

10. Verifying social enterprises: applying lessons from Fairtrade and other certifications

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This chapter tells the story of Social Venture Partners of Rhode Island, a support organization for social enterprises. SVPRI's stakeholders requested assistance in marketing and growth, and SVPRI and its consulting firm, New Commons, responded by developing a label that qualifying stakeholders could use to verify their work as a social enterprise. In preparation for developing standards and creating a verification process for their label, the SVPRI/New Commons team convened stakeholder focus groups, researched extant social enterprise certifications, and studied the history of Fairtrade certification. This chapter describes these investigations, their findings, and the resulting Buy with Heart™ verification process. The authors posit that organizational form is irrelevant, and that – contrary to conventional theory and traditional practice – both for- and nonprofit social enterprises can be held to the same standards of prioritizing social impact. They also argue for peer-verified certification, as opposed to self-certifications, which lack accountability, or third-party auditing, which does less to foster a practitioners' community. This chapter speaks to the literature on voluntary certifications, social enterprise definition, and multi-stakeholder decision making.

INTRODUCTION: DEMAND FOR SOCIAL ENTERPRISE CERTIFICATION

In the fall of 2010, Social Venture Partners of Rhode Island (SVPRI) organized its second conference convening the state's social enterprise stakeholders. The gathering of over 350 practitioners, academics, policy makers, business leaders and students discussed the future of the sector, and it became clear that the existing SVPRI approach did not help

stakeholders to meet the demands of the marketplace. Simply providing grants and pro bono consulting services to a limited number of social enterprises was not enough – SVPRI needed to increase the presence and impact of social enterprise in the region.

SVPRI surveyed the Rhode Island-based social enterprises in its database – over one hundred ventures – to better understand this need. Since then, the organization has been working to build an effective ecosystem that enables social enterprises to thrive by responding to the needs identified in the survey. This ecosystem approach enhances four services: (i) building a community of interest; (ii) incubating new ventures; (iii) helping existing enterprises to grow; and (iv) investing in promising ventures. In less than two years, the community of interest has grown to more than 700 individuals, including over 120 social enterprises, and at least 70 leaders from business and the community who collectively provide an average of 3,000 pro bono professional service hours each year. SVPRI has also provided incubation services to more than 60 organizations and individuals, and has invested US\$110 thousand in low interest debt capital in five promising ventures. The SVPRI social enterprise menu of services has led many organizations to self-identify as social enterprises in order to access SVPRI's services and community. As requests to participate increased, SVPRI needed a way to differentiate between social enterprises and non-social enterprise models. Thus, the need to 'define' social enterprise quickly became a priority.

The need to adjudicate between social ventures and other endeavors became more urgent when SVPRI and its partners launched an umbrella brand for social enterprise products. Buy with Heart™ is a product label that helps consumers to identify, learn about, and support local social enterprises. It also offers an online retail shop where multiple ventures can promote and sell products, and consumers can find a variety of products in one online stop. Like many of SVPRI's programs, Buy with Heart™ was developed in response to the post-conference survey of social entrepreneurs' needs: more than 60 percent of respondents told SVPRI that the main barrier to going to scale was the lack of effective marketing. The Buy with Heart™ concept has quickly gained traction not only in Rhode Island's social enterprise community, but also across the nation, and SVPRI is responding to numerous requests from other social venture support organizations to license the brand and web sales platform. As SVPRI considered which organizations would be suited to become 'national partners', the need for selection criteria became apparent. In short, to ensure the success of the Buy with Heart™ brand, SVPRI needed criteria to determine which enterprises could carry the label, and which organizations could become national partners. The team realized that it

was not simply branding, but on the brink of creating a certification: they were establishing standards, and creating a verification process to determine whether or not enterprises met those standards.

EXTANT SOCIAL ENTERPRISE CERTIFICATIONS

SVPRI partnered with New Commons, an innovative consulting firm and think-tank that had been very involved with SVPRI and the growth of social enterprise in Rhode Island. The SVPRI Executive Director and the New Commons team initially agreed to three deliverables: (i) a set of guiding principles (standards); (ii) an online assessment tool for social enterprises to determine whether or not they met those principles (a self-verification system); and (iii) the development of an ongoing community of practice that would allow the team to conduct action research through focus groups. To avoid replicating existing certifications and to learn about the benefits gained and trade-offs made by other organizations, the team studied four extant systems: the highly selective Ashoka Fellows program, the Social Enterprise Alliance Accreditation, B Corps Certification, and the Social Enterprise Mark (Table 10.1).

