

# **Chapter 4**

## **Labeling, Certification, and Consumer Trust**

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### **Abstract**

*Increased interest in ethical consumption has promoted the creation of incentives for product differentiation, which has been adopted by the market in terms of a variety of labels and certificates to describe a whole collection of product attributes related to health, social or environmental sustainability. In this chapter, we describe and compare six coffee certifications in terms of their certification processes, governance mechanisms and market penetration. Our comparison shows that leading certifications reassert their trustworthiness by emphasizing on transparency, legitimacy and accountability of their practices and governance processes. To demonstrate transparency, it is common that certification authorities openly publicize their standards and principles to demonstrate the transparency. To show legitimacy, they get accreditations from reputable national or international organization. Unfortunately, most of this information is not always at the reach of final consumers.*

**Keywords:** Certification, Labeling, Governance mechanisms, Green washing, Blue washing, Consumer trust

### **4.1. Introduction**

A number of studies of ethical and sustainable consumption suggest that consumer trust in ethical products is engendered partially based on the company's ethical conduct and the ethical and sustainable label attached to the product. See studies by, among others Carrigan & Attalla (2001); (Castaldo, Perrini, Misani, & Tencati (2009); Janssen & Hamm (2011); Pivato, Misani, & Tencati (2008); Polonsky, Bhaskaran, & Cary (2011); and Swaen & Chumpitaz (2008).

However, the current rapid growth of certification and labeling schemes (Bacon, 2005; Muradian & Pelupessy, 2005; Raynolds, Murray, & Heller, 2007)<sup>1</sup> makes critics question the extent to which a particular eco label truly reflects the sustainability of the product and whether labels and certifications have simply become marketing gimmicks for large corporations (Gibson, 1999).

This chapter explores the ways existing certifications and labels enhance consumer trust in a particular product. We examine six coffee certifications to assess the adequacy of private regulation as a trust inducing tool. We chose sustainable certified coffee as our case study for three reasons. First, sustainable certified coffee provides comprehensive yet manageable overview of the complexities in sustainable certification and labeling practices. Second, certification of coffee represents one of the most rapidly growing areas of certification (Raynolds et al., 2007). Third, coffee is one of the most traded commodity in the world market (Taylor, Murray, & Raynolds, 2005).

We examine the certifications in respect to their certification process, governance mechanism and market growth. Through this comparison, we found certification schemes use different strategies to re-assert the trustworthiness of their certificate to the consumer and general public. However, we also found that information about the steps certifications are taking to increase their trustworthiness is not readily apparent or available to consumers.

We begin this chapter with a look at the relationship between government intervention, private regulation and market governance. We follow with an examination of the utility of certifications and labels in helping consumers make informed decisions and describe some of the shortcomings of the current certification system. The subsequent sections, section four to six focus on examining six different labeling and certification schemes. Section four presents the coverage and scope of certifications and labels in terms of operational scope, market growth, market penetration, and growth strategy. Section five focuses on the governance process and section six outlines the

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<sup>1</sup> There is a rapid and sustained growth for certified products, especially food products with coffee in particular (Raynolds, Murray, & Heller, 2007), especially after the coffee crisis (Muradian & Pelupessy, 2005). There is also rapid growth of eco labels in general, eco-label index in 2012 tracks the existence of 435 eco labels worldwide ([www.ecolabelindex.com](http://www.ecolabelindex.com)).

differences in certification assessment processes. Finally section seven provides the concluding remarks.

## **4.2. Government Interventions, Private Regulation and Market Governance**

Smart disclosure is seen as one way of creating market intervention by allowing consumers make better purchasing decisions. Information can be used to create market interventions directly and indirectly (Weiss, 2002). Direct intervention occurs when government collects and distributes information directly to the public. An example of such direct intervention is the publication of information on chemical and toxic substances manufactured in, or imported into, the US<sup>2</sup> by the Environmental Protection Agency (EPA). Indirect intervention occurs when non-government actors generate or share information that is required or enabled by government (Weiss, 2002). Product labeling is an example of an indirect intervention and this chapter will focus on this type of intervention.

