

Values-Based Certification and Consumer-Driven Change

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The certification of products and services to social and environmental standards represents a mode of consumer-driven change via the market. After defining the phenomenon to be discussed and laying out the problems to be addressed, this essay describes the conditions under which such change is plausible, discusses the relevant conflict of interest issues, and reviews the current efforts in this territory.

Values-based certification: a definition

This essay uses the following definition: “independent certification or verification of the social and/or environmental practices of a company’s products or services for the purpose of communication to consumers or other stakeholders.” This includes independent monitoring in areas such as labor practices, organic agriculture, or recycled content to explicit standards. The mostly easily visualized occurrence of this phenomenon is a “seal of approval”, such as those already common for organic food.

The current definition does not include such certification schemes as Underwriters Laboratories (UL), which primarily certifies electronic equipment to safety and quality specifications, or ISO 14000, a set of guidelines for environmental management systems, mainly in manufacturing. In short, the current definition examines production characteristics, rather than product characteristics.

What is the problem?

In order to speak about a new mode of consumer-driven change, we must articulate a particular problem. This essay’s starting points are (1) the understanding that there exist countless social and environmental ills that are embedded in and reinforced by global and local economic relationships and (2) the reality that individuals have little capacity and only rare opportunities to act *as consumers* to address the problems which they help create through their consumption. Values-based certification is described herein as one possible solution to these problems.

Necessary conditions for a values-based certification regime

The process of delivering credible and true certification information to a consumer is not straightforward. This analysis identifies three areas: a framework of credible knowing; an authentic brand; and resources for on-going operation and autonomy.

A framework of credible knowing both generates and communicates sound and meaningful information that travels from the producer through all necessary intermediate steps to the consumer. A successful framework has several components: *principles* that form a guiding

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sense of right conduct; effective *indicators or metrics* that capture important information about the production process; *standards* that mark exemplary performance in the areas defined by the indicators; and a *chain of custody*, a mechanism that insures the integrity of standards, and of information on compliance, throughout the supply chain.

An authentic brand serves to communicate (to consumers) the adherence to the framework of credible knowing. The notion of a “brand” here is that of mental shorthand, a symbol or name that allows consumers to make values-based decisions conveniently and at the point of purchase. The brand is the mode of communicating knowledge and trust. The greatest challenge, of course, is in delivering the brand message consistently to consumers, especially in a consumer market with a cacophony of brand noise.

Any successful regime of values-based certification requires *resources for its creation and on-going autonomy*. Creating and revising standards, monitoring firm behavior, and tracking a chain of custody all require considerable financial and human resources. For certifying bodies, a fee-for-service model is most common at present, but non-profit certifiers have also offset below-cost fees by seeking initial and on-going funding from foundations. Standards-setting bodies have typically aimed to collect “accreditation” or licensing fees from accredited or approved certifying bodies.

Non-profit, for-profit, and the meaning of “third party”

It is important to have a way to understand the fiduciary duties and fiduciary stakeholders of entities operating in the values-based certification sector. One place to begin is by describing ideals of first-, second- and third-party certification – distinctions which apply more broadly in the world of auditing and certification as a whole.

First-party claims are made about oneself, such as those made by a company in an advertisement. Second-party claims are those made by a multi-stakeholder group, such as a trade association, about one of the member entities. Third-party claims are made by independent groups, entirely independent of the entity about which the claim is made.

In practice, third-party claims are rare. A prominent example outside of values-based certification is Consumers Union (CU), the publisher of Consumer Reports, which takes no money (either in advertising or fees) from the companies whose products it evaluates.

More common, however, is fee-for-service certification, which is common practice for much or all of organic agriculture, sustainable forestry and other areas (see Current Examples below). Unfortunately, this poses problems, as it immediately blurs the distinction between second and third party. Fee-for-service certification of any kind inherently carries the risk of *conflict of interest* (defined as a conflict between the fiduciary and non-fiduciary obligations of an individual or entity). Regardless of whether this potential conflict is acted upon, an organization must have a strategy to address it (such as independent oversight or review, or public disclosure).

Since only the public sector can conduct certification without collecting fees directly, all non-governmental efforts – non-profit or for-profit – face a challenge of becoming sufficiently “third-

party”. Thus, observers of this field must look beyond the unhelpful non-profit/for-profit distinction, and probe the various strategies for reducing potential conflict of interest.

Current examples

There are several promising and/or noteworthy certification regimes currently “under construction” or well established. I treat five of those here: organic food; fair-trade coffee; labor practices in exporting developing nations; fair-trade crafts; and sustainable forestry practices.