Table 10.1 Social enterprise certification systems

| Name | Unit certified | Standards setting body | Certification procedure | Process/transparency |
|--|-------------------------------|--|---|---|
| Ashoka Fellows | Individual | Ashoka Executive Board | Selection by Ashoka staff and board | Criteria are publicly available |
| Social Enterprise Alliance Accreditation | Venture (non- and for-profit) | Center for Social Enterprise Accreditation | Self-certification, with supporting documents | Standards available, application available upon request |
| B Corps Certification | Venture (for-profit) | B Lab | Self-certification, with 1:5 chance of audit by B Lab in 2yr term | Standards and B Impact Assessment available online |
| Social Enterprise Mark | Venture (for-profit) | Social Enterprise Mark Company | Self-certification | Standards and application available online |

Ashoka is a registered 501c3 nonprofit organization in the United States. The organization is widely credited for naming, creating, and pioneering the global field of social entrepreneurship, and has been identifying and investing in leading social entrepreneurs since 1981. The organization aims to identify the ‘Andrew Carnegies, Henry Fords, and Steve Jobses of the citizen sector’ and to help those leaders achieve maximum social impact. For this purpose, Ashoka has been required to define ‘social entrepreneur’ and design a system for selecting which individuals most closely fit these criteria. Ashoka’s five criteria are: (i) a new idea; (ii) creativity; (iii) entrepreneurial quality; (iv) social impact of the idea; and (v) ethical fiber. The Ashoka staff accept nominations for fellows, conducts extensive in-depth interviews and a judging panel, and completes the process with an executive board vote (Ashoka website).

The Social Enterprise Alliance (SEA) is the leading membership organization in North America for social enterprises, service providers, nonprofit organizations, corporations, and venture capitalists. Its affiliate, the Center for Social Enterprise Accreditation (C-SEA) plans to launch a national certification program to raise the visibility and credibility of social enterprises in late 2012 (Bennett, private correspondence with SEA staff). Nonprofit organizations must generate over 50 percent of their earned revenue from the sale of goods and/or services. Furthermore, either they must provide goods and/or services that directly address social needs, *or* 50 percent of its direct labor must be made up of people who are disabled or disadvantaged. For-profit businesses must have a primary purpose of positive social impact (rather than financial reward), and – like nonprofits – must provide goods and/or services that address social needs, *or* have a labor force comprising at least 50 percent of people with disabilities or disadvantages (SEA website). Businesses will be asked to provide official documentation of these attributes with their application (Bennett private correspondence with SEA staff).

The nonprofit organization B Lab (‘B’ as in ‘benefit’) aims to redefine success in business so that ‘solving social and environmental problems’ is included as a business objective. B Lab is the creator and administrator of the B Corps (‘Corps’ as in ‘corporations’) certification. The B Corps standards include social and environmental performance and higher legal accountability measures. To qualify, businesses must earn at least 80 of 200 points on the B Impact Assessment, which measures the company against benchmarks for ‘social and environmental impact for good companies’. It then is required to adopt the B Corporation Legal Framework, which protects these values, and sign a ‘Declaration of Interdependence’, at which time the company is certified. Once certified, 10 percent of B Corporations are randomly selected for an onsite review every year (B Corps website).

The Social Enterprise Mark Company aims to create a world in which there is commitment to social enterprise as a means to achieve positive social and environmental change. Its Social Enterprise Mark was developed by social enterprise leaders and supporters, and there are now more than 400 Mark holders – for-profit companies that maintain social and/or environmental aims, have an independent constitution and governing body, earn at least 50 percent income from trading (or, for new start-ups, this must be accomplished within 18 months), spend at least 50 percent of profits on socially beneficial purposes, and demonstrate that the social/environmental aims are being achieved. Applicants complete an online form based on their governing documents and annual accounts summary, but are not required to provide documentation supporting their claims. The Mark is limited to businesses in the UK, but permission for use in other countries may be granted (Social Enterprise Mark website).

The SVPRI/New Commons team concluded that although these systems seemed similar to what they aimed to develop, none suited the SVPRI community's specific needs: Ashoka assesses individual entrepreneurs, not enterprises; the Social Enterprise Alliance standards are broader than those desired by SVPRI; and B Corps and the Social Enterprise Mark are limited to for-profit companies.

DEVELOPING STANDARDS FOR SOCIAL ENTERPRISE

To develop a new certification system for social enterprises, the SVPRI/New Commons team worked with the community of practice to establish qualifying standards. Their collective conclusions challenge conventional wisdom and existing models in several ways. First, the community extended the concept of 'social mission' to include environmental issues, and differentiated themselves from corporate social responsibility (CSR), and triple bottom line (TBL) by prioritizing social mission above profit (Carroll, 1999). The CSR model places profit first, and while the TBL aims to *balance* 'people, planet and profit', the philosophy is 'when push comes to shove, profit before people' (Elkington, 1997). With the New Commons team facilitating, the community of practice concluded that their definition of social enterprise would hold paramount the social impact goal. They also identified what social enterprise is *not*: (a) market-based programs perpetually underwritten by grants; (b) a panacea for lost funding; (c) commercial consulting firms serving not-for-profits; (d) corporate social responsibility; (e) nonprofits innovating without market-based solutions and revenue generation; or (f) philanthropy in and of itself.

