

An abstract graphic on a black background. It features several large, solid-colored circles in green, blue, and orange. Interspersed among these are numerous white lines of varying lengths and orientations, some radiating from the circles, creating a dynamic, starburst-like effect. The overall composition is modern and energetic.

SOCIAL ENTREPRENEURSHIP CERTIFICATION AND LABELING

An analytical report on existing social value labeling practices,
and a way forward for Latvia, Estonia and Denmark.

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Social Entrepreneurship Association of Latvia, 2017

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INTRODUCTION

Social entrepreneurship, an effective tool for solving social problems, has proven to be a fast growing sector in Europe. It is a relatively new concept in the Baltic States and not a very old one in Scandinavia as well. Each year there are more and more social enterprises tackling multitude of social problems and challenges, offering a diverse range of solutions. Because of the interdisciplinary nature of this type of entrepreneurship and many other reasons, social enterprises very often face obstacles and challenges that conventional businesses and civil society organizations already have dealt with to a certain extent: the lack of legal frameworks, insufficient state and municipality support, complicated business models, enterprise identity issues, the lack of awareness and visibility among the general public, access to investment markets. Many organizations all over Europe, including the Baltic States and Scandinavia, are involved in finding tools and methods to help social enterprises solve these challenges; often proving regional cooperation to be an effective approach for finding and testing solutions.

The purpose of this publication is to look at one of these possible solutions - social entrepreneurship labeling initiatives – and investigate if they can help alleviate some of the problems and challenges faced by social entrepreneurs. Even though social entrepreneurship labeling as a tool has been used in several European countries, the success or failure of these attempts remains a mostly unexplored issue. “*A map of social enterprises and their eco-systems in Europe*”, published by the European Commission in 2014¹, shows that marks, labels and certification systems for social enterprises are not particularly widespread across European countries. Some attempts have been made in Germany, Poland, UK and Finland.

¹ A map of social enterprises and their eco-systems in Europe: <http://ec.europa.eu/social/main.jsp?langId=en&catId=89&newsId=2149> (accessed 20.10.2016)

While the implementation of these measures has had setbacks, there is a potential in social entrepreneurship labeling still to be discovered and put into action. This publication also looks at social entrepreneurship situations in Latvia, Estonia and Denmark, giving suggestions and recommendations on how social entrepreneurship labeling can contribute to creating healthy and thriving social entrepreneurship ecosystems in these countries.

Our hope is that this analytical report will be useful for social entrepreneurship ecosystem stakeholders and interested parties not only in Latvia, Estonia and Denmark, but also all across Europe. Since it touches both on existing research on social entrepreneurship labeling, as well as investigates particular case studies and existing examples, it can be used to gain a deeper insight into this topic, as discussion material, or as a practical guide for beginning to think and talk about social entrepreneurship labeling initiatives. At the end of the report, you will find a comprehensive list of sources and materials for further research.



**SOCIAL VALUE LABELING:
THE BIG PICTURE**

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Little research exists on the successes and failures of social enterprise label and certification systems. These are relatively new initiatives compared to some of the older and better-established social value promotion systems in Europe and the world. In order to see the bigger picture and look deeper into existing research and case studies that might be connected to social entrepreneurship, the authors have chosen to use “social value labeling” as a blanket term that includes different aspects of added social value that many labeling and certification systems bring to the open market. It is quite clear that there are many systems and labels that fall under the category of social value promotion, including labels for products and services that do not necessarily have a legitimate certification mechanism or system, as well as those that have detailed and thorough third party run certification systems in place. Nevertheless, many of them have some basic things in common, and some basic principles they follow in order to reach their goal – to maximize the social value of products, services, companies and even business sectors.

This chapter provides a brief overview of existing research, exploring the theoretical and practical aspects of dealing with the promotion of social value in trade, manufacturing and service provision. The authors will look deeper into distinctions between different types of labeling and certification systems and their characteristics, and will look into various approaches of organizing these systems. The chapter will also touch upon issues related to administration, communication and consumer perceptions. The authors have tried to take the approach outlined by Mick Blowfield, who has described the benefits of not separating environmental and social issues, allowing for more integration between these value oriented issues.²

There are two main questions explored in this chapter:

1. Are there any administrative and organizational differences between various social value promotion certification systems, and, if yes - what are they?

² Blowfield Mick (1999) *Ethical trade: A review of developments and issues*: <http://www.tandfonline.com/> (accessed 20.10.2016)

2. What can be learned from the existing research on social value certification and labeling systems – what are the key factors for success, and what risks should be kept in mind?

One of the issues not explored in this chapter is the distinction between certifica-

tion and a special legal status or form. Exploring the implications of this distinction would require a more lengthy study. This report instead focuses on the possibilities that labeling and certification initiatives create and provide for the social entrepreneurship sector. For the purposes of this report, therefore we use the term “certification” as a

broad umbrella term that includes all of the criteria based mechanisms, including those created by public bodies.

Social value labeling: administrative and organizational differences, different systemic approaches

Mick Blowfield has attempted to draw a distinction between different approaches to conducting social value promotion. The author has given an example of how to draw a line between initiatives that seek to establish long-term relations between producers and consumers (e.g. *Fair trade*), while ensuring stable prices and more producer involvement in marketing, and other initiatives that are more concerned with managing the conditions of production. M.Blowfield notes that many different divides can be drawn,

but has in this case chosen to draw a distinction between what he calls “labeling initiatives” and “enterprise initiatives”.

- **The enterprise initiatives** are measures taken and standards used by a company in order to assess the social or environmental impact of the company and its suppliers.
- **Labeling initiatives** are independently run standards that companies seek to meet in order to earn the right to use

the label or mark associated with compliance.³

In the case of enterprise initiatives, M.Blowfield describes codes of practice and statements of business principles. The biggest challenge is ensuring compliance. In many cases, there is little independent verification, and NGOs and trade unions have a history of arguing about the necessity of au-

³ Blowfield Mick (1999) *Ethical trade: A review of developments and issues*: <http://www.tandfonline.com/> (accessed 20.10.2016)

audits for these initiatives. Also, many companies have had heated discussions regarding the costs and confidentiality of the certification process and audits. Even if these considerations were deemed unjustified, there remains the question of agreed upon auditing standards and access to qualified auditors. Enterprise initiatives are most useful when regulating the impact of a process that is contained in a certain physical space, e.g. a factory or service facility. They are not very useful for showing the negative impact outside or beyond the actual enterprise – e.g. the impact on supply chains. M.Blowfield also describes enterprise initiatives as constrained in time -they tend to either focus on impact in the present or short-term future.⁴

Many enterprise initiatives do not attempt to combine environmental and social goals. They tend to be limited in scope and very rarely can be used to compare different companies and therefore help to guide consumer decisions. M.Blowfield points out that even though there is little research available on the costs of implementing en-

terprise initiatives, there is some evidence that the costs make it more difficult for smaller enterprises to engage in these practices.⁵ Enterprise initiatives are more prevalent in larger companies, which can afford them, but even in these cases, this type of solution has its own share of problems.

Concerning labeling initiatives, M.Blowfield describes how these gained a bad reputation during the 1980s, when several companies used labels claiming their products were “environmentally friendly,” when they in fact were proven not to be. Despite this, many labeling organizations are well established and working to alleviate concerns about enterprises and the impact of their products and services. They seek to dispel concerns that companies are setting standards for themselves and that the implementation of standards is not monitored or verified in any way. Such labels, issued by an independent third party, help to prevent customer confusion and allow companies to charge an “ethical premium” – an increased price that incorporates the added

social value and social impact. M.Blowfield also points out that labeling initiatives are active in both the environmental and social sphere, and increasingly attempt to combine the two.⁶

M.Blowfield categorizes different types of labeling initiatives:

- Membership based labeling initiatives that include a wide range of stakeholders in the process of developing the label.
- Single independent actor labeling initiatives, private or public⁷, developed solely by the holder of the label and then offered for wider use.

Helping to reduce consumer confusion is one of the strengths of labeling initiatives. The actors involved in implementing the initiatives also potentially have access to more expertise than individual companies would have. While the independence of labeling initiatives is seen as one of its main strengths, this interdependence is sometimes called

4 Blowfield Mick (1999) *Ethical trade: A review of developments and issues*: <http://www.tandfonline.com/> (accessed 20.10.2016)

5 Same source

6 Same source

7 Same source

into question if the responsible actor is an industry association or organizations with very close links to particular companies or commercial sectors. It should also be noted that the agencies engaged in carrying out labeling initiatives are often dependent on the revenues from the companies using the labels. Credibility problems arising from loss of independence are most severe during the initial stages of launching a labeling initiative.⁸ Labeling initiatives help solve quite a few of the shortcomings of the enterprise initiatives described before. However, it is important to keep in mind the legitimacy and credibility of the label.

M. Blowfield has also made a distinction between two approaches to the process of evaluating companies, which applies to both enterprise and labeling initiatives.

- A performance based process, which measures how well specific indicators and criteria are met.
- A procedure based approach, which measures how well the company is do-

⁸ Blowfield Mick (1999) *Ethical trade: A review of developments and issues*: <http://www.tandfonline.com/> (accessed 20.10.2016)

ing in adopting procedures.

Often the performance approach is clearer and sets more understandable standards, but is criticized for being very static and making measurements on a “pass-fail” basis. The procedural approach is seen as more dynamic; however, it poses the risk of organizations setting goals that are too low, just to make it appear as if meaningful progress is being made. A compromise might be the best solution - firstly adopting the performance approach and then supplementing it with procedural elements. A consensus generally exists that labels should not aim to be overly exclusive and strive to compare different companies. Instead the primary aim is to achieve improvements in the ethical standards of as many companies as possible while not discouraging any.⁹

Another author, Tim Bartley, has analyzed the causes and reasons behind the emergence of private certification systems in the form of regulatory associations in two different fields of commercial activity (forest products and apparel) in roughly the same

⁹ Same source

period. T. Bartley points out that the controversy dynamics and conflicts in the two fields were similar. The innovation in both of them was caused by a very particular social movement strategy, taking place in what Bartley describes as a neo-liberal institutional context. T. Bartley argues that it would have been possible for the social movements to achieve their goals through public sector regulation, had there not been international constraints prioritizing the predominance of free trade. The interplay between these two aspects can be summarized as follows:

- Where a social movement is present and enterprises care about their brand reputations, it is likely that there will be pressure to create private or public regulatory agents that provide certification systems.
- In cases where international trade is involved, it will be institutionally difficult for government to provide this service directly and they will instead choose to support third party certification bodies. This, however, means that in cases where the regulated enterpris-

es engage in trade only on a national level it is more institutionally feasible for this to be regulated by the public sector.¹⁰

The question of “supranational” regulations might be an important one to raise in the context of European Union member states. One should take heed of possible issues that might arise with national certification initiatives conflicting with EU regulations and being incompatible with the common market.

Other research by Scott Marshall and Stephen Standifird analyzes the impact of the development of national standards on organic food and agricultural certification systems in the United States. They look at the impact on three individual certification agencies: Quality Assurance International, the Food Alliance and Oregon Tilth, Inc. These three certification agencies took different approaches to integrating the national standard into their own systems:

- Quality Assurance International incorporated the new national standard in their own certification system.
- Food Alliance attempted to exceed the standard by making it more challenging to obtain certification.
- The position of Oregon Tilth Inc. as a certification agency was diminished, as their standards, previously regarded as unique, were institutionalized at the national level.

These findings indicate that the development of national standards can have a different impact on third party certification providers, depending on the compatibility of their standards to those of the national level, as well as their willingness and ability to adapt to the new situation.¹¹

Another author, Rebecca Schewe, has compared two certification systems – the United States Department of Agriculture National Organic Program and the Demeter

International certification in the dairy sector of New Zealand. R.Schewe describes the hybrid certification of USDA NOP, which combines weaknesses typically found in state run systems, like the hegemonic and monolithic nature of the process, with those present in privately run systems, namely the lack of consistency, democracy and transparency. While analyzing the Demeter International certification system, R.Schewe concludes that it has largely managed to avoid the lack of democracy supposedly inherent in private run certification systems. This means that:

- One should be cautious about generalizing inherent characteristics of both state run and privately run systems.
- One should also take into account that it is sometimes complicated to make a clear distinction between a private and a public certification system.¹²

Axel Marx has conducted a large-scale analysis of more than 400 eco-labels, ana-

10 Bartley Tim. (2003) *Certifying Forests and Factories: States, Social Movements, and the Rise of Private Regulation in the Apparel and Forest Products Fields*: <http://online.sagepub.com/> (accessed 20.10.2016)

11 Marshall R. Scott, Standifird Stephen S. (2005) *Organizational Resource Bundles and Institutional Change in the U.S. Organic Food and Agricultural Certification Sector*: <http://online.sagepub.com/> (accessed 20.10.2016)

12 Schewe Rebecca L. (2011) *Two wrongs don't make a right: state and private organic certification in New Zealand dairy*: <http://online.sagepub.com/> (accessed 20.10.2016)

lyzing their institutional designs and focus on mechanisms for ensuring legitimacy. A.Marx argues that most of the research regarding legitimacy mechanisms has been connected to decision-making procedures and the aspect of creating mechanisms for resolving disputes and holding labeler organizations accountable by stakeholders has been largely ignored. Data indicates that:

- Certification organizations often allow several stakeholders to participate in defining the “rules of the game,” so they can be regarded as democratic in a sense.
- Verification mechanisms for whether or not companies abide by the rules are often not in place, or not implemented well enough.
- Very few certification systems have clear public information mechanisms and mechanisms that allow for settling disputes.¹³

13 Marx Axel. (2013) *Varieties of legitimacy: a configurational institutional design analysis of eco-labels*: <http://www.tandfonline.com/> (accessed 20.10.2016)

Summing up the conclusions and findings in the publications mentioned above:

- 1) The array of differences between labeling and certification systems is vast. One of the distinctions described is the one between the initiatives of the enterprise itself and outside certification systems and labels. After examining both, it becomes clear why relying on entrepreneurs to set up their own initiatives for their own businesses might be insufficient
- 2) More attention should be attributed to outside labeling and certification systems. The level of entrepreneur involvement in the management of systems is an important aspect that should be thoroughly examined. Consideration should be given to how democratic the process is, and also how membership and involvement in “defining the rules of the game” is merely the minimum possible level of system transparency. Research shows that there can be different approaches to the decision-making process, including those deci-

sions that refer to drafting the criteria and verification process.

