

# The emergence and evolution of voluntary certification processes

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# Why they have emerged?

- Citizens couldn't get governments to provide regulation at the level of social and environmental accountability that they want!
- Even when they could, national governments cannot control TNCs in their worldwide actions, once they go beyond national boundaries!
- The WTO will not allow international bans on importing products based on their “process and production methods”!
- The world needed systems to promote “ethical production” in many sectors.

# The three-legged stool



- ▶ The emergence of certification rests on three critical legs:
  - “Market campaigns” as expressions of broad civil society values and preferences
  - “Internal champions” that convince companies that they must change their practices and avail themselves of new solutions
  - “Certification systems” created to set standards and to verify the compliance of companies with those standards

# What is a certification system?

- ▶ Under the best of circumstances:
  - Stakeholder-based principles, criteria, and indicators for improved production practices
  - Third-party independent verification of compliance
  - A consumer-oriented seal of approval for products that comply
- ▶ Historically, the UL seal is one of the best examples:
- ▶ Today, modern examples include:

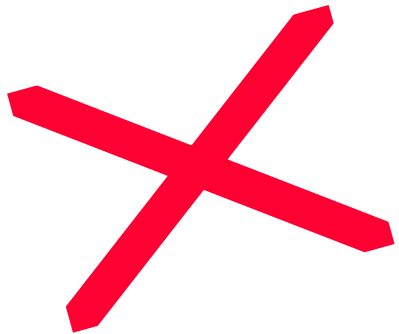


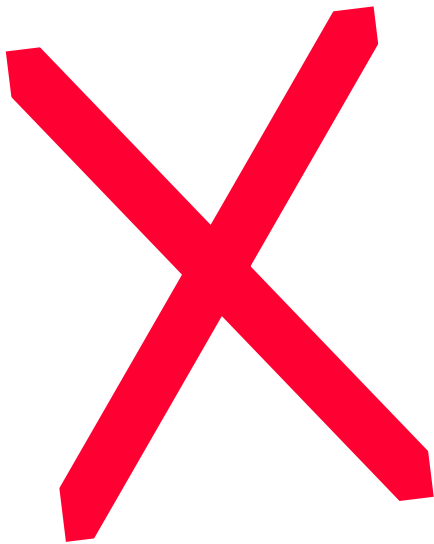
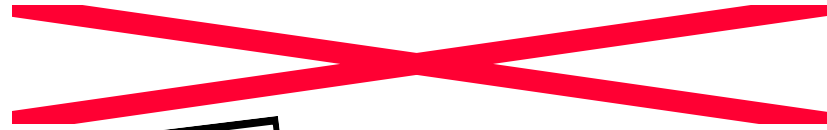
# What are market campaigns?

- ▶ Organized efforts to threaten the brand (and the markets) of corporations on the basis of their production practices
- ▶ Fundamentally based on clear civil society preferences, especially vis-à-vis social or environmental characteristics of production
- ▶ Aimed at critical stages in supply chains
- ▶ Articulated in moral or values-based terms
- ▶ Designed to move corporate practices in specific directions



E.g., the “No Dirty Gold” campaign



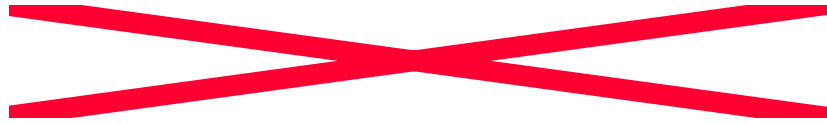


- ▶ This world is here now for forest products, fisheries, ag commodities and others!
- ▶ Corporate accountability “right at the top of the agenda” for North American CEOs
- ▶ “Growing clout of watchdog groups” recognized
- ▶ “Brand value and shareholder value at risk...”

# Three centuries of “CSR”

- ▶ **19<sup>th</sup> Century:** Self-generated company claims of responsible practices, i.e. First-party certification, as undertaken by the “Robber Barons” Carnegie, Gould, and Rockefeller
- ▶ **20<sup>th</sup> Century:** Industry-based development of standards, and claims that all participants comply, i.e., Second-party certification, as after Bhopal
- ▶ **21<sup>st</sup> Century:** Third-party independent verification of compliance with standards developed in participatory fashion, with clear consequences. This is “**corporate accountability**” or “CSR with teeth!”

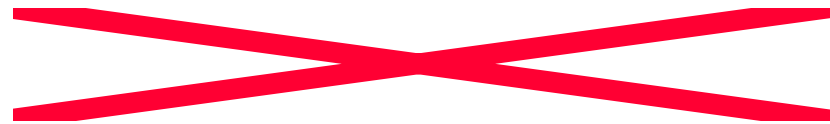




- Global branding: “It’s the name of the game”!
- *Every dollar successfully invested in “branding” increases a firm’s exposure to risk of attacks on its social and environmental practices.*
- Certification brings *risk reduction*; any certification helps, but the only credible certification is 3rd party and independent.
- Participants reap additional financial benefits as well, such as lower labor turnover, early market entry benefits, lower cost of capital, credibility for “social licenses”.
- Market campaigns then undercut industry laggards.

# Signs of success?

- ▶ Certified Fair Trade in 2007 will top \$2.5 billion in sales, providing wide benefits to more than 7 million farmers; growing at 40% per year
- ▶ FSC-certified forests now top 300 million acres worldwide, more than 10% of the world's working forests; growing at 25% per year
- ▶ MSC-certified fisheries now cover 70% of ocean-caught salmon (*not* farmed!) and 26% of whitefish; more requests for fishery certification than MSC can handle



- ▶ What the "certification revolution" means for business is that ... every company must now manage the risks associated with inappropriate social or environmental practices in its entire supply chain. Otherwise the risk of scandal and damage to brand is higher than it has ever been before. That's the bad news.
- ▶ The good news is that there are now many NGOs willing to collaborate in the design of systems to assure all stakeholders that production practices have been appropriate. They are also willing to lend their names in support of the companies that are certified to those standards. And that has immense market value.
  - Excerpted from "What the 'certification revolution' means for business," Kiplinger Recommends (October 19, 2007)