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**Bridging gaps between policies for sustainable markets and market practices**

**Introduction**

The report from the “World Commission on Environment and Development” (the so called Brundtland report) was published in 1987. Since then the term “sustainable development” has become increasingly used to indicate the need to consider long term and global ecological and socio-economic effects of economic development. Even if there are different definitions and interpretations of the concept, the one in the Brundtland report captures the essential: “development which meets the needs of current generations without compromising the ability of future generations to meet their own needs. Sustainability issues are focused in a large and increasing number of international, national, and sector/industry level policy forming and policy implementation initiatives, conferences and many other activities involving public, private, non-governmental, media and research organizations.

The role of markets as a governance form for economic activities that aid or hinder sustainable development is arguably of interest because market economies, in different local/regional institutional contexts, dominate in an increasingly globally connected world. No market functions independent of a plethora of public and private norms and regulations. To make markets function towards, and not against, sustainable development, various public and private policy measures are formulated and more or less implemented*. How policy actually affects market practices is however far from clear.* Policies might e.g. define an objective such as increasing the use of renewable source for energy production, ban the use of a specific toxic chemical, or subsidize ecological production. How market actors adapt to and comply with these policies in practice is a matter of bridging gaps between policies and market practice. In other words policy needs to be translated to market practice.

A Swedish government agency for funding research on environmental issues, Mistra (Swedish Foundation for Strategic Environment Research) has taken the initiative to develop a center of excellence at the Stockholm School of Economics, named Misum, (**Mi**stra center of excellence on **su**stainable **m**arket practices), beginning its activities 1/1 2015. Function, governance and organization of financial markets as well as of product/services markets and the interaction between them are included in the MISUM mission.

As a member of the interim board of Misum, I became interested in, and curious about, the phenomenon “sustainable markets”. I became aware of the large number of organized policy-related activities, many of which with a global reach, that aim to support sustainable development. Many are focused on the potentially positive, or negative, role of markets for sustainable development. Especially intriguing for me, during these, for me early encounters in unfamiliar terrain, was how, and to what extent, policy initiatives translates into change processes in markets that make, or are aimed to make, markets increasingly sustainable. My own and my colleagues’ long-term research focus on business markets as inter organizational, dynamic governance structures, within the IMPGroup (Industrial Marketing and Purchasing Group) serves as a background for this paper. To begin to understand what characterizes sustainable markets and how public and private policies help to shape sustainable markets I propose an interdisciplinary approach integrating institutional studies in economics and organization, business network studies, sense-making studies and market practice studies. To argue for this interdisciplinary approach, the following question serves the purpose of the paper.

*How can the gap between policy and market shaping be bridged?*

**What is sustainable development?**

There is no doubt that criteria for sustainable development on a global level are far from being fulfilled in contemporary, globally connected societies. The concept signalizes the need for mankind to act urgently to “save the planet”. Among definitions are the following

Sustainable development implies lasting satisfaction of human needs and improvement of human quality of life.

Sustainable development is a monotonically increase in a development vector including income per capita increase, health improvements, access to resources, fairer income distribution, (and more).

Sustainable development implies growth that can be supported by physical and social environments in the foreseeable future

The concept has been criticized as unclear, even misleading and in need for clarification. Wackernagel and Rees (1996) found the Brundtland report to be ambiguous about the sustainable development concept in its effort to bridge debates about reduction of poverty, protecting the environment and achieving rapid economic growth. Already a few years after the Brundtland report, critical reviews of the concept appeared. Hopwood et al. (2005) map three alternative views on sustainable development. First, the *Status Quo* supporters recognize the need for change but believe that adjustments can be made without any major changes to society. This is a dominant view of decision makers in government and business. Development is identified with growth and economic growth is seen as an important part of the solution. E.g. the World Business Council for Sustainable Development (WBCSD) composed of CEOs of major international corporations, sees no inherent, general conflict between growth on global markets and sustainability. Supporters of the *Status Quo* believe that market processes, including consumer power and the activities of “green capitalists”, without strong reliance on laws and regulations, will succeed to drive sustainable development processes. Second, the *Reform* approach supporters are critical of current policies, believe that imbalances and lack of knowledge need to be corrected. More knowledge, technological and scientific advances and reasoned arguments should influence governments and international organizations to introduce needed major reforms, laws and regulations. Reform supporters are dominated by academia and NGOs. Third, the *Transformationists* believe that reform is not enough since the problems are located in existing economic and power structures. They emphasize justice and equity. Activists in anti-globalization and anti-capitalism groups belong here. The authors therefore conclude that there is no general sustainable development “ism” (Hopwood et al., 2005, p. 47).