Successes and possible risks of social value certification and labeling initiatives.

One of the main questions that should be answered when thinking about an evaluation of the success of a labeling initiative is – what impact, if any, can the actual label and its attributes have on consumer choice? Some authors, like Alison Grace, have put emphasis on analyzing the specific things that can be learned by consumers looking at labels on products:

- Different characteristics - label size, hints to the transparency of the process, types of images used that could give a hint if the commitments expressed by the labels are genuine.
- Whether the specific producer has just one or more of their products labeled with the particular label, or is the whole company as such committed to the label, making sure all (or most) of its production meets the label standard.

- “Gateway invitation” – where to find more information about the label? In the case of over half of the labeled coffee brands researched by A.Grace, a small sticker on the product sought to convey all the information, with no indication of where to gain additional information. This could be a problem if the aim is to achieve a more politically aware and engaged consumer culture and not just to use the label to achieve higher sales.¹⁴

Gareth White and Anthony Samuel have attempted to assess the successes and failures of Fairtrade certification and labeling systems G.White and A.Samuel note that Fair Trade could be regarded as an overall success story of social value certification schemes. The Fair trade labeling and certi-

14 Cliath Grace Alison. (2007) *SEEING SHADES Ecological and Socially Just Labeling*: <http://online.sagepub.com/> (accessed 20.10.2016)

fication systems follow the principles of independent monitoring and certification by a third party and are governed by the Fairtrade Labeling Organization. The audits carried out by the FLO ensure that the producers meet appropriate standards. Manufacturers who wish to obtain the FLO label for their products must purchase commodities that have also received the Fairtrade label. A fee must be paid in order to obtain certification. Some other publications point out that the Fairtrade label serves a more profound purpose than just assisting busy shoppers with choosing products in accordance with their preferences by conveying a simplified message. The label also serves as a tool assisting the consumer in constructing an identity that they themselves might find attractive.¹⁵

15 White R. T. Gareth, Samuel Anthony. (2015) *Fairtrade and Halal Food Certification and Labeling: Commercial Lessons and Religious Limitations*: <http://online.sagepub.com/> (accessed 20.10.2016)

Despite the fact that the Fairtrade labeling and certification systems are mostly regarded as successful, there are also some critical remarks:

- **Consumer confusion** - as more third party certification systems on social and ethical products appear, their appearance is followed by growing consumer confusion and skepticism about the attributes that such products supposedly have.
- **Growing standardization of criteria** for obtaining the certification might prove impossible to achieve for some organizations, which in principle would deserve it.
- **Unmatchable competition.** More warnings are being sounded about large corporations obtaining certification and presenting smaller Fairtrade labeled organizations with unmatchable competition. When these large corporations engage in obtaining certification purely for profit and not because of having a primary social goal, consumers might lose faith in the label.

Connected with this is the notion that the certification system fails to differentiate between organizations that fit just the minimum standards of certification and those that go further. This point is very important when thinking about the certification system in terms of whether the certification should be awarded to specific products or to the enterprises themselves.

- **Oversimplifying the message.** The message conveyed by the label might serve to promote a shallow understanding of what the purposes of the Fairtrade certification are.¹⁶

When speaking about eco-labeling and eco-certification, even though the processes are related, there are benefits to looking at them separately. Magali Delmas and Laura Grant point out in their research that looking at the certification process by itself allows the identification of several benefits of going through the eco-certification process with-

16 White R. T. Gareth, Samuel Anthony. (2015) *Fairtrade and Halal Food Certification and Labeling: Commercial Lessons and Religious Limitations*: <http://online.sagepub.com/> (accessed 20.10.2016)

out acquiring the eco-label. Benefits include an improved reputation and/or better brand recognition. By analyzing eco-certification, the process and results in the wine industry M.Delmas and L.Grant conclude that it can lead to price premiums, while eco-labeling does not by itself have this result.¹⁷

M.Delmas and Neil Lessem have also analyzed whether or not acquiring an eco-label may in fact have a negative effect on the product's standing in the market. One of the main aims of using an eco-label is to prevent information asymmetry between the producers and the consumers, by encouraging the producers to engage in more information disclosure on the circumstances of production. M.Delmas and N.Lessem claim that it is possible that the information conveyed by a label might be irrelevant, confusing or even misleading. Their research on eco-labels in the wine industry indicates that consumers might regard products holding an eco-label as having a lower overall quality. Another conclusion is that it does

17 Delmas Magali A., Grant Laura E. (2014) *Eco-Labeling Strategies and Price-Premium The Wine Industry Puzzle*: <http://online.sagepub.com/> (accessed 20.10.2016)

not appear that the consumers can tell apart different eco-labels regarding whether they believe the label indicates lower quality. The authors stress the need to communicate clearly both the positive effects on the environment as well as the benefits gained for consumers on the private level.¹⁸

Eden Sally in her research have also pointed out the possibility that labels, specifically food labels, should not be regarded as having a constant meaning to consumers. Instead, it should be acknowledged that the meanings attributed to specific labels and their content gain their meaning in social interactions with different groups such as producers, regulators, retailers and consumers. These meanings change over time: the author gives the example of the use of the term “probiotic” in the United Kingdom. This term distinguished products from similar terms - like “ecological” and “biological” which are used elsewhere in Europe to mark organic food. E.Sally states that it is possible that labels can fail even when provid-

18 Delmas Magali A., Lessem Neil. (2015) *Eco-Premium or Eco-Penalty? Eco-Labels and Quality in the Organic Wine Market*: <http://online.sagepub.com/> (accessed 20.10.2016)

ing a lot of information, because they lack the necessary social interactions to ascribe meaning. Similarly, a label successful in crafting meaning through social interaction might be successful even when information on the meaning of the label is lacking.¹⁹

Several authors, like Michelle Esparon, have analyzed the impact eco-certification has on tourism operators. Her conclusion is that customers have a more favorable view on tourism service providers that are eco-certified, especially in the sphere of accommodation provision. This, however, can be quite different from the actual positive impact that service providers have on the environment, regardless of the opinions of the consumers, who lack access to information needed to make informed decisions.²⁰

The impact of social enterprise labels or work integration enterprise labels (showing if and how vulnerable groups have been in-

19 Eden Sally. (2011) *Food labels as boundary objects: How consumers make sense of organic and functional foods*: <http://online.sagepub.com/> (accessed 20.10.2016)

20 Esparon Michelle, et.al. (2013) *Does ECO certification deliver benefits? An empirical investigation of visitors' perceptions of the importance of ECO certification's attributes and of operators' performance*: <http://www.tandfonline.com/> (accessed 20.10.2016)

involved in the company, making the product and/or providing the service) has so far received little attention from researchers. Researchers in Korea have conducted a study about the impact of social enterprise labeling on consumer behavior. The findings of the study indicate that:

- Displaying the social enterprise label logo on the products always had a positive impact on the purchasing intentions of customers. This was true even in cases when the information disclosed the fact that the vulnerable group involved was one towards which the participants of the study held generally negative views.
- The views the participants had on the quality of the products were not influenced by the social enterprise logo or by the information about the socially vulnerable groups employed by the company.
- However, it is also interesting to note that, in cases when the social enterprise logo was not displayed on the product, the impact on purchasing in-

tentions differed. In cases when the logo was not present, the impact of displayed information about vulnerable groups was either positive or negative depending on the participant's views on the group.²¹

It should be considered if enterprises, which could technically be certified as social enterprises and are dealing with specific

vulnerable groups, are subject to indirect discrimination. The study on the Korean social enterprise certification leads us to believe that the displaying of a social enterprise label could in some cases help to counter discrimination against enterprises dealing with "unpopular" disadvantaged groups.

The most important lesson here is that attention should be given to consumer per-

ceptions on the issues or groups connected to the products or enterprises being labeled as well as the social interactions that might continue to shape these perceptions in the future. Certain steps might also have to be taken to avoid negative consumer perceptions of the certification systems.

21 Choi Gyu-Hyeon, Kim Junyong. (2016) *Effects of displaying social enterprise certification information on consumers' product evaluations and purchase intentions*: <http://online.sagepub.com/> (accessed 20.10.2016)

Social value labeling: what can we learn?

It is clear that up until this point there has not been much focus on social enterprise labeling in Europe or the world. Most of the existing research focuses instead on either Fair Trade or environmentally centered labeling initiatives.

Understanding the different aspects of an institutional perspective of social value labeling initiatives can be helpful in develop-

ing an overall framework for a possible labeling or certification initiative. The general questions for contemplating the institutional setup of an initiative are:

- Under what circumstances are certification mechanisms established and is it helpful to supplement certification with labeling initiatives?
- Is there a need to label the whole en-

terprise, or just some products or services? What distinctions can be drawn between certification system types?

- What should the managing bodies of the certification and/or labeling initiatives be? What are the associated strengths and weaknesses?
- Is the organization managing certification and issuing labels transparent

and open to participation?

The research on effectiveness of labels as a means for altering public opinion and raising awareness highlights several questions that should be considered:

- What is the focus of the labeling initiative – is it altering public perceptions, and/or something else?
- What are the pre-existing public perceptions of the labeled products and services (or the people who make/provide them)?
- What are the pre-conditions for a label to have the ability to have an impact on public perceptions?
- Do the existing public perceptions help or hinder the achievement of the purpose of the label? What are the possible risks?

Most of the research does not focus on social enterprise labeling initiatives specifically, but explores answers to questions that could possibly apply to the social entrepreneurship sector as well. Exploring and discussing the answers to these questions

in a social entrepreneurship context in a particular country or situation could offer a foundation for planning and evaluating labeling initiatives in different circumstances.



2.

NATIONAL LEVEL SOCIAL VALUE LABELING: LATVIA, ESTONIA AND DENMARK

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This chapter explores social value labeling cases in three countries - Estonia, Latvia and Denmark. Authors have looked at existing labeling initiatives in each country, giving a brief overview about the main purpose of each initiative, the administrative and organizational system used, the general implementation process, as well as the results and achievements of each case. Even though cases described here vary in scope and approach, they have some common characteristics and attributes that could be valuable to identify. This could help to better understand how they work and how similar initiatives could be started and implemented. The data sources for this chapter include expert interviews, analysis of legislation and other documents, as well as secondary research.



FREE FROM GMO (LATVIA)

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GENERAL DESCRIPTION AND PURPOSE:

The purpose of the “Free from GMO” (“genetically modified organisms”) label and Free from GMO movement is to improve and promote the accessibility and visibility of GMO-free food and ingredients. That is done by labeling those enterprises (especially public catering enterprises like restaurants, cafes etc), organizations and institutions that are not selling and using products containing GMO or products that have been produced using GMO.

ADMINISTRATION MECHANISM:

The Free From GMO label was initiated and is administered by a non-profit organi-

zation “Zemes Draugi” (Friends of the Earth Latvia), which also has developed the criteria and process for obtaining the label.

CERTIFICATION PROCESS:

In order for a company to receive the label, it has to apply to join the Free from GMO movement by filling in an online questionnaire. The criteria and conditions for using the label are stated in the questionnaire, as well as described in the webpage. After that, the “Zemes Draugi” office reviews the application, and checks if the company or institution complies with all the criteria. If yes, the company is invited to sign a contract, and after that, they are allowed to use the Free From GMO label. “Zemes Draugi” checks each company at least once a year to see whether it still complies with all the criteria and conditions.

ACHIEVEMENTS OF THE INITIATIVE:

There are 54 companies using the Free from GMO label in Latvia. It is known and recognized among people interested in a sustainable and environmentally friendly

lifestyle in Latvia though the label is not well recognized among the general public.^{22 23}



FAMILY FRIENDLY ENTERPRISE MARK (LATVIA)

GENERAL DESCRIPTION AND PURPOSE:

Even though some activities in promoting family-friendly enterprises in Latvia are present as early as 2007, the FFEM has only been awarded since 2011. As many as 15 enterprises receive the FFEM annually and

²² Free From GMO homepage: <http://brivsnogmo.lv/> (accessed 28.10.2016)

²³ Interview with Jana Simanovska, ecolabeling expert, (28.10.2016)

use in both internal and public communication. The goal of the mark is to foster appreciation for enterprises that pursue policies and provide services that could be regarded as family and child friendly as well as motivating more entrepreneurs to adopt such policies in their businesses.

ADMINISTRATION MECHANISM:

The Family Friendly Enterprise Mark (FFEM) is a voluntary label, obtained by enterprises that pursue family-friendly policies in commercial activity and potentially other impactful activities. The mark is awarded by the Institute for Corporate Sustainability and Responsibility (InCSR) which is an NGO founded in 2011.

CERTIFICATION PROCESS:

Enterprises applying for the FFEM must also apply for the evaluation of the enterprise through the Index of Sustainability, which is managed by the same NGO. The Index of Sustainability assists enterprises in evaluating the sustainability of their operations and levels of corporate responsibility. In addition to this, the evaluations provide a basis for

society and the NGO sector to take part in promoting and supporting enterprises that perform well in the evaluation. The experts of the InCSR have updated the methodology for issuing the FFEM in 2016. This was done to refocus the attention of the criteria from various benefits for families with children to requirements for implementing measures to provide more flexible work schedules and providing care for children during working hours. During the process of improving the criteria used for issuing the FFEM, the experts based their work on two major principles. One was diversity management and the other was the facilitation of opportunities for employees to harmonize their family life with more flexible working schedules. The FFEM can be obtained by any small, medium or large enterprise registered in Latvia that would like to learn more about its respective failures and successes and what the best way towards improvement would be. While technically any enterprise could fit the criteria of the FFEM certain business sectors are excluded from obtaining it due to their production being judged “unfriendly for children or families”. These sectors in-

clude the alcohol, tobacco, gambling and gun/weapon industries.