Indirect interventions through product labeling can either be mandated by government or be voluntary in nature. Mandatory policies for product labeling are backed by government regulation and require compliance by all market actors without any exceptions. For example, the US Nutritional Labeling and Educational Act of 1990<sup>3</sup> requires all manufacturers to attach nutrition labels to their products and the Alcohol Beverage Labeling Act of 1988 requires two mandatory warnings to be placed on all alcoholic beverage containers.

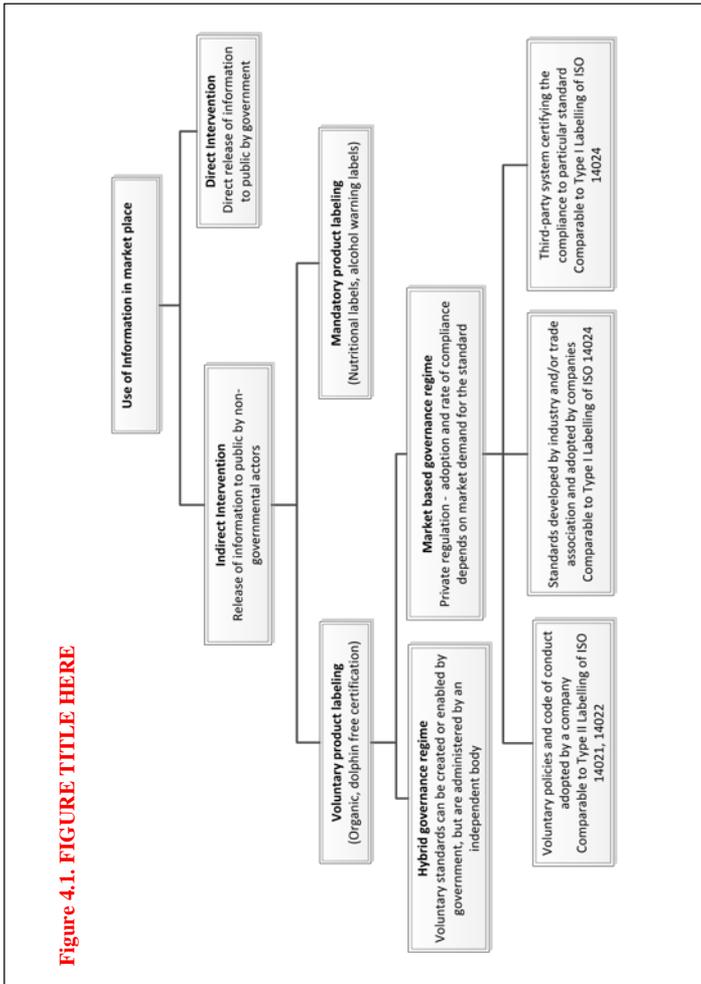
In contrast, voluntary requirements for product labeling allow market actors to adopt or ignore measures as they see fit. Most labeling and certification schemes adopt a voluntary approach whereby market actors complying with a set of standards may attach a label onto their product based on their own interests. Producers use labels to maintain and enhance their reputation, boost consumer trust in their products, and differentiate themselves from their competitors in the marketplace. For example, companies use labels and certifications to support the credibility of their claims on issues such as environmental sustainability or human rights.

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<sup>2</sup> [http://java.epa.gov/oppt\\_chemical\\_search](http://java.epa.gov/oppt_chemical_search)

<sup>3</sup> <http://www.fda.gov/ICECI/Inspections/InspectionGuides/ucm074948.htm>

Voluntary policies exist under two different types of governance regime, hybrid or market-based. Under hybrid systems



of governance voluntary standards can be created or enabled by government, but are administered by an independent body. For example, the government of Quebec created an independent organization to monitor labeling systems regarding the origin and

authenticity of products sold within the province, called CARTV<sup>4</sup>. Similarly, the US Department of Agriculture (USDA) enacted National Organic Program (NOP) to regulate production and handling of organically produced agricultural products. The standards are created by USDA but the certifying process is conducted by third party certifying agents accredited by the USDA NOP<sup>5</sup>.