The Status Quo and the Reform alternatives both are based on a market economy as a governance form even if the perceived need for policies to change market behavior to support sustainable development differ.

Research journals publishing on sustainable development are distributed among a vast field of scientific disciplines and sub disciplines such as Economics, Financial Economics, Law, Natural Sciences, Political Science, Sociology, Technology, Innovation, Management, Marketing, Production etc. This diversity makes it difficult to find a common epistemological and ontological ground for research, to cumulate knowledge and find solutions to achieve sustainability of these complex social-ecological systems (Ostrom, 2009).

Sustainable development, however it is interpreted, is a matter of social, ecological and economic *continual* *change processes with a long term influence on a global scale.* Thus the concept has considerable temporal and spatial extensions. Attributes of what constitutes sustainable development change over time.

**What is a sustainable market?**

The market is a governance form for voluntary exchange of resources between economic actors. It is thus an institution that is embedded in society. Allocation, development and combining of resources, thus involved in exchange, affect further qualitative and quantitative development of resources for production and consumption. As an institution, all markets are affected by various norms in the form of rules and regulations imposed by public and/or private actors.

Market processes are, depending on political/ideological, empirical and analytical interpretation of market practices, seen as means to improve, or/and to further deteriorate, sustainability. Is there too much or too little influence of market processes on sustainable development? Should the market become more or less regulated to aid sustainable development and if so, how? During the last decades “marketization” of governance has increased in formerly planned economies, in public services in market economies, within organizations that create “internal markets” and/or outsource activities. New Public Management ideas in governance of the public sector, express also ideas emanating from market perspectives. The increase in marketization is arguably of major interest to understand the role of markets for sustainable development since it involves a major institutional change process.

What constitutes a “sustainable market” is far from evident in the literature on sustainable development. The theory and practice based market concept itself is seldom elaborated, even if in public policies it implicitly seem to be based on micro economics (including “industrial organization”) with competition among suppliers and prices as major driving forces. Lack of sustainability is then seen as market failure because market imperfections lead to inefficient firms, flawed price mechanisms and information asymmetries. But it might also be argued that market imperfections provide opportunities for entrepreneurs to develop new technology and new business models that aid sustainability (Cohen and Winn, 2007).

How markets are shaped and reshaped in practice as a result of policy measures is in the sustainability literature not enough discussed theoretically/conceptually or based on empirical studies in the sustainability literature. Nor is the effect of how current market practices serve to shape sustainable markets without specific sustainability policies. Energy saving and productivity increasing innovations with positive influence on sustainability have e.g. occurred as a result of interaction in “normal” market processes.

Definitions of “sustainable markets” are hard to find. Different interpretations are illustrated by the US Peace Institute that refers to the *sustainability of the market itself*, as a governance form to stimulate economic growth and reverse negative effects of violent conflict. Another aspect of sustainability of markets is illustrated by regulatory agencies, like FCC, that lament the fact that the convergence of markets makes *market definitions unsustainable*. Furthermore, under the heading of sustainable markets items referring to *sustainable competitive advantage*, or sustainable marketing is found looking at sustainability only from an individual firm’s point of view and with no apparent link to sustainable development.

I propose the following definition of a sustainable market:

*In a sustainable market, market practices are instrumental in advancing sustainable development.*

This means that the focus is on market *practices* and a *movement towards* sustainable development, not the achievement of a generalized sustainable development result. We must define what in the specific case we mean by sustainable development (given that there are quite different interpretations e.g. increased use of renewable energy or improved social justice or preservation of species in nature (or all of these), how market practices *are changed* to aid sustainable development and how these practices are *changed due to public/private policies.*

**Theoretical approaches to understand markets**

Several theoretical approaches to understand markets exist that differ in terms of how markets are delimited, how interaction and interdependencies in the markets are analyzed, to what extent dynamics in markets are exogenously and/or endogenously driven. How the link between policies and shaping of sustainable markets is understood depends on how a theoretical approach handles

- market boundaries

- interdependencies between resources,

- interaction between actors,

- how business and policy actors make sense of the link between policies and sustainable markets.