ACHIEVEMENTS OF THE INITIATIVE:

Interest of enterprises to obtain an evaluation of their activities as part of the Index of Sustainability increases annually, as does interest in obtaining the FFEM. In 2016, 80 enterprises applied for ICSR evaluation as well as the FFEM, 24 of these enterprises received the FFEM.^{24 25}

24 Institute for Corporate Sustainability and Responsibility homepage <http://incsr.eu/lv/novertejums/gimenei-draudzigs-komersants/> (accessed 28.10.2016)

25 Dace Helmane. Chief Executive Officer at Institute for Corporate Sustainability and Responsibility - written response (07.11.2016)



APPROVED ESTONIAN TASTE (ESTONIA)

GENERAL DESCRIPTION AND PURPOSE:

The aim of the labeling initiative Approved Estonian Taste is the promotion of high-quality Estonian food products and beverages, empowering local consumers to make informed decisions. The labeled products attract attention because it is considered proof of locality and quality. It is also a question of prestige for the manufacturing enterprise that wants to show that it uses local materials and sell high-quality products.²⁶ While the marketing activities of the

26 Estonian Chamber of Agriculture and Commerce - Approved Estonian Taste: <http://epkk.ee/en/quality-labels/> (accessed 28.10.2016)

labeled products are done by the enterprises themselves, the issuer provides a radio and TV commercial that introduces the theme and informs about the competition. The label manager promotes the labeled products via social media.

ADMINISTRATION MECHANISM:

The label has been developed by The Estonian Chamber of Agriculture and Commerce since 1997. The organization is an association that unites agricultural producers and their unions, as well as processors of agricultural products and their unions. It also unites the companies providing services to the agricultural sector since 1996.

CERTIFICATION PROCESS:

In order to use the AET label the products must be manufactured 100% from Estonian raw materials. The product must also pass a laboratory and sensory evaluation.²⁷ Product quality is evaluated by an impartial

expert committee. The issuer carries out a yearly control check in both production facilities and warehouses. The evaluation takes place twice a year (both evaluation of new products and re-evaluation). The license is renewed every year.

ACHIEVEMENTS:

The label is one of the best known local labels and is widely recognized among consumers. The certification and control mechanisms have proved to be effective and have not led to any problems. The label is issued extensively for marketing purposes during the Month of Estonian food. The Month of Estonian food focuses on local food and food culture and includes several events like conferences, festivals, markets etc. Surveys show that the awareness raised on the issue has a positive impact on consumer choices.



RESPONSIBLE
BUSINESS INDEX
GOLD LEVEL 2015

THE RESPONSIBLE BUSINESS INDEX (ESTONIA)

GENERAL DESCRIPTION AND PURPOSE:

The purpose of the label is to serve as an indicator of responsible entrepreneurship and increase consumer awareness of responsible entrepreneurial activities both at home and abroad. Another long term aim is to strengthen the political will and public acceptance of favorable conditions for responsible enterprises in relation to the public sector and public procurements. Enterprises of any economic sector may apply for the label. The issuer uses social media for the promotion of the label and the recipients

²⁷ Organic farming and special food markings in Estonia:
https://www.eesti.ee/eng/topics/toitumine/mahepollumajandus_toiduainete_erimargistus (accessed 28.10.2016)

of the label use the label in their marketing efforts in various ways.²⁸

ADMINISTRATION MECHANISM:

The index is managed by the Responsible Business Forum in Estonia - a non-profit organization. The Ministry of Justice is a partner and in the future the issuers hope to cooperate with the Ministry of Finance as well. Representatives of the ministries participate in the evaluation process.

CERTIFICATION PROCESS:

Filling in the application is a long and complicated process. It is a tool with tens of questions. Applications are evaluated by two evaluators, as well as by substantive experts and representatives of the Ministry of Justice and Estonian Diversity Charter. Due to the in-depth evaluation, the license is awarded for two years and the aspect of devotion (time and effort) is also communicated in the public sector. The questionnaire employed in the certification process also serves to educate CEO-s of enterprises and

28 Responsible business index: <http://www.csr.ee/vastutus-tundliku-ettevotluse-indeks/> (accessed 28.10.2016)

provide them with ideas on how to improve their business.

ACHIEVEMENTS:

Currently the label is not taken into consideration in procurements, but the issuer claims that the awareness of the label in the public sector is relatively high. There is not much data that would support claims that the label has been successful from a marketing point of view.^{29 30 31 32}

29 Griffel, K.S.. 2014. Tallinn College of Tallinn University of Technology: <http://digi.lib.ttu.ee/i/?1225> (accessed 31.10.2016)

30 Kondrat Karolin: http://mi.ee/sites/default/files/karolin_kondrat_eesti_tarbijate_teadlikkus_okomargistest_ja_selle_maju_tarbijate_ostuotsustele_ilutoodete_naitel.pdf (accessed 31.10.2016)

31 Kütt, S. The Impact of Consumer-oriented Packaging by the Example of Students of Tallinn College of Tallinn University of Technology. 2015. http://digi.lib.ttu.ee/i/?1964http://mi.ee/sites/default/files/karolin_kondrat_eesti_tarbijate_teadlikkus_okomargistest_ja_selle_maju_tarbijate_ostuotsustele_ilutoodete_naitel.pdf (accessed 31.10.2016)

32 Rosin, K. Environmentally Conscious Consumer Behaviour's Trend. 2014: https://dspace.emu.ee/bitstream/handle/10492/1833/Katrin_Rosin_BA2014.pdf?sequence=2 (accessed 31.10.2016)



THE DANISH Ø-MARK/ THE DANISH ECO- LABEL (DENMARK)

GENERAL DESCRIPTION AND PURPOSE:

In 1987 Denmark created the first law in the world, regarding organic production of food. Two years later in 1989 the first legal framework surrounding the Danish Eco-label was created. The purpose of the law and control is to ensure credibility with the consumer. The focus of the law is on the production and processing of food, consumers and creating a level playing field in the market. Beside the general law there are also a lot of rules and regulations that deal with different

business sectors specifically.³³

ADMINISTRATION MECHANISM:

The label is a government run initiative. Organic farms and companies producing the following products are registered and monitored by the Danish Agrifish Agency: organic feed, seeds, fertilizers and other non-food products. The Organic Farming division monitors that organic farms comply with the rules applicable to both organic plant and animal husbandry. Furthermore, the division inspects enterprises producing or marketing: organic feed, seeds, cereals, fertilizers and other non-food products.

CERTIFICATION PROCESS:

To verify the origin and production method of organic products, strict rules apply to organic production, and inspections are carried out at all stages of production and processing of organic foods. Both Agencies ensure that farmers can get or lose their license to use The Danish Eco-label. If the farmers or producers don't comply with the

33 Denmark - Law on production of organic food: <https://www.retsinformation.dk/Forms/R0710.aspx?id=174523> (accessed 31.10.2016)

rules, they risk getting a significant fine.³⁴ The Danish Eco-label is not exclusively for Danish produced products. Imported products can also be labeled with the Danish eco-label but only importing or manufacturing companies certified by the Danish government can put the label on the package.

ACHIEVEMENTS:

The label's success in gaining recognition is substantial. 99.9 % of the general population recognizes the Danish Eco-label. Alternative labels have not been as successful as, for example, only 40% of the population recognizes the EU organic label. The assumption of successful awareness raising efforts are validated by the fact that no other country consumes more organic products per capita than Denmark, and sales of organic products have increased by more than 80 per cent since 2003. Currently 10% of all food products bought in Danish retail stores are organic.³⁵

34 Danish Veterinary and Food Administration <https://www.foedevarestyrelsen.dk/english/Pages/default.aspx> (accessed 31.10.2016)

35 Ministry of Environment and Food of Denmark <http://en.mfvvm.dk/the-ministry/> (accessed 31.10.2016)



REGISTRATION SCHEME FOR SOCIAL ENTERPRISES (DENMARK)

GENERAL DESCRIPTION AND PURPOSE:

In June 2014, the Danish Parliament passed the "Act on Registered Social Enterprises"³⁶. The act allows interested enterprises to receive an official seal of approval as a "registered social enterprise" from the Danish authorities. The act is the first of its kind in the European Union. The

36 Act on Registered Social Enterprises (Lov nr. 711 – 26.06.2014) <https://www.retsinformation.dk/forms/r0710.aspx?id=163865> (accessed 31.10.2016)

purpose of the registration scheme is to make it easier for customers, investors and others to find social enterprises, and ensure that the enterprise is in fact a socially responsible company. In addition, the scheme paves the way for monitoring the development of social enterprises in Denmark and targeting specific legislation at registered enterprises.

ADMINISTRATION MECHANISM:

The label is a government run initiative. Since January 2015, enterprises have been able to register as a social enterprise at The Central Business Register (CVR - www.virk.dk), which contains primary data on all businesses in Denmark. The Danish Business Authority manages the registrations. When the scheme was introduced, it was promoted by The National Centre for Social Enterprises, but the promotion has since been closed down due to changed government priorities. Now civil society organizations informally promote the scheme to some extent via their own channels.

CERTIFICATION PROCESS:

In order to register, an enterprise must meet five criteria applying to social enterprises: social purpose, significant commercial activity, independence of public authorities, inclusive and responsible governance, and social management of profits. If the Danish Business Authority approves an application, 4 weeks after the approval the enterprise can officially use the term and hence also the mark of Registered Social Enterprise to label itself.³⁷

ACHIEVEMENTS:

So far³⁸ 171 enterprises have registered as a social enterprise under the scheme. The National Centre for Social Enterprises, which was intended as the main promoter of the label initiative, has been closed down, but despite that, the number of social enterprises that choose to register has been growing steadily. Currently there are no obvious advantages associated with becoming

ing a registered social enterprise, e.g. the possibility to become tax exempt or gain advantages in regard to public procurement procedures. But many social enterprises expect that registered social enterprises will be prioritized in future public procurement, and this appears to be an important incentive to register. Also, municipalities (e.g. The Municipality of Aarhus – the second largest in Denmark) seem to prefer registered social enterprises - it is easier for municipalities to find social enterprises when they are registered, and it is also legally safer for a municipality to co-operate and buy from a registered social enterprise.³⁹ The Municipality of Odense has established a platform for suppliers, where social enterprises can register and note that they are a Registered Social Enterprise so the municipality commissioners match the social enterprises with relevant public procurement. So far, about a half of the total number of social enterprises in Denmark have registered in the scheme and it appears that the scheme is

37 Danish National Centre for Social Enterprises homepage - <http://socialvirksomhed.dk/en/about-social-economy-i-denmark/social%20enterprises%20in%20Denmark> (accessed 31.10.2016)

38 Until October 2016

39 Recommendation Report, The Committee on Social Enterprises (2013) ISBN (Denmark): 978-87-7546-447-0 (online edition) <http://socialvirksomhed.dk/en/files/recommendationreport.pdf> (accessed 31.10.2016)

considered relevant by social enterprises. A few social enterprises have dropped out of the scheme after having been registered for a short period. No data is available on their reasons for leaving the scheme. There are no statistics available on awareness of the scheme among the general population.

As there have been no public campaigns to promote the scheme, it would be fair to say that few among the general population know about the scheme, and few would have general knowledge about the concept of social enterprise. So far, the Registration scheme for social enterprises is still mostly

only known among people within the social enterprise field.⁴⁰

40 Interviews with The Danish Business Authority and National Organic Association

Social value labeling in Latvia, Estonia and Denmark: lessons learned

One of the first impressions one receives when looking at various labeling initiatives in the three partner countries is that government run certification and labeling initiatives have a much more prominent role in Denmark than in both Estonia and Latvia. This could be explained by the fact that the trust in public institutions is considerably higher in Denmark than in Latvia or Estonia.⁴¹

41 Eurobarometer public opinion data: <http://ec.europa.eu/COMMFrontOffice/publicopinion/index.cfm/General/index> (accessed 02.01.2017)

Another explanation for why Denmark is further ahead with government run social value certification is that the creation and implementation of a government legislative framework requires a favorable political environment and, in circumstances where governments are relatively unstable and their agenda frequently changes, the establishment and sustainability of such systems is at risk. The problem of unstable government and changing government priorities (such as tax rates) is especially acute

in Latvia. The case of Denmark shows that even though it was a government priority to establish the system, the next government did not see it as a priority. The closing of the National Centre for Social Enterprises hindered the initiative significantly. One could perhaps argue that if this government had come into office sooner the legislation on social enterprises would not have been passed in the first place. This shows that financing and management of the certification/labeling systems has to be considered

carefully, and the initial government funding does not guarantee stability.

Another issue arising from analysis of these social value labeling initiatives is the government management experience of such initiatives. Denmark has a longer history with that – the Danish eco-label case, with regulations passed as early as the late 1980s, proves that quite well.

Therefore, when discussing the institutional environment of the labeling initiatives, especially government initiated or held ones, these factors have to be taken into account:

- Public trust in government initiatives.
- A favorable political environment and the stability of government.
- Government experience in managing social value certification and labeling schemes.