Under market governance regimes standards are “market-driven”. This means that their adoption among organizations, and the rate of compliance, depends on market demand for the given standards (Cashore, Auld, & Newsom, 2004). Certification schemes under market-governance are commonly referred to as private regulation. Private regulation is a governance system formed by coalition of non-government actors to codify and monitor conduct of private entities in respect to issues such as sustainable and ethical production (Bartley, 2007; Büthe, 2010a, 2010b; Mayer & Gereffi, 2010). Private regulation is designed to use market pressure to regulate the behavior of industry’s actors (Bartley, 2007; Mayer & Gereffi, 2010) and to add layers to the existing laws, regulations and standards enacted by government (Bartley, 2011). Private regulation takes many forms (standards, codes of conduct, and certification systems) and is organized in three different formats: a) privately developed voluntary policies and codes of conduct; b) standards developed by industry and/or trade association and adopted by companies; and c) third-party certification systems in which independent monitors certify company’s voluntary compliance to a particular standard (Bartley, 2007; Mayer & Gereffi, 2010).

Third-party certification systems are deemed more trustworthy than the other two forms of private regulation because of the independent nature of monitoring, which eliminates potential conflicts of interest (Jahn, Schramm, & Spiller, 2005). By providing trustworthy information, third-party certifications and labels help alleviate information asymmetry between consumers and producers. In asymmetric relationship, consumers have limited access to information that would help them accurately assess invisible product attributes such as safety, quality, or social and

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<sup>4</sup> *Conseil des appellations réservées et des termes valorisants (CARTV)*, <http://www.cartv.gouv.qc.ca/en/about-us>

<sup>5</sup> [http://www.usda.gov/wps/portal/usda/usdahome?navid=ORGANIC\\_CERTIFICATIO](http://www.usda.gov/wps/portal/usda/usdahome?navid=ORGANIC_CERTIFICATIO)

environmental sustainability. Third party certifications provide assurances to consumers regarding the credibility of product attributes as represented by the product label. This assurance is especially important in reducing information asymmetry regarding product attributes related to internal production methods that are difficult and/or economically infeasible for consumers to access and evaluate by themselves. Some examples of these attributes are the robustness of automobile engine quality, toothpaste's ability to reduce plaque, or a claim that a product produced under a fair trade standard improved living conditions of small farmers or plantation workers.

### **4.3. The Utility of Labels in Assisting Consumer Choice**

Consumer's purchasing decisions are influenced by competing priorities (Szmigin, Carrigan, & McEachern, 2009), which can create a gap between professed intention to purchase an ethically produced product and the actual purchase of such product (Carrigan & Attalla, 2001; Carrington, Neville, & Whitwell, 2010). Despite this gap, consumers recognize the utility of certifications and labels using them as a substitute for searching for more information (Carrigan & Attalla, 2001) and as trust inducing tools (Carrigan & Attalla, 2001; Janssen & Hamm, 2011; Polonsky et al., 2011). For instance, consumers positively correlate organic certification with greater level of trust in a given product (Janssen & Hamm, 2011).

The usefulness of labels and certifications depends on the extent to which consumers understand the information behind them (Carrigan & Attalla, 2001). A number of studies found that consumers' understanding of what a particular label or certification conveys is rather limited (Carrigan & Attalla, 2001; Janssen & Hamm, 2011; Polonsky et al., 2011). One of the reasons for the limited understanding is the rapid proliferation and increasing diversity of third party certifications and labels<sup>6</sup>. The growing complexity of the third party certification environment increases information processing demands on consumers and consequently diminishes the meaning of a certification as a trust element. In addition, the large number of certification and labeling schemes complicates efforts to assess and compare the credibility and

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<sup>6</sup> Data from EcoLabelIndex shows the existence of 435 eco labels worldwide (ecolabelindex, n.d.)

quality of labels (Jahn et al., 2005; Reynolds et al., 2007), which in turn increases consumers' need for additional information (Pelsmacker, Janssens, Sterckx, & Mielants, 2005).