The team also innovated in creating an operational definition of ‘social change’. This proved to be a difficult task for two reasons: first, the business world’s common barometer for meeting goals – return on investment (ROI) – is deficient in measuring the objectives of a social enterprise; and second, it may take years to begin to see the intended social or environmental change. A more appropriate gauge is social return on investment (SROI), which values the impacts that do not typically have market values, such as people, community and the ecology. The spirit of SROI was adopted, but the community of practice decided the method of assigning value to impact was more resource intensive than appropriate for the limited capabilities of SVPRI. Instead the concept of ‘social change’ has been defined as ‘intervening for the common good in social and environmental structures’. The community also had to decide what types of enterprises would qualify for certification. Although academic literature and extant certifications most often differentiate between for-profit and non-profit ventures, the community decided to treat all organizational forms symmetrically. Thus, social enterprises can be nonprofits that use business models to pursue their mission, for-profits whose primary purposes are social change, or a hybrid form such as a low profit, limited liability company (L3C), a legal form of business entity that ‘embodies the operating efficiencies for a for-profit company along with a reduced regulatory structure’ and has been adopted in several state legislatures since 2008 (Americans for Community Development website). To better visualize the complexity of the organizational continuum on which all nonprofit and for-profit organizations exist, the New Commons team developed a model titled ‘Social Enterprise Mountain’ (Figure 10.1). This metaphor for social enterprise asserts that although organizational forms fall on a spectrum, there are five points or ‘base camps’ where organizations tend to cluster:

1. A mission-driven organization that is largely externally funded.
2. A mission-driven organization with some internal revenue generation.
3. A true social enterprise where the primacy of the mission is social change, while sustaining the organization through market-based revenue generation.
4. An organization that places profit as its driving principle, but demonstrates some degree of social awareness and/or responsibility.
5. An organization that focuses nearly 100 percent of its resources and efforts to generate income for ownership with little to no social programs.

Many organizations are in a constant redesign mode at any moment in time, and thus may be perched on any of these slippery slopes. At the