The initiatives mentioned in this chapter have mostly been concerned with labeling service providers and not products. These initiatives are aimed at not only manufacturing enterprises, but also service providers. Labeling services can be more complicated

than labeling a product, which has a physical form. Product and service labeling can be more inclusive in cases where enterprises have different services or products, and some of them are with added social value and some are not. In those cases, even if the whole enterprise does not have a social purpose, it can still label one or several products and services and therefore communicate the social value it creates. This would not be possible in cases where the label is issued to the enterprises themselves. Whether this is beneficial or not would depend on the purpose of the initiative and the structural characteristics of the entrepreneurial sector in question.

Most of the selected cases show that there can be different purposes of the initiatives, for example:

- Raising awareness of customers and public officials,
- Influencing the political environment and stakeholder opinion in order to create more favorable conditions for enterprise development,
- Serving as a guarantee for product

and service quality or proving certain characteristics,

- Serving as positive reinforcement/assistance for enterprise development in order to motivate to create increased social value.

Most of these initiatives show a growing public and stakeholder interest. This, with respect to good performance of the older initiatives like the Danish eco-label, seems to indicate that added social value labels have the potential of achieving good results, but it does not mean that the process will not be gradual over a long time span.



**REGIONAL LEVEL SOCIAL
VALUE LABELING: LATVIA,
ESTONIA AND DENMARK**

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This chapter also explores social value labeling examples from three countries, but focuses on labels that have an international aspect and have been implemented or are available nationally and locally as well. There are many widely known social value labels across the world that prove that having an international and cross-border aspect can really help the label move forward and achieve its goals. In these cases, authors examine the purpose behind each initiative, the administration and organizational mechanisms, and achievements and results.



THE NORDIC SWAN ECOLABEL

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GENERAL DESCRIPTION AND PURPOSE:

The Nordic Swan Ecolabel is a voluntary eco-labeling scheme that evaluates the impact of a product on the environment throughout its whole life cycle. It is the official Ecolabel of the Nordic countries and was established in 1989 by the Nordic Council of Ministers, and is now administered by national offices in Sweden, Norway, Denmark, Finland and Iceland. There are 63 product groups within the Nordic Swan Ecolabel. Each product group has overriding general requirements as well as product-specific requirements.

ADMINISTRATION MECHANISM:

The Nordic Swan Ecolabel is an ISO 14024 type 1 Ecolabeling system and is a third-party mechanism.

CERTIFICATION PROCESS:

Products carrying the Nordic Swan Ecolabel meet scientifically sound and extremely high environmental and sometimes climate requirements. A life-cycle perspective is taken and supply chains of the product are analyzed, i.e., the product's impact on the environment from raw material or source to waste. Criteria are also set with regard to quality, health aspects and performance/functionality. All criteria are publicly available on the Nordic Swan Ecolabel website. When applying for a Nordic Swan Ecolabel license, the first step is to fill in an application form. One must also provide documentation demonstrating that the product meets the criteria for the product group. Nordic Ecolabeling checks that products fulfill certain criteria using methods such as samples from independent laboratories, certificates and audit visits. When granted a license, the company may then use the

Nordic Swan Ecolabel on all its marketing of the labeled product or service. The national offices manage the license applications and grant licenses.

ACHIEVEMENTS:

A recent Nordic market survey showed that in the Nordic countries 94% recognized this trademark as an Ecolabel. A growing number of companies are using this label in their own marketing and sales campaigns, and more and more procurements (tenders) are using the Nordic Ecolabeling criteria as environmental requirements, and the Nordic Swan Ecolabel license as documentation that the requirements have been met. Creators and administrators of the label are constantly investing in promoting the label among the general public to make it well known among consumers, and therefore to make it more appealing to producers. The Nordic Swan Ecolabel is well known also beyond the borders of the countries it is being issued in.^{42 43}

42 Nordic Swan ecolabel homepage: <http://www.nordic-ecolabel.org/> (accessed 28.10.2016)

43 Interview with Jana Simanovska, ecolabeling expert, (28.10.2016)



FAIRTRADE AND “FRIEND OF A FAIR TRADE LABEL”

GENERAL DESCRIPTION AND PURPOSE:

The Fairtrade label aims to raise awareness on fair and ethical trade and guide consumers towards making informed decisions. The Fairtrade label issued to products synergizes with a locally issued “Friend of fair trade label”, which is given to shops, restaurants and enterprises that use or sell Fairtrade products in Estonia (issued by the NGO Mondo). One of the aims of Fairtrade is to protect, through consumer behavior, workers and people in third world countries who are not protected by laws. The motivations for members of the market to pursue

obtaining the label are: standing out in the market; sharing values like honesty, ethics and justice.

ADMINISTRATION MECHANISM:

Fairtrade International is a third-party mechanism.

CERTIFICATION PROCESS:

To display the Fairtrade mark on a product the producer organization must first comply with a set of standards that are set by the Fairtrade International organization. The standards are based on social, economic and environmental considerations. After certification, regular checks are carried out to ensure that the company still complies with the criteria. When the application is made, the Fairtrade Labeling Organizations International conducts audits.

ACHIEVEMENTS:

The long term indicator is the success of offering better living and working conditions and salaries to 1.3 million farmers and workers. The number of labeled products is over 30 000 globally. Consumer surveys indicate

that 18% know the label and 11 % would prefer a labeled product. The elderly are least aware of the label but younger Estonians living in cities and price sensitive consumers are the most aware of the label. Price sensitive customers avoid Fairtrade products due to the myth that labeled products are expensive.^{44 45 46 47}

44 Griffel, K.S.. 2014. Tallinn College of Tallinn University of Technology: <http://digi.lib.ttu.ee/i/?1225> (accessed 31.10.2016)

45 Kondrat Karolin: http://mi.ee/sites/default/files/karolin_kondrat_eesti_tarbijate_teadlikkus_okomargistest_ja_selle_moju_tarbijate_ostuotsustele_ilutoodete_naitel.pdf (accessed 31.10.2016)

46 Kütt, S. The Impact of Consumer-oriented Packaging by the Example of Students of Tallinn College of Tallinn University of Technology. 2015. http://digi.lib.ttu.ee/i/?1964http://mi.ee/sites/default/files/karolin_kondrat_eesti_tarbijate_teadlikkus_okomargistest_ja_selle_moju_tarbijate_ostuotsustele_ilutoodete_naitel.pdf (accessed 31.10.2016)

47 Rosin, K. Environmentally Conscious Consumer Behaviour's Trend. 2014: https://dspace.emu.ee/bitstream/handle/10492/1833/Katrin_Rosin_BA2014.pdf?sequence=2 (accessed 31.10.2016)

Certified



Corporation

B CORPORATION

GENERAL DESCRIPTION AND PURPOSE:

One of the international labeling initiatives operational in several European countries, including Denmark, is B Corporations (B-Corp). B-Corp is a labeling initiative and in a sense an international movement directed by the nonprofit organization – B Lab. The aim of the certification and labeling initiative is to create an international community of certified corporations that meet high standards of social and environmental performance, public transparency and legal accountability. Another aim is also to develop tools for impact and performance assessment that would be useful for businesses. The labeling initiative and other activities

aim to raise awareness about important social and environmental issues as well as promote the businesses that work towards improvement in these areas.⁴⁸

ADMINISTRATION MECHANISM:

A non-profit organization B Lab is a third party administration mechanism.

CERTIFICATION PROCESS:

The process of becoming a B-corp has three steps:

- Meeting performance requirements. Businesses are required to use the B-lab survey tool and score a minimum of 80 out of 200 points; the assessment is available for free. After the initial assessment is completed, documentation will be asked for several questions that have been answered with an affirmative answer in the survey. After that, a review of the answers is made during a conversation between the applicant and a reviewer.

- Making legal changes to constitutional documents and the legal form of the business, if necessary.
- Signing the B-corp declaration of interdependence. A company gets certified for 2 years and agrees to participate in an on-site review, if selected randomly.

There are annual certification fees, based on the annual sales of the business. A Standards Advisory Council consisting of independent experts from both business and academia develops B-corp assessment standards. The enterprises participating get scores, which allow both to evaluate their development process and to compare them with other participants.

ACHIEVEMENTS:

There are various benefits of becoming a B Corporation, such as: being a part of a movement, acquiring a reputable label, networking, tools for performance benchmarking, service partnerships and so on. The impact assessment tool is not just meant for big businesses but can also be successfully used by smaller enterprises. Most of

the businesses that use the B-corp assessment tool have no more than 50 employees. Awareness of the label is, however, not high and few enterprises in Denmark are currently members.⁴⁹

48 About B-lab and B-corp: <http://bcorporation.eu/what-are-b-corps/about-b-lab> (accessed 31.10.2016)

49 Information on B-corps <https://www.bcorporation.net/what-are-b-corps> (accessed 31.10.2016)

Regional level social value labeling initiatives: lessons learned

One important conclusion from these case studies is that they have the potential of synergizing with national initiatives - the example of the Fairtrade label and the Estonian Friend of Fairtrade initiative illustrates that quite well. While the Estonian label labels service providers, the system is light and inclusive, raising awareness of the Fairtrade label and also serving as a reward for enterprises willing to engage in promoting the international initiative. This is done in a way that ensures that while both initiatives serve to promote the same social value goals, they do so in an uncompetitive way that helps avoid customer confusion.

The case of B-corp demonstrates that assisting enterprises to evaluate their success can be done on an international level and bring an added value to the growth of enterprises even if the label is not yet well known on a national level. It is fair to say that in order to be part of this scheme, enter-

prises need a high level of inner motivation and commitment to comply with the criteria even if they don't see immediate benefits.

It is worth mentioning that all the regional labeling initiatives are independent third-party initiatives, and that they can be implemented by both public and private organizations. Either way, all the cases highlight the need for transparency of the criteria and process of certification to ensure credibility of the labels.



SOCIAL ENTREPRENEURSHIP LABELING INITIATIVES IN EUROPE

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There is no common set of criteria for social entrepreneurship and social enterprises in Europe and therefore there is no one definition about what social entrepreneurship is (or what it is not). Even though there are some common guiding principles, each country and its stakeholders have their own approach on how to define social entrepreneurship and what stakeholders to include in this business sector. Despite the lack of a common solid definition and guiding criteria, some countries in Europe have started social entrepreneurship labeling initiatives with various success rates and stories.

This chapter explores some of the practices of social enterprise labeling initiatives in Europe, identifying the most successful ones from Poland, Finland United Kingdom.

The report, published by the European Commission, lists European countries that have introduced legal forms or statutes for social enterprises or similar forms of entrepreneurship. Finland, Slovakia, Slovenia, Lithuania, Denmark and Belgium have adopted special legal forms for social enterprises. The UK has developed a legal form for use by social enterprises - Community Interest Company - that specifically adapts the company form. Other countries, such as France, Italy and the Czech Republic, have chosen to adapt the cooperative legal form.⁵⁰ Having a legal form does not, however, automatically imply that a labeling initiative is also present in the country. A legal form for social enterprises could, in a sense, be equated with state run certification schemes and, as established before, certification does not necessarily require an accompanying labeling or vice versa.

At the time of the study (2014) there were no labeling initiatives in Lithuania, Belgium,

50 A map of social enterprises and their eco-systems in Europe: <http://ec.europa.eu/social/keyDocuments.jsp?advSearchKey=socentcntryrepts&mode=advancedSubmit&langl&langld=en> (accessed 20.10.2016)

Slovakia or Slovenia, which are the countries listed as having a legal form for social enterprises. However, Finland is a notable example of such a mark existing and, while Denmark did not have it at the time of the study, it was introduced soon afterwards (as described above). In Denmark, the government controls the certification process and the issuing of the mark. In Finland on the other hand two separate initiatives exist. In the UK no legal form for the social enterprises exists; nevertheless, the private sector has developed a third party alternative providing both a certification and a labeling initiative. In Poland, no government run legal form or state certification system for social enterprises exists, yet the Foundation for Social and Economic Initiatives has developed a third party certification system and label initiative.⁵¹



THE SOCIAL ENTERPRISE MARK (FINLAND)

GENERAL DESCRIPTION AND PURPOSE:

This label aims to not only raise public awareness of the social enterprise model, but also to give social entrepreneurs the opportunity to work on creating a shared identity. The labeling initiative was established in 2012, and at the moment works on a national scope. The costs for enterprises that participate in the initiative consist of:

- A membership fee for the Association for Finnish Work.
- A fee for using the mark itself - 0.01% of the turnover of the enterprise per year, but not more than 5000 euro.⁵²

ADMINISTRATION MECHANISM:

The Social Enterprise Mark is issued by The Association for Finnish Work, a politically independent non-profit organization established over 100 years ago. The revenues for the operation of this organization are raised through membership fees (more than 2000 members in 2015).

CERTIFICATION PROCESS:

In addition to criteria, the EU study mentions another interesting aspect: an unwritten rule exists that the applicant should be a business, a for profit organization, and that many organizations in civil society would not be eligible to receive the certification. The process of evaluating the applicants involves meetings of experts nominated by the board of the Association for Finnish Work. The committee of experts gives a public justification in cases where the certification is granted. While it is a common practice to grant the certification for a three year period, there is also an option for the committee to only grant it for one year. In addition, annual evaluations are made on whether the enterprise still complies with

⁵¹ A map of social enterprises and their eco-systems in Europe: <http://ec.europa.eu/social/keyDocuments.jsp?advSearchKey=socentcntryrepts&mode=advancedSubmit&langl&langId=en> (accessed 20.10.2016)

⁵² Same source

the primary criteria of the certification. The application rules and forms are publicly available in an online platform and the businesses that have received the certification are also required to make annual reports on changes in the enterprises.⁵³

ACHIEVEMENTS:

In 2013 only 43 social enterprises were participants in the initiative. This is partly explained by the fact that public awareness of the concept of social enterprise is low. Many enterprises that would, in fact, be able to acquire the certification are not aware of it. However, public interest in the initiative is rising. Feedback from enterprises indicates that the label can be a useful tool in communication strategies with public sector and charitable foundation actors. Some municipalities also include criteria in their tender procedures giving social enterprises an advantage. Research on the success of the mark from a marketing perspective, however, indicates that it has no significant

53 A map of social enterprises and their eco-systems in Europe: <http://ec.europa.eu/social/keyDocuments.jsp?advSearchKey=socentcntryrepts&mode=advancedSubmit&langl&langld=en> (accessed 20.10.2016)

impact on consumer choices. In contrast, it might have some positive impact on attracting potential employees to the enterprise as the Mark is nevertheless viewed positively.⁵⁴ According to the EU report, exclusion of civil society and volunteer organizations from the possibility to acquire certification is due to intense lobbying from the business sector. This is due to concerns in the business sector and trade unions that the initiative might distort competition and weaken terms of employment.^{55 56}

54 Same source

55 Same source

56 Spear Roger Information on SE labels in Europe: http://www.senscot.net/view_art.php?viewid=18113 (accessed 20.10.2016)



WORK INTEGRATION SOCIAL ENTERPRISES' REGISTRY (FINLAND)

GENERAL DESCRIPTION AND PURPOSE:

The other certification available in Finland is the Work Integration Social Enterprises' Registry. It was established in 2004 with a purpose to promote job creation for the disabled and long-term unemployed. In contrast to the Social Enterprise Mark, there are no participant costs connected to registering for the Social Enterprises' Registry.