*Industrial Organization* in Economics analyses links between market structure, market conduct and market performance. Public policies are exogenous influences on structure and conduct and focus is on competition and pricing in imperfect markets.

Interdependencies between resources and interaction between actors are in focus for three interorganizational perspectives on markets. The *business network* perspective, developed in the IMPGroup since the early 1980s, focuses on interaction in dynamic interconnected exchange relationships (e.g. Håkansson et al. 2009). *New institutional economics* focuses on contracting for transactions and relationships, as a form for interaction and handling resource interdependencies in exchange relationships (e.g.Williamson, 2000, McNeil, 1980). *Institutional organization theory* focuses on how public and private actors are active as organizers of markets (e.g. Scott, 2002).

The fourth aspect, sense-making, i.e. how business and policy actors make sense of the link between policies and sustainable markets is mostly not explicitly treated in the above theoretical approaches. It is however important to consider cognitive aspects explicitly since the outcome of sense-making might differ among and between policy actors and business actors and show conflicts that have to be resolved in the shaping of sustainable markets. The *organizational sense making* stream of research (e.g. Weick, 1995) might therefore be helpful to understand the link between policy and shaping of sustainable markets.

A *market practice* approach to study markets as shaped by the outcomes of on-going organizing efforts in practice, that is markets are performed in practice, is open to a role for any market theory to be performative as to how markets are represented and normalized (Kjellberg and Helgesson, 2006). Since also institutional aspects are included in market practices, I will later argue that the practice framework can be used to integrate different streams of research to understand sustainability.

**Policies**

*Public policies that focus on markets*

Public policies related to markets have resulted in laws and norms that regulate market behavior. The most directed ones are competition law (that prohibits cartels and abuse of dominant position, as well as M & As that threatens competition) and marketing laws (directed at misleading information from sellers to consumers). There are also many specific rules to safe-guard competition and access to infrastructure in “deregulated” markets, such as telecom and public services. There are also laws and norms affecting attributes of products, systems and processes in terms how these attributes provide environmental, health, safety, etc. hazards. How do such laws and rules contribute to shaping sustainable markets? The answer depends on how the rules are enforced and how market practices are affected. There is also a danger that government policies aimed to promote sustainability have opposite effects and that self-organized collective action might do better (Ostrom, 1998).

Public policies for a wide range of issues in society obviously also relate to markets and sustainability, such as e.g. science and innovation, housing, culture, transport, health policy. The market institution is embedded in a societal institutional context.

An example is Swedish national innovation policy analyzed in Waluszewski (2011). The 1990 Swedish policy doctrine, on which “policy commissioners” based the innovation policy measures, implied that sources of innovation are outside business, that knowledge development takes place outside business, that cooperation between university, government and industry will create innovation and that close proximity is important (clusters). Waluszewski argues that the policy rests on a micro-economic market theory that disregards the transnational nature of the innovation process, the fundamental importance of interaction in specific business relationships to handle important resource complementarities needed for innovation and the need to cope with the different economic logics of use, supply and development. This gap between the policy doctrine and interdependencies found in real innovation processes created problems for “policy practioners” to implement the policy, that is to bridge the gaps between policy and market practice.

*Organizations and networks focusing on policies for shaping sustainable markets*

A large number of organizations and networks are active in efforts to further sustainable development with reference to the role of markets in this process. Some are led by international public organizations like UN and EU. Some are led by voluntary organizations and trade organizations. Most involve membership and sponsorship from various private and public “stakeholders”. The stakeholder concept (Freeman 1984) is here used in a broader sense than stakeholders of specific organizations since the focus is on market practices that that affect societal development. A few examples:

*GeSI,* Global e-Sustainability Initiative, represents over 30 of the world’s leading service providers and vendors from the ICT sector supporting members’ sustainability initiatives based on ICT applications, e.g. towards a low carbon economy, energy efficiency and human rights.

*ACORE*, American Council on Renewable Energy, brings together technology companies, financial firms, universities, NGOs and government agencies in efforts to increase renewable energy.

