Ecological Economics 83 (2012) 183–196

Contents lists available at SciVerse ScienceDirect

Ecological Economics

journal homepage: www.elsevier.com/locate/ecolecon

Government interventions in sustainable supply chain governance: Experience in Dutch front-running cases

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ARTICLE INFO

Article history:
Received 6 April 2011
Received in revised form 21 March 2012
Accepted 1 April 2012
Available online 11 May 2012

Keywords:
Supply chain
Sustainable products
Integrated product policy
Government
Certification
Global trade

ABSTRACT

Numerous multi-actor governance systems have recently emerged, ensuring sustainability of international traded products. Business and civil society actors play a dominant role in initiating and governing 'sustainable supply chain governance systems' (SSCG systems). Within specific product markets we see the emergence of various competing SSCG systems.
This has led to debates on effectiveness, transparency and legitimacy of these forms of self-governance in the market. These developments also call for a debate on appropriate roles for (national) governments.
Most of the academic literature in this field focuses on methodologies for supply chain governance and their impacts, but hardly addresses the roles taken on by governments and effectiveness of possible government interventions. This article combines analysis of market dynamics in the timber and coffee product chains with policy analysis, integrating approaches from the research fields of sustainable business and policy analysis.
The article shows how competition between various sustainable supply chain governance systems in The Netherlands has resulted in recent market breakthroughs, while initially government interventions were very limited and diverse.
The article suggests an approach for more systematic analysis of these dynamics and the roles of various actors, by identifying both the 'public policy cycle' and the 'private policy cycle'.

1. Introduction

Growing numbers of multi-actor governance systems aiming for sustainable products have emerged in international supply chains of specific products, such as timber, fruits, coffee, and cotton, during the last two decades (Blowfield, 2003; Bush et al., 2009; Freidberg, 2003; Mefford, 2010). Business and civil society actors play a dominant role in initiating and governing these systems. Within specific product markets we also see the emergence of various competing systems (for more details, see Vermeulen et al., 2010). More recently this development has started to gain considerable momentum. In the last five years we have entered a new phase in which the production of sustainable products has started to become a mainstream market activity (Danse and Wolters, 2003; Dolan and Humphrey, 2004; Ras and Vermeulen, 2009; Raynolds, 2008).

The emergence of global sustainable supply chain governance started with small 'enlightened' entrepreneurs, often with a history in civil society, bypassing the dominant mainstream supply chains. Starting in the late 1970s and 1980s, fair trade initiatives began to create new and shorter supply chains, linking small-scale producers in developing countries more directly with western consumers (Laine and Laine, 2009; Roberts, 2003; Tallontire, 2009). For this purpose, new cooperatives have been created, as well as new distribution systems in countries such as Finland, Belgium, Germany and The Netherlands (e.g. World Shops, Green Shops) (Low and Davenport, 2005). This is similar to how trade in organic products was originally organised in separate supply chains, bypassing mainstream firms, even dating back to the 1930s. In both types of initiatives (e.g. Max Havelaar and EKO), control systems for securing environmental and social responsibility throughout the value chain were developed and implemented, guaranteeing better prices for small farmers in developing countries (Bitzer et al., 2008; Davies, 2007; Raynolds and Ngcwangu, 2010; Raynolds et al., 2007).

With these approaches, 'bioneers and ecopreneurs' (Schaltegger, 2002) in market and civil society (NGOs) have been filling a 'regulatory vacuum'. Western governments are mostly unable to prevent the increasing shift of environmental impacts towards developing countries that result from growing international trade (PBL, 2008; Nijdam and Wilting, 2003). Other governments cannot dictate production conditions in developing countries. They have to follow the long route of international agreements negotiated by supranational institutions (WTO, UN, and OECD), with only limited implementation powers, and await effective implementation by national governments.

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doi:10.1016/j.ecolecon.2012.04.006

These diverse modes of organising international trade within a firm's supply chain have gained attention in various disciplines, all with their own key questions and perspectives. In economic geography they have been referred to as 'supply chain governance' (Coe et al., 2004; Gereffi, 1999; Kaplinsky, 2000), with various possible strategies to be applied by leading firms. In business management the rationales of diverse strategies for supplier collaboration are studied from the perspective of assuring value creation and business success (Porter, 2011; Williamson, 2008). In these disciplines, strategies for assuring environmental and social responsibility throughout the value chain are usually not explicitly addressed. Simultaneously, supply chain management has also been studied by environmental scientists and scholars in environmental business management, as an ecological and logistic challenge (Hall, 2000; Quakernaat and Weenk, 1993; Seuring, 2004; Seuring and Muller, 2008). In this article, we intend to link these various approaches in order to better understand governance aimed at sustainability in global product chains. We use the concepts of *value chain*, *supply chain* and *product chain*, originating from these different disciplines, more or less as synonyms, with the first two in literature often having a more limited scope, excluding consumer and post-consumption activities (see also Vermeulen and Ras, 2006, p. 247). A more extensive discussion of the literature on sustainable supply chains has been given in a recent article: there we distinguished three generations of business and civil society responses in assuring sustainability in international supply chains: single-firm approaches, joint product-chain arrangements, and cross-sector joint product-chain arrangements, and developed an integrating theoretical framework that also served as a starting point for this study (Vermeulen, 2010). In this article, this framework of business dynamics is extended with the roles that governments may have in international supply chains.