ADMINISTRATION MECHANISM:

This certification system is state run and the Ministry of Employment and the Economy is responsible for it.

CERTIFICATION PROCESS:

To apply for certification, the company has to be registered in the Trade Registry and WISE Registry in addition to complying with various criteria. If the company no longer complies with the criteria on the number of disabled or long-term unemployed, it has 6 months to readjust before its certification is terminated.

ACHIEVEMENTS:

A survey of registered work integration social enterprises, conducted by the Ministry of Employment and the Economy in 2009, showed that although the number of WISE registered has not significantly grown over time, the existing WISE have been able to grow their organisations.” Linking the causes of growth with the existence of the WISE register or associated label would be problematic. Overall, the WISE are not a particularly popular model for enterprise activity in Finland and changes to the legal framework are planned.⁵⁷

57 A map of social enterprises and their eco-systems in Europe: <http://ec.europa.eu/social/keyDocuments.jsp?advSearchKey=socentcntryrepts&mode=advancedSubmit&langl&langld=en> (accessed 20.10.2016)



SOCIAL ENTERPRISE LABELING INITIATIVES IN THE UNITED KINGDOM

GENERAL DESCRIPTION AND PURPOSE:

Even though several systems for measuring and evaluating social impact are described in the European Commission’s report on the United Kingdom, the only system that also involved a labeling initiative at the time of the EC study was the “Kitemark”. It has been issued since 2010 by The Social Enterprise Mark company - a business operating under the legal form of community

interest company, claiming to be the “sole independent certification authority for social enterprises in the UK”. The purpose of the mark is to provide a guarantee for customers that the business is operating as a social enterprise. It is an independent certification system with the main purpose of identifying the businesses whose goal is to have a positive impact on the planet and communities.⁵⁸

ADMINISTRATION MECHANISM:

The “Kitemark” is issued by a business operating under the legal form of community interest company – the Social Enterprise Mark company. Participants of the labeling initiative pay an annual fee, which is determined according to the income of the enterprises. The fees range from 350 pounds to 4500 pounds and are subject to tax.

58 Information on Social Enterprise Mark UK: <http://www.socialenterprisemark.org.uk/frequently-asked-questions/#toggle-id-19>

CERTIFICATION PROCESS:

While any organization can apply for certification, only those meeting certain criteria receive it. Applicants for certification must present two main items: a set of annual accounts and the legal constitutional documents of the organization. Examples of externally verified evidence regarding the business meeting its environmental and social objectives is requested, but it is not a formal requirement to present any. A voluntary panel of legal and social enterprise experts is involved in conducting random tests of whether the criteria are rigorously applied to the applicants. The certification system also offers two levels of certification – the standard and the gold level, which rewards enterprises that comply with additional criteria.

ACHIEVEMENTS:

There is some criticism regarding criteria being too rigid and thus making the label too exclusive. A reason for smaller social enterprises not to be overly enthusiastic about joining the initiative are the costs and participation fees - this might be especially

important due to the fact that most social enterprises do not seem to be overly convinced that acquiring certification will provide significant.⁵⁹



SOCIAL ECONOMY CERTIFICATE (POLAND)

GENERAL DESCRIPTION AND PURPOSE:

The Social economy certificate (eS) has been issued to enterprises by the FISE Foundation since 2011 and has a nationwide scope. The aim of the initiative is the promotion of products and services of social enterprises. The certification has no costs

⁵⁹ A map of social enterprises and their eco-systems in Europe: <http://ec.europa.eu/social/keyDocuments.jsp?advSearchKey=socentcntryrepts&mode=advancedSubmit&langI&langId=en> (accessed 20.10.2016)

for the enterprise for the first year, but the annual re-evaluations have a fee - up to 250 euro.

ADMINISTRATION MECHANISM:

The initiative is managed by the FISE Foundation and it is a third party run initiative.

CERTIFICATION PROCESS:

The certificate is initially issued for one year, but needs to be extended annually based on additional evaluations. The criteria for certification are concerned with both the legal form and the scope of the entrepreneurial activities of the business. The eligible applications are assessed based on their financial data (such as return on sales, indebtedness and liquidity), economic prospects of the organization (based on assessment of the economic sector and human capital of the enterprise), social impact of the enterprise and the decision making procedures within it.

ACHIEVEMENTS:

Only 13 enterprises were certified in 2014.

The EC study claims that both this and the other system described below have clearly defined criteria and good access. Both systems accomplish their aims and serve as a useful tool for the promotion of the business activities of the enterprises. However, both certification systems for social enterprises in Poland largely depend on support from the European Social Fund.⁶⁰



ZAKUP PRO-SPOŁECZNY CERTIFICATE FOR “PRO-SOCIAL” GOODS AND SERVICES (POLAND)

GENERAL DESCRIPTION AND PURPOSE:

The certificate for “pro-social” goods and services has been in operation since 2010. It appears to have a more decentralized administration mechanism and its scope spans only several regions of Poland, but has the ambition of expanding its reach. Similarly to the Social economy certificate, the aim of this certification system is the promotion of social enterprise products and services and educating consumers on making responsible decisions.

ADMINISTRATION MECHANISM:

The certificate is issued and managed by the St. Jadwiga Queen of Poland, a third-party actor. There are no costs connected to applying for the certification on the part of the enterprises.

CERTIFICATION PROCESS:

A broader range of organizations are eligible for this certification than for the (eS) certificate – here social enterprises are defined in more inclusive terms. The most important factor that excludes enterprises from possible participation in this initiative is that a minimum of 30% of the revenues must be generated by business activity: sales of goods or services, or payments from public institutions other than grants.

ACHIEVEMENTS:

The system was set up with funding from the Citizen’s Initiatives Fund and, similar to the Social economy certificate case, this initiative too will be dependent on the European Social Fund for its sustainability.⁶¹

⁶¹ Same source

⁶⁰ A map of social enterprises and their eco-systems in Europe: <http://ec.europa.eu/social/keyDocuments.jsp?advSearchKey=socentcntryrepts&mode=advancedSubmit&langl&langld=en> (accessed 20.10.2016)

Social entrepreneurship labeling initiatives in Europe: lessons learned

Even though all the labeling initiatives deal with social enterprises and/or products or services provided by social enterprises, there are some major differences between labeling initiatives in UK, Finland and Poland, and the one in Denmark. In the case of Denmark there is a government run certification and labeling system as well as a formal status which is looking at the enterprise as a whole rather than specific products or services

In the UK, in comparison, the certification and labeling initiative is run by the private sector, while at the same time a formal status and certification of community interest companies exists. This case also illustrates how a third-party certification is introduced to supplement the government system because the latter does not provide any labeling. It is interesting that in the case of UK, it is more difficult for an enterprise to

be certified within the third-party initiative. Another interesting aspect of labeling and certification processes and the way they are implemented is that in cases where the reputation of a label is connected with strict criteria and yet at the same time the labeled enterprises are also clients of the label holder (through participation fees) there is a risk of leniency on part of the issuer in order to raise profits.

The labeling initiative of the United Kingdom is interesting because it in a way promotes competition between label participants through having gradations and levels. This is similar to the B-corp initiative, which grants the participants scores that are published for everyone to see. This is not necessarily a bad thing, nevertheless needs to have an extra emphasis on transparency and communication in order to make it absolutely clear why one enterprise is awarded

with a higher level and another is not.

Finland has two parallel initiatives - one government run and the other third-party run. While, as in the UK, the enterprises can take part in both initiatives simultaneously, the Finnish case is different. The government run certification system is only aimed at work integration enterprises (WISE). Thus the third party initiative is potentially more inclusive than the government one. A potential problem with both systems is that they provide different systems and approaches for the certification of social enterprises, which has the potential of creating customer confusion.

Both labeling initiatives in Poland are third-party run. It is an interesting case where two initiatives do not appear to be supplementing each other. Thus it could be that they are essentially in competition with one another and this might cause customer

confusion. Some of the potential damage is mitigated because none of them directly identifies itself as a “social enterprise” certification systems therefore there might at least be less confusion generated around the concept of a social enterprise itself.



5.

ESTABLISHING A SOCIAL ENTREPRENEURSHIP LABELING INITIATIVE: WHAT TO KEEP IN MIND

Type of certification, labeling

This chapter sums up insights and conclusions from the previous analysis to provide a framework of questions. They can be used to determine what approach should be selected in implementing a social entrepreneurship labeling initiative and to help identify the advantages and disadvantages of each decision. Similarly, the chapter seeks to evaluate the conditions that must be met in order for the implementation of initiatives to be viable.

> **WHAT ARE THE CHALLENGES FACING THE SOCIAL ENTERPRISE SECTOR THAT THE CERTIFICATION OR LABELING INITIATIVE WILL ADDRESS?**

This category deals with the question “what?” in the sense that it helps to clarify the purpose. For example, is it needed to increase sales or improve the quality of particular products/services? If the latter, then it might make sense to focus more on aspects that are concerned with giving feedback to the participants. Is the goal to promote the social entrepreneurship concept among a wider audience, use it to help forge a shared identity among social enterprises or use it for enhanced interaction with other stakeholders? The answers to these questions are in a large part reliant on the existing challenges and views of central stakeholders.

> **WILL THE CONCEPT OF CERTIFICATION STRIVE TO HIGHLIGHT THE BEST OF THE BEST, OR INCLUDE AS MANY AS POSSIBLE?**

Another question is the inclusiveness of the initiative as well as the role it can play in facilitating improvement. These would include, for example, different levels of certification and public/private scorings/index/rankings of the participants with the possibility of receiving constructive feedback.

> **WILL THE INITIATIVE CERTIFY PRODUCTS AND/OR SERVICES, OR WHOLE ENTERPRISES?**

Another question deals with the subject of the initiative – is it the whole enterprise, or just its products or services? Certification initiatives that focus on enterprises have the potential to be more exclusive due to the fact that the entire enterprise must be evaluated, including all operations, products and services. The situation is different if products/services are being labeled since it could be argued that labeling these might be valuable

even when/if most of the other operations of the enterprise do not create added social value. The choice to certify enterprises can be more beneficial if the goal is to forge a shared social enterprise identity and raise public and stakeholder awareness. The certification of products and services, on the other hand, would enable more enterprises to attempt to become participants of the labeling scheme, therefore increasing public awareness of the label itself.

> **TO WHAT EXTENT WILL IT BE A “PROCEDURAL APPROACH” AND/OR A “PERFORMANCE APPROACH”, MEASURING HOW WELL SPECIFIC INDICATORS AND CRITERIA ARE MET?**

Another question that takes a closer look at how the certification system is established has to do with the issue of whether quantitative criteria are used in the certification process or is the focus on evaluating whether specific procedures are in place. While it might be tempting to invoke specific quantitative criteria in the certification procedure, this might not be suitable in cases where the aim is to establish an initia-

tive that covers various social enterprises. It might be that indicators appropriate for work integration social enterprises would do little to help include those enterprises working with, for example, environmental issues. Elements from the procedural approach might also be favorable in cases where the enterprises require guidance on how to improve their operations. Fortunately, however, both approaches can be combined.

> **CAN A CERTIFICATION SYSTEM BY ITSELF BE SUFFICIENT, AND HOW DOES A VISIBLE LABEL OR MARK ENHANCE ITS PERFORMANCE?**

Another question is whether or not issuing visual labels that are used in marketing by participants supplements or hinders the success of the initiative. Research outlined in this report clearly indicates that under specific circumstances labels can have adverse effects on consumer behavior and opinions of products. This, however, is not a given and depends on, for example, the particular situation and pre-existing public opinions related to that. Public perceptions should be carefully analyzed before decid-

ing whether certain groups of participants might not be in fact put in a difficult position because of the generally well-placed intentions of the initiative. Attention should also be given to possible pre-existing misconceptions about the enterprises or their products such as the concern about price-premiums or popular opinion among some audiences that products created by vulnerable groups are of worse quality.

Administration and organizational mechanism

> WHICH STAKEHOLDERS SHOULD BE INVOLVED IN CREATING A CERTIFICATION AND LABELING INITIATIVE, AND WHAT COULD/SHOULD BE THEIR ROLE?

The second category questions broadly deal with the question “How?” – they offer an insight into administration and organizational aspects, and what would be the most meaningful and sustainable input from stakeholders. Stakeholder involvement in this phase could be a key factor, and the central role in this process would likely be taken by the actor that would have not only the highest level of awareness on the challenges facing the social enterprise sector, but also has the capacity to serve as an advocate for change.

> WILL PARTICIPANTS BE INVOLVED IN THE PROCESS OF UPDATING AND DEVELOPING THE CRITERIA?

