for the creation of a brand based on single source coffee with farmer face and pictures of farm used in branding. This product differentiation, made possible through fair trade targeted branding, represents an opportunity for smaller roasters to enter a market once dominated by large roasters. They were now able to link their small-roast, sometime single-sourced specialty coffee, with the social value of fair trade branding. It is critical that these small independent roasters were able to own the brand of the coffee they sold. This is in sharp contrast to a supply chain dominated by a few brands owned by the largest firms. Smaller roasters capitalized a new definition of value and quality that included many of the tenets of fairly traded coffee (Ponte and

Daviron 2005): territoriality, consumer-producer connectivity, single sourced, personal attention to coffee growing that included a focus on unique favors and attention to detail. These are the changing conventions of quality. While fair trade did not create the specialty coffee craze or these new conventions of quality, it helped promote its ideals by allowing small roasters to leverage the fair trade branding for their own purposes.

In traditional coffee markets, roasters blend coffee from a variety of sources and sell to consumers under a brand name that provides no specific information about the quality or origin of the coffee. The brand reputation is used "as a proxy for variance in material quality." (Daviron and Ponte 2005: 220) There is essentially no relation between the origin and actual quality of a coffee and the brand that sells it. In fact, the only consistency in the product being sold is what is shown on the label – coffee beans and quality have essentially no relationship to the brand. With few exceptions, mainstream coffee was sold to consumers who had little to no information at all about the coffee itself. According to Daviron and Ponte, the greatest "threat to mainstream roasters' dominance of the global value chain comes from changing quality conventions" (Ibid: 220) Therefore, just as the principle of transparency fuels early social advocates to campaign against market externalities, the intermediary traders and new franchisees of the fair trade supply chain have been able to leverage transparency as a means to conventions of quality and brand differentiation.

Transparency surrounding production methods should form the basis for any ethical labeling initiative. The central message behind ethical products is that methods of production should be taken into account when making purchasing decisions. Coffee traders were able to take this one step further by altering the conventions of quality related to coffee. Not only were ethical production methods relevant, so too were the origin of the coffee bean, from geography right down to the very farmer that grew the bean whose photo dominates the packaging. This unique differentiation strategy allowed fair trade franchisees to redefine quality coffee as that which was both, 1) symbolically distinct because of the qualities of the bean and the care with which it was grown, and 2) materially distinct due to its ethical production methods (Daviron and Ponte 2005, p127).

These two important attributes, along with the ownership and responsibility of brand development lying in the hands of fair trade franchisees, provides the necessary differentiation opportunities for this stage of social market evolution.

"Fair Trade Certified coffees are among the best", says industry expert Bob Fulmer, President of Royal Coffee (a leading specialty coffee importer in the US). Coffee Review consistently ranks Fair Trade Certified coffees high for taste.

These new smaller traders were, not only able to, but they had to, develop new brands associated with fair trade, and the way they did this altered the conventions of quality surrounding coffee, giving reasons for the price premium, and forcing traditional brands to respond. Aligning fair trade opportunities with roaster incentives through brand differentiation provides a robust explanation for why producers have rushed to provide fair trade coffee in the specialty coffee space. The relationship between fair trade, specialty coffee and the notion of quality is best described through the words of the Specialty Coffee Association of America[16].

> The SCAA's mission is to be the recognized authority of specialty coffee, providing a common forum for the development and promotion of coffee excellence and sustainability. We do this through our commitment to quality; spirit of cooperation; dedication to continuing education for our members; sensitivity to the environment; consciousness of social issues; encouragement of sound business practices and ethics; and promotion of the value of specialty coffee to consumers. The SCAA recognizes the Fair Trade business model as being consistent with our mission and how we accomplish it. We endorse the Fair Trade model as one effective way to:
>
> improve the lives of the coffee producers on whom we rely for our own livelihoods ; encourage a consistent, long-term supply of the high quality Arabica coffees on which our industry depends; create environmentally and socially sustainable prosperity in the developing world

Retailers

As is common for advocates of CSR related norms, prominent MNCs are often targeted to adopt norms through pressure tactics. This was also the case, but to a much lesser degree, with early fair trade development. Prominent MNCs representing important coffee brands were pressured by advocacy groups such as Global Exchange (also a fair trade retailer) to sell fair trade brand coffees. Using

[16] SCAA (2008). Fair Trade Position Statement. California http://scaa.org/PDF/Fair%20Trade%20Position%20Statement%202008.pdf accessed November 2011

rudimentary pressure tactics culminating in coordinated nationwide protests in 29 cities, Global Exchange was able to convert Starbucks into carrying fair trade coffee in 2000 (Strauss 2000). Since that important retailer's turning point, other large retailers have decided to sell fair trade brands. Given the opportunity to align with fair trade conventions of quality, some major retailers, such as Marks & Spencer (in 2004 it announced that it would serve only fair trade coffee in its 198 Café Revive outlets, representing an 11% share of the UK-branded coffee bar market) and Green Mountain Coffee Roasters (having seen an increase of its fair trade coffee sales from 7% in 2001 to over 12% in 2003, accounting for a 92% increase in fair trade coffee sales compared to a 15% increase for the total company. It has recently set a goal of increasing fair trade sales to 25% of total company sales) converted its organic coffees to fair trade in 2003), went beyond partial conversion and decided to commit to fair trade coffees (Nichols and Opal 2005, p85).

3.3.2 Analysis

In this stage of social market development change was far more influenced by market factors than political legitimacy. Two key developments were observed. First, FLO policies resulted in a decentralization of the market leading to an influx of producers and traders joining the FLO for pragmatic reasons. Producers gained power through upgrading, and the 5 dominant roaster – once the only highly centralized powers in the supply chain – were challenged by small roaster and traders importing beans from the millions of small producers across the globe. Second, the FLO brand increasingly became linked to quality and provided a differentiation opportunity for businesses.

Industry conditions, specifically the fragmentation of producers and traders, best explain the patterns of adoption of fair trade principles by market actors. Coffee production consists of a diffuse, independent, and unorganized collection of 20-25 million farm workers. Estimates indicate that seventy-percent of the world's coffee is produced on plantations smaller than 62 acres, and approximately fifty-percent on family farms of less than 13 acres. FLO provided 'upgrading' opportunities for these producers by developing an alternate supply chain characterized by relationships and tied to fair trade norms. This upgrading opportunity provided a strong incentive for, and encouraged tremendous adoption by, producers. Adoption by producers broke up the traditional coffee market dominated by large roasters, and spawned the emergence of smaller specialty roasters, the largest of them - cafedirect and equal exchange - evolved from ATOs, that were able to nimbly accommodate input from a dispersed network of smaller producers. While coffee was always a consumer driven industry, the upgrading of small producers shifted power away from the oligopoly of roasters that existed before FLO.

Wide Product differentiation was also possible because of the wide array of coffee products and brands offered to a diverse consumer market. Small roasters were welcomed into more a consumer driven industry with a more diverse set of brands and ranges of quality. With a diverse consumer base, sellers were able to create a range of brands and pricing and are able to pass the cost of minimum pricing onto consumers under the premise of introducing higher quality. Some sellers, such as Blue Mountain coffee and members of WFTO (Equal Exchange and Café Direct), became dedicated franchisees, meaning they were fully committed to selling all of their products as certified free trade. Other sellers, such has Starbucks, were able to gain the benefits of being considered "socially responsible" without altering their entire product. Differentiation based on fair trade standards is made possible through the power of the fair trade brand – small traders leverage the brand to expand into new markets, and large retailers, such as Starbucks, leverage the brand to appear more socially responsible while not having to make significant changes to their own business, including not having to alter their existing product line. This segmented consumer market allows large buyers to 'test' fair trade certified coffee without having to commit to major changes in their existing business practices.

Market institutionalization is defined by market structures. FLO was able to offer a specialty product by converting small, fragmented producers, motivated by market incentives and the opportunity to offer a diverse consumer segment a variant of quality coffee a diverse and highly fragmented consumer base. If producers were not fragmented, the power dynamics in the industry would have forced a convening of the standard-setters and large multinational firms, and third stage social market development would have looked very different. If coffee were not sold directly to a fragmented consumer base, there would be little opportunity to differentiate fairly traded coffee from regular coffee, placing further constraints on social market development.

Table 3.6 Stage Three Summary

STAGE 3: Market Institutionalization	
Description	Policies that create supply chain opportunities, market incentives for new niche players vs conversion of existing actors, branding capabilities, support from non-market actors
Actors	Hybrid organizations , independent organizations
Motives	Promote social norms through market growth
Dominant Factor of Change	Centralization (specifically the decentralization of the industry), Differentiation
Characteristics	Hybrid institutions bridging gap between market and advocates. Supplier upgrading left open an important gap within the supply-chain: specialty coffee buyers to buy from these suppliers. These actors were now given opportunity t develop and promote themselves within the coffee marketplace. A stepping out for new intermediary coffee traders. New intermediary traders remain within specialty coffee segment, but expand this segment dramatically over the years. Market segmented to accommodate high-end coffee drinkers with distinguished palette, an expansion of the earlier stages where the segment was limited to socially conscious coffee drinkers. Brand differentiation linked inextricably to mosaic of intermediary traders. Fair trade understood as high quality specialty coffee. Explosion of new specialty coffee industry, with large fair trade presence, based on quality differentiators. Expanding consumer recognition of fair trade brand linked with high-end quality and ethical production.
Impact	Linking norm to quality, supply chain advantage.

3.4 Conclusion

Factors influencing the development of a social market change through its lifecycle. Whereas the battle to gain political legitimacy is critical during early stages, latter stages are influenced primarily by market factors having to do with existing industry conditions and differentiation in the marketplace. The best way to explain FLO's formal organizational structure is through its attempt at gaining political legitimacy with its alliance of early stakeholders. Likewise, there is no way to fully understand the development of the fair trade coffee market outside the industry structures within which it operates, or the opportunities for product differentiation leveraging the fair trade brand.

The following chapter will extend the analysis to the final stage of growth where observations can be made of competition and collaboration in the coffee standards market. There we will explain both divergence and convergence of coffee standards based on opportunities made possible in the first three stages of development.

4 COFFEE MULTIPLICITY

> Well-ordered social markets supplement conventional channels of political expression and popular control by creating distinctive arenas of governance in which citizens participate directly, through their market choices, in influencing the behavior of powerful economic entities often resistant to other forms of social control.
>
> Fung 2002, p 150

Since the formalization of fair trade movement through the fair trade labeling organization (FLO), a number of alternative standards have emerged offering certification of ethically sourced coffee. The previous chapter showed how the FLO progressed through the stages of the social market lifecycle: Emergence, Non-Market Institutionalization, and Market Institutionalization. This chapter examines the rise of multiplicity that occurs in the Market Institutionalization stage. I examine six ethical coffee standards (WFTO, UTZ Certified, Rainforest Alliance, 4C, Direct Trade, and Fair Trade USA) to understand the factors that led to their emergence as distinct organizations, versus becoming members within the FLO. I focus on two possible outcomes within each case: 1) observations of a battle around legitimacy (not present), and 2) the adoption of market practices versus those of advocacy groups – in other words, to what degree new organizations integrated with the market (increasingly).

Observations in this chapter show how fair trade advocates who challenged the FLOs mainstreaming strategy 1) never attacked, nor presented a serious threat to their legitimacy, 2) did not always copy the procedural elements of the FLO, and 3) were not necessarily representing industry, but instead came from the original network of advocacy groups responsible for the early emergence of the fair trade norm. I observe that competing standards organizations 4) took advantage of various opportunities within a politically decentralized industry to 5) offer different standards for different consumers, thereby creating a pluralistic set of standards aligned with the varied preferences of consumers. These observations provide insight into the general logic of market integration, and provide the necessary context and background for the analysis in the following chapter where I create two index values for legitimacy and market integration to show how legitimacy wanes and market integration (elaborated on in the following chapter) increases. These observations also begin to uncover the driving mechanisms behind multiplicity, which I elaborate on in Chapter 6. Mainly, that the centralization of a social market and opportunities for differentiation are what provide insight into the patterns of multiplicity across social markets.

The pre-FLO coffee supply chain was highly centralized, but as was demonstrated in the previous chapter, changes in the coffee industry following the breakdown of the International Coffee Agreement (ICA) and the disaggregation of coffee sourcing made possible by producer upgrading enabled by the FLO, has caused a dramatic decentralization of the market. As was previously discussed, the ICA suspended price quotas in 1989 leaving producer countries powerless to international agreements, and producers vulnerable to plummeting prices. This provided a timely opportunity for fair trade advocates to instill minimum pricing and encourage large-scale conversion of producers to the fair trade standard. This, along with policies that enabled producers to circumvent coffee intermediaries, enter into long term relationship-based contracts with new fair trade traders, and upgrade power in their supply chain, enabled the decentralization of power away from the five powerful roasters that control nearly 50% of the coffee market.

Several highly established and powerful organizations that span a variety of interests operate within the social market. Even the FLO, the earliest and dominant standard, did not capture the entire array of potential stakeholders in this expansive global marketplace. Even organizers of the International Federation of Alternative Traders (IFAT), emerging from within the early fair trade movement, had enough of a constituency that it decided not to join the FLO. This combination of decentralization and tremendous diversity in market segments results in a highly diverse industry of standards. So diverse, in fact, is the coffee social market that we begin to observe the creation of formal collaborations across standards, and the creation of umbrella organizations, such as ISEAL, to help coordinate for this highly complex social market. Political decentralization now defines this social market.

4.1 No Battle for Legitimacy

The FLO gained widespread support from producers and advocacy groups and worked to integrate stakeholders into a democratic decision-making process very early on. It offered important industry incentives and influenced the supply chain to its advantage by narrowing the gap between small producers and consumers. However, it was not long before other systems emerged. As each new standard was introduced, the certification of ethical coffee became more established and widespread. As this social market evolved, the procedural elements of these organizations aimed at incorporating the many voices of the advocacy world into the standards became less relevant. Instead, these standards became tools for brand differentiations influenced primarily by varying target consumer segments. Once the social market is established, the legitimacy of the market based organizations that deliver on it are not placed into question, and the tension between advocacy and market is replaced by a mosaic of advocacy and market actors developing new standards aligned with market rules and dynamics.

While standards organizations do seek to gain political legitimacy in the early stages of a social market, the struggle for political legitimacy provides some insight into the rise of systems early on in the development of a social market, but cannot explain the rise of latter stage standards. As the social market pioneer, and early descendent of the activists and advocacy groups who first established the fair trade movement, the FLOs legitimacy was never challenged by other activists. Furthermore, since the market actors they were engaged in were poor farmers from the global south who were benefiting from adherence to the FLO standard, fair trade was also not challenged by firms[17]. Despite an absence of political challenges, several alternative standards organizations emerged - the rise of alternate and competing systems had nothing to do with a battle for political legitimacy.

[17] This will be examined in the remainder of this chapter, as well as in the following chapter.

There were, and remain, two principle critiques of fair trade as exercised by the FLO, but neither of these were led by a cohesive and unified front. Nor did these critiques present a serious threat to its existence on grounds of a lack of legitimacy.

First, early activists and advocates of fair trade criticized the FLO for its mainstreaming strategy (Locke, Reavis and Cameron 2010; Moore 2010), which is to say its willingness to certify products from companies that were not fully aligned with the fair trade ethos. Recall that the fair trade movement began within and across a loose network of advocacy groups, churches, and activists, and their products were sold at non-profit outlets such as Ten Thousand Villages shops. Criticisms emerged from within the group for its strategy to prioritize market expansion and sales through traditional retail outlets, but opposition did not *lead* to competition. Instead, as we will see in this chapter, the critics organized the International Federation of Alternative Traders (IFAT) to distinguish those organizations that sold fair trade and were wholly dedicated to its mission. This early example of multiplicity was indeed a reaction to the challenge of political legitimacy, but it does not explain the emergence of other systems. This was a separate organization to FLO that did not certify products, but organizations. It did not split from FLO, but remained an official advocacy partner (Fairtrade 2013).

The second principle critique was that fair trade's minimum price policy would lead to an overproduction of coffee and a drop of coffee prices thereby hurting non-fair trade producing farmers (Economist 2006; Griffiths 2010; Mohan 2010; Vouvray 2010; Weber 2007; Whisler 2009). Setting a price for fair trade coffee that is higher than market prices will encourage more farmers, seeking to fair trade compensation, to increase production beyond what the market may demand. This led critic Brink Lindsey of the Cato Institute to asset that these schemes are "doomed to end in failure," a prediction made in 2003 that has yet to occur (Brink 2003). What did prove true early on was that there was an over-supply of fair trade certified coffee relative to demand. Yet, as we will see in this chapter, this did not de-legitimize fair trade or FLO among consumers, and it did not lead to confrontation with industry actors who sought to undermine the system. Instead, it encouraged the emergence of new systems that sought to deliver more certified coffee to more consumers while relying on market prices instead of FLOs minimum prices. These new organizations, such as UTZ and the 4C, did not confront the FLO or challenge its legitimacy but chose to align with them to achieve the same goal: to increase sales of ethically produced coffee.

There is no evidence that the rise of other systems had anything to do with the procedural or constituent (since none of their competitors sought to gain more constituent legitimacy) legitimacy of FLO. Nor is there any indication that a lack of perceived legitimacy existed. During semi-structured interviews, interviewees were asked the question "do you view the FLO as credible and appropriate?" Without exception, all viewed the FLO and credible and appropriate. All of the people interviewed thought FLO was the standard-bearer. None felt that they needed to fundamentally change the way FLO operated, even FT USA, that split from FLO for perceived inconsistencies in their standards (bias against farms and therefore not getting standards to farm workers) insists that the FLO system should be maintained and encouraged.

4.2 The Rise of Multiplicity

The following section examines the organizations that emerged within the coffee social market to assess the patterns of development away from legitimacy and towards two key market conditions: its centralization and opportunities for differentiation. The case of the coffee social market examined in this chapter will show that, underlying the emergence of each new standard is an evaluation of costs and benefits by a standards entrepreneur (or group) that will need to conclude that the benefits and opportunities for a new standard system outweigh the benefits of joining an existing system. This calculus is most influenced by the centralization of power within the social market: a factor that considers the economic concentration of the industry, as well as the concentration of political power by NGOs, states, industry associations and other actors of new governance; as well as the opportunities for differentiation: a factor that considers the proximity of the social market to consumers, and the state of market segmentation and corresponding consumer constituents. This chapter will show that legitimacy is far less a factor in influencing the rise of alternative standards schemes. Instead, the increased openness and decentralization of a social market, as well as increased opportunities to provide new forms of standards to a diversity of consumer constituents that explains the rise of subsequent systems.

4.2.1 World Fair Trade Organization (WFTO)

The mainstreaming strategy adopted by the FLO and outlined in the previous chapter created tensions within the fair trade movement. The original movement, composed mainly of a network of churches, alternative trade organizations, and other activists, united in their advocacy for a fairer trade regime focused on partnership and relationship-based trade between producers in the global south and buyers in the north. To these groups, developing closer ties with traditional market actors in an attempt to increase commercial presence was anathema to their original cause. Yet, these tensions between the fair trade "purists" and the organization's leadership did not lead to any significant rifts or battles over legitimacy. Instead, advocates that hesitated at the mainstreaming of fair trade continued to adopt fair trade standards, but chose to differentiate on the basis of fair trade exclusivity. Why? Because, I argue that the costs of battling the FLO were higher than the benefit of simply going directly to the consumer themselves.

WFTO represents this split in the fair trade movement against mainstreaming. Started in 1989 as the International Fair Trade Association (IFAT), WFTO certifies companies rather than products and seeks to distinguish firms that are fully dedicated to the fair trade cause from those that may be engaged in *fairwashing* – selling some fair trade products to manipulate public perception of their brand but continue to promote mainstream market values through the rest of their product line. WFTO is a network of over 350 organizations, ranging from small producer cooperatives to large wholesalers and retailers from over 70 countries across the globe, that are committed to selling 100% fair trade products. It is a network of what author Laura Raynolds calls *mission-driven* organizations (Raynolds 2009), which sit in contrast to the commercial-motivated franchisees. Member organizations are expected to adhere to the 10 broadly stated principles of fair trade (below) as well as a code of practice inspired by the principles.

Despite the continued mainstreaming of FLO and ethical coffee consumption more generally, the WFTO, led by advocates and activists, continues to stand firm in its position against commercialization as a principle objective within the movement. This is evidenced in its recent letter commenting on Fairtrade USAs split from the FLO: "In effect, the certification systems have changed Fair Trade to such an extent that sales of products are the main measure of success instead of the welfare of producers [...] This action seems more to satisfy and enrich the very people whose actions caused Fair Trade to be established in the first place at the expense of the small farmer/producer. The Fair Trade supply chain should be relational in nature, with equal input and ownership by all parties, the changes proposed by Fair Trade USA would reduce this to a conventional supply chain with a price premium that will concentrate all the power at the top"[18].

While its origins are in the advocacy of fair trade, "an applicant doesn't have to sell FLO certified products to be registered as Fair Trade Organization-FTO."[19]

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[18] WFTO. "WFTO response to Fair Trade USA/FLO split" 2011. http://www.wfto.com/index.php?option=com_content&task=view&id=1574&Itemid=314. Last accessed May 4, 2012

[19] Michael Sarcauga, WFTO Communications Officer, email correspondence, December 12, 2011.

According to Michael Sarcauga of the WFTO, “we are not certifying, we are registering organizations that complies our Principles. The basic explanation is that certification is expensive for organizations and we are trying to help small producer-organization. For us Fair Trade is transforming organizational practices to follow Fair Trade Principles, checking buyers more instead of producers without saying that producers do not need to comply FT practices.” Given this as its goal, what attempts were made to bolster its own legitimacy through proper institutional design and collaboration with stakeholders?

4.2.1.1 Matters of Legitimacy

While the reach and recognition of the WFTO is quite small relative to the FLO, the original split represented a fundamental shift in approaches – a split that provides a real-life case study comparing the outcomes of mainstreaming versus an adherence to the realm of the mission-driven advocacy. On one hand, an insistence of staying within the advocacy and activist realm, and on the other hand, capitalizing on market-based opportunities for growth and commercialization.

Notable to the WFTOs structure and procedural legitimacy aims, it provides little evidence of a rigorous governance structure that transnational new governance organizations are believed to strive for. While there is a board elected by stakeholders, their stakeholders are not organized into a general assembly where issues are discussed in an open manner. Instead of being formalized in the governance structure, participation of stakeholders is voluntary. There is also no revision of standards by stakeholders through a standards committee. Furthermore, their stakeholder list is predominantly advocacy groups or traders that represent a narrow niche of potential actors. Traditional businesses or industry associations are not represented. Most notably, there is no third party verification of business operations. Instead, organizations agree to be monitored by the WFTO to ensure 100% adherence to fair trade principles as set forth in their 10-point standard list. The WFTO represents a significant divergence from the principles of procedural legitimacy defined by other scholars and adopted in this study. Even though the WFTO claims "the high ground" on ethical practices surrounding coffee, its practices are still aligned with improving the market incentives of actors rather than bulking up their organization with legitimacy enhancing procedures. This is most obvious with their adoption of an ecolabel as well as maintaining a closed network of members to trade with each other, and sharing marketing efforts[20]. This shift towards the market and away from a battle for legitimacy is consistent with hypothesis of this study that an increase in competition among standards organizations will lead to a lower likelihood that these organizations will adopt institutional elements intent on increasing their political legitimacy.

This advocacy based organization aimed to distinguish its members as being more exclusively tied to the origins of the movement. It did not attack the original movement, but instead remained as a partner and collaborator. Interviews with WFTO representatives confirms the organization's continued support and respect of FLO and acknowledging that while they remain true to the original goals of the

[20] See http://www.wfto.com/index.php?option=com_content&task=view&id=18&Itemid=49 last accessed March 24, 2014

advocacy-led fair trade movement, their organization survives alongside the FLO not against it[21]. Their members are mainly, although not solely, members of the FLO network. The WFTO status provides an additional credit of 'legitimacy' without undermining FLO efforts. They are, in essence a brand within a brand within a brand – a fact that confers certain practical market-based benefits.

4.2.1.2 Matters of Market Integration

The FLO encouraged the emergence of ATOs and specialty roasters and traders focused solely on the sale of ethically sourced coffee. When it expanded its scope and shifted towards mainstreaming, the risk arose that these ATOs could not compete with larger, traditional for-profit firms, or even specialty for-profit roasters. The WFTO sought to address this market risk by developing a labeling system that allowed ATOs to differentiate themselves for their ethical commitments. It was a strategy designed to encourage the survival and success of ATOs.

While the WFTO declares itself outside the mainstream, its strategy of upping the credibility of certain vendors is nothing less than a means to the same end: greater consumer awareness and product differentiation, a claim confirmed by its own representative.[22] It is a market-based strategy to enhance the competitiveness and survivability of fair trade dedicated organizations. WFTO members benefit from increased coordination across the network and seek to distinguish their high level of

[21] Michael Sarcauga, WFTO Communications Officer, email and telephone correspondence, December 12, 2011

[22] Michael Sarcauga, WFTO Communications Officer, email and telephone correspondence, December 12, 2011

commitment to the fair trade cause through WFTO labeling, a mark they hope would lead to loyalty and premiums among a more discerning consumer niche. They represent a group that seeks to develop an alternative trade ethos completely separate from conventional markets. This includes organizations committed to fair trade advocacy, support organizations, and also trade organizations that are fully dedicated to selling fair trade. WFTO members also benefit from a variety of services that are offered with the aim of facilitating market-based success. These include:

Business Support Services: Members have access to Shared Interest's Financial Services for Producers. Shared Interest provides a Clearing House for credit, advance payments and various financial services to producers, enabling them to grow their business at favorable rates.

Supply and Demand: WFTO members' only website is its Supply & Demand section, where anyone seeking Fair Trade goods can post a demand notice. The WFTO has a reputation as a reliable source of Fair Trade products, and many of these requests come from outside our membership. Members can also advertise their products here.

Learning and Development: WFTO members have specialist marketing experience and expertise to share. Every year, the WFTO brings members together for inspiration and learning at its Global and Regional conferences.

Encouraging Regional Initiatives: Regional conferences provide the venue for effective regional cooperation and partnership building.

This strategy goes beyond mere advocacy to ensure market viability of their members. The WFTO had the primary goal of differentiating ethical producers from the rest of the market through a separate labeling initiative. Moreover, it provided another value proposition to members through its exclusive offering of member support services, trade agreements among member, learning and development and regional initiatives to encourage additional cooperation. This proposal is unique to the ATOs and organizations that the WFTO targeted in their mission, and speaks to the additional fragmentation of the coffee industry caused by the FLO.

Notable to the WFTOs opposition to FLO mainstreaming strategy is that it did not wage a campaign attacking the legitimacy of the fair trade standards, nor did it challenge its existence. Instead, it sought an opportunity to differentiate itself from the FLO by being the standard for the original advocates and purists. The WFTO operates in parallel to the FLO and seeks to provide additional recognition and legitimacy to mission-driven fair trade organizations – a recognition that they hope would further support the organization's marketplace goals.

Who is the WFTO reaching with their stronger ethical position? As noted above, they seek to strengthen the position of ATOs and like-minded organizations now under market threats from mainstream suppliers. But, with the introduction of their WFTO ecolabel, they are also targeting a more ethically minded consumer than the FLO[23]. The WFTO label aims to communicate a more pure fair trade commitment than the fair trade coffee sold at Starbucks. It indicates that the fair trade

[23] Michael Sarcauga, WFTO Communications Officer, email and telephone correspondence, December 14, 2011

norm is being adopted not merely by producers, but by every organization along the supply chain[24]. This differentiation targets a consumer base that is morally aligned with the anti-mainstreaming coalition within the original fair trade movement. These consumers are considered more ethically stringent than the average FLO consumer, and place less emphasis on quality of coffee than on quality of standards. This is reflected in WFTOs lack of emphasis on the quality of its standards as a pathway towards higher quality. Analysis of WFTO documentation on-line and data gathered through interviews provide no indication that quality of product is a priority.

WFTO is the only standard whose dispute with FLO could be considered a threat to its authority. Yet instead of attacking the authority of the group, or splitting off completely, it created a network within a network and supplemental standard to the FLO. This is a higher standard. Is it reflected in the marketplace? The factors that influenced WFTO's entrance into the marketplace were the need to maintain the purity of advocacy cause; the need to provide networked benefits to other purists; the need to differentiate its members from companies that sold fair trade products but did not fully adopt the fair trade ethos.

