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Private eco-brands and green market development: towards new forms of sustainability governance in the food retailing

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ABSTRACT

This study seeks to analyze the role of retail eco-brands in the development of markets for sustainability certified food products. Building on insights from the New Institutional Economics (NIE) paradigm, but also broader literature in the supply chain management and marketing research, we suggest that private eco-branding and third-party certification can be explained as private institutional arrangements that motivate and enable sustainability governance by retailers both upstream and downstream in the value chain. Based on semi-structured interviews with Western European retailers, this study reveals critical functions of retailers' sustainability–oriented brands. These functions address a number of inefficiencies pertained to the third-party certification, making eco-branding a private product policy tool to proactively set and implement sustainability in food production and consumption practices. At the same time, limitations associated with the development and use of private eco-brands are identified. Based on these limitations, we suggest that while retailer's eco-brands are likely to play an important role in transforming food markets towards higher levels of sustainability in the future, the continuous value of third-party certification schemes in implementing sustainability in the food supply chain should not be underestimated. The role of the latter will be to reduce transaction costs and liability risks associated with retail efforts to govern product sustainability issues upstream in the supply chain.

1. Introduction

Sustainable market development is increasingly considered a challenge to be handled by private actors rather than governments, and companies are moving into the spotlight of efforts to promote sustainability in production and consumption practices (European Commission, 2008; European Commission, 2011a,b,c). The food sector is a good example for this, where governments, NGOs and academia alike point at retailers to be in a position not only to turn their own operations sustainable, but also to remodel supply chains and influence consumers (SDC, 2007; Anstey, 2009; Jones, Comfort et al., 2009; Blombäck and Wigren-Kristoferson, 2011). An important question, though, is to what extent retailers live up to their suggested role and how they are taking on the challenge to develop the market for sustainable products.

In the food retail sector, green market development is based on two increasingly prominent market tools – third-party certification and private eco-branding. Branding and certification are not identical in their functionality. While eco-branding aims to capture higher market shares through means of product differentiation based on sustainability attributes (Orsato, 2009), certification provides a guarantee of product and process adherence to certain environmental, social and ethical standards at different stages in the value chain (Vorley et al., 2010). However, the border between these two market instruments becomes increasingly blurred as more retailers launch private eco-branded products backed up by third-party certification schemes (BIO Intelligence Service, 2009; Henson and Humphrey, 2010). Moreover, application of the 'best practice' standards for products that bear retailers' own logo indicates a change in allocation of responsibilities between supply chain actors, with supermarkets becoming a "part of a new regulatory framework governing standards and quality" (Burch and Lawrence, 2005: p. 12).

While proliferation and diversity of sustainability standards, labels and logos has been acknowledged by previous research (Henson and Humphrey, 2010; Reinecke, Manning et al., 2012), these market instruments are often viewed as rival rather than complementary forms of governance in the era of quality competition (Ponte and Gibbon, 2005; Fransen, 2011). In addition, third-

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party sustainability certification and eco-branding are mostly looked at from the marketing perspective, i.e. their efficacy in changing consumers' behaviour towards purchasing environmentally friendly and ethical products (Rex and Baumann, 2007; Elham and Nabsiah, 2011; Larceneux, Benoit-Moreau et al., 2011). However, both of these market instruments also facilitate corporate ability to influence sustainability improvements 'upstream' in the supply chain (Burch and Lawrence, 2005; Hatanaka, Bain et al., 2005; Pagell, Wu et al., 2010; Seuring, 2011). This study combines both 'upstream' and 'downstream' perspectives to reveal *how private eco-branding contributes to motivating and enabling food retailers to engage in the development of markets for sustainability certified products.*

The paper is structured as follows. First, the academic debate on the role of private eco-branding and third-party certification in the development of green markets is presented. This contributes to the delineation of the analytical framework that comprises of principal functions that institutional arrangements should fulfill both 'upstream' and 'downstream' in supply chains in order to motivate and enable retailer's engagement with sustainable market development. This is followed by the methodology section and presentation of empirical evidence from the Swedish and a number of other Western European food retailers. In the subsequent analysis positive implications of private eco-branding for facilitation of sustainable production and consumption are revealed, but challenges and limitations associated with the development of private eco-brands by retailers are also acknowledged. The discussion section affirms that private eco-branding can indeed be viewed as a retail-driven institutional arrangement for governing sustainability issues in the value chain. It is also explained why private eco-branding is a complementary form of governance which is insufficient without third-party certification to deliver sustainability improvements on the market. In conclusion the major findings are summarized and future research directions are suggested.