Another question deals with the levels of involvement of participants after an initiative is established. Generally, it is a good

idea to collect feedback from participants on how the criteria and administration of a label could be improved; however, it is important to ensure that some participants do not gain too much influence over the process that might jeopardize achieving the goals of the initiative. While it is true that over a period of time the situation in the sector and thus to some extent the purpose of the initiative might change, it is also essential that redefining the purpose is done in a transparent way so as to avoid possible negative impact on public and participant perceptions.

> WILL IT BE AN INDEPENDENT PRIVATE BODY, OR A GOVERNMENT OR MUNICIPALITY INSTITUTION DOING THE CERTIFICATION OR LABELING? SHOULD THERE BE A LEGAL FRAMEWORK? WHAT WOULD BE THE RELATIONSHIP OF THE LABEL, AND EXISTING OR POTENTIALLY UPCOMING SOCIAL ENTREPRENEURSHIP LEGISLATION?”

One of the central aspects of the management of the initiative is making a deci-

sion on the managing body. As established previously, there is a difference between private and public run initiatives. Another distinction in regards to privately run initiatives can be made between an NGO (such as an industry association) and an enterprise (such as the community interest company operating the certification system in the United Kingdom). When choosing the managing body, the levels of dependency on other public and private bodies, as well as the public trust must be considered, taking into account previous successful experiences and avoiding actors with low public trust. In the case of a government run initiative, it is important to understand if a particular legal framework would also be necessary.

> WHAT WILL BE THE LEVEL OF TRANSPARENCY? WHAT WILL BE THE MECHANISMS FOR RESOLUTION OF DISPUTES BETWEEN THE ISSUER AND THE PARTICIPANT?

The general level of transparency of the decision making process might not be the

first thing that comes to mind but is crucial for building trust between stakeholders and participants, as well as the general public. It should be considered how disputes between the issuer and participant will be resolved in cases where no legal framework is present, and what would be the most constructive solutions.

> **WHO WILL PROMOTE THE LABEL AND HOW?**

Who will be responsible for both attracting new participants to the certification initiative and raising consumer awareness of the implications? In cases where a visual label is issued to the participants it could be expected that they use it in their market-

ing activities, but just a mere expectation might not be sufficient, especially in the initial stages of launching the initiative when numbers of participants are still low. Thus, it would be important that the issuer would also be active in the promotion of the initiative.

> **HOW IS COMPLIANCE WITH THE CRITERIA ENSURED? WHO WILL DO THE MONITORING, IF THERE IS TO BE MONITORING? SHOULD THERE BE SANCTIONS, IF CRITERIA ARE NOT MET? HOW OFTEN THE APPLICATIONS NEED TO BE RENEWED, IF AT ALL?**

What measures will be taken in order to ensure that all labeled participants follow

the criteria – not just at the time of obtaining the label, but also going forward? Will there be any control mechanisms, and who will be responsible for implementing them? The cases described in the report show that many certification initiatives require the participants to go through annual re-evaluations, as well as subject them to surprise inspections. What happens if it turns out the enterprise no longer complies with the criteria– what is the procedure for revoking the label or status?

Resources, finance and investment

> **WHAT ARE THE POSSIBLE STRATEGIC FINANCING AND BUSINESS MODELS FOR THE LABELING INITIATIVE?**

The third category deals with one specific, but very important aspect – financial sustainability of the initiative, both in the initial phase and during general operation.

Funding for the establishment and management of initiatives might come from different sources - such as public funding, loans, business activity or participation fees. Some types of finance might be more readily available to some actors and not others. For example, it might be argued that enterprises

seeking to set up a certification system as a commercial activity would possibly have to rely on investment from the private sector, as direct government assistance might not be as readily available as it would to NGOs. It is worth considering if the possible participants of the labeling initiative are willing

and able to contribute necessary funds and cover expenses – it might be that managing the system is more expensive and resource intensive than what the participants are willing to pay for. In that case, additional funding sources need to be identified.

> **IS THE SOCIAL ENTERPRISE SECTOR BIG ENOUGH TO CREATE AND MAINTAIN A**

SEPARATE LABEL AND HOW DOES THIS RELATE TO THE GOALS OF THE INITIATIVE?

Is it worth investing in a certification and labeling initiative? The answer depends largely on the purpose of the initiative, and the stakeholders behind it. It could be argued, from a purely financial perspective, that establishing labeling initiatives in small social enterprise markets might be too cost-

ly, and that there might be a cheaper alternative for addressing the same issues. On the other hand, if the purpose of the initiative is to enlarge the market through raising awareness and offering special tangible benefits, it could be worth the effort and investment.

Other issues

> **WHAT KEY WORDS WOULD BE USEFUL IN ORDER FOR THE PUBLIC TO BETTER RECOGNIZE WHAT EXACTLY IS BEING LABELED?**

The wording and visualization used in a labeling initiative might not be the most important thing, yet it could play a significant role in certain specific circumstances. Again, pre-existing public perceptions need to be taken into account, and used in order to make connections to concepts and associations that are already familiar and well received. Also, as noted in previous chapters,

it is helpful if labels provide further hints for where to find additional information about the content of the initiative.

> **ARE THERE OTHER SIMILAR LABELS IN THE MARKET ALREADY? HOW WELL ARE THEY DOING, AND WHAT ARE THE LESSONS THAT CAN BE LEARNED?**

Interplay between similar already existing systems of certification and labeling should be considered. Can they create customer confusion, like in the case of certification initiatives in Finland, where two initia-

tives both use the term “social enterprise” with differing definitions? If there are already similar systems out there, what is the important aspect they are missing or lacking that could be used as a unique “selling point” in a new system? Or maybe different certification or labeling initiatives might in fact complement and build on each other? Either way, since the certification or label will also be a “product” of a sort, it is worth investigating the market before launching something completely new.



**SOCIAL ENTREPRENEURSHIP
LABELING: A WAY FORWARD FOR
LATVIA, ESTONIA AND DENMARK**

6.

General description of social entrepreneurship in Latvia, Estonia and Denmark

While the social entrepreneurship ecosystems and realities are quite different in all three countries, there are some similar trends and challenges that could be at least partly addressed by a social entrepreneurship labeling scheme. There is no “one size fits all” solution, yet, taking into account some of the previously described experiences and case studies, there are a few guiding questions and issues worth looking into. This chapter gives a brief overview of social entrepreneurship realities in each country, as well as ideas and recommendations for a way forward regarding certification and labeling schemes.

While social enterprises in Latvia and Estonia operate under different legal forms, the most common form is NGO (foundations and associations). Social enterprises in Latvia and Estonia sometimes choose to combine two legal forms - an association and a limited liability company – having two separate legal bodies in order to achieve greater flexibility. Even though in both countries government policy papers do mention the term “social enterprise” the concept remains largely unexplored and undefined. Currently a social entrepreneurship legal regulation is being drafted in Latvia. It most likely will come into force starting from January 2018.⁶² In Estonia, legal clarity is planned to be achieved in 2020, when the ongoing codification process of business and non-profit law will be completed.

62 A map of social enterprises and their eco-systems in Europe: <http://ec.europa.eu/social/keyDocuments.jsp?advSearchKey=socentcntryrepts&mode=advancedSubmit&langl&langld=en> (accessed 20.10.2016)

In Estonia, a widely used method for defining social enterprises relates to criteria set up by the Estonian Social Enterprise Network (ESEN). Interestingly, ESEN has received funds from the government for developing online tools that could be used for enterprise self-evaluation. The aim is to create an online portal, which could be used for publishing information on the social impact of enterprises and social purpose organizations in a structured way.⁶³

The situation in Denmark is in stark contrast to both Estonia and Latvia. A social enterprise law has already been passed several years ago, and the social entrepreneurship ecosystem in general is in a more developed state. The infrastructure for social investment is more developed in Denmark, while being virtually non-existent in Latvia

63 Social Impact Measurement Tools for Young Entrepreneurs: http://kusif.ku.edu.tr/sites/kusif.ku.edu.tr/files/Kusif.NeedAnalysis.01.11.16_web.pdf (accessed 20.12.2016)

and Estonia. Still, public awareness of the social enterprise concept remains relatively low.

Challenges of the social entrepreneurship sector in Latvia, Estonia and Denmark

The social entrepreneurship sector in Latvia and Estonia face similar challenges. Firstly, there is still no special legal form available for social enterprises in Latvia and Estonia. Instead, many social enterprises have resorted to using the legal form of a NGO, which can have certain restrictions on allowed commercial activities. The other common legal form is a business company, which has its own restrictions on the ability to receive grants and donations, as well as involving volunteers in its activities. The business companies are also taxed at a higher rate than the NGOs.⁶⁴

⁶⁴ A map of social enterprises and their eco-systems in Europe: <http://ec.europa.eu/social/keyDocuments.jsp?advSearchKey=socentcntryrepts&mode=advancedSubmit&lang1&langId=en>

An obstacle in all three countries is the underdeveloped business skills and competencies of NGOs - sales, marketing, financial planning and sustainability, access to markets. Many of the associations and foundations that would want to become social enterprises do not have the know-how of running an enterprise.

In Latvia, the situation and, therefore, the challenges faced by NGOs and limited liability companies during the scaling up and growth processes are quite different – not only because of a different legal form, but also because of public and stakeholder perceptions:

- Those registered as limited liability companies encounter more problems

due to the burden of taxes, general competition due to more expensive products and lack of public awareness of the positive social impact of their operation. A public perception exists that it is not possible to be both a for-profit business and have positive social impact. The two concepts are seen as contradictory.

- Social enterprises registered as NGOs are put in a disadvantaged position because of the absence of social clauses in public procurement procedures, the inability to attract highly skilled employees due to lower salary levels (the legal form also places limitations on the costs of administration) and

long term investments. The ability to expand commercial activity is also impaired due to restrictions on the commercial activity of the NGOs.⁶⁵

Another challenge for social enterprises in Latvia and Estonia is the small (or sometimes nonexistent) capacity to carry out regular social impact analysis because of their small scale and lack of resources. This is also indicated as a possible problem for smaller social enterprises in Denmark; however, it does not really affect the registration process for social enterprise status in Denmark since the social impact requirements are quite low.

The lack of appropriate support systems remains a challenge in all three countries: there are very few state and municipality level support systems in place, which leads to a lack of funds available for the development and expansion of social enterprises. In Latvia and Estonia there is no social impact investment market, and social enterprises are treated as regular enterprises when ap-

65 A map of social enterprises and their eco-systems in Europe: <http://ec.europa.eu/social/keyDocuments.jsp?advSearchKey=socentcntryrepts&mode=advancedSubmit&langl&langld=en>

proaching banks and potential investors. The reason for the reluctance of municipalities to support social enterprises is the lack of recognition of the concept itself, and contradicting views about whether or not and in what ways it is appropriate for municipalities to support private companies.

This also impacts the sector in various ways in Latvia and Estonia:

- Public tenders are often based on service descriptions which focus on outputs that have been defined without consulting the actual beneficiaries.
- Resources allocated to service provision are insufficient and tend to lead to low quality and voluntary work, which often results in burn-out.
- No resources are allocated for service development.

Criteria for public procurement often do not support social and environmental values. For these reasons it is more difficult for social enterprises to secure public contracts. The size of the procurements is also seen as a challenge, as social enterprises

generally do not have production on the scale of traditional enterprises.^{66 67 68}

The main challenge facing the social enterprise sector in Denmark is a lack of support from the government. The Danish case illustrates how changing governments can slow down the progress made by their predecessors. Refusing to take responsibility for a growing industry and “giving” it fully to non-governmental actors while at the same time not ensuring that these actors have the necessary resources to carry out these functions can be a dangerous step, even if made with the best intentions.⁶⁹

66 A map of social enterprises and their eco-systems in Europe: <http://ec.europa.eu/social/keyDocuments.jsp?advSearchKey=socentcntryrepts&mode=advancedSubmit&langl&langld=en>

67 Social Impact Measurement Tools for Young Entrepreneurs: http://kusif.ku.edu.tr/sites/kusif.ku.edu.tr/files/Kusif.NeedAnalysis.01.11.16_web.pdf (accessed 20.12.2016)

68 Social entrepreneurship in Latvia: <http://www.socialuznemejdarbiba.lv/raksti/2016/5/16/social-entrepreneurship-in-latvia-a-work-in-progress> (accessed 20.12.2016)

69 Thuesen, Frederik; Haahr, Ulla; Bjerregaard Bach, Henning; Albæk, Karsten; Jensen, Søren; Lodberg Hansen; Nadja og Weibel, Kristina (september 2013) Socialøkonomiske virksomheder i Danmark. Når udsatte bliver ansatte. SFI, Det Nationale Forskningscenter for Velfærd, 13:23

Social entrepreneurship: a way forward

LATVIA AND ESTONIA

One of the first steps could be launching a discussion about how a possible social entrepreneurship labeling scheme could respond to problems and challenges of the sector, and what the main purpose of such labeling scheme could be.

One of the possible purposes could be recognizing the social purpose of products, services or the whole enterprise and presenting that as the added value and combining that with awareness raising and promotion activities. No matter what the purpose is, as many stakeholders as possible should be involved in discussing the creation of a labeling initiative and what role it could play in the social entrepreneurship ecosystem.

It is important that any possible labeling initiative complements the legislative framework that is being developed. For example, the legal framework concept in Latvia envi-

sions a government regulated certification as part of acquiring formal status, but not labeling or any kind of promotion. Also, the intended government system could be perceived as fairly exclusive, only allowing limited liability companies to register as social enterprises. While tying a legal social entrepreneurship concept to a more exclusive definition of social enterprises might serve to reduce confusion among customers, policy makers and other stakeholders, it is not clear if the social enterprises currently operating under the NGO status will have the capacity for changing their operation to comply with the exclusive criteria. This might be an opportunity for a third-party labeling scheme that could therefore fill in the “gaps”, including those social entrepreneurship industry players that the legal framework has left out.