4.2.2 Rainforest Alliance

The Rainforest Alliance (RA), known primarily for its focus on promoting biodiversity in the tropics, entered the coffee certification game by making the association between coffee production and wildlife refuge in forests. Their

[24] Michael Sarcauga, WFTO Communications Officer, email and telephone correspondence, December 14, 2011

relationship with the Sustainable Agriculture Network (SAN), which claims to be "the oldest and largest" coalition of NGOs working to improve the production of agricultural commodities in the tropics, led to the development of several standards and associated eco-labels certifying environmentally sustainable production. The earliest certification-based eco-label, the ECO-OK seal for bananas, was eventually replaced with the Rainforest Alliance Certified seal that remains today.

Although the RA is connected to FLO through ISEAL, and has recently embarked on a joint mission to develop tools enabling farmers to more efficiently adhere to multiple standards, it has never engaged as a potential member, nor is there a history of unsettled rifts between the organizations.[25] The RA was never part of the original cohort of NGOs promoting fair trade norms, nor was there a "history of attempts to merger."[26] RA did not emerge out of a dispute around standards or objectives, but adopted coffee standards as a means to encourage the sustainable maintenance of agricultural lands it oversaw in Latin America, a function if its established network and relationships in that area.

Originating, in 1991, as an advocacy group dedicated to reducing rainforest destruction, RA first adopted the sustainable farming cause through a partnership with a group of biologists in Guatemala. Together, they believed that they could achieve their environmental goals by working with commercial farmers to reduce negative externalities of their production processes. By 1991, with banana production as their

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[25] Diana Ortiz, Communications Specialist at Rainforest Alliance, email correspondence, April 18, 2012

[26] Diana Ortiz, Communications Specialist at Rainforest Alliance, email correspondence, April 18, 2012.

primary target, the partnering NGOs developed a certification scheme and corresponding eco-label for this ubiquitously farmed commodity. One year later, in 1992, the group began developing standards for coffee production. Before long, the disparate network of NGOs came to realize the need and benefits of greater collaboration. In 1997, the RA along with a host of other groups focused on and based in Latin American created the Sustainable Agriculture Network (SAN). In 2001 the RA adopted the Green Frog seal for certified products and began promoting the seal and its products globally.

There is no official position on the differences between RA and FLO, but there is one on their similarities. Along with UTZ, another coffee standard system examined below, Rainforest Alliance published a joint statement with Fairtrade declaring their commitment to a shared goal of "transforming the world's production systems and value chains to make them more sustainable."[27]

4.2.2.1 Matters of Legitimacy

Although the Rainforest Alliance claims that its standards meet "rigorous social and environmental" standards, given the objectives of SAN, it is unsurprising that the standards are far more focused on environmental rather than social sustainability. This opens the RA up to critique when compared to the fair trade social standards, especially related to RA's refusal to guarantee a minimum price for farmers. However, this split from fair trade does not preclude RA's membership in the

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[27] Diana Ortiz, Communications Specialist at Rainforest Alliance, email correspondence, April 18, 2012

International Social and Environmental Accreditation and Labeling (ISEAL) Alliance, to which the Fair trade labeling organization is also a member. Complying with ISEAL codes of good practice for setting their social and environmental standards is believed to strengthen the legitimacy of the SAN standards and RA certification. In conformity with ISEAL codes that include guidelines for including stakeholder input into standards creation, in 2007, the SAN created the International Standards Committee (ISC), an independent body of advisors that decides on the contents of the standards. Through regular consultation with the ISC and other stakeholders, including public forums, the SAN works on continually improving their standards and certification process. However, it is important to note that the RA is not a multi-stakeholder organization.

The SAN itself is a multi-stakeholder deliberative body that seeks to enable open, transparent and inclusive consensus building, complying with the requirements other scholars have established for a legitimate process. Like the FLO, the SAN consists of a General Assembly made up of representatives (one each) from their member organizations. Although memberships organizations consist only of the small network of Latin American advocacy organizations that founded the SAN or were added soon thereafter, the Rainforest Alliance, and one India-based organization. There are a total of 9 member organizations. Three members are elected to the Executive Committee by the Board of Directors, also composed of representatives from these member organizations. The Standards Committee is composed of 12 individuals, four of whom must represent SAN membership, and the others, approved by the Board of Directors, represent a variety of technical experts, academics, and advocacy groups from around the globe. In addition to this governance structure, SAN holds regular Public consultations during the Standards development process. Here the International Standards Committee opens up draft revisions of standards to a much broader and self-identified group of interested parties and stakeholders.

Lacking from the governance structure, despite "public consultations," is an institutionalized defined process to receive farmer input. A stakeholder is defined as one who is impacted by the actions of an organization, and in the case of SAN standards, this absolutely refers to the farmers who have or plan on seeking RA certification. Further exacerbating this exclusion is the short list of members that make up all other governance bodies of the SAN, consisting of 9 advocacy-based organizations notable for their heavy geographic bias in Latin America. There are also no representatives from the retail side of the equation.

Certification is performed by a network of 3rd party certification bodies, which along with other institutional elements of their governance structure, speak to an organizational design based partly on the principles of procedural legitimacy outlined in this study. Given the early origins of the RA, its advocacy-based organization and elements of institutional legitimacy do not conflict with the hypotheses in this study. The organization emerged during the very earliest stages of the environment production norms in agriculture and adopted the coffee standards before the FLO was formed. While not the standard-bearer for coffee standards, always behind the fair trade initiative, it was one of the originals. But a battle between RA and FLO never occurred. Instead, the RA focused on agricultural networks in Latin America and expanded its scope to include plantations that would not be served by FLO. Also, its lack of focus on social standards or a minimum wage – both provided by FLO – did not make way for a de-legitimization of the standard. Instead, it managed to grow, and continues to, with a slightly different market strategy than FLO.

4.2.2.2 Matters of Market Integration

What is considered a limitation for the SAN was also, at one point, their *raison d'etre*. While the FLO emerged out of a far more international network of organizations, with buyer-organizations in the US and Europe sourcing from African craftspeople and farmers, the bodies that developed into the SAN were located in South America and operated by locals. One principle critique from activists, who refer to the Rainforest Alliance certification as "fairtrade lite," is that RA certified large plantations instead of smaller producers. Yet this strategy, which aligned with a goal to cover large agricultural areas for the largest environmental impact, has also led to some impressive growth in production supply supporting the increased production demands of the largest roasters and encouraging large and medium-sized companies to engage with Rainforest Alliance early on in their program. For example, in 2005 Kraft Foods announced a multi-year arrangement that includes the purchase of over 5 million pounds of RA certified coffee to be sold in Europe and North America. By August of 2010, there were over 80,000 Rainforest Alliance

Certified farms in 26 countries covering a total of over half a million hectares (approximately 1.4 million acres).

In addition to gaining access to new markets, producers are supported through an RA sponsored financing program. RA is a member of the Finance Alliance for Sustainable Trade, an independent non-profit organization that provides financial support for producers engaged in sustainable production. Their mission statement, "To enable greater producer access to credit and related financial risk management tools through the promotion of sustainable trade finance, development of joint projects and improved coordination and cooperation of socially oriented lenders, producers and other stakeholders,"[28] allows RA to compete with the FLO for producer alliance.

The RA, already in existence when FLO was created, chose not to merge with the FLO to provide coffee-related certifications, but instead leveraged its existing network of farmers, advocates and activists to create its own separate standard and eco-label. Given the power of the RA alliance and its brand, it was able to venture directly into the coffee social market with its own label without having to build an additional network of advocates and support. In other words, it did not need to fight for additional political legitimacy. RA offers its program as different than FLO through a statement on their website claiming their focus on how farms are managed rather than poverty alleviation[29]. Although consumers may not be as informed to these differences, they will likely notice the differences in how each "brand" is sold.

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[28] https://www.fastinternational.org/en/node/59

[29] see http://www.rainforest-alliance.org/agriculture/faq-fairtrade

RA certified coffee will find its way in mainstream coffees from Kraft or Nestle including supermarket sold instant coffee blends and blends made for office coffee machines. Given its more narrow focus, lack of minimum pricing, and acceptance of large plantations (versus FLOs focus on small producers) RA standards may be considered less stringent set of standards than FLO, and this is reflected in their place and perception in the coffee market. While the RA 'brand' carries a reputation for ethical production related to environmental impact, its lack of minimum price and certification of larger plantations makes it a target to attacks against fair trade advocates. The more stringent ethical buyer may be reluctant to support RA in the marketplace, and the more discerning coffee drinker may also be less willing to purchase mainstream instant coffee brands certified by RA. This segmentation of RA for lower standards and lower-end coffee aligns with the hypothesis in this study around product segmentation, lower standards will align with lower market segments, and higher standards will align with higher market segments. According to Elizabeth Wenner, director of sustainability for Kraft Foods, RA is "business-driven sustainability,"[30] a declaration that emphasizes its shift towards the market and potential critique from advocates and activists. The factors that influenced RA's entrance into the marketplace were an ability to leverage existing governance organization and relationships with producers; the need to focus on environmental issues; the need to allow a vehicle to promote production for their larger farmers.

[30] see http://www.organicconsumers.org/articles/article_18372.cfm Last accessed, March 27, 2014

4.2.3 UTZ Certified

UTZ Certified (UTZ) originally developed as a product safety traceability system for the Ahold retail group repositioned itself in response to gaps they identified in the fair trade coffee market (Nichols and Opal, p 248). Given the barriers to entry into the fair trade model, specifically minimum prices and the cost of certification, the founders of UTZ were struck by the limits of growth in the fair trade coffee market. The problem, as they saw it, could be narrowed down to two key factors[31]. First, premium prices for fair trade coffee severely limited buyers of fair trade to a small segment of the population of more affluent and socially oriented consumers. Second, the costs of certification would limit the numbers of farmers that would be able to, or willing to, consider producing fair trade coffee. And perhaps even more critically, despite the structural constraint on supply, there remained far more supply of fair trade coffee than there was demand in the marketplace.

Capitalizing on the excess of fair trade certified coffee, UTZ realized that by eliminating the requirement for premium prices, these sustainable and ethically produced coffee beans may be made available to a much wider segment of the consumer market. UTZ was therefore able to capitalize on the foremost critique of fair trade's premium price guarantee - over production of fair trade coffee – without ever needing to organize an alliance of like-minded civil society groups or argue the point in a multi-stakeholder forum. While this is a split from fair trade in terms of pricing, it maintains a commitment to ethical production, including high labor

[31] See https://www.utzcertified.org/en/aboututzcertified

standards. The problem of pricing, UTZ maintains, is resolved through the marketplace where consumers would ultimately be willing to pay more for ethical coffee, a premium that would eventually flow back to producers.

While UTZ founders had goals that were aligned to the fair trade movement, they chose to approach their goals in a different way. Rather than join forces, they developed a parallel standards organization that they believe complements the objectives of the FLO. By making certification more accessible to producers of all sizes, and eliminating the minimum price requirement on buyers, UTZ seeks to "mainstream" ethical coffee, and "create a world where sustainable farming is the norm."[32] In 2003, Eric Onstad of Reuters introduced the organization to the world with "Just as Starbucks popularized cappuccinos for mainstream America, a new group wants to put "ethical" coffee on supermarket shelves across the globe."[33]

Rather than focusing on the particularities of standards, UTZ develops what may be considered a baseline for standards, and focuses on consistency, verifiability, and transparency. This "baseline of standards" is considered lower or a "watered down" version of the more stringent FLO standards (Conroy 2007). The objectives UTZ seeks to achieve are greater participation by a wider array of producers rather than the narrow group targeted by FLO. Also, by offering a web-based traceability application, UTZ and UTZ buyers can tout the traceability of its coffee to ensure that every step of the production process was verified according to minimum standards of

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[32] Stephanie de Heer, email conversation, March 30, 2012

[33] See *Ethical" coffee pushed into mainstream*, Eric Onstad, Reuters, July 3, 2003. Reprinted on various Web sites

responsibility. Traceability is important because it helps reduce the space between consumer and producer (Conroy 2007) leveraging a key facet of ethical production, and enables the upgrading of producers (Gereffi et. al 2005).

UTZ aims to implement the worldwide standard for socially and environmentally responsible coffee production by targeting the mainstream market. This means shifting away from relying on high-end or socially conscious consumers willing to pay a premium for ethical coffee, but to get mainstream brands to deliver the same high quality coffee at the same price, with the added benefit of ensuring transparency around its production method. "The high ground has been staked out by organic and Fair Trade coffee, but there is a limit to how far those segments are going to grow," said Utz Kapeh director David Rosenberg. "The question is what is going to happen to the other 95 percent that is not in that niche."

4.2.3.1 Matters of Legitimacy

UTZ founders never challenged the fair trade regime represented by the FLO, but instead sought to complement it with a system that would seek "to create a world where sustainable farming is the norm."[34] In order to achieve this goal, according to Stephanie de Heer, *Farmers* must be able to implement good agricultural practices and manage their farms profitably with respect for people en planet, *Industry* must discover the rewards and incentives to invest in sustainable production, and *Consumers* must be able to enjoy and trust the products they buy. UTZ was the

[34] Stephanie de Heer, email conversation, March 30, 2012

brainchild of “two business partners,”[35] that identified a need to promote and expand the sustainable coffee market. While they adopted some of the fair trade norms and standards, their origins were not as activists or advocacy groups, but business. Their strategy was to bridge the supply of sustainable products with the larger marketplace. UTZ’s governance structure and stakeholder membership reflects this explicit prioritization of *industry* and *consumers* along with farmers, which contrasts with FLOs focus on farmers.

After operating for several years, UTZ formalized a multi-stakeholder governance structure in 2010, and while the structure itself mirrors closely that of the FLO, its list of stakeholders reflects a consumer-minded focus and greater intimacy with industry[36]. Similarities with the FLO include: a clear commitment to a multi-stakeholder environment; the election of stakeholders to a Supervisory Board; the participation of stakeholders in the election of the UTZ Executive Team; the participation of the supervisory board in the nomination of the Standards Committee; the establishment of a separate Advisory Committee of experts.

The principle difference is two-fold: the type of stakeholders, and there is no General Assembly. UTZ governance explicitly calls for the inclusion of participants along the entire coffee supply chain, including large roasters, brands, and retailers. While this can be considered a more comprehensive list of stakeholders than FLO,

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[35] “The Story of UTZ” http://www.utzcertified.org/en/aboututzcertified/the-story-of-utz accessed 12-2-2011

[36] UTZ “Governance Structure and Procedures” http://www.utzcertified.org/images/stories/site/pdf/special/utzgovernancenov2011.pdf accessed 3-20-2012

their lack the institutional checks on power that threatens a skewed level of influence and control from large retailers and brands. UTZ itself expresses the philosophical differences through the “principles” of their governance structure (UTZ 2013, p2):“The governance of UTZ CERTIFIED is under-pinned by the following guiding principles:

Expertise & Objectivity: Supervisory Board Members are chosen on the basis of their expertise, experience and objectivity. Supervisory Board members do not represent the stakeholder group of which they may be part, but rather to act in the overall interests of UTZ CERTIFIED.

Strong Mandate to Directors: UTZ CERTIFIED operations are led and managed by the Directors and their staff, without undue interference from the Supervisory Board

Participation of stakeholders: The Standards Committee and Product Advisory Committees provide the forum for stakeholders along the value chain, from producers to buyers to be involved and influence the operations of UTZ CERTIFIED.”

The notable results are first, a Commercial Director, part of the Executive Team, staffed by a highly experienced business executive to interface with the industry representatives; second, a Field Director, part of the Executive Team, staffed by MBA with notable experience in Business Consulting; five out of eight members of the Supervisory Board who represent, or have spent most of their careers with “big business” and the coffee industry, and member representing farmers and producers, and 1 member representing trade unions.

In contrast to Bernstein and Cashore's claims (2007), this complacency with industry was not the result of business-initiated competitors to the FLO, but was created as a wholly independent group seeking similar normative goals by using alternative market strategies. As hypothesized in the primary thesis of this research, the evolution of the social market and growing acceptance of the norm of ethically produced coffee, leads to shifts away from advocacy-based strategies towards market strategies.

UTZ is an ISEAL member, has joint statements with RA, SAN and FLO, and works in collaboration with Solidaridad. The industry as a whole was able to gain legitimacy through collaboration and a meta-standard created by ISEAL. This relieved the new standard, from the obligation to establish its own legitimacy through stringent governance procedures. International organizations working on UTZ implementation include: Solidaridad, a key organization emerging from the original fair trade social movement; Hanns R. Neumann Stiftung, a foundation committed to supporting fair trade organizations; GIZ, the German government's agency committed to promoting sustainability; ACDI/VOCA, an international economic advocacy organization focused on supporting cooperatives and community run economic organizations. Sponsors include also include a number of international advocacy organizations and state-supported groups, such as Irish Aid; Svenska Postkod Stiftelsen, the Swedish Postcode Foundation is a beneficiary of the Swedish Postcode Lottery and support projects that work towards a better world; Hivos, the Dutch foundation that provides funding to initiatives for Developmental issues, nature and environment, Human rights and culture; Agentschap NL, the Department of the Dutch Ministry of Economic Affairs, Agriculture & Innovation that implements government policy for sustainability, innovation, and international business and cooperation.

Despite its clear divergence from FLO standards and, as critics insist, a strictness of standards that ensure the goals of ethically traded coffee are met (Purvis 2006, COOP Coffees 2008), UTZ was able to foster a network of state-based, NGOs, and private sector supporters. Notable also was its inclusion into the ISEAL alliance with the FLO and RA. None of this development emerged out of conflict with the original system. Instead, a team of socially minded, business savvy, entrepreneurs capitalized on an opportunity created by the FLO. Their shift away from a more robust multi-stakeholder organization, as exemplified by FLO, is paralleled by their shift towards greater market integration. As UTZ notes, “While we are not-for-profit, we organize our activities in a business-like structure.”[37]

4.2.3.2 Matters of Market Integration

The stark imbalance between ethically produced coffee and demand for this coffee influenced the creation of UTZ. According to Bob Thompson, former director of Fair Trade Mark Canada, in 1995 Fair Trade producers had a production capacity of 250,000 metric tons of coffee, while demand stagnated at 11,000 metric tons, or around 13 percent of total production (Thomson 1995). So significant was this

[37] FromUTZ job posting http://216.197.119.113/cgi-bin/jobman/exec/view.cgi?archive=95&num=37480 accessed July 2012.

disequilibrium between supply and demand that in 2002 FLO had to halt registration of new members (Vizcarra 2002). UTZ organizers believed that this imbalance was the result of two related phenomena: 1) fair trade's minimum price guarantee imposed a higher price on certified coffee that was restrictive to most consumers, and 2) detracted interest from mainstream coffee buyers and retailers that could buy in larger quantities. Their solution: drop the minimum price requirement, and let the market sort out oversupply through price adjustments.

Leaning towards the market: they insist on allowing buyers and sellers to agree on price and transact in a "market-driven way." UTZ does not guarantee a minimum price to farmers, which keeps prices down and enables traders and retailers to provide the product to a wider segment of the consumer market. If fair trade coffee is criticized for being within the scope of opportunity only for those who can afford the premiums, UTZ may be offered at little to no price premium and can therefore be supported by a wider consumer base.

The shift away from minimum price guarantees was, according to Hans Perk of Solirdaridad, a reflection of UTZs explicit embrace of market realities. Aligned with this was the understanding that any increase in pricing would necessarily be tied to product quality, and that increases in profits for producers should a function of business efficiencies. A focus on product quality and business efficiencies raises the challenge to farmers to become professional business partners with UTZ, a philosophical shift from FLO whose minimum pricing and farmer support was closer to charity (Hans 2011).

Given its strategy to capitalize on particular supply chain opportunities left open by the FLO, UTZ did little to “brand” its coffee to consumers. Its strategy was decidedly stealth relative to consumer awareness. As Han de Groot, one of the founders of the organization notes, "the percentage of people who are interested in the Utz Kapeh principles is a maximum of about 10 percent. The other 90 percent do not care too much or are not aware. We don't want to give the other 90 percent the feeling that we have changed our coffee, which we haven't. We have to be very careful that the 90 percent keep buying the coffee because they like the quality." (Onstad 2003)

Less interested in persuading consumers of the ethical value of their coffee, UTZ has sought to cater to large buyers who are interested in sourcing from sustainable supply chains, but are not in the specialty coffee business and will not seek to brand their ethical or specialty coffee for a premium. In contrast to the original advocacy-based fair trade movement’s network of ATOs, buyers of UTZ coffee include the major roasters such as Sara Lee, who to date has purchased more than 240 million lbs. of UTZ coffee, and has committed to purchasing at least 770 million lbs. over the next five years (UTZ 2010, p20).

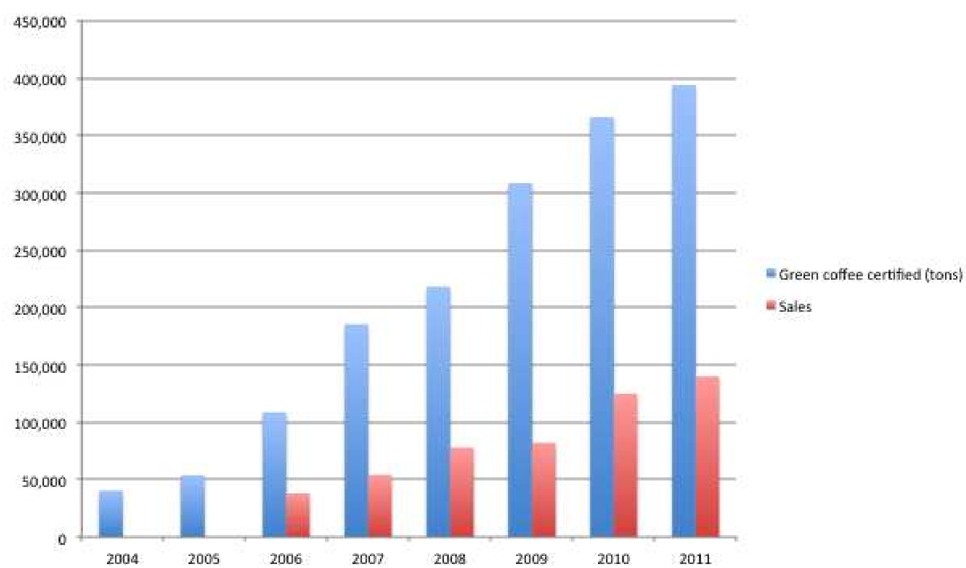
Whereas fair trade gained market success by having ATO develop consumer awareness of ethical coffee through their brands, UTZ seeks to penetrate the market through existing brands.

“Although the labels have similar goals, we all have a different approach in how to reach these goals. The advantages of the existence of different systems are fourfold. Two of these, innovation and cost reduction, are normal effects of competition. The third, which we will call societal risk management, is related to the subject of sustainability and the difficulty to know what the best system is in the long term. Finally, the existence of choice makes it easier for many companies to take the plunge and choose for sustainable sourcing. We do however seek collaboration in the area's where this is possible and benefits all parties involved."[38]

To argue that UTZ is not doing enough to promote a high standard of ethical production of coffee is to ignore the benefits of their high volume mainstream strategy. "One way is to define a high price, implying that the possibilities of selling significant volumes to the market are limited; volumes significant enough to turn this ethical price into a real price for producers. The choice of Utz Kapeh is to formulate - within a competitive market - a realistic set of improved trading conditions, permitting substantial volumes to be traded against these improved conditions. This way the formula "Price multiplied by Volume" actually leads to an increase in producer income. The implementation of a robust certification program can drive improvement in quality and efficiency and lower costs for unnecessary use of agrochemicals." (Perk 2010, p3)

[38] Stephanie de Heer, email correspondence, April 14 2013

Figure 4.1 Production and Sales of UTZ Certified Coffee



Source: Adapted from *UTZ Certified Annual Report*. 2012.

Standards were developed based on the international standards for agriculture based on EUREP-GAP Protocol for Good Agricultural Practices, which UTZ modified for coffee production (Ponte 2004). Social guidelines are based on SAI 8000, and the labor standards and worker rights are based on internationally accepted norms of the ILO. Linking to these highly credibly international standards guidelines ensures a level of legitimacy to its own standards, but UTZ makes no contention that its standards are meant to be easier and less costly than FLO standards – an end they willingly achieve by lower requirements. This mainstream product fits well with its sales strategy of selling through existing major mainstream brands. Once again, the relationship between the stringency of the standard and the market niche is observed, and will be examined more thoroughly in the following chapter.

The factors that influenced UTZ'z entrance into the marketplace were: partnership with Conservation International mitigated the need to recreate a governance body promoting open and consensus-based decision-making. Although the degree of 'legitimacy' was low; the need to take advantage of an oversupply of certified coffee; the need to encourage pricing and branding based on quality.

"The high ground has been staked out by organic and Fair Trade coffee, but there is a limit to how far those segments are going to grow. The question is what is going to happen to the other 95 percent [medium to large-scale estates] that is not in that niche." (Sweet Marias 2012)

4.2.4 Common Code for the Coffee Community (4C)

Pushing the mainstreaming of sustainable coffee production to the furthest point yet, the Common Code for the Coffee Community (4C) emerged to create an industry-wide ***baseline standard*** for sustainable coffee production. The association emerged to solve the problem outlined in a study prepared for the UN's Food and Agricultural Organization (FAO), "Despite the recent boom in sales of certified coffees, the share of these coffees in total sales by the world's main coffee roasters – with the exception of Starbucks – remains limited. Certified coffees account for between 0 and 6 percent of than the world's largest coffee roasters, including Nestlé, Kraft, Sara Lee, Procter & Gamble, Tchibo, Smucker's, Lavazzo and Segafredo […] these relatively small volumes indicate that established brands are unlikely to market certified coffees on a large scale in the near future as they prioritise [sic] cost efficiency and are prepared to absorb only minimal additional costs." (Pay 2009)

Much like UTZ Certified, the 4C appreciates the social and environmental advances that can be attributed to the rise of coffee certification systems and aims to deliver these benefits to a much wider group of producers. Faced with a shortage in supply across the coffee industry, 4C adopted a strategy to increase the supply of certified coffee. This strategy led to their controversial approach to develop a set of standards that are easier to comply with to increase the supply of certified coffee in the marketplace. This new baseline supply opens the path for larger retailers to sell certified coffee without incurring the costs associated with certification. Unlike UTZ, 4C is far less interested in promoting "quality" coffee that can seek market premiums than it is in increasing the baseline for all coffee. Rather than promoting and rewarding better practices, 4C aims to "exclude worst practices" and achieve an average level of sustainability as a start. Once on the path towards sustainability, guided by the Rules of Participation document, members explicitly commit to the continuous improvement of coffee quality and sustainable production processes. A commitment to "continuous improvement" allows the organization to demand lower prerequisites and makes the system comparatively easy for producers to enter. Their focus is explicitly not to develop the highest environmental or social standards, but instead aim to work with farmers to establish a firm foundation from which improvements can be made.

4.2.4.1 Matters of Legitimacy

The 4C association was spearheaded by the German Ministry for Economic Cooperation and Development (BMZ), the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) and the German Coffee Association (DKV). Shortly afterward, the Swiss State Secretariat for Economic Affairs (SECO), the British Development Cooperation and the European Coffee Federation (ECF) joined the project. More than 70 representatives from over 20 countries – mostly representatives for coffee farmers launch an initiative to create the new association. They established goals similar to the original fair trade movement, namely to improve farmer competitiveness by providing guidance and tools on sustainability production methods and transparency of market information.

Immediately upon launching the initiative, a multi-stakeholder committee is formed to formalize the goals, structure, and rules of the 4C. In 2006 the organization is formally established, with the original list of 37 members increasing throughout the years. As is standard for these multi-stakeholder organizations, 4C is comprised of a General Assembly of all members, a decision-making body, in this case called the Council, elected by the General Assembly. The Council represents members from the three groups – industry, civil society, and producers – with a legislated bias towards producers. The Executive Board, Technical Committee, and Mediation Committee comprise the other representative groups that are appointed by the Council.

Notable from the list of members are UTZ and Rainforest Alliance, as well as a Fair Trade Organization in Kenya representing over 18,000 farmers of fair trade coffee. Even more striking, on September 17, 2012 FLO joined the 4C Association! In a statement published on 4Cs website, Lee Byers, Senior Adviser on Coffee and Tea at Fairtrade International said “We joined the 4C Association to continue making sure the voice of small coffee farmers is heard on a global stage. The 4C Association is an ideal forum for meeting with other important actors in coffee”[39]. UTZ and RA collaborate with 4C and support the upgrading of farmer certification from 4C to higher standards represented by each. The collaboration with RA goes even further as RA certified coffee is eligible for marketing as 4C coffee. 4C full membership in ISEAL, inclusion of competitor standards, and cross-membership of RA, UTZ and FLO is evidence not of a battle for legitimacy, but of an acceptance for the role of a multiplicity of standards within their industry.