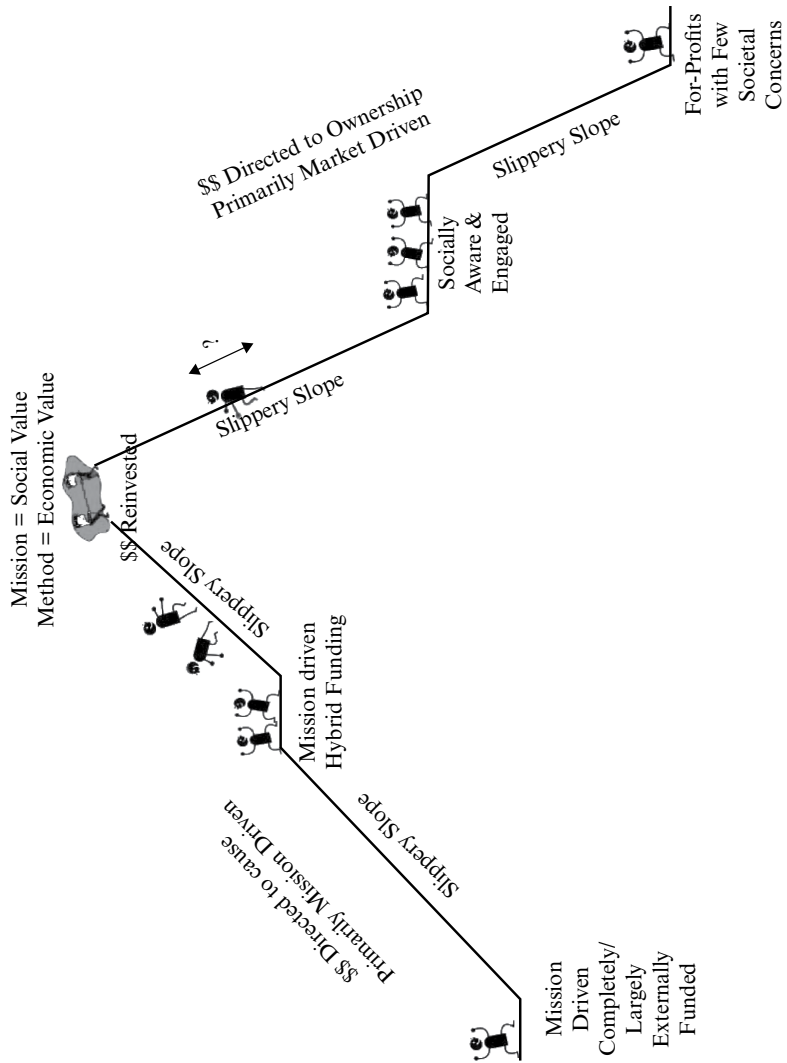


Figure 10.1 Social Enterprise Mountain model

summit of 'true' social enterprise, there is no 'almost there' at the top. That is to say, an enterprise is either a full social enterprise or not at all. No place on this mountain is 'better' than any other location. This is evident in that the human figures (representing firms and organizations) in various locations have raised their arms in joy.

There are some points to ponder while viewing the imagery. First, the western slope (left) is not as steep as the eastern slope. An ascent on Social Enterprise Mountain is more difficult for the traditional for-profit, because it requires a fundamental shift in the minds of the leadership. Organizations climbing the western slope, on the other hand, have a less daunting challenge: to modify their method of operation. The aforementioned groups have to change 'why', while the latter groups only shift 'how'. Second, the profit oriented/socially aware and engaged ledge is wider than the rest. Although the degree of social commitment can vary, the majority of for-profit organizations – about 68 percent, according to one study – tend to cluster there (IBM, 2008, p. 1). Third, the tension at the peak and the narrowness of the summit illustrate the constant tension between mission and profit. The tug-of-war is tilted toward the western slope to stress that when push-comes-to-shove, social mission is paramount.

The results of these consultations, debates and conclusions is a community-created conceptual definition of social enterprise: social mission-driven organizations, ventures, and initiatives that leverage market-based solutions to achieve permanent positive change that alter, for the better, a social and/or environmental condition. The next steps were translating an abstract concept into tangible standards, and creating a verification system to determine which enterprises met those standards. One member of the community of practice is the author of the first history of fair trade certification (Bennett, 2012). The researcher's recollection of the goals and challenges facing the development of fair trade certifications resonated with the concerns and passions of the other members. The following section reviews why and how fair trade activists developed a certification, how this context is similar to that of social entrepreneurs, and the limits of this comparison.

PARALLELS WITH FAIR TRADE CERTIFICATION

After the Second World War, Americans and Europeans began purchasing handicrafts from underdeveloped or war-ravaged countries and selling them without a mark-up in their wealthier home countries (Nicholls and Opal, 2005, p. 20). For example, in 1946, an American Mennonite

Ruth Byler was struck by the poverty she witnessed on a trip to Puerto Rico, and began purchasing crafts and selling them out of the trunk of her car at church meetings. Throughout the 1950s and 1960s, these activities proliferated and became more organized. In the case of Byler's crafts, the Mennonite Council adopted and expanded her work, founding SELFHELP crafts, which later became the popular retail chain Ten Thousand Villages, one of Forbes Magazine's 'World's Most Ethical Companies' (Ten Thousand Villages website). By the 1980s, alternative trade had begun to identify and be identified as a social movement, working in tandem with trade policy advocacy (Bisaillon et al., 2005, p. 4).

In the 1980s, fair trade organizations began holding conferences (World Fair Trade Organization website) to exchange information, coordinate trading arrangements, pool of resources, and garner support for common campaigns (Barratt Brown, 1993, p. 157). The major organizations established a central secretariat, the International Federation for Alternative Trade, to formalize and develop these activities, strengthen communication, and serve as an umbrella for the alternative trade movement (ibid., p. 157). As organizations proliferated, programs expanded, and market share increased, the idea of mainstreaming fair trade products – offering them in stores other than specialty shops – became a popular idea (ibid., p. 157). Advocates argued that selling fair trade goods in mainstream retail would increase market share drastically, but that consumers in corporate stores – unlike consumers in specialty fair trade shops run by well-reputed non-governmental organizations (NGOs) – would require verification that what they were purchasing was fairly traded (Bennett interview, 30 September 2011). Some organizations, such as Divine Chocolate and Café Direct in the UK and Equal Exchange in the US, solved this problem by creating a fair trade product brand. Others, such as Max Havelaar in the Netherlands, codified fair trade norms and generated 'rules for production and trade' that could be observed, certified by a third party, and communicated to consumers via a label, mark, or seal. This label could be adorned by existing brands to communicate that the ingredients had been ethically sourced. Fair trade branding and certification systems helped to increase the supply of fair trade goods – especially coffee – and integrate them into mainstream retail outlets (Smith, 2008, p. 2).