Organic food represents the best current example of values-based purchasing. Organic food sales in the US, while only just over 1% of the market, are growing at an estimated 25% annual rate and currently amount to \$4-5 billion per year. Furthermore, the ‘organic label’...

Unfortunately, “organic” is not a pure social and environmental seal of approval, along the like of the archetype described above, for several reasons. First, there are non-external concerns that are strongly associated with organic produce, such as health effects and quality. In this case, the label is a quality signal, and therefore any analysis of it is conceptually muddier. Second, while there are relatively few authorized certification channels, the “brand” in this case is simply the word “organic”, not any particular organization and therefore no single set of standards. While there is broad overlap among the organic standards, this integrity has been maintained only through vigorous lobbying (the standards were nearly watered down by an agribusiness-supported federal initiative in 1997).

Fair-trade coffee is a promising emerging regime, under which coffee producers and farmer co-ops receive a higher share of the final retail price than under typical arrangements. TransFair, a non-profit monitor, provides the only genuine certification scheme in this market, but there are several smaller organizations that conduct quasi-monitoring practices, i.e. screening of coffee producers based on similar criteria, albeit with less rigor.

As a regime, however, fair-trade coffee still faces serious challenges. First, it is still somewhat weak and incoherent from a brand perspective. Although the phrase “fair-trade” could potentially achieve the same meta-brand status as “organic”, there is potential confusion between “fair-trade” and TransFair’s name. Furthermore, TransFair’s standards, while public and explicit, lack the objectivity that strengthens a framework of credible knowing.

Labor practices in exporting developing nations (especially in the garment and footwear industries) have attracted massive attention, and the anti-sweatshop movement has manifested itself in numerous organizations engaged in labor monitoring, certification, standards-setting and specialized marketing. The field is still in disarray, but several actors are worth mentioning.

The most high-profile activity is the conflict between the Fair Labor Association (FLA), an industry-backed standards-setting and monitor-accrediting body, and the Worker Rights Consortium, a competing group that grew out of student movements over campus-licensed apparel. These groups have created a lively and often substantive debate, but as yet there is neither a pervasive brand nor even a labeling system; to date, there is only a debate over

standards, disclosure and transparency, and the appropriate structure (i.e., the degree and nature of involvement of industry stakeholders).

Social Accountability International (SAI), on the other hand, has developed a global labor standard, accredits certifiers to certify to that standard, and is vigorously pursuing involvement from industry stakeholders. However, SAI is not yet addressing the link to consumers, choosing instead to facilitate and catalyze voluntary action by industry. In short, there is no genuine seal of approval in this territory yet.

There are many *fair-trade crafts* importers and retailers in the United States, operating both brick-and-mortar and web-based retail. These merchants sell products from local and indigenous peoples in developing countries. The visceral appeal of these products lies in their aura of authenticity. As a regime, however, fair-trade crafts are neither quantitatively important in nor representative of rich-country consumption, and thus not demonstrative of the phenomenon's mainstream potential.

Last, the *sustainable forestry* movement has a leading organization, the Forest Stewardship Council (FSC), that most closely embodies the ideal described in the previous section. FSC, a non-profit based in Mexico with national offices in most of the world's major forest-product using and producing nations, sets standards, accredits certifying organizations, and brings together globally representative stakeholders representing social, environmental and economic concerns. Chain-of-custody processes are largely in place. FSC attempts to mediate these processes at a global and regional level.

Moreover, FSC has a logo and numerous large-scale suppliers that have agreed to carry its products, such as Home Depot and IKEA. The remaining challenge is to move from activist-push to consumer-pull by building a brand presence. FSC is still struggling with this hurdle.

FSC still has to contend with the numerous regional, national and private-sector schemes that compete with it. The Sustainable Forestry Initiative (SFI), for example, an industry-backed scheme in the US, has competed by creating alternative standards and gaining significant domestic-industry support, even engaging a top accounting firm to audit one of its members. SFI, however, has lower standards and is clearly a second-party scheme, and therefore both objectively and subjectively less legitimate and independent in the eyes of many consumer and NGO stakeholders. Specifically, as a standards-setting certifier-accreditation body, it lacks credibility because its resources come *directly* from those entities seeking certification.

Conclusion

This essay has described necessary elements for any successful and stable regime of values-based certification. The existing examples of the phenomenon are clearly still immature, and the various projects described above leave many unanswered questions about what will ultimately constitute a stable model in one sector or another. However, the evidence suggests that at least some sectors will eventually achieve a pervasive seal of approval, though perhaps on widely differing time frames. These important issues – of assessing sectoral suitability, and of estimating the respective time frames for implementation – are questions for future research.