4C accepts that it establishes the lowest standards of any coffee certification scheme, but does not fight to keep producers at the standard. Instead, it coordination with other standards organizations, works to promote higher production standards. In 2010 the 4C cooperated with the SalvaNATURA Foundation in a pilot exercise to enable 132 farmers to upgrade their practices from the baseline 4C Code of Conduct to SAN Standards promoted and certified by RA. Discussions are underway to conduct a similar project comparing the 4C Code of Conduct and UTZ. This will enable Colombian producers to step up from the 4C baseline standard to UTZ Certified.[40]

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[39] see http://www.4c-coffeeassociation.org/news/current-news/article/fairtrade-international-joins-the-4c-association.html
[40] See SAI: http://www.saiplatform.org/activities/working-groups/coffee

4.2.4.2 Matters of Market Integration

The 4C association works through "units," established by member organizations that coordinate activities with local traders, roasters and farmers to implement the code of conduct within the unit. The unit is a loose partnership of separate companies and producers, representing an alternative relationship-based trading unit to the cooperative and contracts-based organization promoted by fair trade. Farmers in these units are expected to work closely with other companies in the unit and will select farmer representatives, or group leaders, to support this end.[41] Independent 3rd party verification confirms that a 4C unit is making progress according to the 4C code of conduct. Once certification is achieved, a 4C unit can trade its coffee among other 4C members as 4C compliant coffee. The 4C code of conduct refuses to set minimum prices or guarantee price premiums to farmers, but works on improving farmer income through other variables such as: coffee quality (through training), improving yields, and cost reductions. Much like the coyote problem discussed in chapter 3, by eliminating oppressive local traders that capitalize on the lack of market transparency to farmers, units help promote farmer terms of trade by rewarding better quality. As of July 2010, there were 89 registered 4C units in 29 different countries.

Premiums are not coded into their standards, and while they claim to rely on market forces to provide price premiums where appropriate, it is also notable that the 4C Rules of Participation for members includes the statement that members

[41] 4C Association website video. http://www.4c-coffeeassociation.org/index.php?id=198&PHPSESSID=9edcsuk5rqnne8e85lk95v1cn3. Accessed December 19, 2011.

“acknowledge that the application of sustainability practices according to the 4C Code of Conduct may have an impact on the costs of production,” and that buyers understand and agree that “suppliers of 4C Compliant Coffee need to be adequately rewarded for their efforts”[42] It is therefore an expectation, though not a requirement, that some premium be paid to producers of 4C certified coffee regardless of whether or not retailers can extract a premium from consumers.

Additionally, while degrees of compliance or grades of production are not coded into the standard process, 4C promotes a culture of continuous improvement and provides anecdotal evidence that implementing 4C standards leads to overall improved production. EDE Consulting in Vietnam is witnessing continuous improvements in production after implementing the 4C codes, they noted that farmers have seen the benefits of keeping detailed records to track spending, receipts, and they have reduced the use of fertilizers and the usage of water, so they end up saving in production costs (D’Haeze 2009).

This strategy of working through units has achieved impressive scale. With production potential almost doubling from 8,109,000 bags in 2010 to 15,906,957 bags as of April 2012, the 4C appears to have addressed with rigor their original objective: to increase production of certified coffee. Yet, their success in increasing production has now led to a mismatch between supply and demand. Verification was for free, paid by membership fees but the demand side was weaker. They have now made a

[42] http://www.4c-coffeeassociation.org/uploads/media/4CDoc_002_Rules_of_Participation_v2.0_en.pdf accessed 4-24-2012

strategic switch to focus on demand side and cease encouraging increased production. One clear change was that they no longer paying for the audits[43].

Table 4.1 Supply Figures 4C

Year	Bags Verified	Units	Business Partners	Total Workers
2008	8,034,995	53	54,961	190,192
2009	10,068,100	60	64,985	217,625
2010	8,109,000	67	72,774	214,756
2011	12,120,000	71	93,228	361,120
2012	15,906,957	83	130,187	521,422

Source: Provided by Veronica Perez 4C Association, email conversation, April 25, 2012.

In addition to these figure, 4C is also successfully moving towards "stepping up" (Gereffi et al. 2005) of producers. According to the information supplied by Veronica Perez, as of April 2012, 15 4C Units licensed under the benchmarking scheme with the Rainforest Alliance with a production potential of 860,897 bags of 4C Compliant Coffee.

4C does not certify products and does not employ a chain of custody tracking system, so can not verify the contents of each bag of coffee. Beans originating from a certified farm are mixed with uncertified beans to form the necessary blends for pre-existing brands. This means products can not be labeled as certified, so there is no 4C eco-label. Since the consumer has no insight into the certification of their coffee, 4C coffee can not be targeted to ethical consumers. Some 4C members, such as Nestle, Chibo, and Strauss disclose the volume of their coffee that is compliant, but this is done through regular sustainability or CSR reporting rather than directly to coffee

[43] Vernoica Perzez, phone conversation, April 25, 2012

consumers. Thus, the linking of ethical production and brand awareness or quality is absent in 4C certified coffee. The ethical nature of their coffee does not contribute to the perception of the coffee, or to product differentiation. 4C highlights the relationship between lower standards and brand differentiation – this is a baseline standard targeting mainstream coffee consumers. The factors that influenced 4C entrance into the marketplace were: the need to bring together large retailers and producers under one common baseline standard; the need to offer ethical coffee for consumers without a premium; the need to offer a baseline standard not linked to brand or quality.

4.2.5 Starbucks Coffee and Farmer Equity (C.A.F.E)

No analysis of the specialty coffee industry would be complete without Starbucks. MNCs are often the target of advocacy groups and norm entrepreneurs working to promote a new norm within the marketplace, and Starbucks was no exception to the fairtrade coffee market. Using rudimentary pressure tactics culminating in coordinated nationwide protests in 29 cities, Global Exchange, a pioneer Alternative Trade Organization and member of the WFTO, was able to convert Starbucks into carrying fair trade coffee in 2000. Global Exchange had spent more than a year orchestrating a campaign against Starbucks, because the firm refused to introduce the sale of certified coffee saying the beans were of dubious quality. This effort was part of a much longer, multiyear strategy to improve the benefits from trade for producers in the global South through various mechanisms, including a certified "fair trade" system. Four days before the planned demonstrations, Starbucks executives signed a letter of intent with TransFair USA, a fair-trade certification organization, to offer certified coffee in all 2700 Starbucks outlets in the U.S. On October 4th, 2000, certified fair trade coffee began to be sold at Starbucks. These tactics are not new to the fair trade movement, although interesting to fairtrade, the advocates are also the market actors. These hybrid organizations and norm franchisees are best exemplified through Equal Exchange and the other ATOs. Analysis of events after the conversion of Starbucks to fairtrade helps shed light on the evolution of standards in the marketplace.

After years of selling fair trade certified coffee in their stores, mainly in the form of whole-bean bags, Starbucks embarked on its own certification system known as Coffee and Farmer Equity (C.A.F.E) standards. Although claims are made that Starbucks and Conservation International have been collaborating since 1998, it was only in 2008 that the two organizations began measuring and evaluating the improvements through systematic and verifiable methods. As expected, these firm-based standards are not without their critics. In 2008 Rodney North of Equal Exchange was interviewed by change.org about the CAFÉ standards and made these general comments[44]: there is a lack of transparency about which beans are CAFÉ certified and which are not as no labeling is used to distinguish them; Starbucks wrote their own standards, although North acknowledges that "a lot" of input was received from other stakeholders; Starbucks continued to source from plantations instead of relying uniquely on co-ops; it requires producers to sell their beans to large corporate exporters, which inhibits the growth and development of co-ops into exporting

[44] See http://news.change.org/stories/equal-exchange-not-so-fast-starbucks accessed Dec 27, 2011.

agents; it does provide advance credit (although this seems in contradiction to Starbuck's claims); it does not guarantee a minimum price; for their choice of using a point system which pits supplier against supplier to advance in the supplier rankings; Starbucks created a system for itself rather than promote industry wide adoption of standards.

The battle over the stringency of standards was started by Equal Exchange and included, in 2004, a list of recommendations to Starbucks on how to improve its CAFÉ standards[45]. Most notable in Equal Exchange's critique is the lack of exigencies related to the actual social, environmental or governance standards. Instead, its focus was on two major issues: First, procedural improvements were demanded, specifically related to establishing minimum requirements rather than the scoring system, verifying the verifiers, continuous review of the standards by a group of experts which includes Equal Exchange, develop public education programs around the social, economic, and environmental costs of coffee production; Second, the need to increase attention to the benefit of the small producers.

The Starbucks CAFÉ Practices Program evaluates the production of coffee according to four categories: Product Quality, Economic Accountability, Social Responsibility, and Environmental Leadership. The first two categories are prerequisites to participation in the program. The program stands out from other systems with its detailed and systematic points system. Through a clear and transparent matrix and point system, members along on the supply chain are able to

[45] See http://www.globalexchange.org/fairtrade/coffee/starbucks/CAFEfeedback

see exactly where they stand relative to various special supplier statuses. Preferred Supplier status is awarded if a minimum of 60 percent of possible points in each applicable criteria, and an overall score of 60 percent is scored. Strategic Supplier status is awarded to those who scored a minimum of 60 percent in each applicable criteria area, and an overall score of 80 percent. Preferred pricing and contract terms extended to Preferred Suppliers. Strategic Suppliers also receive a $.05/pound premium on first year's crop. Notable in their standards is the primacy of quality and economic viability. These "standards" are not scored on a scale like criteria in the Social Responsibility or Environmental Leadership categories. These criteria are: Product Quality (green preparation prerequisite, cup quality prerequisite); Economic Accountability (demonstration of financial transparency, equity of financial reward, financial viability)[46].

This highlights a clear reordering of priorities over the original fair trade system, as well as an obvious distinction from the mainstreaming standards. Starbucks stresses the inseparability of quality and economic viability from their sustainability standards by defining sustainability as "an economically viable model that addresses the social and environmental needs of all the participants in the supply chain from farmer to consumer."[47]

[46] see http://globalassets.starbucks.com/assets/eecd184d6d2141d58966319744393d1f.pdf last accessed February 2014
[47] see http://www.scscertified.com/retail/rss_starbucks.php last accessed September 2012

4.2.5.1 Matters of Legitimacy

Starbucks developed standards guidelines with Scientific Certification Systems (now doing business as SCS Global Services), a leader in third-party environmental, sustainability and food quality certification, auditing, testing and standards development. SCS Global Services performs verification for a long list of other standards organizations including the Forest Stewardship Council (FSC), Program for the Endorsement of Forest Certification (PEFC), Marine Stewardship Council, Home Depot Eco Options and several others. Starbucks also undertakes an assessment of the program in collaboration with Conservation International (CI), an eco-advocacy group that focuses on the scientific roots of conservation. CI partners with major organizations like Wal-Mart, McDonald's and Starbucks to support their embrace of progressive environmental practices. The benefits to these large business organizations are subject matter expertise as well as legitimacy.

Starbuck is also careful not to insulate itself from the larger network of advocates. It has been reaching out to small-scale farmers through its Small Farmer Sustainability Initiative (SFSI). Launched in 2009, it is a three-year pilot program in partnership with Fair Trade USA and the FLO that, according to Starbuck's "leverages [their] shared commitment to support small-scale farmers." (Starbucks 2010) The partnerships are important to protect against attacks from advocacy organizations, but they are also notable for what it is not: a multi-stakeholder consensus-based organization with wide membership and input from stakeholders.

Legitimacy and alliances are increasing and standards are under constant review and being improved.

4.2.5.2 Matters of Market Integration

Starbucks remains ambivalent about Fair Trade, identifying it as the only issue that is "very important" to "external stakeholders," but less important to the company (Raynolds 2009, p1084). "The company's mission—to be the "premier purveyor of the finest coffee"—reflects little affinity with Fair Trade, never mentioning producers or equity concerns. For Starbucks Fair Trade is a type of coffee, not a business model, and the one certified blend is simply listed in a menu of 39 varieties" (Ibid.) In contrast, the CAFÉ standard reflects Starbucks' understanding that "long term business success is linked to the success of the millions of farmers who grow and supply coffee to the company" (CI 2012) The explicit link between the sourcing of its coffee and its business goals indicates, as Raynolds notes, the subordination of social and environmental norms to industrial market conventions (Raynolds 2009, p1084). Starbucks, more than any other standard, makes the focus on quality not only a priority, but provides the rationale for embarking on the comprehensive standard program. They claim to take a "holistic approach" to the standards used for ethical sourcing of coffee, in order to "create a long-term supply of the high-quality beans"(Starbucks 2012). "We know our success as a company is linked to the success of the thousands of farmers who grow our coffee. That's why we're working to ensure a long-term supply of high-quality coffee through our responsible coffee purchasing practices and by investing in farmers and their communities"(Starbucks 2012).

For Starbucks, the rationale for standards is its ability to achieve *vertical integration* – a management process that provides firms with access and control of upstream production. Benefits of vertical integration include better control of costs, quality and delivery of goods critical to its business (Williamson 1971) At least one of these benefits – quality – is made explicit by Starbucks: "our comprehensive set of more than 200 social, economic and environmental indicators – with quality as a prerequisite" (Starbucks 2012) Integrating Fair Trade coffee was the first step towards an ethically produced product line for Starbucks, but CAFÉ will now be how the company sources the majority of its coffee.

Starbucks revolutionized the coffee market in the United States and the world by bringing specialty coffee to the masses. While its inspiration was found in a small one-of-a-kind specialty coffee roaster in Seattle, Starbucks coffee is big business today. In the mainstream mindset, Starbucks is specialty coffee. Yet for the discerning coffee drinker, Starbucks is coffee for the masses. This paradox provides insight into Starbucks' segmentation: it is the mainstream purveyor of specialty coffee. While it does serve the ethically minded consumer, it caters to a much larger segment of the population and must therefore align its product offering with a diverse population. CAFÉ standards represent an important shift for the coffee social market, where a mainstream traditional economic actor incorporates ethical standards into close to the entirety of its product line. Notable for what CAFÉ is not – a product designed for the ethically minded consumer – it represents an important maturation of the social market where internalization of the norm becomes so pervasive as to penetrate traditional markets (Finnemore and Sikkink 1998).

Given the internalization of the ethical coffee norm, why did Starbucks choose to start its own standard rather than partner, in mass, with an existing standard? Based on interviews with Starbucks representatives, this choice is explained succinctly by Anne Weiss, Starbucks project manager, "committing fully to a standard would become so critical to our business operations that we would have to control every aspect of the standard, including operations and brand identity."[48]

In order to put this decision in perspective, and to help explain the decision, we must compare and contrast with other large retailers of coffee. Nestle and Kraft decided to adopt other standards, higher or lower, depending on the brand of coffee they were selling. In contrast, the Starbucks brand was only one – there are no sub-brands of coffee within Starbucks. And this brand was strong enough to not rely on the brand power of a standard in order to elevate its legitimacy. This raises an important point about the power of a brand and multiplicity that will need to be further explored.

The factors that influenced Starbuck's entrance into the marketplace were: partnership with Conservation International mitigated the need to recreate a governance body promoting open and consensus-based decision-making. Although

[48] Anne Weiss, interviews, April 2011, NYC.

the degree of 'legitimacy' was low; the need to control the supply (quantity) and quality of their beans; the need to maintain brand independence

4.2.6 Direct Trade

Roaster and growers work together through long-term trading partnerships in a relationship-based coffee based on the principles of Direct Trade. The trading process is transparent — farmers gain bargaining power through knowledge, and receive a price that reflect the shared commitment to high quality sustainably produced beans. While the standards for Direct Trade are not derived through deliberation of a multi-stakeholder consensus-based organization such as FLO, and is not plugged into other legitimacy bolstering organizations such as ISEAL, its supporters insist that its focus on direct support of the farmer and its commitment to higher-than-fair-trade pricing makes Direct Trade coffee the premier standard in the coffee social market. [49] Although specialty roasters Intelligentsia Coffee and Counter Culture pioneered Direct Trade, the practice of direct trade - where sellers purchase beans straight from producers - is being taken up by quality and ethically minded coffee sellers across the world. Direct Trade coffee is associated with high-end specialty and gourmet roasters and retailers across the globe.

Direct Trade standards emerged as a high-end quality focused alternative to FLO certified coffee. Standards are based on broad guidelines, including a focus on quality, grower commitments to healthy environmental and social practices, higher-

[49] Amy Enrico, interviews, Pittsburgh, PA 2011-2013

than-fair-trade pricing[50], transparency and openness in transactions between seller and buyer, including regular visits to the farm to support harvest and growing strategy and quality monitoring.[51]

4.2.6.1 Matters of Legitimacy

Direct Trade stands out as focused on both the most premium segment of the coffee market, with ethical standards that claim to go above FLO, but also for lacking the organizational structures, processes, procedures or partnerships required to strengthen its legitimacy. It contains elements of a loose network of advocates, intent on improving the livelihoods of farmers and lacking a centralized governing body, while at the same time being distinctly market-based with its focus on quality, and absent of collaborations, support, or partnerships with established advocates of the coffee social market. This paradox presents the sharpest foil in the legitimacy-based explanations for standards development.

The decentralized nature of the direct trade regime may at first appear to present challenges for empirical observations. Yet this decentralization is in fact a central element to be observed. It converges towards a norm of ethical coffee while shedding the institutional elements that have come to define the social market. There is no multi-stakeholder organization that sets standards, there are no institutional checks on the power of the business, no membership organization at all, no process

[50] Counter Culture paid 19% above fair trade prices
[51] Amy Enrico, interviews, Pittsburgh, PA 2011-2013

for reporting grievance, and outside the individual effort of Counter Culture[52], no 3rd party verification of compliance.

Yet discussions with Direct Trade practitioners yield a slightly different perspective on its legitimacy. For them, it is the large bureaucracies of other standards organizations that lack the processes and procedures required to best support farmers. Instead the direct and constant engagement between buyer and farmer represents the most valuable form of stakeholder engagement. "Only Direct Trade provides the required flexibility and individual attention to see true impact on the lives and livelihood of farmers"[53]

This tension between traditional elements of procedural legitimacy and Direct Trade standards provides an interesting foil to attempts to evaluate standards on their own merit. While this may appear to be a paradox and in conflict with existing perspectives on voluntary standards, it may very well represent the most poignant example of the future of social markets.

If a standard lacks the procedural elements required to establish a baseline across organizations, how can its standards be evaluated? What is its relative position vis-à-vis other standards? On what merit can a standard boldly claim superior standards? Insight can be found in Direct Trade's market segmentation.

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[52] Counter Culture has tried to address this fundamental weakness by hiring a U.S.D.A.-certified firm, Quality Certification Services (QCS), to partner with Counter Culture and run the program. This gives the customer at least some level of reassurance that the standards are truly being met. http://www.intelligentsiacoffee.com/content/direct-trade. Last Accessed June 2012

[53] Chris Rhodes, interviews, Pittsburgh, PA 2011-2013

4.2.6.2 Matters of Market Integration

Starbucks established the mainstream specialty coffee market, and in doing so left those seeking true gourmet coffee with few options. Likewise, as FLO mainstreamed, the WFTO focused on the purity of their partner, and UTZ, 4C and RA, all – to one degree or another – sought to certify beans from larger and more industrial plantations, few options remained for an ethical standard whose central focus was the direct empowerment of the farmer. The ironic twist is that this was the original purpose of the fair trade movement, but now with the mainstreaming of FLO, it is being framed as the supply chain intermediary that must be circumvented if a truly fair and equitable trade is to be established[54]. The growth of certified coffee left the existing coffee supply chain with two openings that Direct Trade sought to resolve: 1) strict intermediaries in the coffee market for certified coffee, and 2) no standard for the highest quality coffee and most discerning consumer.

As observed in the previous chapter, an early and necessary strategy in the fair trade movement was to eliminate intermediaries in the coffee supply chain in order to shift power from coyotes, importers and exporters back to the coffee producer. Since its founding, FLO has adopted a mainstreaming strategy and grown to such significance that it is itself now considered an important intermediary[55]. In the Direct Trade model, the roaster bypasses the exporter and importer and works directly with the farmer to negotiate pricing and develop a product for roaster's market segment. The roaster tries to develop the best bean to capture the most value and pass that

[54] Amy Enrico, interviews, Pittsburgh, PA 2011-2013
[55] 21st Coffee, interviews, Pittsburgh, PA 2011-2013

value, in the form of higher prices, to the farmer. This process parallels the earliest form of the fair trade model, without the FLO bureaucracy.

In a non-state market based governance framework that pits market actors against advocates and NGOs (Bernstein and Cashore 2007), a group contending the legitimacy of a standard would wage a political battle against the organization upholding that standard. In the framework proposed in this study, a variety of standards coexist and the battle is waged in the marketplace. In this case, the movement to go back to fair trade's roots and deal directly with the farmer is led by a group of coffee traders who also aim to provide the highest level of coffee quality. This suggests, yet again, a potential relationship between the purity of a standard – its level of stringency relative to other standards – and its market segmentation. Between a standard's political segmentation and its market segmentation.

Direct Trade practitioners claim to represent the standards most in line with social norms of the coffee social market, while also occupying the highest end of the market segmentation scale. UTZ claims to allow quality to determine price premiums, and Starbucks insists quality motivates the development of its standards, but only Direct Trade beans cater to the highest end of specialty and gourmet coffee consumers. Direct Trade coffee is promoted by a triad of pioneering coffee roasters recognized as introducing a 'third wave' of coffee to the world. The third wave distinguishes coffee producers from a 'second wave' commonly understood as the development, led by Starbucks, which brought specialty coffee to the mainstream. Third wave coffee is distinctly not 'mainstream.' With coffee prices not uncommonly sold at $5 a cup, or $18 per pound, coffee sold as Direct Trade caters to the most distinguished coffee buyer with the deepest pockets.

Fair trade coffee once represented the highest achievement of ethical production, but was limited to a small and select group of ethical buyers willing to pay a premium. Now Direct Trade occupies that niche. It delivers an artisanal experience that hearkens back to the early days of the fair trade movement, catering to the distinguished high-end buyer. It differs, however, from early fair trade, in one important way: its central message to the market is not the ethics of its product, but the quality of its product. The intertwinement of quality and ethics is a central observation of this study and an important element the proposed social market framework.

> In the broadest terms, these coffees should be understood as a true collaboration, with both sides investing a great deal of time, energy and ideas to produce something great. At the end of this process, the coffee farmer who grows an award-winning cup is an artisan, and should be regarded as such. We believe human effort is the most critical factor in quality coffee and that the growers who do the best work should get the best price and individual recognition. (Intelligentsia Mission Statement)[56]

4.2.7 Fairtrade USA

A pertinent and critical event related to this case and its analytical framework occurred during the writing of this chapter. Effective December 31, 2011 Transfair USA, a national member organization of the international Fairtrade Labeling Organization, split from the umbrella FLO (Sherman 2012). The shared statement

[56] see http://www.intelligentsiacoffee.com/content/history Last accessed March 23, 2014

from the two organizations provides little information,[57] however interviews with the Chief Impact Officer of the dissident organization revealed much more.

In contrast to the dichotomous model presented by other scholars (Bernstein and Cashore 2007) that pits industry against the goals of advocates and environmental groups, this split occurred within the once cohesive umbrella organization representing the dominant fairtrade network of organizations. While a full analysis of this split would make significant and important contributions to our understanding of the politics of new governance, my study will focus on understanding this event in the context of our analytical framework.

4.2.7.1 Matters of Legitimacy

The most notable influence on FT USA's decision was the apparent inconsistency in FLO policies vis-à-vis farm workers versus cooperative farms. The position held by FLO not to certify larger plantations meant that farm workers within their plantations were not able to benefit from better labor conditions, thereby reducing the standard's scope of impact. The tension surrounding the certification of large plantations and farmers is not new to FLO, and represents a principle rift with other certification systems. UTZ and RA aim specifically to certify these large plantations while tapping mainstream markets for certified coffee. Public statements suggest FLO is not against certifying larger producers on principle, but that additional efforts would need to be

[57] "Fairtrade International (FLO) and Fair Trade USA (FTUSA) share a belief in the importance of empowering producers and workers around the world to improve their lives through better terms of trade. However, as we look to the future, we recognize that we have different perspectives on how best to achieve this common mission."
http://www.fairtrade.net/single_view1.0.html?&tx_ttnews[tt_news]=235&cHash=abf6bda987. Last Accessed April 2013.

made to implement such a change (Fairtrade 2011). They are transparent about their efforts to investigate how they may open certification to a "more diverse" array of producers, which should not come as a surprise to industry observers as they currently certify farm workers and larger producers in a variety of other product-lines and have been doing so for years.

There are two factors inhibiting certifying farm workers and larger producers. First, FLOs commitment to its multi-stakeholder governance requires an open and notoriously lengthy amount of deliberation with stakeholders before such a change is made. In their case, it is a process that is heavily influenced by organizations representing small-producer cooperatives. Second, 70 percent of the world's coffee is produced by small producers working on plots of less than 25 acres of land representing approximately 10 million small-scale farmers. The first factor is a function of FLOs *procedural legitimacy* and their commitment to their stakeholders while the second is a function of coffee's *industry conditions*. Given the size of banana plantations FLO is willing to certify, one can only assume that plantation certification is not a fundamental principle. The political conditions within FLO that prohibit change (viz. heavy representation of small producers) would also not exist if the coffee industry were not so reliant on small producers.

FTUSA began expressing a desire to expand the farm worker certification programs from other products to coffee years ago. Working through the appropriate channels within FLOs governance structure, they expressed a concern that FLO policies meant that fair trade was not reaching thousands of people who would benefit from the standards. They "aren't reaching enough farmers"[58] so FTUSA proposed pilot programs to test the expansion to farm workers and non-cooperatives. Insisting that they "shared the same goals," a claim that FLO public statements do not contend, FTUSA tried to take FLO down a path of program innovation and expansion. Pointing to conversations had with form workers and cooperatives at the 2012 SCAA Annual Specialty Coffee Conference & Exhibition held in Portland, Oregon[59], FT USA considers the expansion necessary to promote better practices for the children, neighbors and friends of FLO-certified cooperatives. Experimentation and innovation is required to help these people.

FLO insisted that it "wasn't the right time to expand into coffee."[60] The process of deliberation, standards development and stakeholder consent, along with a proclivity towards advocacy and its corresponding ideals, precludes action from the organization representing the "gold standard" of coffee certification. These obstacles are notably absent in the FT USA organization. Insisting on being "collaborative-based" but not "consensus-based," FT representatives tout their balance of diversity and independence as a reason for their ability to seek innovation and achieve results[61]. Their diverse board, advisory council and coffee innovation council gives the organization access to expert advice and input, but they distinctly do not subject themselves to the multi-stakeholder demands of the FLO. It is worth examining this independent governance structure a little more.

[58] Mary Jo Cook, phone interview, August 2011
[59] Mary Jo Cook, phone interview, August 2011
[60] Mary Jo Cook, phone interview, August 2011
[61] Mary Jo Cook, phone interview, August 2011

Unlike international multi-stakeholder organizations that are comprised of a very small secretariat or permanent staff, FT USA is staffed with an impressive list of highly experienced professionals. Notable also is the extent of industry experience among the highest ranks of the organization. Of the top 6 ranking officers 5 have business degrees, 4 have MBAs, and all had long careers in industry before moving to Fair Trade. Of all 13 people listed as Senior Managers, 2 have bios that indicate a background primarily in fair trade or producer support.[62] While no immediate conclusions can be drawn from this information, it points to differences within the constitution and procedural legitimacy of FT USA that will be explored further later in this chapter.

The rest of FT USA's governance structure also highlights how it differs from what scholars have observed as the democratic tenets of multi-stakeholder organizations. In addition to its Senior Managers, FT USA lists their Board of Directors, Advisory Council and "stakeholder engagement" as key components of their governance structure (or process in the case of stakeholder engagement). A cursory evaluation of their BoD lists 3 members from stakeholder organizations, 2 from philanthropy or advocacy organizations, and 6, including the President of FT USA, from business or other organizations. The Advisory Council consists mainly of experts from across the business world, academia, and other (one actress). One exception is Barbara Fiorito who is the former Chair of FLO International (2005-2008).