*GSTC*, Global Sustainable Tourism Council, establishes and manages standards for sustainable tourism. A mostly volunteer organization has a large number of members and sponsors that are involved in tourism.

*RSPO*, Roundtable for Sustainable Palm Oil, initiated by a few producers and users of palm oil, with backing from WWF, promotes the growth and use of sustainable palm oil products through “credible global standards and engagement of stakeholders”. Membership has grown to almost 400 that are active in the “supply chain”.

*REDD+SES* Reducing Emissions from Deforestration and forest Degradation + Social and Environmental Standards is a further development of a UN led collaborative program.

*Some policy outcomes from organized voluntary sustainability initiatives*

Most sustainability active organizations and networks do not have authority to set mandatory rules for compliance. They work with information, recommendations and voluntary compliance of policies that have been developed. They also have a variety of public and private stakeholders, some of which are organized in NGOs, often with more or less conflicting interests.

Progress of policies, in terms of achieved voluntary sustainability standards (VSS) have since 2008 been reported and analyzed in SSI, acronym for a “Survey of the state of voluntary Sustainability Initiatives”. The survey is aimed as a tool for learning and strategic decision making by stakeholders. The latest report (Potts et al. 2014) has been facilitated by the Sustainable Commodity Initiative (SCI) and managed by the International Institute for Sustainable Development (IISD), the International Institute for Environment and Development (IIED), the Finance Alliance for Sustainable Trade, Environment and Trade in a World of Interdependence (ENTWINED, a Mistra program) and the Sustainable Trade Initiative (IDH). (There is certainly *no lack of acronyms* in the sustainability context). Among key findings for commodity markets are:

VSS compliant production output has increased a lot, however resulting in an over-supply.

VSS have forcefully penetrated mainstream markets because manufacturers increasingly source VSS compliant inputs.

VSS create new opportunities for stake-holder participation in supply chain decision making

VSS criteria are to some extent replaced by new, mainstream-oriented standards with less coverage.

There is in the analyses an implicit definition of sustainable markets as markets for products that fulfill VSS criteria for production and products in contrast to mainstream markets that, do not comply, and thus are not sustainable. Thus a more sustainable and a less sustainable market co-exist.

*Policies to shape sustainable markets*

Among the institutes that are devoted to shaping sustainable markets, *International Institute for Environment and Development* (iied), has a major research project entitled “Shaping Sustainable Markets” (SSM). A typology of five *policy* instruments is labelled market governance mechanisms (MGMs).

* *Economic:* environmental taxes, fees and user charges, certification trading, environmental financing, green public procurement
* *Regulatory:* norms and standards, rules and targets set by public authorities, environmental liability, environmental control and enforcements,
* *Cooperation:* voluntary agreements including voluntary standards, certification, technology transfer
* *Education and research***:** research and development, education and training
* *Information:* eco-labelling, sustainability reporting, consumer advice services, information centers, environmental quality targets and environmental monitoring.

The typology demonstrates some overlaps between MGMs and also includes interaction between them. A common framework for analyzing MGMs includes

* What is the market failure that MGM is addressing?
* Which are the MGM’s aims, claims, and how are they monitored?
* Where and how widely is the MGM used
* What is the existing evidence of the impact of the MGM.
* Analysis of the MGM design and implementation in terms of sustainable development (effectiveness, efficiency, equity, transparency)

Thus SSM focuses on governance mechanisms to impact markets. However, there is a lack of discussion about *how* implementation of these mechanisms generate changes in market practices towards substainability (e.g. as regards resource interdependencies and interaction between actors) The SSM research prospectus (Blackmore, 2011) asks research questions aiming to inform about MGM design and implementation, such as

*Effectiveness*

* Is an MGM addressing key sustainability issues?
* Does an MGM recognize current market dynamics?
* Is there a clear recognition of market dynamics?
* Is there a clear idea of a “target market”?
* How are the desired impacts measured?
* Can the MGM cope with changing conditions?
* Does the MGM function effectively in relation to the wider regulatory and institutional framework?

*Efficiency*

* How does the cost of implementation compare to the sustainable development benefits?
* Is the implementation of the MGM self-financing and if not how is it financed?

*Equity*

* Were all stakeholders able to contribute equitably to the design of the MGM
* Are the benefits and costs of implementation distributed equitably?