In the case of Estonia, it is currently much less clear what the legislative framework will look like, thus it is even more difficult to

evaluate what the appropriate administrative structure for a labeling initiative should be. At this point it is not clear whether or not a separate legal form will be created in future legislation.

The question of low capacity and scale of operations would also be relevant in regard to finance. It is likely that many existing social enterprises do not have any spare funds to pay for the upkeep of a certification mechanism. It is possible that the UK model of third-party social enterprise certification might not be suitable for the Latvian and Estonian cases. The possibility of this should, however, be further explored. The setting up of a third-party certification mechanism could be a challenging process due to the fact that participation fees might at first discourage would-be participants due to the label having no initial recognition. Thus the participants would have to look at the initiative as a long term investment. A possible solution for this would be to look towards

EU funding for the early period, even though this has proved not to be the most reliable and sustainable source of funding.

Currently no criteria and social enterprise evaluation tools are available for the public in Latvia, and there are no third party organizations working with social enterprise issues that have prior experience with issuing labels. In Estonia, the Estonian Social Enterprise Network has developed an online tool for evaluating social enterprises, and has also managed to attract government funding to sustain and manage it. This social impact evaluation tool has the potential to grow into a certification or labeling system, if the owners decide to pursue this route.

The question of whether products/services or enterprises themselves should be subject to certification/labeling is also something to consider. Most of the labeling initiatives label the enterprises themselves and not their products or services. The labeling of products and services would be more inclusive since there probably would be more enterprises that would want to be part of it. This approach might have nega-

tive consequences, generating a confusing or “weak” message: regular enterprises may attempt to participate in it even though most of their operations have nothing to do with social entrepreneurship. This creates risk of the label being used for “greenwashing” purposes, in order to improve the reputation of the whole company even if other products or services of the company have a neutral or negative social impact.

Many of the challenges facing the social enterprises in Latvia and Estonia could be better solved using an initiative that certifies enterprises rather than products and services as this would help create a public awareness of the concept of social enterprises and also promote the development of the necessary eco-system. However, if there is a legal form and an associated government certification for the social enterprises, some of the challenges would be addressed. The fact that a product/service oriented approach does not address these issues would no longer pose such a serious problem. Nevertheless, the potential risks posed by the product/service approach should still be taken seriously.

DENMARK

The case of the Danish social enterprise labeling initiative has already been discussed in the second chapter of the report. It is, however, clear that this initiative currently has shortcomings regarding its promotion. While interest in the labeling initiative is slowly growing among all stakeholders, it is also clear that a promotion mechanism is lacking. This is the weakest part of the labeling initiative. The Danish eco-label case has clearly illustrated that a government managed social value labeling initiative in Denmark can achieve excellent results in raising public awareness, thus it can be argued that one of the biggest obstacles in achieving the aims of the initiative is the lack of political will.

This is, however, a complicated problem to solve. Political will, similarly to availability of financial assistance for development, is connected to public and political elite awareness of the issues and the role of the social enterprises. This means that the social entrepreneurship industry needs to lobby for a

stronger political will to solve these issues and to once again put social entrepreneurship on the political agenda. Feedback from stakeholders and social enterprises them-

selves indicates that the current social enterprise law should be amended to incorporate more user-friendly terminology.

Regional social entrepreneurship labeling initiatives: Baltic States and Scandinavia

As the case of the B-corp shows, it might make sense to develop a regional social entrepreneurship labeling scheme - it would allow for greater centralization, thus perhaps resulting in financial savings. It might also provide the opportunity for enterprises to obtain certification and, perhaps, an associated label that is recognized in foreign countries, which could enhance export opportunities. It should be also be noted that in the case of the B-corp one of the aims of the initiative is the development of an international movement. The fact that the concept of social enterprises is understood differently in various countries would con-

siderably complicate the introduction of a regional scheme. This problem would be especially acute for countries where certification systems for social enterprises are already in place. The relative versatility of B-corp regarding its implementation in various countries might be attributed to the fact that it is a relatively inclusive initiative.

At the moment there are no indications that there would be grassroots support for the creation of a shared international social entrepreneurship definition. This can partly be explained by the fact that a large proportion of the social enterprises operating in the partner countries are relatively small –

they do not export their goods or services, and the international aspect is not pressing. Therefore, there is no urgent need for them to be recognized in other countries.

While the B-corp initiative is not specifically meant for social enterprises as such, the online tools, criteria and support mechanisms the initiative offers could be beneficial for social enterprises as well as regular enterprises. Considering the fact that, in the case of Denmark, a government run certification initiative is already in place and the other partner countries are also moving in the direction of local certification, it could be argued that working towards the promotion

of the B-corp initiative might serve the purpose of raising public awareness of social value issues as well as provide companies with tools to enhance their performance and move towards becoming a social enterprise. While this would make sense in Denmark as the initiative is already to some extent active there, in Latvia and Estonia choosing to do so at a time when alternative certification systems are being implemented poses the risk of creating serious customer confusion.

The background is a vibrant green color. It is decorated with an abstract pattern of white geometric shapes, including circles of various sizes and short, thick lines of varying lengths and orientations. Some circles are solid white, while others are solid black. There are also two prominent purple circles. The overall effect is a dynamic, modern, and geometric aesthetic.

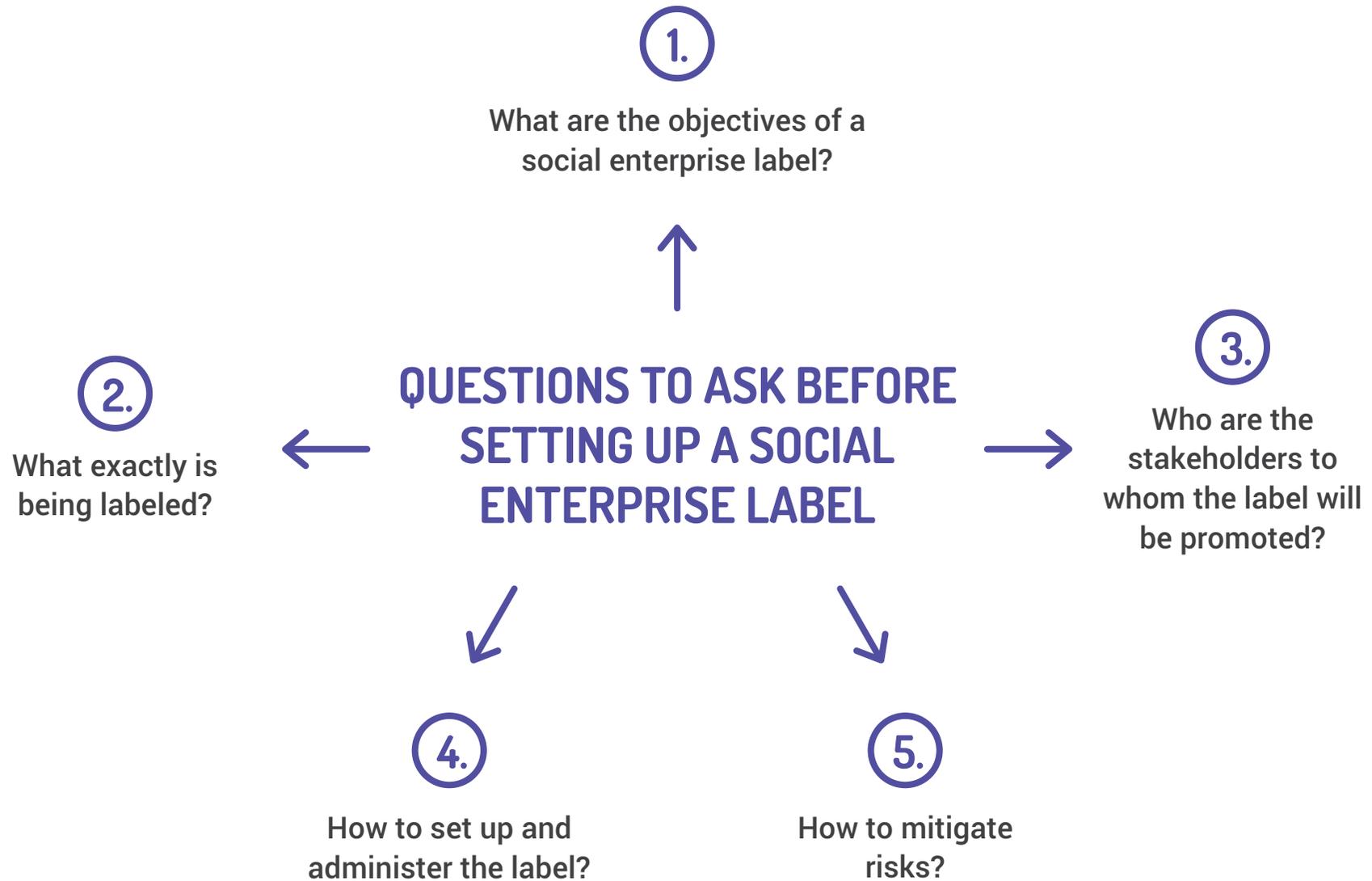
EXECUTIVE SUMMARY:
5 questions to ask before
setting up a social enterprise
labeling initiative

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In this material, we have provided an analysis of existing social value labelling practices, and considered a way forward for Latvia, Estonia and Denmark. The following presentation summarizes practical insights from the report in a structured manner. We hope that this material will be useful for all stakeholders dedicated to social enterprise development. It is definitely worth considering certification and labeling as one way to create more favourable conditions for the growth of the sector.

While the following discussion concentrates on labeling, it is important to note that developing criteria to certify social enterprises nationally may also be useful even without creating a label. For example, if a country does not have legal status for social enterprises, a registry issuing certificates to those enterprises fulfilling certain criteria may be a good solution to distinguish social enterprises from other types of organisations. Such a registry would allow for local authorities to consider certified organisations when procuring social value.

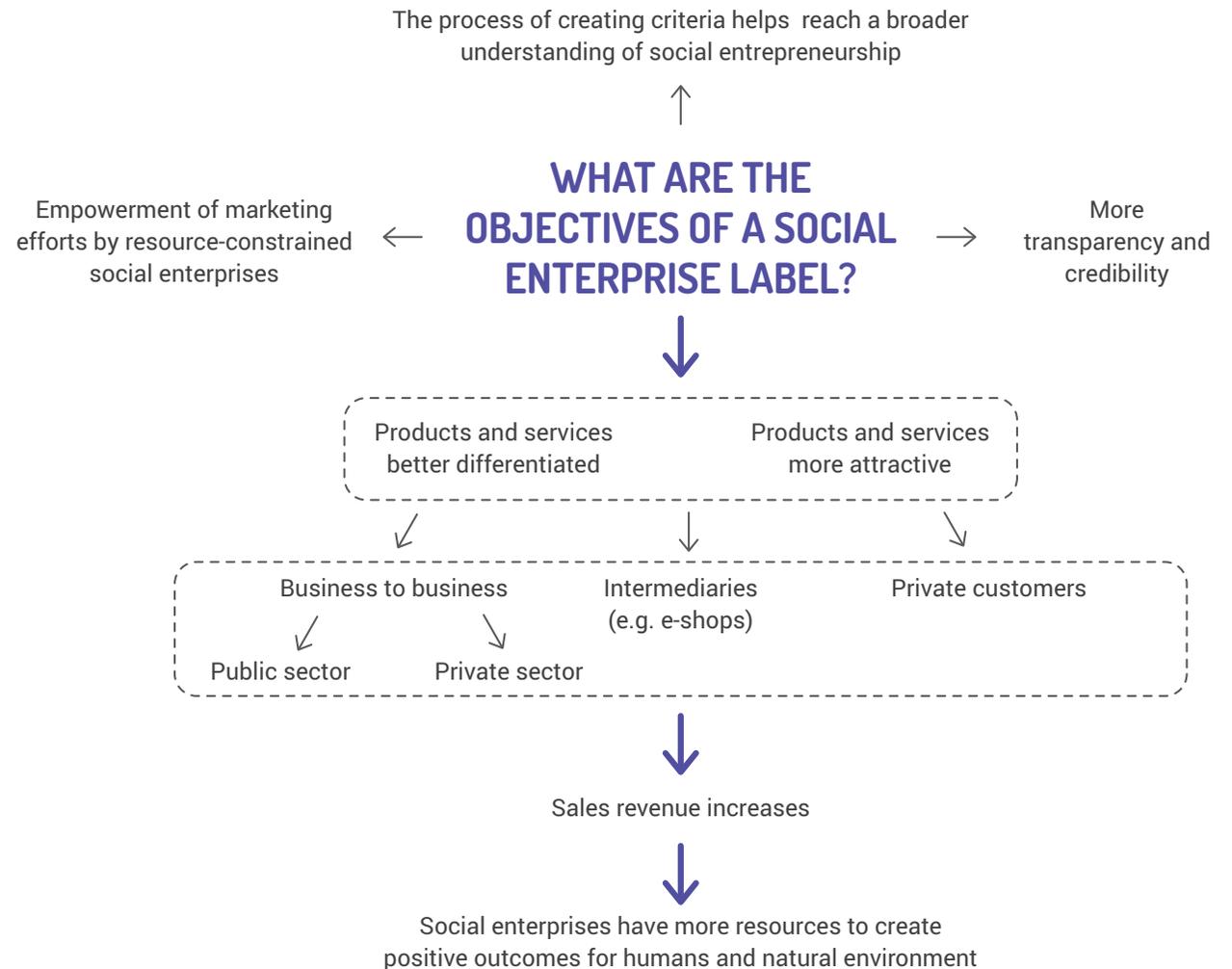
Any stakeholder who is inspired by labeling as a powerful communication tool needs also to consider at least five additional questions. The greatest risk of establishing a label would be wasting the time and energy of grass-roots level change makers. The biggest benefit, however, would be contributing directly to their success in earning sales income and creating social value. The assortment of answers to strategically important questions provides a more robust basis for making a strategic decision about whether setting up a label would likely be worth the investment and risks.