[62] Miguel Zamora and Maya Spaull from http://www.fairtradeusa.org/about-fair-trade-usa/who-we-are

4.2.7.2 Matters of Market Integration

There is no evidence that business interests – retailers or producers – pressured FT USA into a confrontation with FLO. As previously noted, there was input from individuals within cooperatives that argue to extend benefits to their friends, family and neighbors who work on plantations, and from roaster – small and large – that blend from a variety of producers and want to certify all their beans and products[63]. While we are not able to confirm, one can assume that these opinions are not concealed from FLO representatives.[64] FT USA's position is that their work, including standards, must balance and optimize for three points farmer and workers, business and consumers. In this model benefits to workers, business and consumers need not outweigh the potential costs to cooperatives, but only increase the overall benefit to all involved. This point – that increasing benefit to business and consumers will ultimately benefit producers – is the hypothesis driving FT USA's departure from FLO. They emphasize this point in their mission statement declaring, "the rise of the Conscious Consumer will cause a fundamental shift in the way companies do business and create a historic opportunity to reward companies that embrace sustainability."[65] Their shift to accommodate market actors, large firms, plantations and consumers *directly*, as a way to *indirectly* benefit the original targets of the movement they were part of is explicit. This is a very clear shift towards the market that is reinforced in the makeup of their senior leadership where 85% of them come from industry or have business backgrounds, including Masters of Business

[63] Mary Jo Cook, phone interview, August 2011
[64] "Many have called you on this hypocrisy" Mary Jo Cook, phone interview, August 2011
[65] see http://fairtradeusa.org/about-fair-trade-usa/mission last accessed March 27, 2014

Administration. This includes my interviewee, their Chief Impact Officer, who was previously Vice President of Innovation at The Clorox Company, the multinational company selling such household names at Clorox Bleach®, Pine-Sol® and Fresh Step® cat litter[66].

The conversation with Mary Jo Cook highlighted two key points worth emphasizing. First, an important and active member of the FLO (FT USA) felt that the organization was politically captured by interests of small producers to the detriment of the overall cause. Second, that political bargaining within the highly legitimate, long-established, multistakeholder organizational model does not preclude the failure of political bargaining and the emergence of multiplicity. The costs of bargaining in these organizations may still be high enough that the benefit of splitting off outweighs the cost of bargaining.

4.3 Conclusion

This chapter reviewed the six principle alternative standards organizations in the ethical coffee social market. I focused on observing differences across organizations as they relate to the development of legitimacy through the application of multistakeholder organizational forms and procedures, as well as the relationship of these organizations to the market.

What I have shown is that first; there is little evidence to suggest that a battle for legitimacy within the social market occurred. Contrary to Bernstein and

[66] See http://www.thecloroxcompany.com/company/ last accessed March 23, 2014

Cashore's framework (2008), industry actors did little to challenge the FLO's formalization of the fair trade movement. Instead, given the incentives for both producers and retailers, the organization faced little, if any, opposition. Alternative systems that did emerge were primarily from other advocacy-based organizations and non-profits, not industry. And when an industry-heavy organization emerged to develop alternate standards, as in the case of the 4C, it did so with the explicit intent to occupy the lower-end of the standards sphere, with the intention of collaborating with FLO and other standards to assist organizations to upgrade to their more stringent standards. Therefore, battles for legitimacy do not explain the rise of multiple systems. To reinforce this point, the one case where a true battle for the direction of the FLO was fought – between FLO and FT USA – the splinter group (FT USA) did little to try to enhance its legitimacy through multistakeholder organizations forms and procedures. Instead, it focused on catering to the needs of consumers. Legitimacy for ethical coffee and the fair trade movement was settled with the FLO, now FT USA could focus on market integration and expansion – using that as a means to deliver the cause-oriented impact it allegedly aligned with.

This emphasizes the second key observation: that organizations did not always mimic the organizational forms of the dominant organization in their industry. That is to say, they did not take on the procedural elements of stakeholder-based organizations. This challenges the assumption of 'mimetic isomorphism' established in organizational theory that organizations will copy the most prominent entities in the field to gain efficiency and legitimacy (Ashworth, Boyne and Delbridge 2009;

Deephouse 1996; DiMaggio and Powell 1983, 2000; Tolbert and Zucker 1999; Zucker 1987). It also reinforces the first point above, that matters of legitimacy – established through organizational forms – are less critical to latter stage organizations within social markets than they are to the social market's earliest organizations.

Finally, that each of these organizations gradually took on greater forms and practices of market actors, an indication of greater integration with the market. Specifically, they all adopted the market incentive of ecolabeling, creating their own "brand within a brand" with one notable exception – the 4C, an organization that also happened to have been most aggressive in taking on the forms of multistakeholder organizations. Why was this the case? While this question is best addressed in future research, I can posit from the logic of this research, that it did so because it was most dubious in terms of legitimacy. It was very intentionally a lower standard aimed at converting mainstream roasters, and could not seek legitimacy directly from consumers since consumers of 4C certified products, as I show in the following chapter, are not ethically motivated consumers. For the other organizations, it appears as though the more they sought credibility directly from the market, the less they sought legitimacy through legitimate forms (that is to say, multistakeholder forms). This may indicate a zero-sum game between procedural legitimacy through multistakeholder forms and legitimacy through market means – that is to say, that as one increases, the other decreases. While this specific formula between the two is not known or part of the scope of this research, what does seem to be evident is that as the social market develops, organizations take on greater market forms eschewing the forms that were taken on by the movements original advocates and activists.

The following chapter continues to review this relationship between social market maturity as observed through increased multiplicity, and the phenomena of seeking legitimacy through procedural organizational forms, and integration with the market through market forms and practices. I will provide additional detail on what is meant from legitimacy and market integration (what metrics are used as proxies for these social phenomena), and develop a dataset to evaluate how these change across organizations. I also examine potential hypotheses around the patterns of multiplicity – that they do not compete directly, but serve various consumer segments through market segmentation.

5 FROM ADVOCACY TO MARKETS, ACTIVISM TO CONSUMERISM

> While social movements may extol the virtues of global civil society, the space has been and is largely dominated by the extensive formal and informal contacts of transnational business and their allies.
>
> O'Brien 2000, p 15

The previous chapter examined six alternate standards organizations in the ethical coffee social market to examine how these organizations change over time. Through case-based analysis of each organization, I observe that as the social market matures, standards organizations increasingly eschew organizational forms and procedures intent on maximizing their legitimacy (as observed through procedural legitimacy), while pursuing market forms and practices instead. In this chapter, I delve further into each of these six cases to further examine the *logic of market integration.* I accomplish this by producing a dataset of market integration that measures relevant data points to create two index values representing the dependent variables: legitimacy and market integration. Further, building on the thesis that multiple standards organizations do not actually compete directly with each other, but cater to different political groups (consumer groups) by occupying different spaces across a variety of market segments. I explore these in an attempt to revisit in more detailed fashion three potential hypotheses derived from the logic of market integration:

First, I posit that if legitimacy is less important in a more developed social market, then we should expect the emphasis on legitimacy to decrease with the introduction of each new standard. Second, since legitimacy is less important in explaining the rise of standards, subsequent systems are less motivated to align with the procedural and political elements of legitimacy. This demonstrates a shift in the power and influence of the original social movement dominated by advocacy groups and activists who emphasize and align with these elements of procedural legitimacy. Instead, new standards organizations emerge within a social market that must respond to the strategic social construction of actors and provide a market-based motive for the proliferation of a new norm set. Greater multiplicity within a social market will lead to a greater likelihood that organizations will adopt practices, policies and strategies targeting greater market integration, conformity and expansion. Finally, in the following chapter, I ask if there is a logic or pattern within multiplicity itself. Since I posit that the opportunities for differentiation determine if new standards emerge, then they will emerge according to a pattern of differentiation predetermined in the social market. This addresses the final hypothesis derived from the *logic of multiplicity,* that lower, less stringent standards are more likely to align with mainstream market segments, whereas higher standards are more likely to target higher-end market segments.

This chapter proceeds as follows. First, I briefly describe a shift towards market integration within systems. In other words, do the standards themselves make adjustments internally in order to align more with the demands of the social market within which they operate? Second, I examine the shift away from legitimacy across systems and within the social market as a whole. I do this by identifying key variables broadly discussed in existing literature that reflect and express aspects of procedural legitimacy within an organization. For each variable, I identify the values that would express more legitimacy versus less, and assign a numerical value to represent this expression of legitimacy. I then tally these values up in a simple summation in order to derive a final "index value." To be clear, I am assigning *ordinal values* to observations of legitimacy and market integration observed within the organizations of the coffee social market already examined and discussed in previous chapters. According to Le Roy (and of course, a key and uncontroversial element to political science research in general) "ordinal measurement is the classification of observations into a set of categories that do have direction." (2012 p. 56). In other words, I will be assigning values based on a variable's contribution to the phenomenon to be observed (legitimacy and integration within the market), and these can be compared one to another based on their increased or decreased adherence to the phenomenon. The limitation of the assignment of ordinal values is that we can not assume that the interval, or difference, between values is not equal or informative.

As previously discussed, variables related to legitimacy are derived broadly from literature that discusses how key institutional, organizational, and procedural elements are adopted to bolster an organization's legitimacy by aligning it with norms, values and practices of democratic, open consensus based multi-stakeholder forms inspired by multilateral organizations of global governance (Bäckstrand 2006; Bernstein and Cashore 2007; Buchanan 2003; Held & Koenig-Archibugi 2005; Payne and Samhut 2004, Vallejo & Hauselman 2004). The concept of market integration is new. However, the idea that certain practices or procedures align more with traditional market behavior rather than the norms, principles, ideals and practices of advocacy or activism is not controversial. In both cases, an assignment of ordinal value will suggest that observations of the variables will have more or less of the categorical value of legitimacy or market integration than others. Therefore, the summation of these ordinal values allows for a systematic and uncontroversial comparison across standards organizations. This is what I am referring to as the index – a summation of ordinal values that indicate more or less alignment with the concept of legitimacy or market integration.

In it important to note that neither index is not intended to reflect an accurate representation of some 'value' for legitimacy or market integration. The resulting numerical value for legitimacy or market integration can not be compared other than to indicate ordinal representation – in other words, which organization has more, or less, legitimacy/market integration. This is a broad review of the phenomena of legitimacy and market integration rather a precise reflection of value. The indexes are broad and contain a number of data points that can be critiqued and questioned. I invite this critique and encourage further refinement of this exercise. This chapter is not the definitive answer to these questions. Instead, I aim merely to provide a more tabular form of the information already reviewed in the case-based analysis of previous chapters.

In brief, the chapter shows that early stage organizations take on democratic forms, while later stage organizations do not. Instead, they take on the forms, processes and strategies of market actors, further distancing themselves from the activists and advocacy groups of early stages. This is made most apparent with the development of Direct Trade, the movement within a movement, that delivers the highest social standards all while eschewing the processes and procedures of democracy intent on displaying legitimacy; they are a uniquely market-based standard. Another key example is that of FT USA – a splinter group from within the FLO that exited with the explicit intent of focusing more equally on businesses and consumers. I conclude with analysis that shows how product segmentation mirrors standards, in that higher standards are offered to higher market segments, while lower standards cater to mainstream markets. I define market segments using a combination of qualitative factors, as well as a quantitative analysis of coffee prices across the United States.

5.1 Supporting The Logic of Market Integration

This section shows that the organizations within the social market gradually tended towards greater market integration; new standards introduced into the social market took on more market attributes than the previous standard. What does it mean to integrate more fully with the marketplace? First, it means that the standard will adopt practices and strategies more aligned with market principles than early advocacy- and activist-led organizations, including consumer-oriented tactics aimed at bolstering success and expansion within the marketplace. This is different than advocacy strategies, which use a variety of negative-ad campaigns, political maneuvering and open-consensus based stakeholder inclusive tactics to promote their version of an emerging norm. It will mean that the organization may have been started by a consortium of traditional business firms, or that individuals leading and working for the organization will have more experience working in traditional business organizations than as activists. The organization will partner with business organizations, or develop explicit marketing and branding strategies designed to expand growth and sales. More detail on market integration measures is provided below.

5.1.1 The Market Integration Dataset

One key contribution of this study is to widen the analytical lens on voluntary standards from the individual standard organization to the social market as a whole while aiming to observe how these organizational changes relate to each other within the social market – in other words, how do these organizations interact, co-evolve, and co-create the social market. This requires a methodological shift in perspective; the creation of new dependent variables that consolidate information about all organizations within a social market, and the measurement of independent variables hitherto not sufficiently considered in the study of voluntary standards. I do this through the creation of a political legitimacy index and market integration index elaborated on below.

The market integration dataset provides a snapshot of the voluntary standards within the coffee social market in August and September of 2012. I use a variety of sources to create the dataset including several interviews with representatives of the standards organizations, as well as practitioners in the social market from roasters, intermediaries and retailers of certified coffee. I also leverage information gleaned from informal contacts and conversations in 2011 with experts in the field of certification, including consultants and members of the ISEAL Alliance (The International Social and Environmental Accreditation and Labelling). I also gather information from publicly available data on the standards and the organizations available on the Internet. Having been the subject of much research over the past several years, these organizations have become quite efficient at making data and documents available, as well as making themselves available for interviews, with one exception. The FLO has set a policy not to respond to individual requests for interviews, but instead has focused on making much of their information available online. While this dataset aims at quantifying data for changes within the social market, it remains limited by the number of cases to be analysis, specifically the number of standards organizations within the social market: eight. Thus, the data can only be described for general patterns, but tests for statistical significance would have to be performed in future research.

5.1.1.1 Factors Influencing Outcomes

The ordinal value, or position of standards organizations in time, represents change along what may be considered the independent variable, or factor(s) that influence change in the observed phenomenon. One key premise of the argument is that aspects of the organizations change as a social market develops. There is one key point in time that was already surpassed in the social market – that the social movement has been formalized into a voluntary standards organization. This represents the second stage of social market development. After this stage, the social market enters into a stage of market institutionalization, which is to say that it begins to shed the elements of advocacy and activism while taking on the characteristics of market actors, albeit with the new norm-set internalized into their operations and strategies. Yet there are degrees of social market development even in this final stage. As the social market continues to develop, the legitimacy of the market is further affirmed, and the need for organization-level political legitimacy wanes.

Change happens temporally – the longer a social market, built upon the tenets of a newly established norm-set, operates, interacts, and delivers on its promise, the more legitimate the market becomes, and the more the organizations will have to contend with the dynamics and constraints of the market. In a social market where comparisons can not be made across several organizations, an important factor of change is time. The change also happens in an ordinal fashion. As each new standard emerges, it pushes the social market further towards legitimacy and integration with the market, and removes the conditions that would force new organizations to comply with the requirements of legitimacy set by the original social movement. New organizations will be less likely to take on the procedural elements that original systems once fought to establish as key elements of their legitimacy, and opt for greater reliance on brand differentiation and segmentation (targeting new and specific constituent base in the market). Given the degree of multiplicity present in the social market, there are sufficient observations to compare across organizations.

5.1.1.2 Observations of Procedural Legitimacy and Market Integration

The market integration dataset is intended to address the general thesis of market integration – that social markets tend away from legitimacy and toward market integration. Thus, the two observations that the dataset is expected to show are an A) index for the value of legitimacy (accounting for attributes of procedural and constituent legitimacy), and B) an index for the degree of integration towards the market, including the adoption of market norms, incentives and actors. These two indexes relate to each other in that they are two expressions of the same general thesis stated above: that social markets will gradually – that is, as organizations within the social market develop and grow, and as the social market itself matures and sees new standards organizations enter the market – tend away from the norms, practices and obligations of activists, in favor of the norms, practices, people and dynamics of the marketplace. This means two things. First, standards organizations within social market will show less reliance on developing the processes, procedures and practices associated with increasing legitimacy through open, consensus-based, democratic forms. They may also, in some cases, eschew non-profit forms in favor of pursuing the goals of standards organizations through for-profit organizations. Second, new standards organizations within a developing social market will adopt practices of the marketplace. This means that they will seek market expansion through branding strategies, they will align, collaborate and partners with for-profit firms, they will invite leadership into their organizations with business rather than advocacy credentials.

These two indexes are two facets of the same dynamic – as organizations eschew legitimacy, they approach and adopt market practices. Perhaps they no longer need to seek legitimacy once the social market is established because norms are internalized, and the advocacy group has prevailed in changing hearts and minds Perhaps the scenario is much less optimistic, and the reality is that they market has subsumed the social movement and trained it to align with its rules. Perhaps, neither of these proposals reflects reality, and instead standards organizations continue to seek legitimacy, but they do so by going directly to the consumer – the demos of this new political sphere.

Procedural Legitimacy

The adoption of elements meant to increase organization's legitimacy, as measured by elements of procedural and constituent legitimacy is expected to decrease across social markets where the earlier standards will adopt higher levels of procedural legitimacy and later standards will have lower levels of legitimacy.

I focus on procedural legitimacy to limit the index to a composite of values that are more quantifiable and objective in nature than other aspects of legitimacy, such as perceived legitimacy or pragmatic legitimacy (Suchman 1995). As I have argued in the previous chapter, these procedural elements of legitimacy, derived and adopted from existing literature on the institutional design of new governance (Bäckstrand & Saward 2004; Bernstein and Cashore 2007; Buchanan 2003; Held & Koenig-Archibugi 2005; Payne and Samhut 2004; Scholte 2004; Vallejo & Hauselman 2004) are a good proxy for the battle for legitimacy as a whole based on existing scholarly arguments which suggest the imperative a key institutional and organizational elements that characterize a battle for legitimacy (Bernstein and Cashore 2007; Vallejo and Hauselman 2004). Specifically: the range and type of members in an organization, the procedural structures that ensure stakeholder participation, deliberation and accountability, scope and diversity of stakeholders, institutional checks on power, as well as independent verification of standards.

A note on assigning values to variables: the data values are intended to provide an ordinal representation of cases expressing more, or less, procedural legitimacy. Each data point will be valued at 1 for the greatest representation of procedural legitimacy, and 0 for the least. Data points that are not binary, will be represented in fractional form consistent with the condition above, that the greatest representation of legitimacy will be valued at 1.

1. Stakeholder Participation

A key element of any democratically inclined political organization (Buchanan 2003), as well as a cornerstone of corporate social responsibility programs (Donaldson and Preston 1995; Freeman 1994) is the inclusion of key stakeholders into an organization's decision-making process. By examining documentation detailing the governance structures and processes of the standards organizations publically available from the Internet, I evaluate the degree to which *Stakeholders represent Membership.* In other words, is the list of members representative of people and organizations that are impacted by the organization's efforts? In its purest ideal form, perfect stakeholder participation means that all stakeholders are represented in the organization. On the opposite end, stakeholders have no voice in the functioning of the organization. A 1 is assigned to the legitimacy index for organizations where the majority of stakeholders are represented in membership, a 0.5 value is assigned when it is mixed, and 0 is assigned when stakeholders are not represented at all in membership. It is inherently difficult to define with a level of accuracy required of scientific evaluation the full spectrum of stakeholders for any organization. The practice is necessarily subjective and debatable. Evaluating whether the majority of minority of stakeholder are represented is also necessarily subjective, and intent merely on showcasing more or less stakeholder participation. No stakeholder participation, on the other hand, is straightforward and not subjective.

Beyond membership, another key element for stakeholder participation is whether it is formalized into the bylaws, rules and regulations of the organization. Is the organization's leadership required to hold a vote on new standards with stakeholders? Is there an opportunity for stakeholders to provide input on new standards and rules before they are formalized? Are there regular stakeholder meetings where deliberation occurs? These are examples of institutionalized participation of stakeholders. If stakeholders are allowed to participate in these organizational changes, but not required, then it is considered voluntary, which is assigned a lower value (0.5) to the index than if it is institutionalized (1). If there is no opportunity for stakeholders to participate, then no value (0) is assigned to the index. The coding values for stakeholder participation are summarized below.

Membership represented by Stakeholders:

Result	Value
Yes	1
Partial	.5
No	0

Multi-stakeholder Participation:

Result	Value
Institutionalized	1
Voluntary	.5
None	0

Stakeholders Elect Leadership:

Result	Value
Yes	1
No	0

2. Institutional Checks on Power

Institutional checks on power are not new for political organizations. These checks are set to increase the required 'accountability' of non-state organization of global governance, and act to mitigate issues inherent in undemocratically elected political organizations. New governance organizations are known to copy long-established forms of institutional design stemming from the early days of republican thinking. For voluntary standards organizations, these include the ability for *stakeholders to elect their leadership*. What is democratic participation without the requirement of having constituents elect their leadership? A 1 is attributed to organizations where stakeholders can elect the organization's leadership, and no value for those where this is process is not formalized. Likewise, as is exemplified in the United Nations general assembly, the *existence of a General Assembly* where stakeholders, members, and organizational leadership can engage in bargaining, deliberation, and communicate grievances, goals, and strategic direction of the organization is central to procedural legitimacy – in which case, an organization is assigned a 1 for the existence of a general assembly, or a 0 where none exist.

Much like the institutional design of bicameral legislatures, that have been said to induce structured equilibrium for democratic institutions (Goodin 1996, p11), voluntary standards organizations have adopted the concept of a board to offset the majoritarian and populist tendencies of the general assemble. There are two observations to make regarding a board. First, organizations with a board are assigned a 1 for increased procedural legitimacy, whereas ones without do not. Second, if the stakeholders elect the board, additional scoring (1) is allotted.

Finally, even if all stakeholders are engaged in organizational matters, there may exist an inherent asymmetry of power in the distribution of stakeholders. This is quite apparent in the FLO, where stakeholders range from the retailers, roasters and traders situated in the rich western states, to the farmers and farmer representatives (from various farmer cooperatives) located in the less developed countries. A standards organization that allows for standards to be captured by powerful interests instead of those people they are intended to serve would diminish the legitimacy of that organization. This is a large part of the early criticism of the Sustainable Forest

Initiative (SFI)[67]. Established by an alliance of powerful firms in opposition to the Forest Stewardship Council (FSC), activists aligned with the FSC argued that the SFI could not properly serve the interests of forests given the institutional arrangements skewed towards the interest of the powerful multinational corporations. In response, in 2001 the SFI established the Sustainable Forestry Board to oversee the standards, and while the original list of stakeholders, aside from the powerful corporations behind the program, were not made public, in 2002 in moved towards a chambered structure similar to the FSC with equal representation given to environmental organizations, forest organizations and SFI industry participants (Meridian Institute 2001). The same concern was taken into consideration at the FLO where a formal structure was put into place to institutionalize balanced of participation across poor southern stakeholders and rich western roaster, traders and retailers. An *Institutionalized Balance of Participation* may be noted in the organization's governance documents or other publicly available documentation, and balanced in practice, which is evaluated based on my observations of the organizations practices, would receive a score of 1. It may be noted as part of the organization's intent, but not balanced in practice, as in the case of UTZ which claims a balanced participation but is heavily weighed against producers and receive a medium score of 0.5, or not noted or balanced at all, which would receive no score.

Existence of General Assembly:

Result	Value

[67] See http://forestethics.org/news/sfi-certified-greenwash-report Last accessed, January 2014; http://www.environmentalleader.com/2012/05/16/us-airways-pitney-bowes-drop-sustainable-forestry-initiative/ Last Accessed, January 2014; http://www.triplepundit.com/2013/05/sustainable-forest-initiative-program/, Last Accessed, January 2014.

Yes	1
No	0

Existence of Standard Committee:

Result	Value
Yes	1
No	0

Existence of Board:

Result	Value
Yes	1
No	0

Board Elected by Stakeholder (properly defined):

Result	Value
Yes	1
No	0

Institutionalized Balance of Participation:

Result	Value
Noted and Balanced	1
Noted but Not Balanced	.5
Not Noted	0

3. Constituent Legitimacy and Diverse Membership

A *Wide Membership* acts as a proxy for the degree of acceptance of the norm-set as represented by a particular organization. Members can range from less than 3, for organizations that do not aim to seek great legitimacy through wide membership, to over 50 for those that do seek to attract a wide list of members. This range is based not on an absolute evaluation of an ideal scope of membership, but on real-world observations about he possible range of members. Likewise, if the organization itself is a member or another umbrella organization, such as the ISEAL (as in the case of the FLO, RA, MSC, FSC and UTZ), or the for Endorsement of Forest Certification

(PEFC – as in the case of the SFI), *Inclusion in Umbrella Organization* acts as a legitimacy boost for individual standards organizations.

In addition to the reach and quantity of members, the type of members can influence the perception of legitimacy of an organization. This weighed heavily on the early response to the SFI, an industry-led standard, and even on the FLO when it started cooperating with mainstream multinational corporations for its mainstreaming strategy. The qualitative nature of participants matters. *Participation of NGOs, advocacy groups* and *activists* will increase the legitimacy score of organizations. This is evaluated by examining the type of relationship advocacy groups may have with the organization. For example, full membership represents the highest level of legitimacy. In the middle, there may be some degree of formal partnership between the organization and these legitimacy-promoting groups, or a declaration of verbal support without a formal partnership. Formal partnership receives fractional value assignment higher than verbal support, and no participation receives no score.

Wide Membership:

Result	Value
Over 50	1
30 to 49	0.75
10 to 29	0.5
3 to 9	0.25
Under 3	0

Inclusion in Umbrella Organization:

Result	Value
Membership	1
None	0

Participation of NGOs:

Result	Value

Membership	1
Formal Partnership	.6
Verbal Support	.3
None	0

Participation of Advocacy Groups:

Result	**Value**
Membership	1
Formal Partnership	.6
Verbal Support	.3
None	0

Participation of Activists:

Result	**Value**
Membership	1
Formal Partnership	.6
Verbal Support	.3
None	0

4. Standards

The standards themselves can be subject to institutional checks on power through the existence of a *standard committee* made up of stakeholders, or elected by stakeholders. A standard committee may have a variety of practices associated with its existence, but for the purposes of this research, the mere existence of one contrasts against its absence, where the former receives a 1 for legitimacy whereas the later receives no score. One particular procedural element for standards is whether the organization has formalized *independent third party verification* of its standards. While much has been written about this topic (Tanner 2000; Hatanaka, Bain and Busch 2005; Raynolds, Murray and Heller 2007), wherein certification is sub-categoried into: first-party (that is the supplier of the good certifies itself), second-party (the buyer certifies the product), or an independent third-party. This particular aspect of an organizations process is arguably its most critical for ensuring accountability and transparency, and therefore I assign only a value for third-party certification. This is particularly relevant in the coffee industry where first and second party certifications do not exist. The “industry standard” is set at no lower than third-party certification, and anything less is not considered a value of legitimacy.

Existence of Standards Committee:

Result	**Value**
Yes	1
No	0

Independent Third Party Verification:

Result	**Value**
Yes	1
No	0

Results and Analysis

The following table indicates, consistent with the overarching thesis on declining influence of procedural legitimacy, that standards organizations subsequent to FLO did not try to compete on procedural elements, nor did they engage in institutional isomorphism. This challenges the assumption made by the literature on Voluntary Clubs that outside the legitimacy provided by clubs, there is no market for the reputation. Instead, after legitimacy for the standards market was created by early organizations, mainly the FLO, legitimacy was no longer a primary concern. Moreover, before the FLO became the standard-bearer, legitimacy was not established. It required legitimacy to become the standard bearer, but once that is established, legitimacy is no longer a primary concern. Why did 4C decide to focus on procedural legitimacy?

Table 5.1 Procedural Legitimacy Summary Table

Name of Organization	FLO	WFTO	RA/SAN	UTZ	4C	CAFÉ	Direct Trade	FT USA
Year Certification Established	1997	1989	1997	2002	2004	2007	2006	2011
Profit	Non Profit	Non Profit	Non Profit	Non Profit	Non Profit	For Profit	For Profit	Non Profit
Membership represented by stakeholders	Yes	Yes	Partial	Yes	Yes	No	No	Partial
Multi-stakeholder participation	Institutionalized	Voluntary	Voluntary	Voluntary	Institutionalized	None	None	Voluntary
Stakeholders elect leadership	Yes	Yes	No	No	Yes	No	No	No
Existence of General Assembly	Yes	No	Yes	No	Yes	No	No	No
Existence of Standards Committee	Yes	No	Yes	Yes	Yes	No	No	No
Existence of Board	Yes	Yes	Yes	Yes	Yes	No	No	No
Board Elected by Stakeholders (properly defined)	Yes	Yes	No	No	Yes	No	No	No
Institutionalized balance of participation	Noted and Balanced	Not Noted	Not Noted	Noted but NOT Balanced	Noted and Balanced	Not Noted	Noted and Balanced	Not Noted
Wide membership	Over 50	Over 50	3 to 9 members	Over 50	Over 50	Less than 3	Less than 3	Less than 3
Inclusion in Umbrella Organization	Membership	None	Membership	Membership	Membership	None	None	None
Participation of NGOs	Membership	Membership	Membership	Formal partnership	Membership	Formal partnership	None	None
Participation of advocacy groups	Formal partnership	Membership	Membership	Formal partnership	Membership	Formal partnership	None	None
Participation of activists	Formal partnership	Membership	Membership	None	None	None	None	None
Independent Third Party Verification	Yes	No	No	Yes	Yes	Yes	No	No
Procedural Legitimacy Index	**13.35**	**7.5**	**9.2**	**8.2**	**13**	**2.3**	**1.1**	**2.1**

4C as an organization with no previous legitimacy within civil society (as in RA), no strong business support (as in Starbucks), competing within the same mainstream market space as UTZ, and a strategy not to use branding, It had to develop its legitimacy to bolster its position. Without the market levers available for latter stage standards organizations, 4C had to use legitimacy as a rite of passage into the social market and not be relegated to a bottom-of-the-barrel standard.

