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Decoupling Standards from Practice: The Impact of In-House Certifications on Coffee Farms' Environmental and Social Conduct

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Summary. — In this paper we investigate whether coffee farms that have been granted in-house socio-environmental certification from a global buyer, display better social and environmental conduct compared to non-certified farms. We perform an econometric analysis using data from an original cross-country survey covering 575 farms in various regions of Brazil, Colombia, Costa Rica, Guatemala, and Mexico. We find that farms that have been granted in-house certification demonstrate better environmental but not better social conduct than non-certified farms. We find also that the positive relationship between in-house certification and environmental conduct is stronger if the farm sells to a cooperative, and if it is located in an institutionally weak country. Finally, we find that the institutional strength of the farm's home country has a positive influence on its social conduct. We discuss how our analysis contributes to the literature on the social and environmental impacts of certifications, and to scholarship in global value chains' social and environmental upgrading.

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Key words — in-house certification, social and environmental conduct, decoupling, coffee value chain, global buyers, Latin America

1. INTRODUCTION

Production of certified goods has grown dramatically since the beginning of the 2000s, driven by consumers' concerns over the sustainability of the agro-food and other industries' value chains, and by global buyers' commitments to sourcing more inputs from certified suppliers (Bartley, 2007; Muradian & Pelupessy, 2005; Potts *et al.*, 2014). Certification usually is accompanied by the adoption of voluntary standards and codes of behaviors (Levy, Reinecke, & Manning, 2015), and provides the certified suppliers with a set of principles with which they are expected to comply, and a process for implementing and monitoring those standards (Gilbert, Rasche, & Waddock, 2011). Certification has become widespread in industries such as forestry, coffee, horticulture, and tropical fruit, characterized by the concentration of production in developing countries (Bartley, 2007; Kleemann, Abdulai, & Buss, 2014; Muradian & Pelupessy, 2005).

The idea underlying certification is that potentially it allows farmers and other producers to improve their social and environmental performance, and to receive higher prices and easier access to markets which boosts their economic performance. These improvements are particularly important in the case of small-farmer suppliers based in developing countries who due to the distance from the final consumer, tend to capture only a minor share of the value generated in their industry (Valkila, 2009). The rationale for certification is grounded on the premise that the final consumer is willing to pay a premium for certified products, because certification provides information on product origin, and signals adherence to good practice by suppliers and their buyers (Giovannucci & Ponte, 2005; Valkila, Haparanta, & Niemi, 2010).

Coffee, the context for this study, is one of the most traded commodities in the world, and is at the forefront of debates on standards and certification. Most coffee production comes from small farms in the developing world, is acquired by large global buyers, and then is consumed mostly in the US, Europe, and Japan (Giovannucci & Ponte, 2005). According to the International Trade Center (ITC), certified coffee is no longer a market niche: in 2009 more than 8% of all green coffee exported worldwide carried some form of certification or credible sustainability claim, and some countries imported higher shares of certified than non-certified coffee (e.g., Netherlands 40%; the US 16%; and Denmark, Sweden and Norway 10%) (International Trade Centre, 2011). In 2012, certified coffee accounted for 40% of global production (Potts *et al.*, 2014).

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The growing relevance of certification in the coffee market has resulted in a large body of research investigating the impact of certification on the socio-economic conditions of farmers and small farms (Arnould, Plastina, & Ball, 2009; Barham, Callenes, Gitter, Lewis, & Weber, 2011; Barham & Weber, 2012; Bolwig, Gibbon, & Jones, 2009; Chiputwa, Spielman, & Qaim, 2015; Ibanez & Blackman, 2016; Jena, Stellmacher, & Grote, 2015; Jurjonas, Crossman, Solomon, & Baez, 2016; Kleemann *et al.*, 2014; Levy *et al.*, 2015; Loconto & Dankers, 2014; Luna & Wilson, 2015; Muradian & Pelupessy, 2005; Neilson, 2008; Ortiz-Miranda & Moragues-Faus, 2015; Raynolds, 2009; Raynolds, Murray, & Heller, 2007; Renard, 2010; Ruben & Fort, 2012; Ruben & Zuniga, 2011; Taylor, 2005; Utting-Chamorro, 2005; Valkila *et al.*, 2010; Van Rijsbergen, Elbers, Ruben, & Njuguna, 2016; Vellema, Casanova, Gonzalez, & D'Haese, 2015; Wollni & Zeller, 2007). Despite several methodological advancements (Blackman & Rivera, 2011), these studies are not conclusive about the positive impacts of certification on farmers, small firms, and other constituencies. A recent and comprehensive literature review undertaken by the Food and Agriculture Organization (FAO) concludes that: “the evidence of the impacts of voluntary standards is still weak” (Loconto & Dankers, 2014, p. ix).