The remainder of this chapter provides a comparison of existing certifications to illustrate the strengths and weaknesses of certifications as a trust inducing tool. We compare and contrast six major coffee certification schemes<sup>7</sup>: Fairtrade Labeling Organization (FLO), Rainforest Alliance Network (RAN), UTZ Good Inside, Common Code for the Coffee Community (4C), the United States Department of Agriculture (USDA) Organic program, and Coffee and Farmer Equity (C.A.F.E) practices. We exclude Nespresso AAA due to its exclusive focus on coffee quality and less on social and environmental sustainability. The comparison addresses three aspects: the scope of the certification, the governance of 3<sup>rd</sup> party certifiers, and the certification and inspection processes.

#### **4.4. The Scope of Certifications and Labels**

There are two different scopes we have to consider when talking about certifications: the operational scope and the market scope. The operational scope refers to the operational capacity of a certification such as year of establishment, focus area, and legal status. Market scope refers to the economic growth of the certification in term of market share and penetration.

##### **4.4.1. The Operational Scope of Certifications and Label Initiatives**

Operational scope of a certification, which includes its year of establishment, legal status and area of focus, can impact the level of trust a consumer has in that particular certification. Three certifications (FLO, RAN and USDA Organic) were founded in 1990's while the other three certifications (UTZ, 4C and C.A.F.E) were established in the 2000's<sup>8</sup>. A study by Rao (1994) found a significant relationship between organization's age and survival of that organization, which implies that newer certifications are more vulnerable to competition because of lower brand recognition. Similarly, age of certification might correlate with its reputation.

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<sup>7</sup> Coffee Barometer 2012 indicates the existence of seven major coffee initiatives, namely: FLO, UTZ, 4C, Organic, RAN, C.A.F.E. Practice and Nespresso AAA (Panhuyzen & van Reenen, 2012).

<sup>8</sup> <http://www.ecolabelindex.com/ecolabel/cafe-practices>

Thus consumers might assume that older certifications are more trustworthy because they have better public recognition.

Certifications in the certified sustainable coffee context differentiate themselves by different areas of focus, either concentrating on social impact, environmental impact, or a combination of both. For instance, USDA Organic only focuses on environmental aspects, while FLO focuses on both, social and environmental values. Each of these areas can include different specializations, ranging from child labor to health to safety of work environment. Some certifications, such as FLO and RAN, add distinct focus areas to differentiate themselves. FLO adds gender issues, while RAN adds local communities (Table 4.1).

**Table 4.1. The Operational Scope of Certifications and Labels**

INDICATOR	FLO	UTZ	4C	RAN	USDA	C.A.F.E
Year of Establishment	1993	2002	2006	1992	1990	2004
Social area covered	Child Labor, Employment practice, Gender Issues, Health and Safety work, ILO 8 core conventions, Work and Labor rights	Child Labor, Employment practice, Health and Safety work, ILO 8 core conventions, Work and Labor rights	Child Labor, Employment practice, Health and Safety work, ILO 8 core conventions, Work and Labor rights	Child Labor, Employment practice, Health and Safety work, ILO 8 core conventions, Local Communities, Work and Labor rights	Not Applicable	Child Labor, Employment practice, Health and Safety work, ILO 8 core conventions, Work and Labor rights
Status of Certification	Private voluntary	Private voluntary	Private voluntary	Private voluntary	Public Voluntary	Private voluntary
Accreditation	Full ISEAL member	Full ISEAL member	Full ISEAL member	Full ISEAL member (SAI)	Not applicable	Not applicable
Managing Organization	Fairtrade Labelling Organization International e.V. (FLO)	UTZ Certified Foundation	4C Association	Sustainable Agriculture Network	U.S. Department of Agriculture	Starbucks and Conservation International
Status of Founder(s)	Majority Non-Profit entities	Non-profit & profit entities	Non-profit & profit entities	Majority Non-Profit entities	Government	Private Entities