FLO and the 4C both had similar battles. The FLO, in the absence of any social market legitimacy, had to establish a baseline legitimacy for ethical production of coffee. Once this was established, other niche players are able to enter the market and focus on developing their own unique brand, in other words, their own reputation inside the ethical coffee market (the brand within a brand). 4C did not attempt to do this. It is the only standard organization with no brand focus. The others have eco-labels, or in the case of Starbucks, rely on their own brand reputation, which incudes the power of its corporate social responsibility programs (including the sale of fair trade coffee) to bolster its reputation.

Mainstream market standards copy procedural legitimacy. The more a standard is backed by a strong market brand, or develops a new elite branding around it, the less it will rely on procedural legitimacy. Legitimacy, thus, is seen as a proxy and prelude to reputation. But once a market for reputation is created within a social market, legitimacy is only required by organizations that lack any reputation whatsoever. This results in the paradox of branding, where an established and powerful firm can create their own voluntary standards without having to resort to the policies or procedures of early stage advocacy groups, yet still have credibility within a social market. This shift from legitimacy does not mean that the standards for standards are decreasing, but rather than once a market for reputation is created, firms will benefit or lose based on their own reputation, without the need to join in alliance with a separate NGO-based governance organization.

Market Integration

The index seeks to measure the rate of integration with market dynamics, norms, principles, and people into the organization. This is an innovation in the perspective of voluntary standards based on the premise, fundamental to this study and this research program, is that the market itself is a valid political arena within which governance emerges, where political bargaining incurs, and where legitimacy is sought. It also continues to blur the lines of who the appropriate political actors are for study. In this case, while scholars have considered the emergence of standards as innovative forms of governance and therefore worthy of political analysis, I argue that even traditional market actors are worthy of analysis in the field of political science and international governance. The Market Integration variable considers several groups of variables examined below.

A note on assigning values to variables: the data values are intended to provide an ordinal representation of cases expressing more, or less, market integration. Each data point will be valued at 1 for the greatest representation of market integration, and 0 for the least. Data points that are not binary, will be represented in fractional form consistent with the condition above, that the greatest representation of market integration will be valued at 1.

1. Organizational Details

An important key determinant of whether organizations are more or less market integrated is whether they are *initiated by* a business organization or NGO. The lower the value, the less the organization will be under the influence of business. The greater the value, the more it will be driven by traditional economic interests. Possible results and corresponding values range from 0 to 1 in equal fractional increments, where State is 0, followed by UN Organization, Consortium without Business Participation, Advocacy Group, Consortium with Business, Business with NGO support, Industry Association, and finally Business alone which is assigned a score of 1.

If the standard organization is a *non-profit* entity, it continues to align more with the original intent of social movements, but if it is a *for-profit* organization it would indicate greater integration with market norms and more aligned with traditional economic interests. More broadly the fact that 18% of all standards that use ecolabels are for-profit would already indicate a significant adoption of social movement practices by traditional firms or the gradual adoption of social movement organizations of market practices.

Initiated By:

Result	Value
State	0
UN Organization	.15
Consortium w/o business	.30
Advocacy Group	.45
Consortium w/ business	.60
Business w/ NGO support	.75
Industry Association	.85
Business Alone	1

Profit or Non Profit:

Result	Value
Non Profit	0
For Profit	1

2. Constituent Details

Industry Associations are representatives of traditional businesses. Participation of industry associations in the organization of voluntary standards indicated greater market integration. The same applies for the participation of individual firms. Both are evaluated for the degree of participation. Full membership of firms indicates the most integration with the market, formal partnerships indicates slightly less integration, formally indicate verbal support indicates even less integration, whereas no firm membership would indicate no integration score for this variable. I also perform a broad review of members to understand their make-up. A *wide network of ethically committed organizations* and, because the social objective of ethical coffe is to empower small farmers and producers from less developed countries, I include *developing country producers* as indication that there is less integration with the market. On the other hand, a membership base consisting of a *small network of firms* would indicate greater integration with the market. In between these two poles, there exist may *a smaller network of advocacy organization and developing country producers*, a *wide and diversified*, or *a small and mixed, network of advocacy groups and business organizations*, or a network consisting principally of *firms with some advocacy support*. Perhaps the most critical determinant of market integration as related to constituency is whether the organization itself was created through the *initiative of one firm*.

Participation of Industry Associations:

Result	**Value**
None	0
Verbal Support	.33
Formal Partnership	.66
Member	1

Participation of Individual Firms:

Result	**Value**
None	0
Verbal Support	.33
Formal Partnership	.66
Member	1

dividual Firm Initiative: is this the initiative of one individual firm?

Result	**Value**
No	0
Yes	5

Description of Members:

Result	**Value**
Wide network of ethically committed organization and developing country producers	0
Smaller network of advocate organizations and developing country producers	1
Wide and diversified ranging from advocates to business organizations	2
Small network of mixed advocates and firms	3
Principally firms with some NGO support	4
Small network of firms	5

3. Leadership

Organizations that increasingly align with the market will seek leadership with experience in business rather than from advocacy groups, activism, or even government. *Leadership Market Profile* evaluates the professional profile of the executive leadership of the organization and categorizes the leaders as being primarily Business Leaders or NGO Leaders. More business leaders in the executive leadership signals a desire to operate more effectively within the market, whereas greater NGO leadership signals a desire to push forward key causes and coordinate operations with other NGOs. Business leaders will come primarily from traditional business organizations and for profit firms and will have degrees in business. NGO leaders will have experience working in and with other NGOs. This variable is a ratio of business leaders as a percentage of total leadership team. A leadership team is the senior executive leadership including the Executive Director or CEO of the organization, and all their direct reports. They are normally easily identified as they are listed on the organization's website as part of the senior leadership team.

Leadership ends up defining the culture of the organization. A notoriously difficult thing to measure or determine, an *organization's culture* was determined through a mix of interview and publicly available documentation, including annual report, website and vision and mission statements. It is necessarily a qualitative variable that is subject to my biases and individual reading, and while it is included in this evaluation, does not weigh heavily on the final market integration score.

Leadership Market Profile: This variable is percentage of total leadership team with business-centric profiles.

Organization Culture:

Result	Value
Advocacy	0
Mixed	.5
Market	1

4. Organization Strategy

Organization strategy evaluates the degree to which an organization adopts market versus advocacy strategies (Taylor 2005). I assign a value of 1 if the organization was engaged in advocacy upon its foundation – if it is an *original advocate.* Advocacy is defined as engaging in public and private campaigns to further the normative cause of ethical production beyond the narrow market-based interest of its organization. Value is also assigned if the organization continues to engage in advocacy – if it is a *current advocate*.

I base my evaluation an organization's *degree of focus on Market expansion*, on interviews and answers to the question "how important is market expansion to your organization's mission?" This is a sensitive question that lends itself to bias responses when the organization has a strong advocacy background and may be reluctant to admit to goals of market expansion. Some teasing apart of the response is thus required. If a respondent provides a clear affirmation of their market expansion goals (as was the case with the 4C, the quantity of certified beans was paramount to their mission[68]), I score this variable as High. If they are explicit about the quality of standards and their adherents (as in the case of the WFTO) I score the variable as low, despite the fact that they would deem it a success if more traditional market actors would convert to their standards. If the answer blends an emphasis on social or environmental change, but does so by making explicit attempts to cater to large traditional corporations, such as in the case of RA, I score this variable as Medium (a score of 0.5).

Links Brand to Quality: By analysis of website documentation and brand marketing, I am able to evaluate the degree to which an organization associates its standard with product quality. More focus on quality of the product suggests a shift of focus from the ethical standards of the product, towards traditional market concerns: quality and value. Focus on quality normally sits in contrast to a focus on social and environmental good. One sign that the organization is positioning its certified product around quality is that it does little to promote its social and environmental benefits, but focuses more on the characteristics of the bean, its origin, or taste.

Original Advocate:

Result	**Value**
Yes	0
No	1

Current Advocate:

Result	**Value**
Yes	0
No	1

Degree of focus on Market Expansion:

[68] http://www.4c-coffeeassociation.org/uploads/media/4CDoc_004_Statutes_v3.0_en.pdf

Result	Value
Low	0
Medium	.5
High	1

Links Brand to Quality:

Result	Value
Low	0
Some	.5
Focus	1

Results and Analysis

The following table shows how each subsequent organization within the ethical coffee social market gradually tended towards creating market integration, supporting a key argument of this study expressed in the logic of market integration. I show that there were three distinct phases of evolution towards market integration within the social market. The first, starting with the WFTO and including FLO and RA, these three organizations are deeply entrenched in the advocacy world, and while they have all taken steps towards greater market integration, they remain far less market-based than other organizations in this social market. If considered on its own, FT USA represents an exception to the steady increase of market integration through time. However, given it is a splinter group of the FLO, it is more revealing of the shift occurring within the FLO than that of the social market write large. A political battle waged within the FLO where one group, those represented in FT USA, had far greater market integration ambitions than the group as a whole. No political bargain was possible inside the organization resulting in the split.

The next group of two, UTZ and 4C, represent a significant leap from the market integration of the three historically advocacy-based groups (WFT, FLO and

RA). UTZ was initially created to take advantage of the opportunities that the FLO created within the market, specifically the oversupply of FLO compliant coffee – an explicitly market-based move that is reflected in its index score. It does not advocate, is focused on market expansion, and has a high degree of firm members and stakeholders. The 4C also scores high due largely to its member composition of large multinational roasters, industry associations, traders and retailers, and its lack of advocacy. The next two organizations, DT and Starbucks represent another leap in the scoring, due mainly to the fact that they are for-profit, the composition of their leadership, and their high degree of focus on linking their standards to the quality of their beans.

Table 5.2 Market Integration Summary Table

Name of Organization	WFTO	FLO	RA/SAN	UTZ	4C	Direct Trade	CAFÉ	FT USA
Year Certification Established	1989	1997	1997	2002	2004	2006	2007	2011
Initiated by	Advocacy Group(s)	Advocacy Group(s)	Advocacy Group(s)	Business w/ NGO	Consortium w/business	Business w/o NGO	Business w/ NGO	Advocacy Group(s)
Profit	Non Profit	Non Profit	Non Profit	Non Profit	Non Profit	For Profit	For Profit	Non Profit
Participation of Industry Associations	None	None	None	None	Formal partnership	None	None	None
Participation of individual firms	Membership	None	None	Membership	Membership	Membership	Membership	Verbal Support
Individual Firm Initiative	No	No	No	No	No	No	Yes	No
Describe Members	Wide network ethically committed organizations, and developing country producers	Other labeling organizations and producer networks	Environmental NGOs	Principally supply chain and brands	Wide and diversified	Individual farmers and buyers form the organizational unit	Single firm partnering with NGO environmental advocacy group	Just FT USA and a board and advisory council that they select
Leadership Market Profile	0%	16.67%	0%	25%	14%	100%	100%	85%
Organization Culture	Advocacy	Advocacy	Advocacy	Mixed	Mixed	Market	Market	Mixed
Originated engaging in advocacy	Yes	Yes	Yes	No	No	No	No	Yes
Currently Engages in Advocacy	Yes	Yes	Yes	No	No	No	No	No
Degree of focus on market expansion	Low	Low	Medium	High	High	High	High	High
Links Brand to Quality	Low	Low	Low	Low	Some	Focus	Focus	Some
Market Integration Index	**1**	**0.42**	**2.25**	**15.6**	**17.5**	**28.75**	**24.25**	**14.9**

Is increased market integration a bad thing? We must keep in mind that as actors in the social market move towards the market, the market is also moving – with far greater force – towards the social market. More ethical coffee is being produced and sold, and more large multinationals are committing to sourcing all their coffee from sustainable sources. A remarkable point is that the constitution of quality demonstrates an *internalization of the norm of ethical production and social responsibility* towards the farmer and the environment. Quality is ethical production! This is a purely market-based strategy where the delivery of a quality ethical product is the only strategy.

5.2 Conclusion

The analysis in this chapter demonstrates support for the overarching thesis of this study that evolving social markets will gradually eschew tenets of advocacy and activism, including most importantly the processes and procedures of legitimacy, in favor of greater integration with the market. This has been shown through a broad, and still qualitative, review of key variables pulled from the cases studied and discussed in previous chapters. The variables in this chapter have been teased away from the qualitative review of cases and assigning ordinal values with the goal of identifying a pattern (increasing or decreasing) of legitimacy and market integration. These values are added up to give a descriptive indication of the ordinal value of reliance on legitimacy or integration with the marketplace for each standard organization being studied. I refer to these as indexes – one for procedural legitimacy, and one for market integration. While these are examined separately, they may be considered two sides of the same coin. That a reliance on legitimacy decreases along with an increased reliance on market dynamics makes sense and supports the overarching claim of this study: that social markets will tend away from the principles and practices of advocacy and activism, in favor of the market.

If legitimacy defines the struggle and defines what organizations are striving for, then we would expect to see organizations align with certain organizational forms. This is not what we observe. Instead, organizations decreasingly adopt what are considered 'legitimate' forms, and increasingly align with the forms, practices, and goals of market actors. The trend from advocacy towards market strategies is observed within organizations across the entire coffee sector. The FLO mainstreaming strategy allowed it to dominate and alter the coffee market, and challenges to this strategy are narrowly observed. Only the WFTO takes an official stance against the move towards greater market penetration, yet its own strategy of a) adopting a separate eco-label to distinguish its members[69], and of b) developing a closed market where members are encouraged to buy from each other[70], provides evidence of their shift to play by market rules. The WFTO adapted to the changing environment by creating the mechanisms it deemed necessary to encourage greater adoption of its standards.

The Rainforest Alliance, in existence during the early days of the fair trade movement and originally advocacy-based, also adopted market strategies aimed at expansion. It was a very early adopter of eco-labels and made the strategic decision

[69] Which it did in 2004, see ecolabelindex.com
[70] see http://www.wfto.com/index.php?option=com_content&task=view&id=906&Itemid=312

to switch its label from ECO-OK to the far more recognized Rainforest Alliance logo. This eco-label brand, along with its certification of large plantations, and financial support for producers, allowed them to secure a large enough supply of certified coffee to gain a major commitment from Kraft Foods buyers. Kraft Foods is the largest buyer of Rainforest Alliance coffee and has committed to buying 100% of its coffee from sustainable sources by 2015.

UTZ and the 4C both emerged with a similar goal to mainstream ethical coffee further than FLO can achieve in its ethical niche market. UTZ Certified emerged in an environment where, as the economics of price equilibrium would predict, small producers around the world were rushed to certify their crops to take advantage of the minimum price model. Yet the increased supply was not matched by consumer demand, which had been at that point limited to ethically-minded consumers of specialty coffee who were willing to absorb the increased cost of certified coffee. UTZ leadership, while motivated by the social cause to grow the ethical production of coffee, was also able to take advantage of a shift in the industry created by the mismatch between supply and demand. This is made evident by a strategy that did not include an eco-label, unique branding or price differential. This strategy, based on market cues, was a sharp shift away from advocacy or pressure campaigns that target an increase in demand.

Since first hitting the market in 2002, the market cues changed again. The success of ethical coffee created a new consumer segment in the marketplace – a more mainstream tacit ethical buyer. The unintentional ethical buyer has, through the wide proliferation of the norm across the market and a mechanism of socialization, internalized the norm, but not enough to pay a premium for the product or to seek it out specifically. In order to tap into this market segment UTZ would have to separate itself from the broader mainstream market targeted by the 4C, and brand its products as UTZ certified – a strategy it has already began to implement.

Remaining solidly within the mainstream of coffee buyers is the 4C. Setting aside the stringent standards of the early advocates while remaining true to the goal of greater sustainable practices around the globe, 4C's strategy was to target the largest mainstream roasters and buyers who would be open to sourcing sustainable coffee for their own CSR objectives, but are unprepared to play within a new market segment or develop new branding or labeling related to their coffee. Although Rainforest Alliance and UTZ were able to secure large traditional buyers of their coffee, they remained limited by both the supply of certified coffee and the demand of certified coffee among consumers. 4C bypassed this limitation by developing standards that would be easier to comply with and open to much larger producers and plantations. Working directly with these larger producers and buyers was, and remains, anathema to the individuals and organizations that maintain a culture of advocacy. Because of their limitations on certifying plantations and large producers, both the WFTO and the FLO maintain a distance and separation from the traditional supply chain. The early advocates and norm entrepreneurs that are still represented in the FLO and WFTO were necessary in shifting norms within the marketplace. Yet, given the enormous growth and scale of the 4C, it is entirely plausible to argue that they are currently doing more to change the market towards greater sustainability than any other organization today. 4C does not certify individual beans that go into a product, allowing large organizations to gradually increase their sustainable purchases without impacting their brands or pricing.

Another cause-oriented organization that has shifted strategies and adjusted policies geared towards greater market penetration is FT USA. For analytical purposes FT USA can be observed as a splinter of FLO seeking greater liberty in adopting more responsive market strategies, or an entirely new organization wanting to play in the ethical market space (maintain branding and key principles related to minimum pricing), while loosening other principles related to plantation certification. Either categorization demonstrates a shift towards greater market strategies for growth and the inclusion of norm franchisees still shunned by FLO.

FT USA representatives maintain a public stance that their split from FLO was based on the inconsistencies in FLO standards and a desire to "do more good." They seek to resolve what "many have called"[71] a hypocrisy in their standards to support cooperatives, but not the workers of larger plantations – arguably the ones most in need of fair trade support and standards. Notable also from conversations is their strategy of optimizing for three circles: business, farmers (and their workers), and consumer. This shift may be subtle, but in conflict with the FLOs original intent, to benefit small, impoverished producers (and makers or local crafts) by providing access to markets in the global North. It is also notable for its emphasis on business

[71] Mary Jo Cook, Chief Impact Officer FT USA, phone interview, August 2011

benefits and a sharp contrast to a strategy of pressure campaigns or boycotts; a strategy which has led to consistent support from the business community for the FT USA splinter, and criticism from fair trade advocates. Even Rainforest Alliance, which sits further along the "market integration" spectrum than WFTO or FLO, makes a point to publicly question FT USA's certification of products from mixed sources. Like any organization, FT USA is open and vulnerable to critique. But unlike organizations where issues are debated in the General Assembly, its governance is structured to allow it to ignore – if it so chose – pressures from outside organization and focus on its own objectives, to cultivate "a more equitable global trade model that benefits farmers, workers, consumers, industry and the earth."[72]

FT USA's institutional make up moves gradually away from the consensus based multi-stakeholder environment adopted by FLO. Stepping even further away from this model is the Direct Trade initiative. Direct Trade is not an organization but a social market strategy originated and adopted by for-profit roasters – a movement within a movement. There is no third party verification or certification, only a stated buying strategy by roasters. Although the model originated from dissatisfaction with the fair trade standards, roasters took their battle directly to the marketplace bypassing the political structures inherent in the many multistakeholder organizations in existence. There are no established standards, policies, or alliance with civil society, advocacy, or pressure campaigns. A simple premise rules: work with suppliers to provide the best quality product, and reward them for it. From the perspective of its adherents, DT offers a far higher standard of social and ethical

[72] http://www.fairtradeusa.org/about-fair-trade-usa/mission

production than any of the other standards, including FLOs fair trade. The great paradox, is that this highest of the coffee standards, is also the least institutionalized and most reliant on traditional market mechanisms.

6 MULTIPLICITY MATRIX

> A political system that has multiple centers of power at differing scales provides more opportunity for citizens and their officials to innovate and to intervene so as to correct maldistributions of authority and outcomes.
>
> E. Ostrom 1998

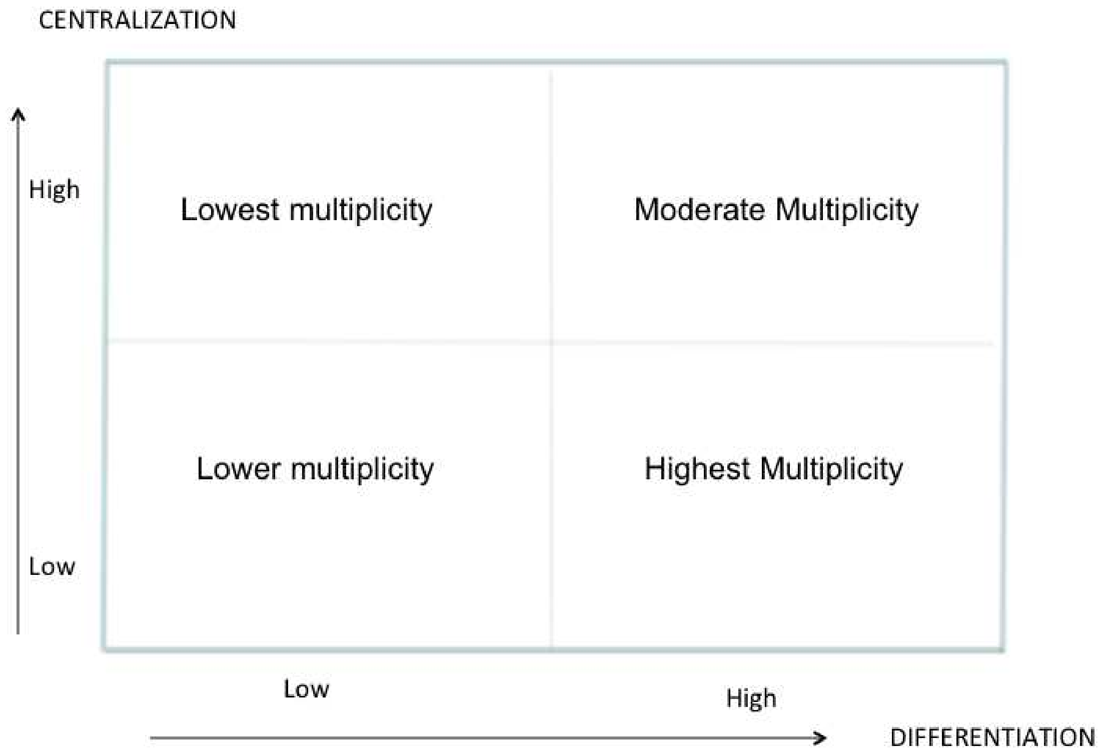
The previous chapter provided evidence for the decline of legitimacy as a key driver for the development of social markets. Instead, I show that standards organizations increasingly adopted the organizational forms, practices and goals of market actors. If campaigns for legitimacy do not define the character of later stage social markets, what does? How can we understand differences across these markets? Since multiplicity is the norm in social markets,[73] and this perceived "competition" within social markets raises concerns that private governance can replace public regulation with cohesive universal and effective policies, then understanding how and why multiplicity occurs is an important and necessary challenge to international relations scholars, and motivates the analysis in this chapter.

In its simplest form, the logic of multiplicity states that standards entrepreneurs survey the environment within which they seek to emerge and choose the path towards the greatest benefit relative to costs. Costs and benefits are observed through two variables. First, costs are evaluated through the political centralization of

[73] See ecolabelindex.org last accessed March 29, 2014

the social market, where greater centralization of power makes it harder for new entrants to offer alternate solutions, thereby increasing the costs of developing new standards. In highly centralized social markets, new entrants will be less inclined to bear the costs of competing against, and therefore more likely to join, established power centers. Power concentration within the social market is defined through a combination of traditional metrics of concentration such as, industry concentration, a metric commonly used by economists and management scholars; supply chain power adopted from the literature on Value Chain Analysis led by Gary Gereffi et. al (2005) which places industries on a scale where power is highly concentration (at the extreme within one individual firm) to not concentrated at all (as in transactions within an efficient market). Other indicators are the degree of concentration within industry associations (is there one industry association or many). Likewise, political centralization goes beyond economic concentration and evaluates the concentration of NGOs operating within that social market, as well as the degree of state involvement in the social market. In the case of high centralization, multiplicity is less likely to occur. Second, benefits are based on the existence of a clear political and market constituency. If a potential new entrant can identify a unique group of people that they will serve, the potential benefits of greater than if all constituencies are currently being targeted and served by existing standards. Therefore, more opportunities for differentiation results in more potential benefits and increases the likelihood that multiplicity occurs. A summary matrix is shown below.

Figure 6.1 Multiplicity Matrix



6.1 Cases and Variables

6.1.1 Observations of Multiplicity

Principally, I am aiming to explore differences in multiplicity – higher or lower multiplicity. However, the degree of multiplicity is symptomatic of differences in conditions of the social market (independent variables elaborated on below) that lead to other realities as well. A situation of very high centralization of power leads to the lowest multiplicity, but it also means that there is the highest likelihood that no standards exist whatsoever. If a standard does emerge, as in the diamond industry, it will be because the dominant powers of the industry coordinated at the highest levels, which is more likely to involve the coordination with states, the United Nations, or similar international non-governmental organizations (IGO). Given that, I expect that a dominant standard in this quadrant (II), display a high degree of procedural legitimacy. Further, since one standard dominates, there is the lowest likelihood that market segmentation occurs, that is to say, that differing standards or labels will exist for different consumers.

In social markets with low opportunities for differentiation, but lower levels of centralization (Quadrant III) there exists a slightly higher likelihood that multiplicity occurs, but if it were to occur, it would not lead to many alternate standards. In these social markets, since there are fewer market segments to explore, direct competition between standards is more likely. This was observed in the forest industry where the Forest Stewardship Council (FSC) and the Sustainable Forest Initiative (SFI) fought against each other for dominance. As part of this direct battle, standards organizations will continue to rely on legitimacy as a political tool, which may lead to ratcheting up of elements of procedural legitimacy.

In social markets with the lowest centralization and the greatest opportunities for differentiation (Quadrant IV), as in the coffee social market, there is the highest likelihood of multiplicity as well as highest number of alternate systems. In these situations, new standards organizations will seek legitimacy directly through the market, will rely less on legitimacy, and cater to different market segments. It will also lead to the most diverse and prolific social markets, where state involvement is least likely.

In social markets with high opportunities for differentiation, and relatively higher levels of centralization (Quadrant I), most reflected in the organics social market, there is a moderate likelihood that multiplicity occurs, although less than in markets where there is lower centralization. Legitimacy will trend down as additional alternate systems will go directly to their respective consumer segments for support and legitimacy. The likelihood of state involvement is lower but still more likely than in social markets with the lowest centralization.

The social markets to be tested in this chapter were selected to provide variance across quadrants with focus on degree of multiplicity. These include the following social markets: Forest, Fisheries (wild, not farmer, fish), Tourism, National Brands (several products), Diamonds, Infant Food formula, Organic foods, Gold Mining, Banking and finance, Sugarcane, Tea, and Clothing (textiles).

6.1.2 Understanding Factors Influencing Multiplicity

To measure centralization of power, I explore five factors that have been provided in more detail in Chapter 2 of this dissertation. These include: *industry concentration* as measured by portion of industry revenue controlled by top firms; *power asymmetries* as measured by Gereffi's model of governance power within markets (2005); *state based concentration* measured by whether or not the industry is connected within and segregated by state economies; *industry associations* centralization based on the presence of major international industry associations covering the majority of the industry, and *major NGOs* which evaluates the power and presence of one or a few major NGOs that would dominate the market.