By the mid-1990s, several fair trade brands and nascent certification schemes existed. The consolidation of the European economy, desire for brand recognition, and the need to avoid costly replication of efforts led organizers to found Fairtrade Labeling Organizations (FLO), which would direct the enterprise of creating global standards and marketing for a 'Fairtrade' label. Hence, FLO began as a service provider to its members, national labeling initiatives such as the Fairtrade Foundation in London.

In the early 2000s, market share increased dramatically each year. In 2004, in order to comply with the International Standards Organization (ISO) Standards for Certification Bodies (ISO 65), FLO transformed its former certification department into a separate legal entity: FLO-CERT GmbH (Ltd.), which would make certification and trade auditing operations ‘absolutely transparent and independent’ (FLO Annual Report 2005–2006, p. 8). In 2006, FLO began to recognize the need to more intimately include a broader range of stakeholders, especially the producer networks in the Global South. To that end, the organization changed its name to Fairtrade International, communicating that it not only serves labeling organizations, but also a global community of stakeholders. It also formalized the role of producers in high level decision making, demonstrating a commitment to collaborative North–South governance of the certification. (Bennett interview, 15 September 2011). The development of the Fairtrade Mark has not occurred without contention. The divisive tasks include:

1. Making the trade-off between uniform, centralized governance (good for branding), and flexible decentralized governance (good for innovation).
2. Making the trade-off between rewarding outstanding production practices (easier to certify), and rewarding progress (more developmental).
3. Making the trade-off between entering mainstream retail venues (good for growth), and existing as a niche market (good for existing participants).
4. Making the trade-off between lowering prices (good for growth), and increasing prices to participating producers (good for existing participants).

How is the development of Fairtrade certification similar to SVPRI’s aim to codify and verify social enterprises? In both cases, there are competing motivations for creating a label. Fairtrade aimed to help producers develop their businesses, raise consumer awareness about a social issue, and increase sales. Likewise, SVPRI aims to assist businesses and nonprofits adopting a social enterprise model, increase public recognition of social enterprise solutions, and increase sales of SVPRI’s Buy with Heart™ products. In both cases, the community of actors is diverse, existing practices vary greatly, and the concept itself is not uniformly or clearly defined. That is to say, labeling pioneers struggle not only with how to *certify*, but also how to *define*.

SVPRI is comparable to one of the many local or national organizations developing certifications in the 1990s. However, this comparison is limited

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by some contextual differences. On one hand, ethical consumers today are accustomed to looking for a label, and are said to be increasingly skeptical of self-verified certifications (Conroy, 2007, p. 14). On the other hand, today's DIY (do-it-yourself) culture, local foods movement, and direct trade craze have increased the willingness of consumers to purchase on trust goods and services – not association with a large organization. By all accounts, consumers today are more interested in the origin of their products, open to market solutions for social problems, and accustomed to shopping in unconventional forums.

THREE LESSONS FROM CERTIFICATION PIONEERS

What can the fair trade experience teach social entrepreneurs about certification development? First, the process of setting standards is as important as the standards themselves – and perhaps the plan for how standards will be revised over time is the most important of all. Standard-setting processes must be transparent, well documented, and inclusive of diverse stakeholders. In the case of fair trade, standards and pricing came under fire by the academic community about 10 years after FLO's formation (see, for example, Fridell, 2007, Jaffee, 2007, and Jaffee and Howard, 2009 on co-optation). Because FLO was originally formed to aid labeling initiatives in marketing fair trade to the North, producers were not initially included on the board of directors. Although they were included in standard setting and other committees, how producers' perspectives were incorporated in decision making – for example, vote or consensus – was never made clear to the public. Additionally, decisions within FLO about how to manage the label – such as how to negotiate with corporations – were announced without reference to the decision-making process. With new leadership in 2006, FLO began addressing allegations that the organization was North-centric, elite-driven, and prone to co-optation by incorporating producers and making public its decision-making practices. The lesson that should resonate with the social enterprise community is that in order to establish credibility as either a standard-setting organization or a verification body, the process must include relevant stakeholders and be made transparent to the public. The trade-offs for gaining multi-stakeholder participation and transparency are increased resource costs and a longer timeline (see Conroy, 2007 for a discussion on this balance).

The second lesson from fair trade is that *who* audits an enterprise depends greatly on *who* is intended to benefit from the process and *how*. There are three options: In first-party certification, the company itself is the sole judge of how well it has fulfilled its own public commitments.