2. The role of third-party certification and private eco-branding for the development of green markets

In this section the academic debate on the role of third-party certification and private eco-branding in motivating and enabling corporate sustainability governance in the supply chain is presented. First, engaging insights from the NIE paradigm, we attempt to explain the emergence of private eco-branding as new institutional arrangement next to already existing third-party certification schemes. We suggest that in comparison to third-party certification, the institution of private eco-branding incentivizes the efforts of food retailers to actively engage with the creation of supply and demand for sustainable products. Then, drawing on literature in the field of supply chain management and marketing research, we discuss functions of both these market tools for facilitating retailer's ability to influence sustainability of production and consumption practices.

2.1. Private eco-branding as a new institutional arrangement for governing sustainability issues in the value chain

Akerlof (1970) argued that in the absence of formal rules and regulations neutralising the information asymmetry between buyers and sellers about specific quality attributes, private institutional arrangements are necessary to allow market supply and demand to meet, while eliminating the 'adverse' selection problem. One such private institution – third-party business-to-consumer certification or eco-labelling – has had a prominent role to play in the successful establishment of a market for sustainable products and services. During the last decade third-party eco-labelling has proliferated (Rex and Baumann, 2007; Reinecke, Manning et al., 2012). Its establishment has allowed consumers interested in sustainable product qualities and willing to pay a price premium and firms able to offer these products to meet, and has led to considerable market growth in some food subsectors. For example, between 2004 and 2009, the sales of organic food in Europe grew by about 70% and reached a total of €21.5 billion in 2011 (Soil Association, 2013: p. 18).

For a market predominantly driven by consumer demand, third-party certification is a fairly efficient and trustworthy institution to establish the market for sustainable products. However, the 'attitude-behaviour' gap between what consumers claim to look for in products and what they choose in their daily shopping has undermined hopes that consumer demand alone could lift sustainability into mainstream (European Commission, 2009; Thøgersen, 2010). In the food retail sector consumers' interest in product sustainability attributes "is insufficient to justify the higher supply chain costs" (Smith, 2007: p. 851). As a result, current supply volumes of sustainability certified products satisfy existing but limited consumer demand (Ekoweb, 2013). There is no incentive for retailers to 'go beyond' this equilibrium and actively engage in creating demand and supply for sustainable products.

Engaging insights from the multidisciplinary NIE paradigm (Williamson, 1996, 2000), it becomes possible to suggest that private eco-branding might represent a new form of institutional arrangement that allows retailers to efficiently govern sustainability issues in contractual relationships in the value chain. When stakeholders' expectations towards retailers' responsibility to further markets for green products are increasing, but existing institutions, e.g. third-party certification, do not provide retailers with opportunities to satisfy these demands in a profitable way, private eco-branding emerges as new institution arrangement. It helps retailers to conform to stakeholders' demands while pursuing the rent-seeking behaviour. Previous research reveals that private eco-branding allows retailers to harness gains from investments in the development of green markets in terms of brand value and customer loyalty (Girod and Michael, 2003; Tunçer, Tyson et al., 2007). Higher profit margins associated with development of private eco-brands are also explained by achieving lower input costs per unit of product that result from increased retailer bargaining power and decreased supplier costs (Burch and Lawrence, 2005; European Commission, 2011a,b,c).

The literature on 'collective action problems', which represent one of the branches of the NIE paradigm (Kherallah and Kirsten, 2001), further argues "that firms may be less inclined to green their systems, processes or products if the benefits are non-excludable" (Prakash, 2002, p. 289). This means that food retailers have little incentive to promote a specific third-party label beyond current market demand because such market development efforts are too easily lost to competitors with access to the same certification schemes. Retail eco-brands, on the other hand, move the property rights of a sustainability achievement to the domain of the retailer, creating a case for a competitive market strategy based on product differentiation (Orsato, 2009).

In the following section we review literature that discusses various functions of third-party certification and private eco-branding for retailers' ability to exercise sustainability governance both 'upstream' and 'downstream' in the value chain.

2.2. Upstream functions of private institutional arrangements

2.2.1. Market efficiency

Third-party certification helps companies to increase efficiency in the implementation of sustainability improvements 'upstream' in production practices (Deaton, 2004; Henson and Humphrey,