To measure opportunities for differentiation, I explore four factors that were provided in greater detail in Chapter 2. These include: *Producer/Buyer Driven* based on the type of industry; whether or not *Standards Target Consumers*; either with ecolabels or other means of communication; whether there is strong *Brand Recognition* of certified product or service, and whether markets are segmented based on *Consumer Psychographics*. As in the previous chapter, results for the cases below are derived by assigning a binary value – a 1 or 0 – to each of the variables for political centralization and differentiation listed above. All variables are given equal weight. The values for each variable are added up to get a composite value for Centralization and one for Differentiation. Cases that sit above the half-way point (2.5 out of a possible value of 5 for centralization; 2 out of a possible value of 4 for differentiation) are categorized as High. Cases that sit below the half-way point are categorized as low. Observations of the various social markets are presented below. The matrix in Figure 6.2 shows a summary of observations.

Figure 6.2 Multiplicity Observations Across Social Markets

6.2 Quadrant I: Higher Centralization and Higher Differentiation

6.2.1 Centralization

The organic and clothing and textile social markets have varying types of political centralization, but to similar degrees. The organic movement, consistent with the early stages of all social markets, began as a movement of farmers that eventually coalesced into formal organizations, culminating in the international umbrella organization for organic foods; with 780 affiliates around the world, the International Federation of Organic Agricultural Movement (IFOAM) is the dominant and central organization for organic standards across the globe. Yet, centralization of organic foods is increased due primarily to state involvement. The organics movement was early and inspired the participation of states, which generally play an active role in a country's agricultural policies and standards. There are over 100 countries in the world with regulations on organic agriculture and trade (Global Organic 2013). This state involvement as well as the prominence and power of IFOAM, increases the degree of centralization while the decentralized nature of the industry tempers it. Most organic farming occurs on small farms; in 2011, 1.8 million farmers in 162 countries grew organically on more than 37 million hectares of agricultural land.[74] Only 2% of farmable and is dedicated to organic farming, although the large majority taking place in OECD countries (OECD 2013).

The textiles social market is a market in transition, and this is reflected in the social market. With a history rooted in the Multifibre Arrangement, and then the

[74] See http://www.globalorganictrade.com/news.php?idx=42 Last Accessed March 31, 2014

WTO Agreement on Textiles and Clothing, powerful lead firms, with comfortable access to the political machinations at the WTO, historically dominated the industry. These arrangements aligned with the interests of powerful firms and brands intent on trade liberalization, achieved in 2005 with the abolishment of the quotas from WTO agreements. Centralized state authority was also at the source of the first major voluntary standard for textiles. An initiative of the Clinton administration, the Fair Labor Association, formalized in 1999 through an agreement among the major multinational corporations in the apparel and footwear industries, is dedicated to protecting factory worker's rights around the world. The politically aligned origins of the standard go deeper as it based primarily on the internationally recognized and UN affiliated International Labor Organization standards.

Yet, political centralization is not absolute in the clothing and textiles social market (WTO 2013). While there are significant disparities of power between suppliers and, brands and retailers, the producer base remains highly dispersed and decentralized across the developing world. Similar to the coffee social market, a decentralized producer base can lead to fragmentation of power and standards, a phenomenon that is beginning and will be observed as a dependent variable – the character of multiplicity in the social market – below (Sikavica and Pozner 2013).

Table 6.1 U.S. Organic Food vs. Total Food Sales (000s)[75]

Category	2004	2005	2006	2007	2008	2009	2010
Organic Food	12,002	14,223	17,221	20,410	23,607	24,803	26,708
Growth	15.6%	18.5%	21.1%	18.5%	15.7%	5.1%	7.7%
Total Food	544,141	566,791	598,136	628,219	659,012	669,556	673,324
Growth	1.6%	4.2%	5.5%	5.0%	4.9%	1.6%	0.6%
Organic as % Total	2.2%	2.5%	2.9%	3.2%	3.6%	3.7%	4.0%

6.2.2 Differentiation

Strong brands in the clothing industry and powerful retailers in the organic food industry create greater power disparities in these two social markets, yet they also lead to greater opportunities for differentiation. Both are buyer driven industries, although the buyer is not necessarily the consumer. Both industries are dominated by large brands that act as lead firms in the supply chain, but each brand is also psychographically segmented providing different products for different buyer segments. This key differentiation opportunity, similar to the coffee market, results in the emergence of unique niche players, a hybrid of social and business entrepreneurs, to develop products and brands catering to different market segments. In the organics industry, it is driven by a unique characteristic of the agriculture supply chain where thousands of small producers can upgrade their position in the supply chain by offering products with varying ethical standards. In the clothing social market, new intermediary players that sit in between suppliers and end-consumers, have emerged to provide new standards that focus, not only on the quality of the product, but the quality of the social standards. The nature of the segmentation follows the nature of

[75] Source: Organic Trade Association's 2011 Organic Industry Survey conducted 12/22/2010 – 3/7/2011 ($ Millions consumer sales)

the social market, where producers segment along organics standards, and clothing at the brand and retailer level.

6.2.3 Outcome

There are 780 different organics organizations aligned with IFOAM, many of them tied to state-based organics standards; an indelible link to the centralization of agriculture at the state level. In the n=444 dataset of unique ecolabels, 100% of the 45 organic food related labels are tied to geography. This social market resembles the forestry social market in its centralization – state based centers of power aligned with international umbrella organization (Programme for the Endorsement of Forest Certification, or PEFC in the case of forestry) – but is uniquely different in its ability to directly target the ethical consumer. As a result, several more-than-organic standards and labels emerge – a phenomenon that is yet to be observed in the forest social market – such as grass fed, and locally grown labels. Under the titles of locally grown, grass fed (for meats), and "circle farming," new food labels emerge that promote more-than-organic standards of production. While hard to measure, this standard of food, battling within the organics social market, is hyper-local and product based, and made possible because of the decentralization of agricultural farming and opportunities to sell directly to consumers. Grievances of this more-than-organic standard lacks a central governing body, umbrella organization, or state support – all the tenets of traditional political legitimacy – but finds a strong constituency in both high-end urban markets, as well as local rural areas. According to Joel Salatin, an unofficial spokesperson for the movement declares, "buying local, eating seasonally, knowing your farmer, and using your domestic culinary arts to prepare, package, and preserve your own unprocessed foods is the ultimate secure way to verify your food" (Salatin 2012). Salatin's perspective is that organic standards, and what can be legally defined as organic, are captured by powerful corporate interest having little to do with a natural way of farming.

This new beyond-organics counter movement has been referred to as micro eco-farming (Adams 2004), which has united actors into reviving the organic movement's initial ideals of sustainability, symbiotic agriculture and back-to-the-land ethos (Sikavica and Pozner 2013). These new beyond-organic eco-farmers identify agribusiness as the problem to which their farming methods are a solution, effectively creating an oppositional discourse. "We don't need agribusiness to save us from starvation. Food is our excuse to co-create with nature instead of being passive recipients; to reach across species; to mingle with other humans; and to listen to an earthly problem" (Adams, 2004, p. 18). These eco-farmers are delivering products directly to their ethically minded consumers directly through such channels as farmers markets and CSAs – community supported agriculture. Though ecolabels remain elusive, they represent a new standard of ethical production that is highly decentralized and differentiated.

The clothing social market displays evidence of centralization and differentiation, as well as the emergence of a movement to further advance the norms and principles first outlined by the central authorities embodied in the FLA and ILO. As can be predicted, based on the centralization of power at the brand and retailer-level, and the increasing vertical integration of textiles and clothing by major brands (Nordas 2004), the clothing and textiles social market coalesced around the emergence of a firm-based standard, the Sustainable Apparel Coalition. This coalition of major brands leads to a highly centralized social market, which were it not for the ability of other opportunities for differentiation, may have resulted in a social market akin to the forest industry with two major camps, the FSC and PEFC, dominating. Instead, borrowing from the segmentation of producers, as in the organics market, but with the high possibility for differentiation as in the coffee market, the clothing social market sees the emergence of social entrepreneurs that work to reduce the psychological space between the producers and the consumers. In depth interviews with Thread International, provides a rich case study for this social market.

Thread International is a for-profit organization that seeks to produce polyesters as raw material for clothing, sourced from recycled trash in less developed countries. How are they considered a voluntary standards organization? Much like certified coffee beans, clothing brands and retailers that use their ethical fabric will have the right to label their products with the “Fueled by Thread” ecolabel; a guarantee that the product sough to maximize for the following key objectives: Increase job creation in Haiti (both direct and indirect employment; Maximize support of Haitian businesses and entrepreneurs; Increase income opportunities in Haiti; Minimize work-place accidents; Maximize employee Health and Safety; Increase skills and knowledge transfer to staff and partners; Decrease green house gas emissions produced; Maximize pounds of recyclables removed from waste stream, streets and canals; Increase Revenue growth.

A few notable observations from the Thread International case provide evidence supporting some hypotheses in this study, and lend support to the two key factors of change that guide the matrix in this chapter. First, they charge a premium, and understand that their business model is based on branding. Second, they see no tension between their status as a non-profit and their social cause; instead, they believe that growing their business and profits is the best way to do the most social good. Third, legitimacy of their organization is not a concern. They have a not for-profit arm, they are B certified, they do not work within a collaborative consensus-seeking model, and are happy to do the certification themselves. Four, They appreciate that they are in a highly competitive market with similar organizations trying to do the same thing. Fifth, they appreciate the role that the FLA, and sustainable apparel coalition has played in their development – by setting the stage for a market for groups like them to thrive, and provide even more good.

6.3 Quadrant II: High Centralization and Lower Differentiation

6.3.1 Centralization

Banking, Diamonds, infant food formula, gold and sugarcane, all exist within highly politically centralized industries. While sporadic regulations exist at the state level for the delivery of infant food formula, the only voluntary standard is developed and negotiated in the World Health Organization through the International Code of

Marketing of Breast-milk Substitutes. The standard itself has no power of enforcement, but can be ratified by individual governments at the state-level. There are currently 65 countries that have adopted some or all the provisions of the WHO code. Given this limited adoption of the code, its more universal appeal is as a standard; the only standard in a highly concentrated industry. Below the WHO, sit a number of activist associations, and a number of pro-industry organizations. Yet, all centralize at the WHO. The production, delivery and marketing of infant food formula is highly concentrated in the 7 major multinational corporations that constitute the membership of the International Infant Food Manufacturers Association (IFM).

The Diamond industry is heavily centralized politically, a function of the influence it can and has had on topics of human rights, war, and inter-state relations. Heavy involvement of the UN on matters of conflict diamonds, and the participation of states in the Kimberley Process – the only major international diamond standard in the world – exemplifies this centralization. It is also extremely centralized as an industry. Five producers – ALROSA, BHP Billiton, De Beers, Harry Winston Diamond and Rio Tinto – generate 78% of the production sector's revenues (Bain 2013). Also, in 2012 the top five became the top four when BHP Billiton sold its operations to Dominion. These four firms act as powerful lead firms dictating downstream terms of production, including cutting and exporting, and pricing. While cutting and polishing is performed by a slew of smaller actors, these larger traders with direct access to mines are still in control. Large firms that primarily engage in dealing typically sell 30–70% of their rough holdings to smaller cutters and polishers. Large companies that primarily engage in cutting and polishing might sell 10–20% (Bain 2013: 37). “Trust and relationships play an important role in middle-market sales process. Any newcomer wishing to buy rough or polished diamonds at wholesale prices needs references from existing players” (Bain 2013: 44).

6.3.2 Differentiation

The WHO standards on infant food formula specifically prohibit the targeting and marketing of infant foods to parents, thereby drastically reducing any opportunities for differentiation in that social market.

Diamonds are a commodity, but unlike the coffee bean commodity, there is little psycho-graphic segmentation of diamonds, or segmentation, other than price, driven primarily by differences in the quality of the diamond and the cutting. While there is a large cutting industry in India, China and Africa, the greatest value-add for cutting is attributed to diamonds emerging from cutting firms in Belgium, Israel, Russia and the US. While not completely accurate, you generally get what you pay for with diamonds. Premiums are based on a set of internationally recognized and widely understood criteria to determine quality. Premiums are charged and segmented at the jewelry manufacturing level. Brand differentiation is very low for commodity trades.

There is, however, some differentiation at the producer level. Artisanal, or small-scale subsistence mining, involves about 13 million people worldwide, and affects the lives of another 80 to 100 million people. This type of mining tends to sit out of sight of the organizations that would monitor and regulate mining, and represents an area of high risk for child labor, environmental degradation, prostitution, the spread of HIV/AIDS and conflict diamonds. It is also a distinct and separate segment of the producer market, before a large consolidation at the buyer, trader, and cutter level. It is also where a separate organization – the Diamond Development Institute – seeking to increase transparency for the harvesting of diamonds has emerged, but still without any attempt at developing a new or separate standard.

6.3.3 Outcome

The IFM's frustration with the lack of universal adoption of the WHO code for the marketing of infant food formulas, the member companies have discussed developing their own code, yet 3 years after this idea emerged, no standard exists. Instead, the highly centralized political landscape of infant food formula motivates the involvement of states, and the development of standards by state agencies. According to a tally provided by UNICEF (2011), 84 countries have enacted legislation implementing all or many of the provisions of the Code and subsequent relevant World Health Assembly resolutions, 27 have adopted some or few provisions and 14 countries have draft laws awaiting adoption, and 14 others are currently studying options to ratify.[76]

[76] The 6 countries that have not adopted any of the code's provision are: The Central African Republic, Chad, Somalia, Iceland, Kazakhstan, and the United States.

The passing of voluntary standards from NGO to state is most likely in this quadrant of the analysis, and evidenced also by the participation of states in the Kimberley Process for diamonds. Adopted by the UN through resolution, The Kimberley Process has 54 participants, representing 81 countries[77], accounting for 99.8% of the global production of rough diamonds. The extremely consolidated nature of the diamonds industry makes the threat of new entrants nearly non-existent, and political centralization equally high.

6.4 Quadrant III: Lower Centralization and Lower Differentiation

6.4.1 Centralization

Centralization of the forest and fisheries industries is similar in degree, but different in type. Forestry is a highly fragmented industry – the top four players control only 6% of industry revenue – yet, because of the regular involvement of states, centralizes politically, most notably in the Programme for the Endorsement of Forest Certification (PEFC) which brings together over 30 endorsed national certification systems. Fisheries are also a highly fragmented industry, with two broad categorizations: small and large producers. Large producers, led by Unilever, the major corporation that spearheaded the development of the Marine Stewardship Council, centralizes the certification of fisheries somewhat, but not completely. According to Constance and Bonanno (2000: 132) "Because of Unilever's "quasi-monopoly" of the fish industry, many small-scale commercial ventures that do not fit into the MSC certification process may be left out of the value-added eco-labeling

[77] All the countries of the European Union count as one participant.

program” creating this important split between large and small producers. Moreover, most small producers are located in less developed countries where states act to protect the industry for political reasons.

The forestry industry is a complex web of private and public landowners. With varying degrees of vertical integration of the supply chain, it constitutes an international industry where no core set of dominant players control. However, the common involvement of the state renders the industry even more complex. It is fragmented globally with regional instances of high concentration. In some cases, such as in the Canadian province of British Columbia, the state owns the largest share of forests, which classify it as a concentrated market (Stanbury and McLeod 1973: 57). In other cases, as in the United States, large industrial logging companies own a fair share of the market and have a high-degree of vertical integration, but they rely on thousands of non-industrial private forest owners for much of their wood and fibers. In 1989 the 3 largest hardwood lumber producers accounted for only 4.1% of hardwood production in the United States (Timbertax 2013). There is no indication that this number has changed dramatically since then.

Even in regions of high concentration, as in BC, land ownership represents only a tiny fraction of international land ownership, where thousands of other landowners constitute the entire supplier base. This scenario plays out across the globe, with a diversity of landowners and industry supply chains unique to geography and state boundaries. While fragmented nationally and internationally, some organization and coordination exists at the state level since the state itself is often a major landowner. This will lead to internationally fragmentation with coordination and centralization within certain countries.

The heavy state involvement within the forest industry is cemented in the UN international conference on the environment and development; the gathering that is credited with kicking off the non-market institutionalization of the FSC. It outlines the principle of state sovereignty provided below:

"States have, in accordance with the Charter of the United Nations and the principles of international law, the sovereign right to exploit their own resources pursuant to their own environmental policies and have the responsibility to ensure that activities within their jurisdiction or control do not cause damage to the environment of other States or of areas beyond the limits of national jurisdiction.

States have the sovereign and inalienable right to utilize, manage and develop their forests in accordance with their development needs and level of socio-economic development and on the basis of national policies consistent with sustainable development and legislation, including the conversion of such areas for other uses within the overall socio-economic development plan and based on rational land-use policies."[78]

This emphasis on state sovereignty provides the early signal for how future institutionalization of forest standards organizations would emerge. That is, with an emphasis on private conversion of production practices rather than state regulation. It

[78] See http://www.un.org/documents/ga/conf151/aconf15126-1annex1.htm Last Accessed March 29, 2014

also provides an indication of the complex state of fragmentation of this industry. In many cases, the state itself is the landowner and coordinator of the forestry industry. In these cases, the industry is actually a highly concentrated industry and, according to the thesis of this study, would display signs of low multiplicity at the state level. This can be confirmed in the cases where the state adhered to a set of standards that rolled into the PEFC and eschewed the alternative standards of the FSC these cases the state-adopted standard is either the universal standard, or survives in an environment of low multiplicity.

The fishing industry is equally fragmented with two exceptions that lead to some centralizing around 1) large buyers who work primarily with large commercial fisheries, led by Unilever, the primary force being the founding of the Marine Stewardship Council, the largest voluntary standard in the industry, and 2) the vast group of small-scale producers. Around 90 percent of the 38 million people recorded globally as fishers are classified as small-scale, and an additional 100+ million people are estimated to be involved in the small-scale post-harvest sector (Béné, Macfadyen and Allison 2007). A full half of fish trade is purchased from developing countries, yet there is no political organization at that level, nor is there any political organization at the small producer level (FAO 2008). Yet this intense fragmentation at the producer level narrows significantly at the purchaser level. Unilever controls 25% of frozen fish market in the US and Europe. This has given them unparalleled leverage in the market, which they have used to establish the MSC. In 2006, Walmart pledged to purchase all of its wild-caught fish from MSC-certified fisheries by 2011, which has placed pressure on the MSC to certify large fisheries more quickly. According to the Walmart website, 73% of its seafood was certified as of January 2011, including farmed fish certified by a different institution. Recently, US retailer Kroger, Ahold USA, and Australian retailer Woolworths made similar MSC- related pledges. Darden Restaurants Inc. (the largest casual dining restaurant company in the United States, and operator of well-known restaurants such as the Red Lobster brand) also includes sustainability issues in its seafood procurement policies (Bing 2007). McDonald’s has operated Sustainable Fisheries Guidelines since 2005, and says that in the past five years it has shifted more than 18,000 tons of fish away from unsustainable sources. It refers to the MSC in its corporate responsibility policies. Retailer commitments help illustrate where the power resides in this supply chain.

Today, the MSC label is the most widely discussed fisheries certification, viewed by many as trustworthy: as of December 2012, a reported 183 marine fisheries were certified by the MSC, although only 141 had data available, accounting for just under 7 million tons of seafood per year. An additional 109 fisheries are going through the certification process, which, if successful could increase the total certified catch to almost 10 million tons, just over 10% of global reported catch.

6.4.2 *Differentiation*

A supplier driven commodity chain is characterized by capital and technology intensive industries dominated by large multinationals that control the supply chain through production. Barriers to entry into a producer-driven supply chain are high because of the capital costs required to enter, participate, and compete in that market.

The forestry industry is dominated by the production side of the supply chain and heavily producer-driven; consider the investment required for machinery, mills, lands, or transportation systems required to enter the market. Further, in contrast to a buyer-driven commodity chain, end-consumers rarely if ever drive production through its selective preference for one brand of wood versus another. One brand of lumber is, for the most part, interchangeable with another brand of lumber. In fact, the eco-labels created for forestry standards are more recognizable to consumers than any other brand of lumber.

Given the lack of product differentiation or brand recognition, FSC focused on who their actual buyer was – a key question in understanding political power in a social market; in this case, large national and international retailers of lumber. Their biggest win was the conversion of the Home Depot. This widely publicized event led to industry conformity at the large-retailer level (Lowes, Kaufman & Broad Homes Corporation, Centex Corporation, and Andersen Corporation). According to Cashore Auld and Newsom (2002: 242), in response to retailer conversion, the SFI took incredible measures to make its program acceptable to retailers. Specifically, it added parameters to enable chain of custody verification and reporting, and changed policies to allow third party auditing, and the creation of an independent Sustainable Forestry Board to review standards, verification, and compliance. So, it was the power gained through retailer conversion that forced the SFI to increase standards and create a varied and stakeholder diverse governance structure (including labor unions, environmentalist, and public input) further aligning with FSC design. In doing so, it gained praise from a variety of industry observes, including the WWF (ibid., p 245). With these changes and endorsements, they were able to successfully lobby pro-FSC retailers to reword their policies to be open to SFI.

The most striking reality for certified forest products in the United States, Canada, and Europe is that buyer power is concentrated with the largest retailers. In addition to the early adoption by UK giant, B&Q, the conversion of Home Depot to franchisee status gave FSC certified wood a significant boost in market penetration.

As the FSC was making strides in Europe bringing important industry organizations into its fold, changes in the US were slow. The lack of progress in the US, which can be attributed in part to an immature environment of collaboration between NGOs and MNCs, and in part to a lack of public awareness, was set to change as the Rainforest Action Network (RAN) took up the issue in 1992. Using techniques attributed to the earliest stages of social market/norm development, RAN initiated an aggressive public relations campaign against Home Depot demanding it cease the sale of "old-growth tropical timber." The response from Home Depot was quick and directed: it would cease to sell products that can not be proven to be forested in a sustainable manner.

The 1992 campaign, while successful, was also narrow. Home Depot's purchasing practices were altered only in their commitment to halt the sales of teak furniture, which sourced primarily from tropical forests. So, in 1997 when RAN refocused its efforts against Home Depot, it brought with it a team of heavy-hitting environmental advocacy groups intent on altering the practices of the largest US home improvement chain in an attempt to cascade change in the retail world. Using a variety of innovative pressure tactics, including the "kids campaign" where a five-story banner was hung in front of Home Depot's Atlanta headquarters in which 3,000 children from across the US sent letters to Home Depot CEO asking for a Christmas gift of healthy forests. The tactic was followed up with a New York Times ad headlined "Only a Kid Could Say 'Save the Rainforests 3,000 Different Ways: Will Home Depot Listen to Just one?" (Conroy 2007, p 72)

Campaigns culminated in 1999 when simultaneous demonstrations were held in 150 stores across the US. One story describes activists showing up at stores carrying clipboards and dressed in white lab coats with 'Old Growth Inspectors' written on the back. They were able to obtain in-store intercom codes that they used to announce, "The wood in aisle 2D is ripped from the heart of the Amazon. Do be careful of any spilt blood on the floor as we do our bit to destroy the earth" (Graydon 2006). After months of negotiations, on August 26, 1999, Home Depot announced it would end all purchases of wood products coming from old growth forests and to give preference in its purchases to products certified as arising from sustainable forest practices, such as under the standards of the Forest Stewardship Council. Home Depot committed to buying only FSC certified wood (Conroy 2001). Within months, most of the leading home improvement retail chains in the US followed the Home Depot lead. Michael Conroy notes, "as the implications of the Home Depot announcement rippled through the forest products industry, the Vancouver Sun editorialized: 'just one statement from retailer Home Depot did more to change

British Columbia's logging practices than 10 years of environmental wars and decades of government regulation'" (Conroy 2007, p 75). Notable is how activists targeted the retailers, and not the brands.

One key limitation to the increased opportunity for differentiation is lack of elasticity of demand because of substitute products – which simply means that consumers are not willing to pay a premium for this product, even if it is for additional certification (Peck 2001, p 245). However, other observers suggest that there is little evidence that significant effort was invested in promoting end-user consumer demand for certification (Bass Markopoulos and Grah 2001, p 64). This point expresses an emerging observation in this study, that voluntary standards and ecolabels, when leveraged appropriately, can increase the differentiation opportunities in a marketplace, thereby increasing the chances of increased multiplicity and segmentation.

"While both are legally "voluntary", meaning that they were not created by governments, in reality they have evolved into mandatory seals of approval in global markets. Large retailers, traders or processing companies now require their implementation" (Entine 2003). Noteworthy in this case is that power is concentrated at the retailer level, and not at the product level. The latter would require differentiation at the consumer level, which would encourage the formation of more multiplicity. Instead, at the retailer level, standards simply compete against each other to win over large retailers and buyers. This intense competition between systems discourages the formation of standards entrepreneurs from emerging.

This focus on the retailer is similar in the fisheries industry, where differentiation of fresh fish sold as produce does not exist at the product level. Packaged fish, where sales is largely dominated by the major multinational firms, including Unilever, is a middle-market product, to begin with, therefore differentiation is narrow. These large corporations, sourcing from large commercial fisheries, have increased their commitment to purchasing MSC certified products, but the certification does not differentiate across product segments and is not necessarily intended to cater to the ethical consumer. Instead, it is a corporate-wide policy intent on boosting the firm's overall reputation. Friend of the Sea (FOS) leverages the only major segmentation opportunity in the fisheries social market by focusing its certification on small-scale fisheries. With standards that adopt FAO guidelines, in contrast to MSC, and with a focus on small-scale fisheries, the FOS standard and set up products is arguably the more ethical more stringent standard.

6.4.3 Outcome

Most notable in this quadrant is that both social markets contain two major standards that do not collaborate. There was, in both markets, low multiplicity, a trend of increasing legitimacy, and low differentiation. Segmentation within the social markets followed the political centralization of their industries. Forest standards segmented based on state involvement, where industry standards competed with the only NGO and advocacy initiated system, whereas fisheries standards segmented between large commercial producers and small-scale producers.

The bifurcation of the fisheries industry is explained in this quote from Ponte (2012, p 312) “This has resulted in a peculiar configuration of the sustainable fish market. While it is not surprising that consumer markets for sustainable fish are still mainly located in the global North, a large majority of MSC-certified fish is captured in Northern fisheries, despite the fact that around half of total global exports of fish originate in the global South. This paper shows that while the market for fish in general has indeed become more global in the past three decades, and sustainability is indeed moving into the mainstream, the market for certified sustainable fish remains a Northern affair. By not being able to seriously address the issue of Southern exclusion, however, the MSC is limiting its long-term prospects of further expansion and is exposing itself to potential competition from other initiatives in the market for sustainability standards, such as the FOS certification system.”

The intense competition in the forestry social market existed from its earliest stages and resulted in some institutional stickiness, as competition remained within the realm of legitimacy creation. The rise of the SFI as a potential competitor to the FSC led it to focus efforts on developing legitimacy for its standards rather than focus on market segmentation or market access strategies (Cashore Auld and Newsom 2003). Likewise, the SFIs choice to continue to compete against FSC even while its standards gradually shifted towards those of the FSC.

In their move to discredit FSC, it sought the alliance of professional foresters, loggers, 79,500 landowners, and non-professional private forest owners. But, in alignment with this study’s analytical framework, it sought the support of the

Environmental Protection Agency as a proxy for environmental advocacy groups (Ibid., p 240). As the SFI argued that the FSC's process was slow, inappropriate for industry, and the result of politics rather than true ecological differences across forests, it shifted its own organization towards the more political.

Consistent with the three-stage social market development framework introduced in this study, the strategies and tactics used by the early environmental NGOs involved informational campaigns combined with pressure tactics, boycotts, and shaming. Early donor-supported groups and activities applied project- and site-level pressure often through outlandish schemes aimed at garnering negative media attention linked to the operating firm. Eventually, as is common with early disparate social advocacy campaigns, the benefits of coordination become evident and a more cohesive and organized campaign emerged with aims to gain political prominence and commitments from established INGOs such as the UN. The problem was widespread, transnational, and would need to be solved at the international level (Nussbaum and Simula 2005).

In 1992, efforts culminated at the UN international conference on the environment and development (UNCED) in Brazil where three factors highlighting the imperative of international-level action were identified (Nussbaum and Simula 2005, p 4): intolerable rates of deforestation and associated losses; threats to the lives of forest dwellers and indigenous people; meeting market demand for forest products. Subsequent meetings spearheaded by environmental groups led by the World Wildlife Foundation led to the design of a certification system for forest products sourced in a manner consistent with key environmental standards. The first of these meeting, held in Washington DC in spring of 1992. The FSC was formally established in 1994, but not without contention. The well-documented battle between the FSC and the Sustainable Forest Initiative in the US has resulted in a bifurcated standards market with the FSC, supported by early advocacy groups and activists, and the PEFC acting as an umbrella organization to the many national and sub-national standards across the globe. This social market is characterized by both a high degree of multiplicity because of the many unique regional standards, but also a low degree of multiplicity since within a given region there may be two choices – FSC or a standard aligned with the PEFC. This aligns well with the fragmentation hypothesis since the forestry industry may be highly concentrated within certain regions, but very fragmented at the international level. Thus regionally, we observe low multiplicity, state involvement, and in some cases, a universal national standard. This aligns with the 2x2 matric predicting an outcome for producer-drive industries with low fragmentation. Yet at the international level, given the multitude of standards under the PEFC umbrella, we observe high multiplicity, direct competition between systems, a race-to-the top and intense competition for political legitimacy, and low segmentation.