These ‘carry very little credibility these days unless they report on commitments that have been audited by an independent agency’ (ibid., p. 14). However, they may help to establish best practices, create space for intra-industry dialogue, and assist in assessing the trade-offs between different values. In second-party certification systems, the industry has an association that creates standards and audits applicants. It is likely that outside observers will question whether the organization’s desire to grow membership will dilute the standards or bias audits. However, it may facilitate industry-wide discussions, develop a sense of community, and create institutions that help the industry to move toward certification goals. In third-party certification systems, standards are created jointly by a comprehensive group of stakeholders, then audited annually by a totally independent outside organization (for more discussion, see ibid., p. 15). Fairtrade certification is an example of third-party certification. While this system may be the most satisfying to skeptical consumers, the fair trade experience highlights several trade-offs, such as the additional cost of certification. For the SVPRI, the lesson is that *who* verifies must depend on *what* verification aims to accomplish. The goals of building community, earning consumer trust, and developing industry standards may not all be served equally by any one system.

Finally, it must be realized that no verification scheme will meet all objectives for all stakeholders. Being clear about what a new scheme will – and will not – deliver, and approaching similar systems as complements – not competition – is important for meeting broad movement goals. In the early 2000s, several Fairtrade licensees (businesses that sell fair trade products and comply with Fairtrade purchasing standards) dropped their certification. While their decisions were each complex and collectively very diverse, the general sense was that the fair trade system was not sufficiently increasing the prices paid to producers, and that its overhead fees were too great (Bennett interview, 6 June 2011). Several of those organizations identify as ‘100-percenters’, meaning that they are committed to a more holistic model of trading fairly. Likewise, there is tension between the Fair Trade USA national labeling initiative and Fairtrade International (FLO) regarding whether or not coffee plantations with hired labor should be included in the certified fair trade system. This debate has animated actors on both sides of the small farms versus hired labor debate over which groups Fairtrade should target. It would be impossible to reconcile many of these conflicting perspectives. A single certification cannot simultaneously aim to mainstream products in commercial stores and be limited to 100 percent fair trade value chains. Likewise, it cannot aim to improve the income of all poor farmers and be limited to only small family farms. The lesson for social entrepreneurs is that a single verification system cannot

satisfy all of the diverse value sets – that it must make trade-offs that reflect the stakeholders' priorities. The subsequent reality is that additional/alternative certifications will be established to codify and verify the alternative priorities, resulting in what can be conceived as either competing or complementary systems.

In short, these three lessons have a simple message: pioneers should take a transparent and inclusive approach, let priorities guide the trade-offs, and expect that others will create formal or third-party certification systems that promote the alternative priorities.

ESTABLISHING THE BUY WITH HEART™ VERIFICATION

Using their definition of social enterprise, and applying the lessons from Fairtrade, the SVPRI/New Commons team facilitated the development of a Buy with Heart™ Verification. The standards and verification process were developed in an iterative process of drafting, facilitating focus groups with the community of practice, consulting social entrepreneurs and for-profit entrepreneurs who aspire to be social enterprises, working with academics, and revising the drafts. This community-oriented standard-setting procedure will extend into the future, so that stakeholders continue to govern the system. The community of practice elected to use both first- and second-party verification. The benefits of first-party certification are that self-assessment systems allow potential applicants to compare themselves to a goal, and to learn more about the qualities of social enterprises. The benefits of second-party certification (also called peer review, or membership certifications) are the creation of a community, fostered by increased interaction among members. The trade-off made by not electing third-party certification is that consumers may be skeptical, since the group of peers may admit unqualified parties in order to grow their organization. However, the cost of third-party certification is high (since a non-affiliated party must be contracted to audit applicants), and third-party verification may be less flexible than the community desires. The resulting verification process aims to educate applicants and potential applicants, build a community of peers, and maintain inclusive, transparent decision-making processes. Buy with Heart™ verified social enterprises will enjoy collective marketing, brand recognition, and added legitimacy. Version 1.0 of the Buy with Heart™ verification process comprises six steps: self-assessment, initial verification, secondary verification, peer verification, continued learning, and the annual verification and learning forum:

- *Step 1. Self-assessment* Social enterprise owners/leaders complete an online assessment of how their current practices compare to social enterprise practices. The assessment includes 11 practices organized in two components: (a) a framework that places social mission as paramount, and (b) practices to use to improve performance in the pursuit of social mission. (See Appendix 10A for the survey used at publication; and the SVPRI website for subsequent versions.) The framework is four key definitional questions on mission and motive:
 1. Does your organization primarily hold and serve social mission as the primary reason for being?
 2. Do your organizational leaders continuously wrestle with the constant tension of balancing serving the common good and generating revenue?
 3. Does your organization deliver a product or service in a way that creates a social impact?
 4. Does your organization strive to actively measure and publish in a transparent way, its impact using multiple bottom lines such as social, ecological and economic?