*Transparency*

* To what degree is the shaping of an MGM and its implementation observable to outsiders? Informational, participatory and accountability transparency.

There is however, no explicit discussion about the nature of the markets addressed and how to make sense of these markets.

In addition, as regards development of sustainable markets, *WBCSD*, the World Business Council of Sustainable Development, which is comprised of CEOs of major international companies, lists seven “keys to success” to reach sustainability through the market: Innovate, practice eco-efficiency, move from stake-holder dialogue to partnership for success, provide and inform consumer choice, improve market framework conditions, establish “the worth of earth”, make the market work for everyone. *How these criteria can be translated into market practice is not discussed associated with this list.*

Global policy networks (GPN) including stakeholders involved in innovation matters are prevalent in ICT based innovations (Andersson et al., 2011) and share characteristics with the sustainability initiatives. GPNs affect standard setting, certification and promote business application of a new technique. GPNs consist of participants that interact over long time to handle interfaces between interdependent resources. They have a market practice perspective and represent reality as so called eco-systems. Since ICT based innovations drive convergence of technologies, of markets and of industries there are often several GPNs involved. For development of mobile payments e.g. NFC Forum, Mobey Forum, GSMA are active and interactive.

**Market literature on sustainable markets**

Above I argued that to understand shaping of sustainable markets, it is necessary to include resource interdependence and interaction. I comment on a few examples of recent contributions from business network literature below that analyze these phenomena.

When IKEA in the 1990s was confronted by *requests for quality changes* of the paper used for their catalogues (chlorine-free, use of secondary fibre) the suppliers of the paper had to solve many problems involved a considerable number of actors and resources in the relevant network (Håkansson and Waluszewski, 2002. The pressures for change came from policy initiatives by an NGO (Greenpeace) and a law banning the use of chlorine for bleaching. The case can be interpreted as a case of bridging the gap between policies and shaping a more sustainable paper market.

Sweet (2000) reports on how a ban on the use of CFC resulted in *industrial change processes* to find and implement solutions substituting the function of CFC in three applications. For refrigerators the interlocked relational structure and technological path dependence played a major role in shaping an isomorphic solution that kept the network structure relatively unchanged (Sweet, 2000, p. 173). In contrast, for the use of cleaning electronic components a plurimorphic solution was found (Sweet, 2000, p. 176). For this application, the network was destabilized during the process to handle the ban. Harrison and Easton (2002) explained, using a framework based on theories of collective action, how industries cooperated to cope with the CFC ban. Economic calculations were important to drive the collective action.

One point of departure is to investigate how *contemporary market trends* affect sustainability. Hulthén and Gadde (2009) takes this approach in an analysis of how current trends in distribution such as customization, JIT logistics and actor specialization affect sustainable development. Focusing on resource dimensions of sustainability (material consumption, transportation work and facility exploitation) they find that contemporary developments in distribution (and related design of products and production) practices presents both opportunities and challenges for sustainability. When companies launch sustainable oriented activities conflicts are likely arise among firms in the supply chain.

How *sustainability strategies emerge* is analyzed by Araujo, Noguiera and Spring (2010). Formation of a holistic sustainability strategy is dependent on the integration of comprehensive environmentally-friendly practices. Sustainability pressures gives e.g. new opportunities to enter new markets for energy industry firms, companies position resources in different frames at different moments in time to embrace the sustainability concept. The value of a resource might therefore be differently framed according to who is using it, where and when it is used. Shifting to sustainable technological regimes is a complex process that involves technological, and social as well as organizational dimensions.

Ryan et al. (2008) presents a holistic interaction and network approach to create a context for connectivity, dialogue and learning to shape sustainable markets. Such a network context also involves NGOs, reverse logistics activities and alliance partners. They argue that a means to shape sustainable markets is *to systematize interaction in the network to communicate the value of sustainability.*

Ritvala et al. (2011) analyses how a *multi-stakeholder network is constructed in cross-sector collaboration* involving a response by a multinational company to an initiative by an environmental NGO to improve the quality of water in the Baltic Sea. Companies as well government agencies and research institutes became involved. The involved companies saw a business potential, based on participation in ICT innovation, emanating from their interaction within the stakeholder network they had taken part in creating.