The famous direct political battle between the FSC and SFI (Cashore et al. 2004) is a result of constraints in the marketplace, which led to sustained political battles. The lack of segmentation opportunities within the forest industry meant that the two systems could not compete at the consumer level, so the battle is a political one for legitimacy, with standards vying to have large institutions of government and corporations – mainly producer groups – align with their standard. Observations from the coffee industry demonstrate that the political battle was explained by market conditions, with the political battle observed as a dependent variable of these conditions.

Institutional buyers converted to FSC products as a way to reduce risk instead of a way to differentiate along brand-segmentation lines. This does a great deal in increasing the demand for certified products, but does little to alter market structures for wood. If this were variable, it would be an axis along the cost-vs-opportunity scale, where some strategies are merely costs or risk based: they increase costs or threaten to impose costs on delinquents. Whereas others are opportunity based: the opportunity to make money, develop new brands, etc. If it's going to be the former, then adoption is based on traditional collaborative governance strategies. If it's going to be the latter, then adoption is market-based.

The most defining feature of FSC strategy was where within the supply-chain it chose to operate. Rather than provide an opportunity for producers and intermediaries to brand their products according to certification and have buyers compete to provide this newly segmented product, it sought the commitment of major buyers, specifically major retailers and homebuilders. It targeted large institutional buyers, and as a result forced change down these vertical supply chains. This was exceptionally successful to achieve change in the relevant supply chains, but also resulted in the proliferation of direct competition in standards.

FSC targeted conversion along the same supply chain and did little to alter supply chain dynamics. It merely introduced a new cost rather than an opportunity for producers to join its ranks. The choice it presented to retailers and producers was: incur this cost, or risk not having business-as-usual. Although the intention was to collaborate with industry groups, the scheme appeared more of a threat to industry groups rather than an opportunity for mutual gain. It was therefore quite obvious that industry groups would collaborate on creating a system that worked better for them while still mitigating the risk that they viewed negatively in the eyes of consumers. Since wood markets were segmented very much along geographical lines, future standards competition reflected this reality. Had new supply chain opportunities occurred through the development of new brand owners based on certification, a different response may have been expected.

Another key limitation is the extent to which the forest certification standards systems were able to achieve their original goals to halt tropical deforestation (Counsell and Loraas 2002, p12). In reality, "most certified areas are found in government and industry-owned boreal and temperate forests of the North rather than the natural tropical forests of the global South. Moreover, the communities which own or manage a rapidly growing share of Southern forests face significant barriers to accessing certification and its benefits" (Taylor 2005, p 433). Because of this important limitation to the supply of wood, one possibility extrapolated from the logic of multiplicity described in this study is that a certification scheme could emerge focusing on the production of forest products from the small landowners neglected by the FSC and members of the PEFC.

This is now happening in the form of an official partnership between FSC and FLO to certify wood from smallholders and communities.[79] This shift also represents a shift towards greater differentiation – decentralizing the industry by creating a separate consumer segment for smallholders versus large commercial landowners.

6.5 Quadrant IV: Lower Centralization and Higher Differentiation

6.5.1 Centralization

Although there exists a UN code of ethics for the tourism industry, the social market does not centralize around any NGO or industry-specific organizations. With consumers being the most significant market for international travel, the highly segmented, diverse, and even fickle end-consumer market shapes the differentiation opportunities within this social market. The level of concentration for the top four operators is about 9.3% of revenue, dominated by large airlines, tour operators and travel agencies. As the largest accommodation operators (Marriott, Accor and Hilton) derive their income mostly from domestic occupants, their market shares in the industry are all under 0.5%. Further analysis indicates that the majority of operators in the industry are subject to a low level of concentration, largely stemming from the large number of small business operators and, therefore, the fragmented nature of the industry.

[79] See https://ic.fsc.org/fsc-and-fairtrade-dual-labelling-pilot-project.203.htm

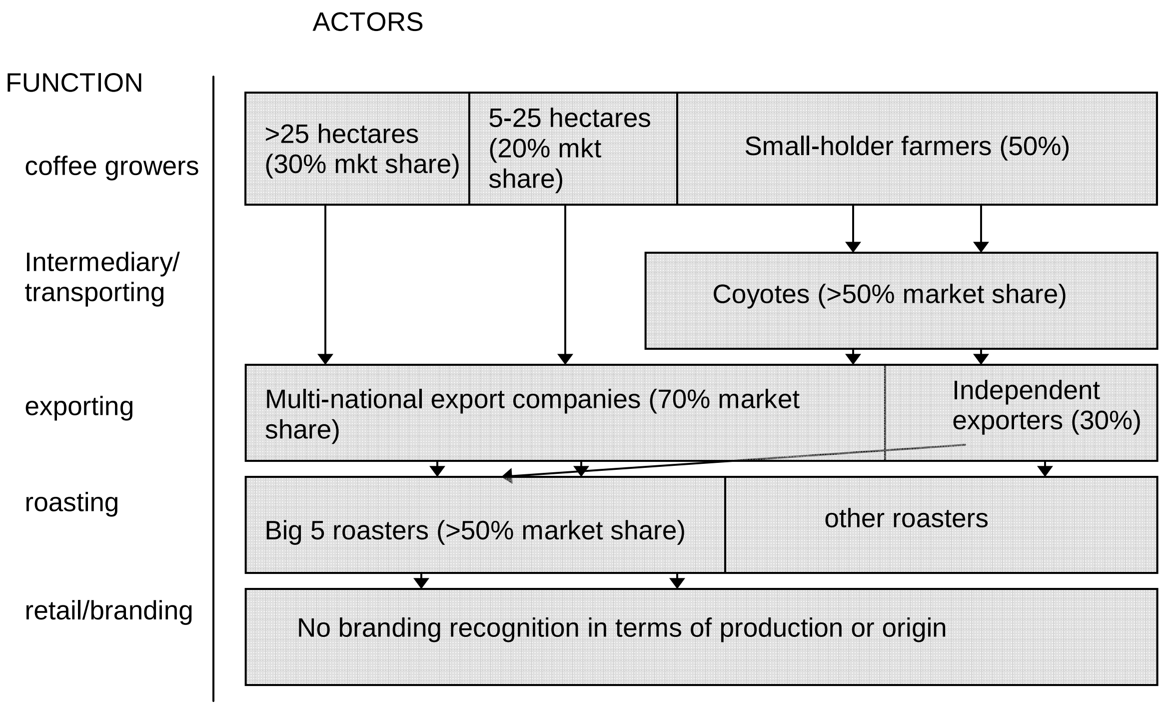
As shown in chapter 3 of this study, the origins of the coffee social market were diverse and disparate. Organizations as established and diverse as Oxfam, Church of the Brethren, the Mennonite Central Committee, International Federation of Alternative Trade, and the Fair Trade Federation (IFAT), European Fair Trade Association, Network of European World Shops, and Max Havelaar to name a few. The FLO emerged as an ambitious umbrella organization, trying the network together. But the unification of fair trade was never absolute. IFAT turned into the WFTO, and developed their own set of standards they believed were true to the original movement. Yet, even more significantly, was the decision from the Rainforest Alliance, a major force in environmental sustainability, created its own coffee certification label rather than join forces with the FLO.

Coffee production consists of a diffuse, independent, and, until the FLO came along, unorganized collection of 20-25 million farm workers. Estimates indicate that seventy-percent of the world’s coffee is produced on plantations smaller than 62 acres, and approximately fifty-percent on family farms of less than 13 acres. FLO focused on these small farmers while ignoring the largest buyers and roasters. Further, since its policies required organization into cooperatives, it could not extend its reach to all 20-25 million farm workers. This left a huge segment of the producer population outside FLOs market.

An important aspect of fragmentation is the power to impose power on others within an industry. Whereas the early coffee market would be considered a captive market dominated by large roasters, the introduction of fair trade labeling changed that. Now, smaller producers are not captive to large roasters or traders, or even to local coyotes, but can gain access to markets through certification. The shift that FLO allowed was from a captive value chain, where suppliers are highly dependent on buyers, to a relational value chain, interactions between buyers and sellers are complex with high asset specificity creating mutual dependence which may be managed through reputation, namely the reputation and cultural similarities created by the voluntary standard. This shift represents a shift towards lesser power asymmetries and greater political decentralization. Centralization in the coffee market is shifting from a highly centralized industry, to one that is more mixed. Although there is high concentration at the roaster level, with 5 major roasters controlling 50% of coffee imports, the introduction of the fair trade system enabled the promotion of coffee producers in the supply chain, thereby decentralizing coffee production and sales. In the US alone, there are currently over 1,200 coffee roasters. Given the extremely high opportunities for differentiation discussed in the next section, coffee production and roasting is no longer subject to the power and control of a few lead firms. This parallels the state of centralization at the political level. The nature and character of the existing market for ethical coffee expanded in the wake of the breakdown of the International Coffee Agreement (ICA) in 1989 (World Bank 1989). Recall that providing a minimum price to small producers from poor coffee producing countries was the FLO's *raison d'être*; a critical move to mitigate concerns around declining coffee prices in the wake of the fall of quotas. The fall of the agreement also reduced the power of the central industry association for coffee production, the International Coffee Organization. This key event decentralized the coffee industry, enabled the growth and domination of the FLO, which led to the emergence of other systems to fill different market segments.

The breaking down of the ICA, and the upgrading of producers – 25 million strong, representing 70% of the world's coffee – decentralized the industry significantly. Yet, the power of the top 5 roasters remains strong. The 4C created an international baseline for coffee standards with strong support from these top roasters and put a stop to a massive proliferation of coffee standards. This, along with a formal adoption of an International Coffee Agreement by the 77 members of the International Coffee Council, which entered into force on February 2, 2011, has had a re-centralizing effect on the coffee market. Multiplicity as a function of industry and political centralization seems to have stabilized at the current stage. A more complete understanding of the nature multiplicity in the coffee sector is revealed through the dynamics of differentiation discussed in the following section.

Figure 6.3 Coffee Industry Structure



National brands represent a unique form of social market because they encompass a variety of products and industries. According to the data compiled retrieved from the ecolabel index, there are 62 ecolabels that cover a variety of products, 44 of these are country-specific (e.g., Eco-leaf Japan, Ecomark: India, Ekolabel: Indonesia, Environmental Choice New Zealand, or Green Label: Israel). Yet the diversity of these markets presents a problem for evaluating centralization. Are we to evaluate national brands as a social market, and consider other national brands as agents of multiplicity? Or, given the definition of a social market as the nexus of normset and industry, place each product that happens to be certified by a national brand within a social market with other similar products within the same industry? Here, I argue that national brands belong in a social market with other national brands because the factors that will influence their emergence are international in nature and similar across states. The centralization of political power by state will dictate the nature of emergence for national brands – quite simply, that they will fragment according to state boundaries. This is the primary centralizing force in the political economy of national brands social markets.

Yet national brands encompass a variety of products and services, each with competitor standards that exist at the confluence of product and normset. A paper towel product certified under the German Blue Label, for example, may also be certified under the Chlorine Free Products Association (CFPA)[80], or Green-e certification[81], or certified under the Forest Stewardship Council scheme. While each of these certifications apply to the same product, their certification requirements are vastly different. The broad and diverse nature of national brands place them in a unique category of their own – other national brands. Since the political economy of so many products across the globe is so different, the primary characteristic of centralization for national brands is national borders.

6.5.2 Differentiation

The $1.15 trillion USD tourism industry is as vast and diverse as the 1.035 billion tourist arrivals globally each year (IBIS World 2012). Diversity and differentiation

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[80] See http://www.chlorinefreeproducts.org/aboutus.html Last accessed March 2, 2014

[81] The organization verifies paper manufacturers' purchase of Renewable Energy Certificates (RECs) and certifies the RECs to ensure they meet strict environmental and consumer protection standards. - See more at: http://www.cleanlink.com/sm/article/Know-Your-Green-Paper-Certifications--12262#sthash.IcsSHbWB.dpuf Last accessed January 21, 2014

can hardly be greater than in the ethical tourism social market. Everything from airline carriers, to accommodations, food and beverage, retail goods, and prepaid tourism packages fall into this market. With very barriers to competition, a diversity of product-sets based not solely on geography, but on the diverse psychographic characteristics of tourists, and no dominant brand that spans state boundaries, differentiation for tourism is very high. “International tourism is one of the most highly competitive global industries, with a multitude of countries and major cities seeking their fair share of this activity and expenditure, to assist in generating national economic and employment growth.” (IBIS World 2012, p 18) “The level of product and service differentiation within this industry is increasing largely due to segmentation and fragmentation within domestic and international tourist markets. Standard demographic segmentation by product is no longer as relevant, as tourist needs/wants and desires tend to change depending on the purpose of their trip, the destination, who they are traveling with, etc. A person's product and service needs can also change between trips. The modern tourist is now searching for "quality of experiences" when traveling. This has led to significant opportunities for new entrants into most industry segments.” (IBIS World 2012, p 22)

Coffee is a consumer-facing product with a diverse set of brands and ranges of quality that target a variety of consumer groups. FLOs policy of setting minimum prices for certified beans meant that sellers passed this cost onto buyers. Sellers are able to do this because of the diverse consumer base, some of which would be willing to pay a premium for ethically produced coffee. Some sellers, such as Blue Mountain coffee and members of WFTO (Equal Exchange and Café Direct), became dedicated franchisees, meaning they were fully committed to selling all of their products as certified free trade. Other sellers were able to gain the benefits of being considered "socially responsible" without altering their entire product. Since many coffee sellers offered a large variety of brands that varied along quality and price, they were able to convert only some of their products to fair trade. The diversity of products, brands and consumer segments meant companies could adopt fair trade selectively rather than commit fully, which made adoption less contentious.

Differentiation of the coffee market stems in part from the role that fair trade played in the market, itself a consequence of the explosion of specialized coffee and shifting consumer preferences. By enabling the upgrading of producers from captured and powerless suppliers, to being unique to a brand and roaster, the fair trade movement enabled the increased segmentation and differentiation of the coffee market. Recall that that the introduction of fair trade shifted power dynamics in the coffee supply chain by 1) eliminating intermediaries known as *coyotes* that exerted power by imposing pricing and restrictions on producers; 2) providing higher minimum pricing and access to new markets to producers, and most importantly, 3) triggered the emergence of a new breed of intermediary and roaster offering ethically produced coffee to ethically-minded consumers. This last shift has been critical in expanding the differentiation opportunities within the coffee social market. Now, any entrepreneur aligned with the social values of ethically sourced coffee can source, roast, package, brand and sell ethical coffee, all under the Direct Trade label.

6.5.3 *Outcome*

There are two ways to observe multiplicity in the coffee social market. On one hand, the early power and domination of the FLO, along with centralization of major roasters with the 4C, has led to a lower level of multiplicity. On the other hand, given the completely decentralized nature of Direct Trade, any roaster and a number of products fit the bill. What this has done, similar to the clothing industry, is have the market completely subsume the social market. In other words, the opportunity for differentiation in the coffee market led to the wide proliferation of coffee social entrepreneurs, each able to develop their own unique product based on the new ethical sourcing of coffee. In this case, ethical production is no longer the purview of a set of NGOs or advocacy groups, but has integrated with the marketplace. Incentives and dynamics of newly emerging social entrepreneurs are within the marketplace, and coexist harmoniously with traditional actors, corporations, and NGOs. In this case, the norms have transformed the market, and the market has, in turn, transformed the politics of ethical coffee production.

This is a key shift that occurred in the coffee market, and one that represents a far more general observation of this study: that voluntary standards can fundamentally alter the character of an industry by creating great opportunities for differentiation based on new standards. This is made possible by the precondition of legitimacy within a social market. Yet, this legitimacy has little or nothing to do with the legitimacy of one organization, but rather the legitimacy of the norm made possible through the gradual acceptance of that norm by the citizen-consumer. Once legitimized, a social market can allow, depending on the structure of its political centralization and opportunities for differentiation, a multitude of voluntary standards operating within the market, and changing with the market.

Given the highly decentralized political concentration of the tourism industry, combined with geography-based segmentation, as well as psychographic differentiation on consumers, it is expected, and also observed, to have a high degree of multiplicity. A recent study by the UN World Tourism Organization Network identified and reviewed 104 tourism-related ecolabels[82], 59 of which are government lead, and a further 18 have some government involvement and support.[83] They are as fragmented as the organics industry, without any centralization, and a greater degree of differentiation opportunities.

Certification of national brands is dominated by the state-based nature of these schemes. Differentiation by product is variable, but it expressed outside the social market of national brands. National brands exist in multiplicity, but segment according to the boundaries of the nation state.

6.6 Overall Analysis

Knowing that there is a logic and pattern of multiplicity across industries is a valuable contribution to scholars of international governance as well as state regulators. For regulators and policy makers, it provides a logic within which they can begin to

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[82] see http://sdt.unwto.org/en/content/voluntary-initiatives-and-certification-systems-sustainable-tourism last accessed September 13, 2013
[83] see http://dtxtq4w60xqpw.cloudfront.net/sites/all/files/docpdf/certification-gov-recomm.pdf last accessed September 13, 2013

understand what role, if any, they can play in promoting ethical production. For example, since is more unlikely that standards will emerge in highly centralized industries, there is an opportunity for states to promote collaboration among key actor to develop standards. This is in opposition to highly decentralized industries, where we can expect voluntary standards to self-organize in pursuit of key markets.

For scholars, it perhaps raises more questions than it answers, and provides a basis for future research that is explored further. Here I present some thoughts on how to build on this initial broad analysis with additional research. First, a tally of all voluntary standards across the globe according to centralization and differentiation would allow us to see how many standards exist in each quadrant. This allows researchers to further assess if greater multiplicity occurs as expected: the greatest number of standards in quadrant IV, followed by quadrant I, then quadrant II, and the fewest standards organizations occupying quadrant II.

Another next step is to begin stripping away the factors that constitute the two key variables of centralization and differentiation to see which factors most influence the outcomes observed. Could it be that industry fragmentation is far less relevant than who the original political actors were in creating a standard? Or is the opposite more accurate, that the political bargaining of original social advocates far less important in determining social market outcomes than the economic conditions of the market, specifically the fragmentation of that industry? Or is industry fragmentation too closely related to the type of product being certified, in which case the relevant factor is not the industry as a whole, but the product being produced? In the end, while politics and markets both play a role in social markets, does one influence eventual outcomes much more than another? Is there an 'economic realist' perspective that suggests that it all comes down to profits, and the structure, norms, or strategies of social advocates merely noise that hardly influences the true power doctrines of markets – that big business wealth and dominance always wins?

Setting these questions aside for now, the following chapter returns to the coffee social market in order to ask another question: is there a pattern within the standards themselves? There are higher standards and lower standards in any social market – that is to say, less or more stringent standards. What explains how and when higher standards emerge versus lower standards, and how do these relate, if at all to differentiation?

7 PATTERNS OF SEGMENTATION

> Fundamentally, in a system where the knowledge of the relevant facts is dispersed among many people, prices can act to coordinate the separate actions of different people in the same way as subjective values help the individual to coordinate the parts of his plan
>
> Hayek 1945, p526

Is there a logic or pattern behind a standard organization's quest for differentiation? Do standards interact and relate to market segments in a predictable pattern that helps explain if and when standards ratchet up or down? To examine the way in which multiplicity segments within a social market in the coffee social market, I define the segments below and quickly demonstrate how the various standards were more likely to occupy different non-competing segments than to compete directly.

7.1 Market Segments

Recall that market segment refers to the sub-population targeted by the business and can be compared to a governing body's constituency (Goldstein 2007). This can be based on a group's demographic characteristics (e.g., age, gender, education, income level, political leanings), geography, or behavioral characteristics. Business-to-business market segments exist as well and can vary according to geography, customer type (industry, size of the organization, position in the value chain), or buyer behavior (relationship and loyalty to suppliers, usage patterns, and order size) (Smith 1956). A system's policies may be more relevant to one segment versus another, which may influence who and how franchisees are converted, and how competing systems emerge. Understanding the market segment that a system operates in is necessary to understand how competing systems emerge. Competing systems may choose to target a whole new segment of the marketplace with new standards rather than compete directly in the same segment. Market segmentation will also inform us on who becomes a franchisee and why – actors outside the target segment may feel unthreatened by a standard system, whereas actors competing within the same segment will feel compelled to act.

Market segments provide the governance boundaries for systems. Trying to impose a system of standards on a group of actors in a separate market segment may be like trying to get another country to ratify a law passed in another country. A coffee retailer that sells to working class buyers in less developed countries are likely to have no interest in becoming fair trade franchisees. Likewise, a food seller places little value on a product certified USDA organic unless they're selling their products in the United States. These market realities are key structural factors that may help explain latter stage development of voluntary standards, most specifically how and why competing standards emerge to compete. In the case of coffee, there are market segments on both the consumer and producer end of the supply chain. These are elaborated on below.

7.1.1 <u>Producer Segments</u>

Producer segments may be based on a variety of factors, including size, specificity of production, production methods, or may be based on geography if it relates to buying habits (Blois 2000). In our case, because of the distinction that FLO has enabled through its policies, producer segments are based on size. *Individual Farmers*: according to FLO, these are farms where " farm work is mostly done by members and their families," and "They do not hire workers all year round."[84] *Plantations*: these are large farms that hire workers year-round. Plantation owners are not likely to be doing any manual labor.

7.1.2 Consumer Segments

Consumer Segments are based on the behavior of buyers that can, as in the case of coffee, relate to a corresponding product offering. In this case, coffee buyers are segmented by: *Buyer Type*, where preferences relating to ethical production, quality and price sensitivity; *Channel*, where they make purchases; *Geographic Location*, defined by locality, region, country or group of countries (Blois 2000).

It is important to note that an individual consumer may exist in multiple segments. They may buy high-end premium coffee for consumption at home, and yet also a consumer of mainstream pre-ground filter coffee at work. They consume gas-station coffee, or whatever their church brews during events. Given this, it is crucial to understand who the institutional buyers are of coffee while defining market segments.

Mass Market Not ethical: This mainstream coffee rarely if ever is identified by origin. They tend to be bought and sold on the basis of price, which for wholesalers is taken from the international commodities price for coffee beans

[84] http://www.fairtrade.net/fileadmin/user_upload/content/2011-12-27_SPO_EN_FINAL.pdf

(Lewin, Giovanucci, Varangis 2004). They are sold through mainstream channels such as supermarkets, or prepackaged coffee blends for institutional buyers such as offices, or gas stations. This segment caters primarily to institutional buyers that aim to source a large portion of their mainstream product line from ethical sources. This is normally motivated by corporate-level Corporate Social Responsibility or Sustainability goals. Unless the consumer has done independent research on the company's buying practices, they would not know that the coffee they are purchasing is certified. There is generally no price premium associated with the ethical nature of this mainstream coffee.

4C attested focus on the mainstream market results in a membership filled with mainstream coffee sellers and roasters such as: Aldi Supermarkets, Kraft Foods inc., Nestle, United Coffee, and many others. The most prominent buyer brand of 4C coffee is Nescafe, a clanging signal to the segment 4C coffee operates in.

Mass Market Ethical: This is mainstream coffee purchased from ethical sources and will be identified as ethical. This is done through public communications campaigns from the institutional buyer (along with CSR communications strategy), or through the addition of an ecolabel on the packaging. Ecolabels will generally not be a significant feature of the package, and there is generally no price premium.

UTZ targets the mainstream market and has recently moved to brand their certified coffee with the UTZ Certified logo, and selling under brand names such as "Good Origin" from Sara Lee, an attempt to brand something as good without the eco labels. The timing of this move coincides with the increased presence or the 4C

Association and UTZ's collaboration with them. Adding the label moves UTZ into a slightly separate market segment. RA has also entered the mainstream ethical coffee market through sales to mainstream sellers like British Airways, McDonald's restaurants in the UK (through Kenco coffee sold through Kraft Foods inc) (Rainforest Alliance 2007), prepackaged beans or pods for coffee makers (Kenco, Java One) or commercial buyers of coffee for office equipment (e.g., Boston Bean Company, Arco Coffee, Corporate Coffee Systems)[85]. Through this channel, RA and UTZ target institutional buyers that want to increase their sustainability and CSR profiles. In these cases, the consumers are not necessarily ethical consumers as defined below.

Ethical Market: Buyers who seek out ethically produced products identified through their certification labels and are prepared to pay a premium for these products. Mainly sold through organic or specialty markets (e.g., Whole Foods), on-line, through specialty coffee shops (e.g., Starbucks). This segment is occupied by the early advocacy-initiated standards, including FLO and RA and WFTO. Unlike FLO, RA occupies a space that includes plantation farms. Since by definition WFTO members are those with a whole-company commitment to fair trade, many of their members sell FLO certified products.

Specialty Coffee Non-Ethical Buyer: While much of the specialty coffee segment is occupied by ethical coffee, the two are not the same. Specialty coffee, as understood by the Specialty Coffee Association of America, is coffee originating

[85] https://ra.eximware.net/RA/

from unique and diverse "geographic microclimates" that "produce beans with unique flavor profiles." Beans are selected to be without defect, and production from picking through to brewing, focuses on the quality and for the expression of the coffee's own unique flavors. *Terroir*, a term that refers to the specific geographic, climactic, and geological composition of the soil from which wine grapes originate, can now refer to the same for coffee beans. Specialty coffee buyers look for quality and flavor first and pay special attention to the unique quality and flavor attributes of the bean. Starbucks is well known for capitalizing and mainstreaming the specialty coffee trend. This space is occupied primarily by Starbucks' own CAFÉ standards.

Specialty Coffee Ethical: Specialty coffee that promotes the ethical aspect of their trade, generally through Direct Trade branding. They occupy a segment referred to as coffee's "third wave" which includes Direct Trade, single-origin beans, and lighter roasts. Third wave coffee makers view coffee as an artisanal product and promote "enjoying coffee for what it is" by not adulterating the flavor with milk or sugar. These products are sold through gourmet specialty coffee shops proliferating across the United States and the world. Even the same companies use varying standards to differentiate their products along quality lines.

Table 7.1 Coffee Market Segments and Standards

Producer Groups		**Standards Segments**				
		5. Mass not Ethical	4. Mass Ethical	3. Ethical	2. Specialty not Ethical	1. Specialty Ethical
	Plantation	4C	UTZ RA	RA	CAFÉ	
	Small Farmers			FLO WFTO	CAFÉ	DT

Observation: Mass-market segments do not rely on branding or ecolabels, but do rely on governance and procedural legitimacy. In contrast, higher end ethical segments rely far less on procedural legitimacy.

FLOs origins and declared intent – to increase social justice to poor farmers – required that it cater to farmer interests. The small farmer as FLOs primary constituency was formalized into their governance structure. This cemented small farmer interests as FLOs principle supplier and precluded access to a large portion of green bean supply. This also led to a unique set of buyers. Instead of growing with large established brands, fair trade coffee expanded with niche social brands such as Café Direct and Equal Exchange, which worked within a specific consumer market segment of ethical consumers. This allowed larger roasters to develop competing products without having to convert all brands to fair trade certified. The result was that FLO occupied a specific producer and consumer niche in the coffee industry, leaving sufficient space for a multiplicity of standards to emerge without having to compete with FLOs political dominance and legitimacy.

Given these industry realities, it is not surprising that other standards emerged. The opportunity to benefit from the expansion of the ethical coffee norm by serving market segments not covered by FLO is a far more powerful explanation than the battle for political legitimacy or a simple two-way contest between industry and NGOs. A combination of FLO political limitations, industry fragmentation, and branding provided an opportunity for NGOs to expand the cause by certifying where FLO did not, and a chance for business to deliver standards for a market niche also not covered by FLO. Each new standard system occupied a space left open from the previous systems. With norm consolidation came a segmentation of standards and policy regimes.