While most early work on the impact of certifications focuses on the experience of multilateral and non-governmental organization (NGO)-led certifications such as those promoted e.g., by Fairtrade, Organic, and UTZ (e.g., Neilson, 2008; Raynolds, 2009; Taylor, 2005; see also Loconto & Dankers, 2014 for a review), the present study examines the more recent phenomenon of in-house certifications which are developed by private firms, typically large global buyers or multinational corporations (MNCs) orchestrating relevant value chains in different locations (Reinecke, Manning, & Von Hagen, 2012). Examples in the coffee industry include Starbucks whose C.A.F.E. (Coffee and Farmers Equity Practices Programs) certification ranks farmers according to the extent of their compliance with a set of criteria related to four areas of their production processes (i.e., product quality, economic accountability, social responsibility, and environmental leadership) (Renard, 2010). Similarly, Nespresso (Nestlé Group) in 2003 developed its AAA Sustainable Quality program in response to the declining incomes in areas producing high quality beans, and the ensuing risk of shortages in coffee provision (Nespresso, 2012, 2015). Meanwhile other major global buyers in the coffee industry have been developing their own in-house certification and/or sustainability programs (e.g., Illy; see Illycaffè, 2015).

Global buyers involved in the production and commercialization of coffee have made strong commitments to increasing the share of coffee sourced from certified farmers. Starbucks claimed recently that 99% of its coffee purchases are from certified farms, most of which have the Starbucks in-house certification (Starbucks, 2016), and in 2013, 84% of the coffee purchased by Nespresso was estimated to come from AAA-certified farms (Panhuysen & Pierrot, 2014). These initiatives are often part of a global coffee buyer's social responsibility program. For instance, Nespresso's AAA sustainability program was lauded by Porter and Kramer (2011) as a successful example of the creating shared values (CSV)¹ approach which allegedly, helps small farmers in impoverished rural areas of Africa and Latin America to increase their incomes, reduce environmental impacts, and consequently, create shared value for the community.

Analyses of these in-house certifications/programs are justified by both their increasing frequency, and their characteristics which can differ from those related to other kinds of NGO-led

certification. Giovannucci, Byers, and Liu (2008, p. 44) suggest that in-house certifications/programs often are viewed with some skepticism, and seldom figure in sustainability discussions because they can be used instrumentally by private firms for their own ends rather than to truly improve the livelihoods of farmers: “they may not meet the economic needs of producers . . . by not providing adequate remuneration for sustainable production practices”. However, with the exception of Ruben and Fort (2012), Ruben and Zuniga (2011) and Barham and Weber (2012), and some anecdotal evidence (Porter & Kramer, 2011), most authors do not investigate their impacts on farmers.

In this paper we examine the relationship between the adoption of in-house certification by coffee farms and these farms' social and environmental conduct. Social conduct refers to practices that guarantee the safety and health of workers (e.g., use of protection when spraying pesticides and other chemicals) at farm level, and practices that support or enhance the socio-economic rights of workers, farmers, and their family members (e.g., salaries equal to or above the minimum wage; written contracts; rights to education for children; child labor policies, among others). By environmental conduct we mean the set of practices adopted by farms to allow better environmental management of their operations, ranging from recycling to more conscious and reduced use of pesticides.

We consider farms' social and environmental conduct rather than more specific economic outcomes (productivity, income, crop quality, etc.) based on the notion of development as “the removal of various types of unfreedoms” (Sen, 1999, p. xii), and the contention that certification provides an opportunity to improve farmers' (and their families') human rights—including among others, the rights to health and a decent life; workers' rights; and children's and women's rights (Giuliani & Macchi, 2014). In our view, recognition of these rights is as relevant as income-related improvements, and they are one of the core components of sustainability programs and certifications, since for suppliers to receive certification these schemes require that certain socio-environmental standards are met. However, compliance with those standards should not be taken for granted after the award of certification.

Neo-institutional management scholars have described the (partial or total) lack of compliance with standards employing the notion of *organizational decoupling* which refers to the creation and maintenance of gaps between formal policies and actual organizational practices (Bromley & Powell, 2012; Marquis & Qian, 2013). The relevance of this notion for understanding the impact of certifications is that decoupling “enables organizations to maintain standardized, legitimating, formal structures while their activities vary in response to practical considerations.” (Meyer & Rowan, 1977, p. 357). We apply this idea to the context of coffee farming where certification allows farms to be considered legitimate economic actors *vis-à-vis* their commercial partners (e.g., global buyers or other intermediaries) based on their formal commitment to the adoption of socio-environmental standards.²

This concept is particularly relevant in our context since a decoupling would nullify the social and environmental impacts of in-house certification, and erase the difference between certified and non-certified farms. Decoupling occurs if farmers are unable fully to comply with the standards decreed by their certification which as some have suggested (Loconto & Dankers, 2014) can be frequent among small-scale suppliers. For instance, small farmers may be unable or unwilling to comply with safety conditions, or to recycle. Numerous contemporary studies of developing countries' small-scale informal producers operating in global value chains document the presence of decoupling practices associated with standards

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