Due to the primacy of mission to defining a social enterprise, these four framework questions are heavily weighted in determining an overall self-verification score. Seven additional questions help to assess the enterprise and identity areas of improvement:

5. Does your organization strive to be a 'game changer' by intervening in social and environmental structures?
6. Does your organization use the market to generate revenue?
7. Does your organization use a social mission to achieve a significant competitive advantage?
8. Does your organization continuously innovate with the business model?
9. Does your organization operate with an ecologically sustainable supply chain?
10. What percentage of the people you employ have barriers to work?
11. What percentage of profit is reinvested in the social enterprise and its mission?

To answer the first nine of the practice questions, the enterprise ranks itself on a scale of one to five: 'one' understands but does not

apply; ‘two’ understands and uses the practice to a limited degree; ‘three’ applies major elements of this practice most of the time; ‘four’ fully and consistently applies this practice all the time; and ‘five’ pioneers with innovation to deepen this practice. The last two questions are answered by identifying with one of five percentage ranges. The scores will be tallied, and a minimum score will be required to continue the process.

- *Step 2. Initial verification* A representative of the social enterprise meets with an SVPRI partner to verify the validity of the self-assessment.
- *Step 3. Secondary verification* Once a critical mass of SVPRI-verified enterprises exists, an individual whose venture has already been verified will verify the self-assessment a second time. At this time, the practitioner is authorized to use the Buy with Heart™ brand.
- *Step 4. Peer verification* Verified enterprises will be recertified each year in a rolling process of peer review. Peers meet in topical communities of practice, online and face to face as needed. This process will be refined and clarified with the input of the first set of verified enterprises as the pilot phase unfolds. Unanswered questions include: how will peers challenge each other? What will happen at annual meetings? Can verification be revoked at the annual review? Does this community have the power to change the eleven criteria or the verification process? Do peers have to improve each year or just meet a minimum standard annually?
- *Step 5. Continued learning* Buy with Heart™ community members will develop, utilize, and share individualized learning plans, and new social enterprise innovations. The goal is to foster an environment of continuous learning in which all certified enterprises are engaged and interactive. The system is based on the idea that a community of entrepreneurs faces natural incentives to maintain high standards (integrity) while increasing membership (growth) – striking the correct balance between these trade-offs.
- *Step 6. Annual verification and learning forum* SVPRI will convene an annual forum of all verified enterprises, aspiring ventures and thought leaders during which time the 11 categories and the entire verification process will be put on the table for review and continuous improvement. SVPRI knows it has to continuously learn and improve from doing the work of social enterprise. The standards, benchmarks, and process review will be community driven just as fair trade learned from continuously engaging its communities.

The SVPRI/New Commons team is aware that alternative certifications are developing, and that this will likely be one of many ways for social enterprises to learn, grow their community, challenge each other, benefit from name recognition, and communicate their commitment to social mission to consumers and investors. The trade-offs made in this pilot plan have been made thoughtfully, and they will be reviewed over time, in an inclusive and transparent multi-stakeholder process. The Buy with Heart™ verification process will help SVPRI to meet the needs of its stakeholders by providing educational opportunities, marketing support, opportunities for growth, and a community of verified social enterprise peers.

IMPLICATIONS FOR SOCIAL ENTERPRISE PRACTITIONERS

What can social enterprise practitioners learn from the Buy With Heart™ experience? First, there is an argument to move from umbrella branding to certification. The original Buy with Heart™ brand assisted social enterprises in internet sales and marketing, but could not be scaled without a more formalized process for adjudicating who was eligible. The certification model of Buy with Heart™ allows for local and national scalability, and also adds credibility to the list of benefits.

Second, the development of the Buy with Heart™ verification process makes a case for researching and communicating with the broader community. The Executive Director of SVPRI not only hired New Commons to bring together Rhode Island stakeholders, but also reached out to a Fairtrade certification expert, attended national events, and networked at academic conferences. The three lessons learned from Fairtrade – create transparent, inclusive processes; make trade-offs between competing priorities carefully; and expect alternatives to arise and compete – informed some of the most critical decisions of the Buy with Heart™ verification process. For example, SVPRI's initial idea was to conduct the verification process itself, and for much of the process to be based on trust. This was challenged by the introduction of the concept of third-party certification, but ultimately the SVPRI/New Commons team decided on a peer-review system because it prioritized community development and stakeholder ownership. The discussion of trade-offs led to the realization that nurturing a local and national social enterprise ecosystem was a top priority – even above flexibility (which comes with self-assessment) and consumer confidence (which comes with third-party auditing).