The recent developments in market self-regulation gave rise to several debates on what could be expected of effectiveness (Arce, 2009; Barrientos, 2007; Damette and Delacote, 2011; Perfecto et al., 2005), economic benefits for producers in developing countries (Gobbi, 2000; Valkila, 2009), transparency (Perl and Vorbach, 2009; Svensson, 2009), the growing demand for sustainable products (Sell et al., 2006), global distribution of value (Kaplinsky, 2000), the legitimacy of such forms of self-governance (Albersmeier et al., 2009; Alvarez et al., 2010; Auld, 2010; Meaton and Young, 2003; Pagell and Wu, 2009; Reuter et al., 2010), and on approaches to performance measurement (Erol et al., 2011; Foran et al., 2005; Gerbens-Leenes et al., 2003). Self-regulating initiatives have been taken by businesses and NGOs in the context of the underlying problem of the 'regulatory vacuum', in which western governments cannot effectively address unsustainable practices of suppliers in other countries (often developing countries). This has also brought on the debate about what would be the most suitable roles for (national) governments in these developments (Mcdermott et al., 2008; Seuring and Müller, 2008; Teegen et al., 2004).

In this article we analyse the relation between 'voluntary' activities in the market and roles taken on by governments. So far, the roles that governments play in the emergence of these systems, as well as the policy implications of successful mainstreaming of such systems, have hardly been analysed. However, such an analysis would be very relevant, because the academic fields of business management and economic geography, and policy sciences have hardly been integrated, although both fields apply a concept of 'governance'. Both do so by way of concerted action by various interdependent actors, but in largely different contexts and not in connection with each other. An analysis of specific cases of sustainable supply chain governance may help to bridge this gap. This brings us to the following research questions:

> *Which strategies and instruments has the Dutch Government applied to promote the sustainability performance of products traded in global supply chains and how have the effectiveness of these strategies and instruments been evaluated*?

We define sustainable supply chain governance systems (in short: SSCG systems) as 'forms of cooperation of market actors in (international) supply chains, possibly together with non-market actors, in improving the environmental and social conditions of production operations' (following Vermeulen and Seuring, 2009; Vermeulen, 2010). Such governance systems, in principle, can be restricted to a single country, if a full supply chain is entirely located within that country. However, in a very large portion of all supply chains, due to the globalised economy, sourcing may start anywhere around the globe, with final consumption taking place in a totally different location. From the perspective of sustainable development, it is especially this international dimension and the distributive aspects (Kaplinsky, 2000) that make us focus on governance systems for products that are mostly imported into developed countries from developing countries.

In the article, we first discuss the consequences of private-sector-initiated governance for policy analysis. We analyse the link between the various concepts of 'governance' and their implications for analysing sustainable supply chain governance (Section 2). After explaining our research methods (Section 3), the main market developments are discussed for the two product chains (Section 4), followed by the results of the analysis of government activities. This analysis subsequently allows us to further reflect on 'the governance of self-regulating markets' and to link the governance concepts applied in the academic fields mentioned above.

2. Governance: Private-Actor Activity Versus Government Activity

From the 1970s onwards, diverse forms of environmental governance have emerged in many western countries. The concept of *environmental governance* refers to the means by which society determines and acts on goals and priorities related to the management of the environment. This includes rules and instruments, both formal and informal, which govern human behaviour as well as processes leading to decisions and implementation and the relevant institutional settings (Lemos and Agrawal, 2006).

According to Durant et al. (2004), the concept of environmental governance relates to the increasingly collaborative nature of policy formulation and implementation. 'In this vein, a wide array of third parties (for example, actors in the profit sector, the non profit sector, and civic society) in addition to government agencies, comprise non-hierarchical networks of actors wielding a variety of policy tools (for example, rules and regulations, subsidies, and information) to address diverse, complex, and evolving environmental and natural resources problems' (Durant et al., 2004, pp. 22–23).

The debate on environmental governance is part of a broader governance debate in social and political sciences, which started in the late 1970s and has further intensified since the 1990s (e.g. see Hanf and Scharpf, 1978; Kjaer, 2004; Marin and Mayntz, 1991; Rhodes, 1997; Stoker, 1998; Van Kersbergen and Van Waarden, 2004). Governance is a concept that is often used in studies of public policy to reflect the notion that the public sector is not the only controlling actor when it comes to the solution of collective-action problems and the provision and production of public goods. During the last decades, more attention has been given to the relationships between state and society, particularly to how government, market, and civil society interact (Kooiman, 2003, p. 5; Pierre, 2000).

Thus, apart from governments, civil society actors also play a role in the promotion of public goods, as well as business, science and the mass media. Some have claimed that, in order to stimulate environmentally sound decisions, there must be a trend towards the organisation of cooperative learning processes among government representatives, businesses, civil society and science (Driessen and