*Public purchasing* is arguable an interesting phenomenon in relation to sustainable markets because of the interaction between public and private actors. Public purchasing may stimulate as well as be a problem for sustainability, depending on if norms for market behavior emphasize competition between suppliers to get lower prices (as in the Public Procurement Act, LOU) or if the regulations might be interpreted to allow, or even stimulate considerations of sustainability criteria resulting from cooperation and long term interaction. Waluszewski and Wagrell (2013) find negative effects in public procurement practive since cooperation with specific suppliers were not allowed. On the other hand Oruzabala and Rico (2012) found that public buyers had to comply with a set of new sustainability initiatives and regulations in evaluation of providers, such as the environmental performance of equipment and material, in the future also evaluation of suppliers global sustainability performance.

**Economic and organizational institutionalism**

*New Institutional Economics (NIE),*

Sustainable development relates to overall societal process in the wider cultural and social context, to resource allocation, pricing etc. in specific markets. Williamson (2000) discusses the development and future of NIE research. Williamson distinguishes four levels of social analysis. NIE is primarily concerned with level 2 and 3.

1. Social theory dealing with embeddedness in the wider society. Informal institutions, customs, religion, non-calculative behavior, conventions belong here. They are not possible to change in the short run.
2. Institutional environment. This is a result of evolutionary processes and is easier to shape and change in a relatively short run. Examples are property rights, contract laws and constitutions. Once property rights are installed and enforced, the idea is that markets should be left to work by themselves to optimally allocate resources.
3. Governance structure of market transactions and market structures. This is the domain for transaction cost analysis and role of contractual relations.
4. The processes by which resource allocation, prices, and quantities are determined in markets.

Many policy issues turn jointly on the combined use of Level 2 and Level 3. Williamson argues that there is almost unanimity in NIE regarding the assumptions of bounded rationality, contractual incompleteness coupled to opportunism, and conscious foresight. However, some transactions such as alliances and joint ventures pose complications of a disequilibrium contracting kind. Research combining technical and organizational innovation is needed as well as more explicit consideration of human cognition in future development of NIE. Awaiting a unified theory, pluralism has to be accepted.

In a recent discussion, relevant for sustainability issues, of interaction between institutions and economic development, Chang (2011) criticizes the NIE based Global Standards Institutions (GSI) for being unduly optimistic or unduly pessimistic as to the feasibility of institutional reform to help economic development. NIE, he argues, is too focused on economic aspects and the priority given to a microeconomic market alternative. Development might cause institutions rather than the other way. A free market is not a realistic possibility and is understood differently in different cultures. Stronger protection of private property rights is not better for growth than state or communal ownership. Furthermore, studies on market failure, natural monopoly and externalities show the advantages of state ownership.

Ostrom (1998) refers to studies of how short-run self-interest that threatens sustainability of common resources (“tragedy of commons”) can be overcome by developing conditions where reputation, reciprocity and trust become important for collective action.

*Institutional organization theory*

In an overview of studies of institutions and organizations, Scott (1995) distinguishes three pillars of institutions (regulative, normative and cognitive) on which institutions are studied. The analyzes of institutions, with reference to these pillars put varying emphasis on institutional elements such as basis of compliance, mechanisms, logic and bases of legitimacy (p. 35). They also put varying emphasize on “carriers” of institutions: culture, social structures, routines (p 52) and varying levels of analysis, from the world-system to organizational sub-systems (p.59).

The *regulative* pillar concerns e.g. rules, laws, sanctions, instrumentality in social action, legally sanctioned behavior. Legitimacy is based on complying with laws.

The *normative* pillar concerns e.g. certification, accreditation, binding expectations, social obligation, normative mechanisms. Legitimacy is based on moral.

The *cognitive* pillar concerns cognitive elements of institutions, shared understanding, mimetic, constitutive rules that create categories and social construction of actors. Legitimacy is based on cultural support.