Third, SVPRI and New Commons were able to catalyze an arduous multi-stakeholder, consensus-based decision-making process by defining in

negative space. By asking stakeholders (and themselves) what social enterprise is *not*, they were able to identify what social enterprise *is*. Likewise, reacting to what does not resonate, and understanding that reaction, the group was able to identify how they were aiming do create something different than CSR, TBL, or any of the existing social enterprise certifications. For example, the group discovered that they wanted to treat different legal forms symmetrically – challenging the common notion that for-profit and nonprofit social enterprises are fundamentally different. This is a useful tool in achieving the goal of transparent, inclusive certification development.

Finally, every certification, verification, auditing or branding scheme must be understood as a dynamic system, constantly evolving and shifting course. Buy with Heart™ is still unsure of how to balance community input with control over the standards and verification process – what is the role of a social enterprise builder such as SVPRI? The team also struggles with how its label will communicate rigor – what if the rejection rate is low because applicants are self-selecting? Will it appear that the verification process is unwilling or unable determine which enterprises are qualified? When these questions are answered, new ones will arise. The Buy with Heart™ community will constantly return to the lessons learned in its nascent stages: define carefully, create inclusive transparent processes, learn from the broader community, make trade-offs carefully and expect alternative systems to arise and compete.

The decision to create a voluntary, ethical certification is not one that many practitioners will make. However, every social entrepreneur exists in a sea of B Corps companies, Ashoka Fellow entrepreneurs, and Buy with Heart™ products. This chapter has provided a discussion of where certifications come from – how they develop, what makes them different, why there are so many, and when they might be an appropriate solution for a social enterprise problem. It is the authors' belief that consumers, social entrepreneurs, and researchers of social entrepreneurship will benefit from a well-informed discussion of these issues.

NOTE

- * The authors are listed in alphabetical order.

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APPENDIX 10A BUY WITH HEART™ SOCIAL ENTERPRISE SELF VERIFICATION SURVEY

Buy with Heart ~ Social Enterprise Self Verification Survey

Before beginning, please read Buy with Heart's definition of Social Enterprise at: www.buywithheart.org

***Contact Information:**

Contact Name:

Organization:

Address:

City/Town:

State:

ZIP:

Email Address:

Website URL:

Social Enterprise Definitional Criteria:

| | Understands but, does not apply the practice (1) | Understands and uses the practice to a limited degree (2) | Applies major elements of this practice most of the time (3) | Fully and consistently applies this practice all of the time (4) | Pioneers with innovation to deepen this practice (5) |
|--|--|---|--|--|--|
| Does your organization primarily hold and serve a social mission as the primary reason for being? | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Do your organizational leaders continuously wrestle with the constant tension of balancing serving the common good and generating revenue? | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Does your organization deliver a product or service, in a way, that creates a social impact? | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Does your organization strive to actively measure and publish impact using multiple bottom lines in a transparent way? e.g. Social, Economical, Ecological, etc. | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |

If you rated 3 or less on any of the 4 Social Enterprise definitional criteria, tell us more about your application of this practice?

Social Mission

Wrestle with the Tension

Deliver Social Product or Service

Multiple Bottom Lines

Buy with Heart ~ Social Enterprise Self Verification Survey

Practices to improve your performance as a Social Enterprise:

| | Understands but, does not apply the practice (1) | Understands and uses the practice to a limited degree (2) | Applies major elements of this practice most of the time (3) | Fully and consistently applies this practice all of the time (4) | Pioneers with innovation to deepen this practice (5) |
|---|--|---|--|--|--|
| Does your organization strive to be a Game Changer in social and environmental structures? | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Does your organization use the market to generate revenue? | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Does your organization use a social mission to achieve a significant competitive advantage? | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Does your organization continuously innovate the business model? | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Does your organization operate with an ecologically, sustainable supply chain? | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |

If you rated 3 or less on any of these 5 Social Enterprise practices, tell us more about your application of this practice?

Game Changer

Generate Revenue

Competitive Advantage

Business Model

Supply Chain

What % of people do you employ that have barriers to work?

0-20% 21-40% 41-60% 61-80% 81-100%

Please list any ongoing efforts your organization is making to increase the % of employees with barriers to work...

What % of profit is reinvested in the Social Enterprise and it's mission?

0-20% 21-40% 41-60% 61-80% 81-100%

Please list any ongoing efforts your organization is making to increase the % of profit reinvested into the Social Enterprise and it's mission...

PATTERNS IN SOCIAL ENTREPRENEURSHIP RESEARCH

Edited by **Jill Kickul**, New York University Stern School of Business and **Sophie Bacq**, Northeastern University, US



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