STEP 1.

Choosing the objectives that the label would help to achieve

Social enterprise labeling may bring a number of benefits. A list of various options is presented on the following mindmap.



Before starting to develop a label, it is important to ask:

- **Which of these objectives do we intend to achieve with the help of a label?**
- **Why do we need a label to achieve those objectives? What could be viable alternatives?**

During the process of developing an operational strategy for creating a label, it is useful to return regularly to these initial answers and check whether the way the label is going to be set up is still in accordance with the initial objectives.

The main motivation for establishing the label could also be related to potential benefits that may seem indirect at first glance. For example – after launching the label it may be possible to tie additional activities to the labeling process by activating the social enterprises that have been labeled. Such activities may include joint initiatives for acquiring raw materials and supplies, and coordination to fulfil larger orders from business-to-business clients.

After establishing clear objectives for creating the label, there are a number of other choices to be made. The most important of them are presented on the following mind-maps.

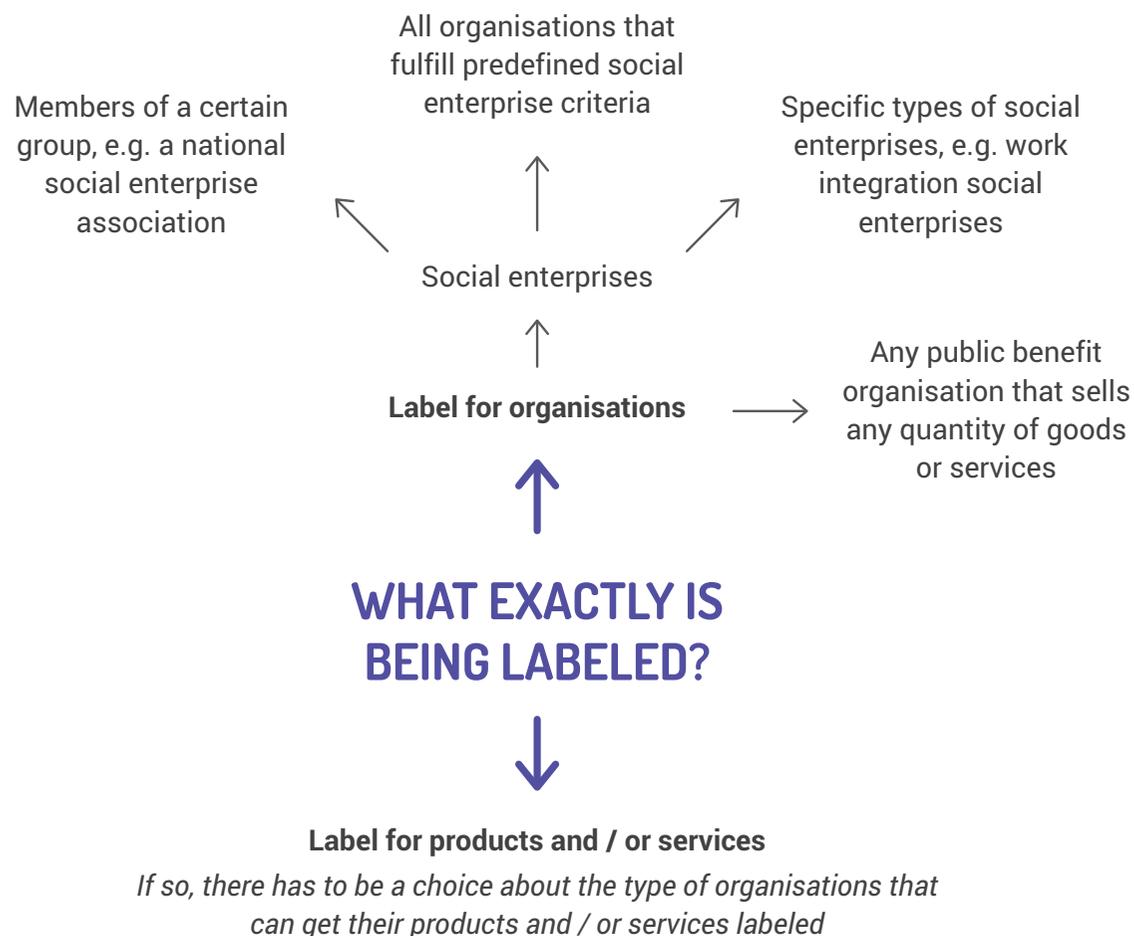
STEP 2.

Choosing what to label

The answer to the question „What should be labelled by a social enterprise label? “is not always straightforward.

On the one hand, existing labels from other thematic fields demonstrate the variety of practices. The label could be given to organisations or only to individual products. A label for products may want to reflect superiority over alternatives or instead give no guarantee about their quality.

On the other hand, the diversity of the social enterprise sector also poses challenges. The initiators of any social enterprise label need to find a balance between being specific enough (without ending up in an overly small niche) and inclusive enough (while keeping the criteria and thus, message to stakeholders clear).

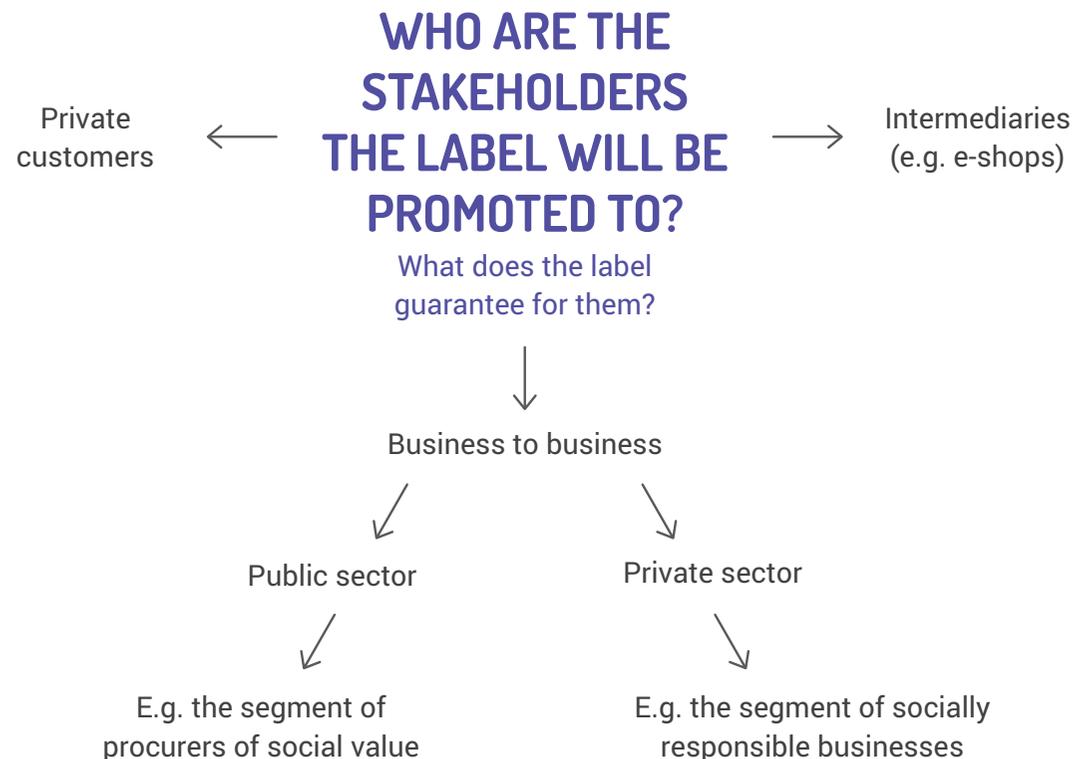


STEP 3.

Choosing the customer segments who we hope will buy more products and services from social enterprises thanks to our wonderful label

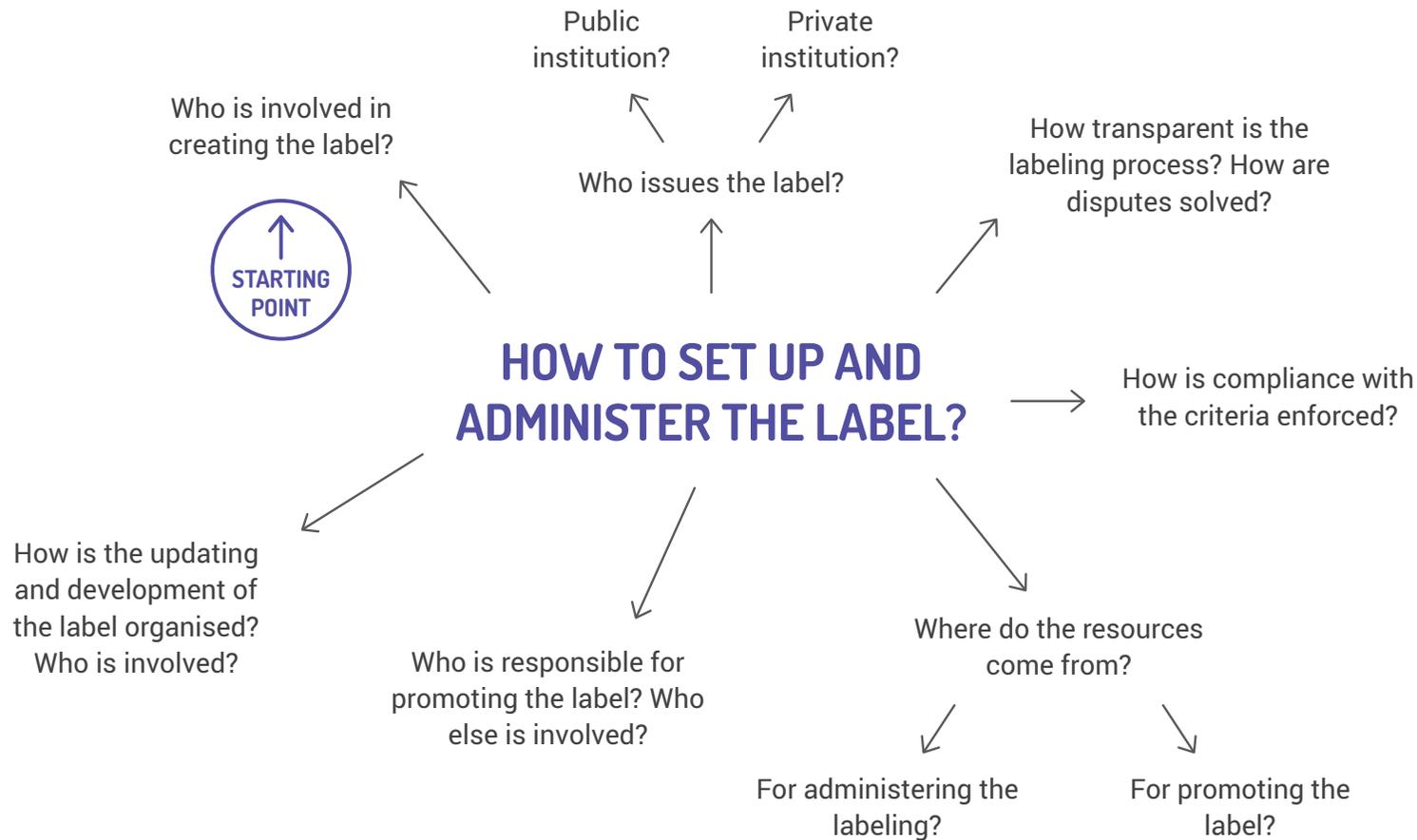
The primary objective of a social enterprise label does not need to be about increasing the sales revenue of the sector. However, when considering the amount of resources needed to establish and run any such process, it does not make much sense to have a label for enterprises that does not support their core activity, i.e. the sales of goods and services.

Firstly, there have to be choices about the sectors from which customers may originate. Would the label be used by public institutions in their tender criteria? Or would it mainly be used to target private consumers? After making such decisions, the segmentation needs to get even narrower. If we have chosen to target – for example – private consumers, then the next questions would be about their age, income, consumption habits etc.



STEP 4.

Choosing how to run and finance the labeling scheme



Some practicalities ultimately decide the fate of the labeling scheme. The organisational set-up and the budget should be in accordance with the objectives and the nature of the label.

It is important to realise that establishing a new national label does not need to be a default option. There are a number of viable international choices available, including those operated by Social Enterprise Mark CIC (Social Enterprise Mark) and B Lab (B Corporation certificate). The clear advantage of choosing an existing label is the luxury of concentrating on promotion and marketing from the very beginning of the process. The resource-intensive process of setting up original criteria and establishing a branding concept can be skipped.

However, it all depends on the needs of local social enterprises and the objectives for establishing the label. For example, the inclusive process of setting up unique national criteria for social enterprises may have great value in itself to activate the sector. Independence in making all the decisions related to promotion and development

of the label may give the leaders essential flexibility (in order to be nationally successful) that the international schemes may not be able to provide.

STEP 5.

Predicting and mitigating risks related to social enterprise labeling

Every big opportunity also entails big risks. The worst case scenario for a social enterprise label would be initiating an ex-

pensive failure that manages to drain enterprise resources while convincing the public that social entrepreneurs are insincere op-

portunists who produce products of low quality. The planning process must take into account all typical risks related to labeling.



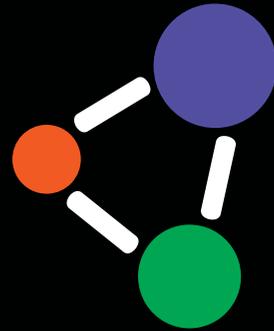
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