Sustainable development is dependent on creating and changing institutions at several, if not all levels indicated by Williamson and Scott. With reference to Williamson, informal institutions (1), contract law and constitutions (2) contractual relations governing transactions (3) and methods to evaluate outcome of transactions (4) are examples. With reference to Scott´s typology, regulative elements that align social and private rates of return, normative elements that get moral legitimacy and cognitive elements that create categories and shared understanding seems very relevant for understanding of how gaps between policies and shaping of sustainable markets may be bridged. Studies of institutions based on all three pillars elaborated by Scott, are relevant to understand sustainability, due to the complexity and importance of the issues and the global heterogeneity of institutions. For instance research on capitalism as an institution shows that the variation across different cultures has increased rather than decreased. This also indicates the need to approach sustainability in practice with reference to different institutional characteristics.

Mouzas and Ford (2009) is a recent example of business network research that relates to frameworks from institutionalism. They discuss the constitution of networks as a necessary system of conventions (values, norms, rules) shared by business actors, to enable them to interact. Constitutions are a framework within which interaction takes place. Companies invest in the selection and replication of interaction practices that evolve over time as customs or common use. Examining the constitutions in business practice helps to understand networks as interconnected exchange relationships and interdependencies. Legitimacy of constitutions is based on the evolution of consent among related actors over time. Constitutions infer formality that is not opposite to but enabler of informal substance. A contract is a formalized manifestation of an interaction to which two or more parties have agreed. Examples of shared system of conventions are e.g. property rights, domain consensus, quality standards, investment valuations, annual negotiations, sanctions. Several of these concepts are included, in the cited work of Williamson (2000) and Scott (1995).

**Sensemaking in business networks and business markets**

Sense making in inter-organizational settings and markets has recently attracted more research interest. A testimony to that is two Special Issues of Industrial Marketing Management published in 2010 (Henneberg et al. 2010) and 2015 (Mattsson et al. 2015). In the latter Mouzas and Henneberg (2015) argue that sense-making develops via interaction with others and results in inter-cognitive representations. These inter-cognitive representations are important in practice since they help us explain and predict the institutional structure of rules, e.g. the use of mandatory rules or default rules related to sustainability. Inter-cognitive representations are organizational artefacts that inscribe the shared understanding as this evolved through repeated interactions. Examples of mandatory rules can be found in representations of technology to comply with public procurement regulations, industry regulations and classifications, and application of accounting rules. Mandatory rules express what is expected from actors e.g. through industry standards, regulations and contracts. Default rules, in contrast, express a common-sense order of shared conventions; they are customary, expected, often non-legal rules that fill gaps in incomplete contracts because they have been previously agreed between actors.

**Market practice as shaping markets**

During the last decades some researchers with a background in marketing, organization and sociology have established a practice turn in market studies (Araujo, Finch and Kjellberg (2010). Market practice studies argue that markets are practical outcomes of ongoing organizing efforts, that knowledge about markets, including theories about markets are performative, that practices are socio-material processes and that market exchanges need to be framed to allow for calculation. Actors perform market activities and by that perform and constitute markets with reference to three interlinked types of market practices and bidirectional translations between these practices (Kjellberg and Helgesson, 2007):

*Normalizing practices* that include establishing normative objectives and general rules and regulations of competition and cooperation, introducing market reforms and voluntary standards and certification schemes.

*Representational practices* that serve to depict and analyze markets and how they work, including also theories about markets and techniques to represent market structures and processes, both in the individual firm and in wider market context.

*Exchange practices* that serve to realize individual exchanges of information and other resources, leading to preservation or changes in resource combinations and interdependencies between actors. They include interaction and relationships between two or more actors, explicit and implicit contracts and agreements covering one or more transactions.

Performativity of economic sciences need to be broadened to allow for multiple theoretical influences. Material and “ideal” embeddedness must be considered as well as technology in configuration of market agents (Kjellberg and Helgesson, 2007). The authors further argue that in practice multiple theories of markets and empirical representation of markets co-exist, interact and might conflict. Diverging market practices exist and incompatibility might need to be handled. Multiple realities rather than multiple perspectives on a single reality exist. There is a close relation between the idea world and the “world out there”. Therefore their advice is to move away from polarized discussions about if theories provide unrealistic characteristics of markets or why some markets are not real markets.