7.2 Relationship Between Segments and Standards

Is there a rhyme or reason to the order of standards across market segments? Beyond the thesis that standards segment across market segments rather than competing directly, is there a relationship between the standard and the segment it occupies? Based on the categorization of segments above, and the evaluation of standards below, and the data on product pricing elaborated on below, I conclude that the quality of a standard is positively correlated with market segment. And more interestingly, pricing is negatively correlated with market externalities

7.2.1 Evaluating the Standards

The coffee social market started, and remains, a market built upon the norms of social advocacy first, and environmental advocacy secondarily. While the FLO has also developed standards for various environmental requirements (e.g., soil preservation, the use of non-renewable energy in production), or labor requirements such as safety policies, gender equality, or religious tolerance, the original purpose of the program and that of the more recent programs is to provide economic development to producers of the world's second most widely traded commodity through increased trade. This is the original intent and it is also what distinguishes this standard from basic environmental standards. Given that the fair trade organizations themselves say that it "is a trading partnership based on dialogue, transparency and respect, that seeks greater equity in international trade," (WFTO 2009) the notion of relationship trading is the central principle of the entire movement. The environmental requirements were added on as the organization formalized and gained power among producers.

A major objective of implementing coffee standards is to improve the livelihoods of producers, although environmental impact remains an important element of all standards. A recent study by The Scientific and Technical Advisory Panel (STAP, 2010) examined available literature on the subject of impact analysis. They found only six studies that evaluated the environmental and socioeconomic outcomes for certified producers. They concluded that there is not compelling evidence to draw conclusions on impact. Although, another study (Giovanucci et al 2008) concludes that economic and social impacts are far more direct and measurable than environmental impacts. While this may also be due to the lag time between implementation of environmental practices and impact, economic impacts assessed by net income increases and social impacts related to occupational health, employee relations and labor rights showed positive changes. These studies strengthen the argument to focus on the social and economic aspects of coffee standards when measuring the quality of a standard based on reduction of negative externalities.

7.2.1.1 Quality of Standards

An order of standards based on their policies to achieve the core goals of ethical coffee is required in order to understand the relationship, if any, between quality of standards and market variables. I will use data and results from other studies that have ranked coffee standards, and incorporate my own data to account for the primacy of social standards and the value of relationship-based transactions, to come up with a ranking used in this research.

The first ranking I examined was from ISEAL, the umbrella standards and certification organization that includes, among others, the SAN (the standards setting arm for Rainforest Alliance), the FLO, 4C and UTZ. Based on a list of 166 criteria, where scoring was based on the degree to which a criteria was required in the standards, FLO scored highest with 219 points, followed by 4C and SAN tied with 188 points (out of a possible total of 332), and UTZ at 157 points. When I tallied points for social criteria, the ranking was similar with FLO at 129 points, 4C with 106, SAN at 96 and UTZ at 90. Given the source, one would expect this ranking to be definitive and credible, yet it belies declarations from the standards organizations themselves. 4C maintains that it is the baseline standard, and that adherents should use them as a stepping-stone to other standards, including UTZ, RA and FLO, and are explicit in the technical steps required to move from 4C certification to RA certification (SalvaNatura 2011). The 4C as the baseline, or least stringent, standard is also consistent with the perspective of interviewees in the coffee business. This provides one data-point to support the hypothesis that the lower standards serve the mainstream market, but additional ranking of the other standards is required.

> All sustainability standard initiatives recognize that closer collaboration will help put a greater number of producers on the road toward sustainability. Through its pre-competitive approach, the 4C Association seeks to foster cooperation between the standards and unite efforts in the coffee sector. It does so by promoting other sustainability standards in the market and by using

the 4C Code of Conduct as a tool for farmers to step up to more demanding certification schemes.[86]

Another survey of standards performed by the Tropical Commodity Coalition in the Coffee Barometer study (2009) that included the 4C, Starbucks CAFÉ standards, Rainforest Alliance, UTZ as well as FLO, was based on a set of 9 overarching criteria, and set the 4C standard as the least stringent, followed by a three-way tie between CAFÉ, UTZ and RA, with FLO leading the pack. Yet, this study was performed in 2009. If we are to incorporate some of the changes since then, we'll find that CAFÉ standards, as they relate very specifically to their social impact on the farmer, which we've decided to set as the priority, sets itself apart from the RA and UTZ. Specifically, this relates to Starbucks' Farmer Loans program, a program that receives funding from Starbucks that has invested $18,102,000 in small coffee enterprises across 5 countries, affecting over 14,000 farmers and their families.

These studies confirm the sentiment within the industry[87], that there are three categories of standards, with clear rankings for the lowest standard, the highest as well as second highest. I review these rankings with a survey of standards below.

Table 7.2 Standards and Segments Ranking

Rank	Program	Score	Market Segment
1	4C	5	5
2	UTZ	4	4/3
3	RA	3	3
4	CAFÉ	3	2
5	FLO	2	3

[86] http://www.4c-coffeeassociation.org/our-services/cooperation-with-other-standards.html#2
[87] Various interviews, 2011-2013

6	DT	1	1

As shown, the general pattern between the rigor of a standard, not for procedural legitimacy purposes, but for social impact, follows market segments where more rigorous standards occupy higher market segments, and less rigorous standards occupy lower, more mainstream segments. The notable exception is that Starbucks' CAFÉ standard occupies a higher market segment rank than FLO even while the FLO scores higher for standards intended to serve their producers. Yet, I raise the possibility that the segments themselves should be flipped. Is specialty coffee targeting non-ethical consumers targeting a higher market segment than FLOs ethical coffee? Given that most FLO certified coffee is very much considered specialty coffee, the distinctions between the segments are inexact. I seek, therefore, a more measurable and quantitative proxy for market segments than the qualitative distinctions I defined above.

An important indicator for the ranking of market segments is price. Higher market segments are higher priced and lower market segments are lower priced. Based on a survey of over 200 price points across the United States over a 3-year period from 2010 to 2013, we observe that prices, which align with market segments, also have a positive relationship with the quality of stringency of a standard when evaluated on the principle of social criteria towards farmers.

Table 7.3 Standards and Pricing

Rank	Program	Score	Average Price/lb in USD
1	4C	5	6.67
2	UTZ	4	9.23
3	RA	3	12.10
4	CAFÉ	3	12.75
5	FLO	2	14.71
6	DT	1	17.42

7.3 Observations

The criticism that standards are only for the rich liberal elite does not take into account the mainstreaming strategies of all standards. As observed in this chapter, some standards are for the rich liberal elites, and others are for mainstream consumers. What is clear is that the phenomenon of multiplicity – what some wrongly perceive as competition, and the result of deficiencies in legitimacy – is what enables the expansion of a social market into consumers segments not known to be politically active, ethical, or “conscious.” I determine, furthermore, that there may be a pattern among standards that is certainly worth exploring further in future research; that premium products will adopt premium standards and mainstream products will adopt lower standards. I am also able to provide some preliminary observation on the relationship between standards and procedural legitimacy – that higher standards, such as Direct Trade, are not related to increased levels of procedural legitimacy.

Instead, Direct Trade is the more ambitious standard from the coffee social market and is associated with the least degree of procedural legitimacy as observed in chapter 5. The flip side may also be true – that later standards organizations that target the lower market segments aim to achieve higher levels of procedural legitimacy, as is observed in the 4C standard. This points to a potential hypothesis that these organizations use procedural legitimacy as a means to supplement for prestige in the marketplace.

8 CONCLUSION

> I urge that behavior is pervasively a function of norms; that human norms interact with human goods in surprising ways; that changes in norms might be the best way to improve social well-being
>
> Sunstein 1995, p 6

How can we understand the varied, expansive and seemingly tangled world of voluntary standards? If these private forms of regulation have emerged to replace policy in the absence of international law in a globalized world of transnational production, what does competition among these standards tell us about international private policy making? This study has made …contributions to the theoretical and empirical scholarship surrounding these questions. First, I have presented and tested a three-stage model for the mergence of voluntary standards, which has also shed light into the forms of institutions that emerge after the norm cascade of the established norms lifecycle (Finnemore and Sikkink 1998; Cortell and Davis 2000). Second, I have shown that there is a pattern and logic behind the emergence of a multiplicity of organizations intent on promoting a new norm in the marketplace. Third, I have tested and provided an alternate perspective on the role of legitimacy and the copying of legitimate forms in institutions of new governance.

The unit of measure necessary to understand the behavior of voluntary standards used in this study is not the individual standards organization, but the collective of standards that emerge and compete within the same norm-market nexus. This shift, and expansion, of the unit of measure promotes insight into the interdependency of standards, as well as the political and economic context of the industries they operate in. If there is a pattern in the emergence and competition of voluntary standards, and we observe differences across social markets, then by deduction, there must be explanatory power in the character and nature of the social markets themselves.

8.1 The Logic of Multiplicity

8.1.1 Political Centralization and Differentiation

What factors within the social market help explain differences in the way voluntary standards emerge and compete? This study highlights two: political centralization of the industry within which the social market operates, and the opportunities for differentiation through segmentation. Greater political and economic fragmentation (less centralization) leads to greater multiplicity because the costs of competing with the existing power structures are lowered, and a variety of options are more likely to exist for the creation of new alliances and new standards. For standards entrepreneurs unsatisfied with the status quo, the costs of changing a centralized power structure are likely higher than starting something new in a highly decentralized social market. This is true even when the status quo includes organizations that adopt the principles, norms and procedures of multilateralism – that is to say, open, consensus based, multi-stakeholder governance structures. As we observed in the FT USA split from FLO, changing the status quo within a multi-stakeholder context can be costly and prohibitive, leading one sect within the FLO to splinter off and create its own organization.

In a more centralized social market, dominant standards are more likely to align with key international organizations – firms, NGOs, INGOs, and even states – that wield a tremendous amount of influence and power in the industry. It is a strategy that is essential to their survival, and a natural consequence of centralization that key actors are attracted to the gravitational pull of the large powerful players. In these highly centralized power structures, new entrants are faced with the daunting challenge of convincing potential constituents (firms, NGOs, INGOs, or states) to eschew the powers-that-be in favor of an upstart. Existing centralized actors yield governance power over their supply chain that is illustrated in Gereffi's 'Captive Market' scenario, in sharp contrast to Gereffi's 'Markets' scenario (Gereffi, Humphrey and Sturgeon 2005, p 87). In the latter scenario, power asymmetries are low, and new entrants can compete, whereas in the former scenario, power asymmetries are high, discouraging political competitors.

Political centralization does not, however, tell the whole story. Instead, if new entrants can develop standards for different market segments, going straight to the public for legitimacy and acceptance, a much more diverse, varied, and rich social market emerges. Markets with greater opportunities for differentiation are more likely to develop a pattern of greater multiplicity. Notable is that with greater opportunities for differentiation we see more multiplicity but not more competition. Competition ensues when standards organizations compete directly with one another for the same public. This can occur in highly centralized social markets, but also in less centralized social markets where opportunities for differentiation are low.

Multiplicity, on the other hand, is a phenomena related to segmentation. Where more opportunities for differentiation occur, more multiplicity will occur, usually across market segments.

Multiplicity is at the center of the confusion around voluntary standards. If these market-based forms of governance are to fill the regulatory gaps left open by international conventions embodied in the WTO and an absence of international law, how can they be effective when no one clear policy/regulation/standard is set? Confusion persists among consumers, analysts, firms, as well as scholars of new governance. The case of the coffee social market demonstrates that there is a pattern that emerges in social markets with high multiplicity. That is, that higher more stringent standards are more likely to be serving higher-end, more upscale, market segments, whereas less stringent standards serve mainstream markets, often not even targeting the 'ethical consumer.'

8.2 The Logic of Market Integration

8.2.1 <u>How Social Markets tend towards market dynamics</u>

Scholars have also described legitimacy as the primary source of value and differentiation for non-state market governance of voluntary clubs (prakash and potoski), where competition among standards as evidence of a battle for legitimacy (cashore et al); where non-universal legitimacy provides an opening where other standards can compete. In this scenario, the eventual outcome of a successful standard is full legitimacy where debate, contest, and dissent occurs within their organization. One key facet of legitimacy is examined in this study is procedural, where an organization abides by the principles, norms and procedures adopted by the international multilateral organizations. These organizations, aware and concerned of the absence of democratic levers at the international level, have created an organizational form of representative governance, where the states, NGOs, and other stakeholders act to represent their constituents within the INGO. They do so through the open, consensus-based, multi-stakeholder environment of the INGO. Scholars have noted how other international organizations copy this form through a process of 'mimetic isomorphism'' or ''mimicking the most prominent or secure entities in the field'' (Suchman 1995, p. 589).

This study has observed that there is very little evidence that these elements of procedural legitimacy are a) consistently copied, or b) explain the emergence of multiplicity or competition. Instead, legitimacy is a key ingredient in two situations: First, at the genesis of the social market, emerging standards have to contend with the tensions that arise when the status quo is challenged, and rely on their internal legitimacy to demonstrate the power of their new norm-set. Once the social market is created, through, among other things, the battles for legitimacy of the trailblazing norm entrepreneurs and the standards organizations that they work through or with, the entire norm-set benefits from a new more legitimate status. Future standards organizations may, or may not, need to refight this battle. This is most clearly exemplified in the case of Direct Trade coffee and Thread International, where these organizations eschew completely the traditional tenets of political legitimacy believing that their success in the marketplace will lead to greater social and environmental impact – an indicator of a true social business venture. Second, legitimacy is sought by standards organizations that do not seek legitimacy directly from the consumer through branding initiative, including ecolabeling. This is observed in the example of the 4C coffee standard that mimicked principles and procedures of multilateralism, even after the coffee social market was well established and had legitimacy in the eyes of consumers, states, and NGOs.

This study has also shown that there are patterns of emergence within the social market across and within organizations. Namely, that social markets and the organizations within them will first emerge within the context of social advocacy and activism dominated by the world of NGOs and INGOs, but gradually transform and immerse themselves into the world of markets, market incentives, and market actors. This observation follows evidence that latter-stage voluntary standards tend towards greater adoption of market dynamics with less reliance on the procedures, processes and principles of multilateralism and political legitimacy. This means that more of the leadership will be come from traditional business backgrounds – with MBAs and experience in large corporations – rather than background in advocacy. It will also mean that their strategies will be focused on market penetration, branding and product quality rather than on the development of standards, certification, or verification. While transparency remains a central element in the development of social markets, standards organizations believe they can achieve the necessary market penetration – a metric for their own legitimacy – through self-reporting. This is best exemplified with Direct Trade in the coffee industry, and Thread International in the ethical clothing social market. Both these organizations sit on the high end of both standards and consumer segments, have and continue to be recognized by advocacy and activist groups, but have full eschewed traditional processes and procedures of governance and certification popularized by the early movement of standards organizations.

The importance of non-market based advocacy groups and actors are critical in creating the normative and institutional foundations for future social market growth. Yet, as these markets increasingly adopt the norms and social goals of early entrepreneurs, conventional market rules and pressures begin to overtake the social market. An increasingly market-based dynamic does not necessarily mean an end to social norms, nor does it necessarily result in the faltering of social standards. Instead, latter stage development of social markets is expected to show a fragmentation of standards that are increasingly aligned with the original goals of advocacy groups. Powerful actors continue to leverage their supply chain dominance, while alternative governance systems will struggle to provide choices for increasingly segmented markets.

These observations shed light on the growing movement around corporate social responsibility and place the critique of greenwashing or fairwashing within a larger context of social market growth. The importance of this study can be summarized in these few lines: if positive social norms are to change market actors and their production methods, they will do so when the political and economic logic of the market overlaps with the social goals of society. In order for this to occur, the proper institutions that promote this alignment must exist, and the environment that foster emergence of these proper institutions must be promoted. Therein lies the role of successful social advocacy groups, states, NGO, and policy-makers alike.

Notable also from the analysis is that despite the early stages of social market development that tends to be dominated by social advocates, NGOs, and activists, latter stages take on a decidedly market-based flavor. Competition ensues based on market realities, with political legitimacy taking a back-seat to standards competition once the desired level of legitimacy is achieved. In other words, once standards pass a threshold of legitimacy, they can not be discredited based on this variable, instead competing systems emerge to link the level of standard and legitimacy to the appropriate market segment. Just as any market offering is segmented based on the appropriate quality-price combination, so too will standards be segmented for the appropriate market segment, with quality of standards varying. The segmenting scenario, which is one observed in the coffee and wood markets, is that higher standards fetch price premiums when efforts are made to brand products beyond mere certification. Lower standards will exist for larger market segments that may want to purchase ethically sourced products but are les willing to pay a premium for them. This segmentation is an important observation and an innovation is political preference matching: consumers can essentially select their desired level of ethical standard based on, among other things, pricing. This moves away from the need to achieve population wide consensus and allows the evolution of segmented policy setting, a phenomenon unique to private governance mechanisms.

8.3 Implications

The conclusions and observations of this study provide hints to a larger pattern within the disparate and confusing state of affairs of new governance mechanisms in the global political economy. These insights and implications are elaborated on below.

1. *The citizen-consumer is a powerful actor in global governance*.

The traditional and dichotomous relationship between state and market is not an appropriate rubric to understanding the governance of corporations' means of production. In the platonic version of markets, preferences are well ordered based on the transparent and readily available information on production methods and quality. Prices follow from these preferences and accurately reflect a balance of supply and demand. In other words, the platonic version of markets necessarily includes social markets, or rather: *all markets are social markets*. Real markets are far from perfect markets, but in their capacity to increase incorporation of social preferences, social markets nudge regular markets slowly towards greater efficiency. In these newly influenced markets, the citizen-consumer plays a key role in tempering the tendencies of otherwise unhindered capitalism.

Broadening the lens somewhat, the citizen-consumer open to the door to a hitherto faintly studied phenomenon of political consumerism. Voting with your money is an unrealized ideal without the proper organizational platforms that align intensive and extensive accountabilities, increase transparency, and ensure a democratic and decentralized access to citizen choices. Voluntary standards, while imperfect and inchoate, provide an example of the type of institutions that can help bridge the divide between our political and economic selves.

2. *Private Regulation is not uniform or universal, but also not disorderly.*

Political scientists and advocates should not expect private governance to work like state policies. Standards systems need not have the ambition of altering the entire market, instead they must accept their role as one part of the complex institutional regime required for an eventual cascade of a norm, and conversion of an entire market. If there is to be a semblance of international law by private regulation, it will exist as a mosaic of varying standards, rules, and regulations. The result is a self-organizing political system within and across social markets where international regulation – while helpful – is not necessary for the creation of a robust, tempered, repeatable, and somewhat predictable governance regime. The gestalt perspective on the multitude of social markets constitutes a polycentric system, understood as a system "of many decision centers having limited and autonomous prerogatives and operating under an overarching set of rules."(Aligica and Tarko 2012, p 237) The ability of standards entrepreneurs to create an appropriate set of standards for a segment of the population that is otherwise ignored, as evidenced in the segmenting of coffee standards, stands to be regarded as one of the unique self-correcting attributes of social markets. Ostrom discusses the phenomenon of self-correction as a central feature of polycentricity (Aligica and Tarko 2012, p 246).

> While all institutions are subject to takeover by opportunistic individuals and to the potential for perverse dynamics, a political system that has multiple centers of power at differing scales provides more opportunity for citizens and their officials to innovate and to intervene so as to correct maldistributions of

> authority and outcomes. Thus, polycentric systems are more likely than monocentric systems to provide incentives leading to self-organized, self-corrective institutional change. (E. Ostrom 1998)

The citizens and innovators that intervene in order to correct these outcomes and maldistributions are, in the case of social markets, standards entrepreneurs discussed below.

3. The standards entrepreneur is an important political actor.

The entrepreneur is an agent of innovation who "incessantly revolutionizes the economic structure from within" (Schumpeter 1947, 31) – an important and necessary agent in capitalist societies. The standards entrepreneur is also an innovator and agent of change, but not merely in the way that Schumpeter described entrepreneurs. They are not merely introducing new commodities, new processes of production, or new markets, but are presenting new policies, governance mechanisms, and regulations. They do so with two key goals in mind: to capitalize on market opportunities, and to expand the presence, power and availability of new norm-sets. These joint motivations represent a new hybrid actor consistent with the hybrid nature and character of social markets and their principle organizations. The end result is the proliferation of rules and regulations distinctly shaped according to the political and economic preferences of various constituencies (consumers).

These standards entrepreneurs achieve outcomes that correct for the problem popularly stated surrounding ethical production: that these premium products and services cater to a small portion of the population, specifically liberal elite consumers in western developed countries. The mainstreaming of standards in the coffee social market through the 4C is evidence that standards entrepreneurs can extend the reach of ethical production beyond the narrow population of premium-paying liberals to the wider population, whether these consumers know or care about environmental standards.

4. *States and Private standards can both reduce negative externalities, but they use opposing and inverse mechanisms to do so.*

Environmental and social costs of dispersed transnational production of certain goods are considered negative externalities: costs imposed by market transactions on unrelated third parties. Because these costs are not incorporated into the price of the product, externalities are in contradiction to an efficient market where prices accurately reflect all information about the product, and this information is transparently available to consumers and incorporated into their decision making. Since neither companies nor consumers pay for negative externalities, product pricing does not reflect the actual cost of production. The marginal benefit of producing and selling the product is higher than the marginal cost of producing the product, resulting in an oversupply of products that cause negative externalities, and an oversupply of negative externalities.

Given the inaccurate appropriation of costs towards product pricing, and the lack of transparency surrounding these costs, externalities create disequilibrium in the market place, and are considered, even by the staunchest of free-market advocates, a failure of efficient markets and an opportunity for government intervention through regulation. How does government regulation solve the problem of market externalities? By reassigning the costs of externalities back to costs of production.

Specifically, government regulation may choose from the following four policy options. First, assign property rights. This would give property owners the right to seek retribution from culprit firms. For example, if a company is polluting a river, the government can assign property rights to local townspeople who would suffer from the pollution. This would allow the townspeople to sue the company for polluting their property. Second, calculate and impose limits on the amount of negative externalities a company is allowed to impose. Third, tax the production of related products. Finally, sell permits allowing firms to impose negative externalities.

All of these methods have one thing in common: they increase the cost of producing a product that imposes negative social or environmental costs; costs that will undeniably be passed on to the consumer. The net affect: consumers pay more for products that impose higher negative externalities.

Standards act in the opposite way. Instead of increasing pricing on products with the highest negative externalities, they increase the price on products with the lowest negative externalities. By mobilizing appropriate brand strategies, and tapping into higher end ethical consumers, firms can extract higher profits from these higher priced ethical products, motivating firms to reallocate resources towards producing more of these products.

This observation lies at the very heart of market-based governance, and provides an incredibly interesting foil to public policy and state-based initiatives. How can this dynamic be interpreted within the context of public policy and tax initiatives? First, it acts as a fully voluntary ‘tax’ on citizens that choose to bind themselves to a certain policy. And, since there are multiple standards to choose from, they can choose to support one policy (standard) versus another. Second, this 'tax' is a progressive tax where the wealthiest consumers may choose to pay the most for the 'best' policy, and lower income consumers may choose a less stringent standard.

5. Voluntary standards decentralize markets.

Standards motivate the increased decentralization of power within a marketplace. When power is concentrated in the hands of a few firms, consumers have fewer choice and state policies can be captured by the power and influence of dominant firms. Voluntary standards encourage the segmentation of markets by going directly to the consumer for power and influence. The case of the coffee social market provides evidence for how the power of the once-dominant 5 largest roasters can be challenged by the introduction of new market segments for ethical coffee. When new ethical market segments are created, smaller firms can gain advantage over dominant firms by specializing in the production and supply of ethical products. In the coffee market this is exemplified by the growth and expansion of intermediary roasters, and new coffee brands focused on the provision of fairly traded coffee. An entire industry of specialized coffee outside the dominant Starbucks was able to establish itself by sourcing beans from these alternative intermediary suppliers, roasters, and brands.

While not every social market develops like the coffee market, there is place for this increased segmentation and decentralization in other markets as well. Thread International, for example, the social venture firm that develops ethically sourced fabric for clothing companies, has emerged within a political space dominated by the Sustainable Apparel Coalition, the Fair Labor Association and large clothing brands, by developing a brand uniquely focused on sustainable sourcing. The same can be accomplished even in the most concentrated industries by connecting new products with artisanal producers. Even the diamond industry can be decentralized if a seller of diamonds chose to collaborate directly with artisanal diamond miners.

8.4 Limitations and Recommendations

This study has contributed to scholarly understanding of market-based governance mechanisms in two important ways: First, to construct and verify a framework that explains the emergence of non-state institutions that emerge in response to new normative demands in the global public sphere. Second, by uncovering the logic behind these non-state forms of governance, develop a model by which we can understand patterns of multiplicity within social markets. While it has contributed to our understanding, the study is limited by a number of factors that future research can help remedy.

Social Markets are not static. They are constantly changing. Even the factors that help explain the patterns of change within a social market can change over time. This is observed in the case of the coffee and clothing social market where a once-highly centralized social market was fragmented because of that industry's response to new voluntary standards. It was the success of fair trade, along with the rise of the specialty coffee industry popularized by Starbucks that allowed for other standards to emerge. Prior to the rise of the FLO and subsequent voluntary standards within the coffee social market, that industry was highly centralized, with 5 dominant roasters owning most brands and imposing their power on a captive supply chain. Local *coyotes* purchased beans from poor farmers with little insight into actual market conditions maintained the status quo of power centralization to the advantage of established market actors. This, along with the highly centralized International Coffee Agreement (ICA), which collapsed in 1989, reflected a highly centralized industry. The state of the social market changed, which means the factors that help predict the patterns of emergence also changed.

Deeper case-based analysis for more social markets will help isolate factors that influence change across social markets. A tremendous amount of insight was gained from having gone deep into the coffee social market. Observations about the motivations of existing voluntary standards, the decision-making processes of potential adherents, and the mindset of the social entrepreneur as they evaluate whether or not to ally with an existing standard, or start their own, are highly informative in developing a model for social market development. This study has aimed to validate the initial three-stage model using the coffee market, then develop a model to uncover and predict the patterns of multiplicity across social markets. This model can be refined and further understood by going deep into other social market cases as well.

Create a dataset of over 400 voluntary standards with details surrounding key variables to further test hypotheses from this study. The case of the coffee social market provided preliminary evidence that social markets a) tend towards greater market integration, b) eschew principles of legitimacy and advocacy, except in the case where no branding opportunities exist, and c) that standards segment according to market segment, where the higher more stringent standards cater to higher-end consumers, and lower less stringent baseline standards cater to mainstream markets. These hypotheses form the core argument to the first primary thesis of this study, that social markets evolve from advocacy and activist based organizations, to hybrid actors subsumed by market dynamics. A large-n statistical analysis of these claims would be helpful for further testing, and would also enable the isolation of key factors of change – those variables that are most influential within a statistical model of behavior.

As previously discussed, another avenue for a global analysis of all social market behaviors, researchers can tally of all voluntary standards across the globe according to centralization and differentiation would allow us to see how many standards exist in each quadrant. This allows researchers to further assess if greater multiplicity occurs as expected: the greatest number of standards in quadrant IV, followed by quadrant I, then quadrant II, and the fewest standards organizations occupying quadrant II.

Another next step is to begin stripping away the factors that constitute the two key variables of centralization and differentiation to see which factors most influence the outcomes observed. Could it be that industry fragmentation is far less relevant than who the original political actors were in creating a standard? Or is the opposite more accurate, that the political bargaining of original social advocates far less important in determining social market outcomes than the economic conditions of the market, specifically the fragmentation of that industry? Or is industry fragmentation too closely related to the type of product being certified, in which case the relevant factor is not the industry as a whole, but the product being produced? In the end, while politics and markets both play a role in social markets, does one influence eventual outcomes much more than another? Is there an 'economic realist' perspective that suggests that it all comes down to profits, and the structure, norms, or strategies of social advocates merely noise that hardly influences the true power doctrines of markets – that big business wealth and dominance always wins?

Well-ordered social markets enhance individual liberty and freedom by allowing consumers and investors to advance their social values in the marketplace. "From a different perspective, often thought to be in tension with the first, well-ordered social markets also extend the reach of democracy and popular sovereignty. They constitute new, potentially quite powerful, mechanisms for expressing and aggregating civic, social, and political preferences. Well-ordered social markets supplement conventional channels of political expression and popular control by creating distinctive arenas of governance in which citizens participate directly, through their market choices, in influencing the behavior of powerful economic entities often resistant to other forms of social control." (Fung 2002, 150)

This is one perspective that can be derived from this study. The other, less optimistic, was expressed by Robert O'Brien (2000) that "while social movements may extol the virtues of global civil society, the space has been and is largely dominated by the extensive formal and informal contacts of transnational business and their allies." (p15)

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