A recently formulated concept is *Concerned Markets*. Geiger et al., (2014) introduces this concept in a publication that contains research articles related to “market practice” studies. The concept fits well with activities, illustrated earlier, to promote sustainable markets. There are “increasingly intricate connections between social, scientific political and economic issues” (Geiger et al., 2014. p. 3). Conflicts between economic order and social values need to be coped with. Multiple methods of reaching agreement are considered, civic ideas, legal procedures and scientific inquiry. It is argued that there are no markets without concerns. The market is not a given, stable superstructure but continually emergent. Thus also some externalities might be internalized. Each individual actor may handle their concerns not only as disruptions but also for relating and balancing, finding compromises between concerns. Several articles address sustainability issues. Three articles that apply sustainability issues to the concerned markets concept are the following.

D’Antone and Spencer (2014) analyses shaping a global market for environmentally labelledpalm oil. The RSOP (referred to above) is a stakeholder policy initiative aiming to integrate concerns of sustainable development in construction of a sustainable market. RSOP defines criteria for a more sustainable production and supply of palm oil. Labels, certification and enforcement organizations have been created. Kjellberg and Stigzelius (2014) find several markets implicated by consumers efforts to engage in green food practices. Practices related to organization of production (collective food production), distribution (on-line food retailing) and consumption of food (green cooking) are affected by these activities with consequences for the role of markets for sustainable development. Hauber and Ruppert-Winkel (2014) analyze how divergent interests for farmers’ sales of maize for the bio-energy market in Germany and traditional sales to the food market. This controversy was handled by differentiation of prizes between the two markets.

**Bridging gaps between policies and shaping sustainable markets**

The purpose of this paper is to explore how the gaps between policies to shape sustainable markets and market practice can be bridged. It is a matter of translating policies into the three types of interdependent market practices. If e.g. a policy bans the continued use of a specific toxic chemical, how do actors act and interact to comply with this policy? Is the process an indication of a sustainable market? Is it an indication that the market will be able to handle *other current and future* sustainable development issues in compliance with other policies?

It is also important to understand how the market as a governance form enables sustainable development, with (or without) externally initiated policies. Thus, the compliance with individual policy requirements, like a ban on the use of a product or application of certification rules, needs to be put in a wider sustainability context, and also be tested in terms of autonomous initiatives “in the market”.

To understand how the gap between policies and shaping of markets may be bridged, a market practice approach offers some analytical advantages.

First, normalizing practice is established both by external societal and public policy norms and by market internal normalizing processes which implies a bridging process.

Second, gaps between policies and exchange practices, as well as between policies and representational practices can be discovered and bridged in translation processes within the conceptual framework. E.g. norms to increase recycling of material may require investments in new logistic resources as part of exchange practice and new statistical data as part of representational practice. Transparency is an aspect of representational practice. The socio-material nature of the practices may have a bridging role.

Third, representational practice leaves room for different theoretical perspectives on markets explicitly or implicitly related to policies and also to different perceptions of what market the policy is aimed to affect. How a market is represented may thus differ which also may translate into different exchange practices.

Fourth, the practice approach opens for a reverse causality between representational and exchange practices on one hand and normalizing practice on the other. E.g. observations of an unsustainable market practice in terms of how environmental risks are calculated and handled in exchange as contractual agreements, might be translated into new policy defined norms.

Fifth, of the frameworks involved, industrial network approaches (in the IMP tradition) contributes specifically to understand practices with reference to interaction, relationships, interdependencies and connectivity in spatial and temporal dimensions. Institutional approaches include conceptual and empirical references to all three types of market practices but especially to normalizing. For new institutional economics the link is also close to exchange practice and for institutional organization to representational practice.

Sixth, sense making has an important performative role for translation between practices.

How do we know if a specific policy initiative actually performs a sustainable or at least a more sustainable market? Is it enough that market practice complies with the specific policy objectives? No, the sustainable development that the market is aimed help materialize is a matter of a long term and spatially extended development. If a specific policy translates into all three practices that can be judged to promote sustainability in the long run and further adapt to changing conditions we might find a lasting, but dynamic such influence. But it is important to understand that the analysis of efforts to affect market practice is not a normative analysis, it is an analysis of a process that has be judged independently in terms of how it actually reaches the sustainability objectives. Such judgements may very well differ between different stakeholders.

The paper is a contribution to the session on “Contracting in Business Networks”. My argument is that contracting, in a wide sense, is a process involving all three practices and are therefore also part of translating between practices. To understand the complex nature of shaping sustainable markets an interdisciplinary and practice oriented approach is needed.

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