*Source: Majority of the data was obtained from the voluntary standard analysis and research of the ITC<sup>9</sup> (International Trade Center) and data for C.A.F.E was extracted from the Conservation International website<sup>10</sup>.*

Objectiveness of the evaluation process is crucial for the reliability of a certification (Deaton, 2004; Tanner, 2000), which

<sup>9</sup> <http://search.standardsmap.org>

<sup>10</sup> [http://www.conservation.org/campaigns/starbucks/Pages/CAFE\\_Practices\\_Resul ts.aspx](http://www.conservation.org/campaigns/starbucks/Pages/CAFE_Practices_Resul ts.aspx)

can be achieved by having certification processes accredited by an independent organization that has higher authority than the certifiers (Deaton, 2004). Being accredited is crucial to soliciting trust because it augments the reputation and legitimacy of the certifiers. As presented in table 1, four certification schemes, FLO, UTZ, 4C and RAN, are accredited by ISEAL<sup>11</sup>. USDA Organic, on the other hand, uses its status as a government agency to act as a standard setter as well as an accreditation body. C.A.F.E Practices was established and is vouched for by a private company (Starbucks) and has no affiliation with any accreditation body.

#### 4.4.2. The Market Growth and Coverage of Certifications

One key to mainstreaming ethical and sustainable consumption is rooted in the assumption that an increase in demand for sustainable products sends signals to the rest of actors in the supply-chain to conform to sustainability requirements (Seyfang, 2005). Consequently, the market growth for sustainable product signifies the power of consumers to change the behavior of supply-chain actors. Consumers could use their purchasing behavior to exit their relationship with the company (Hirschman, 1970) or to express their political or ethical values to the company (Howard & Allen, 2010). Different certifications/labels receive different reception in different markets (Pierrot, Giovannucci, & Kasterine, 2011).

- ***Fairtrade (FLO) Certified Coffee:*** Fairtrade certification is the second largest type of certification for coffee produced and consumed worldwide (Raynolds et al., 2007). FLO certified coffee is very dominant in the United Kingdom, France and recently in the US. The 2011 annual report from FLO indicates that the worldwide volume of sales for Fairtrade organic and Fairtrade conventional grew by 6.7% in just three years, from 12% in 2008 to 2009 to 18.70% from 2009 to 2010. In the US, the growth rate of Fair Trade certified coffee experienced dramatic increase of 32% from 2010 to 2011<sup>12</sup> and the US Fairtrade market accounted for more than 10% of total Fairtrade sales worldwide. In 2011, the majority of Fairtrade certified coffee imported to the US

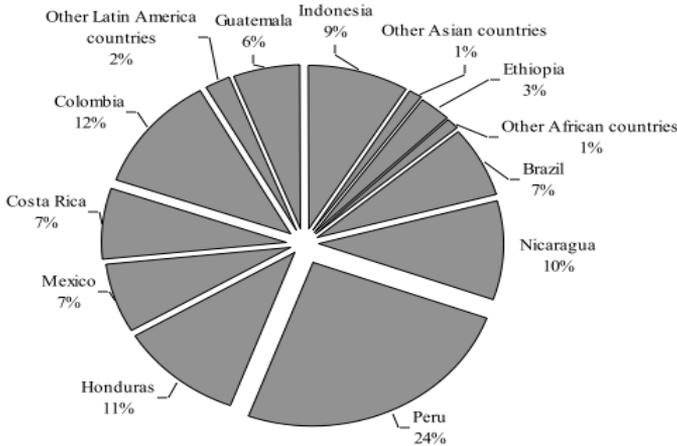
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<sup>11</sup> ISEAL is a global membership association in which sustainable standards could be admitted if they meet ISEAL Code of Good Practice (<http://www.isealalliance.org/about-us>)

<sup>12</sup> See the Coffee Almanac published by the Transfair USA for 2011 (<http://www.fairtradeusa.org/sites/default/files/Almanac%202011.pdf>)

came from Latin America (86%), with the rest coming from Asia (approx. 10%), and Africa (4%).

**Figure 4.2. Percentage of Fair Trade Certified Coffee imported into the US by Country of origin, 2011**



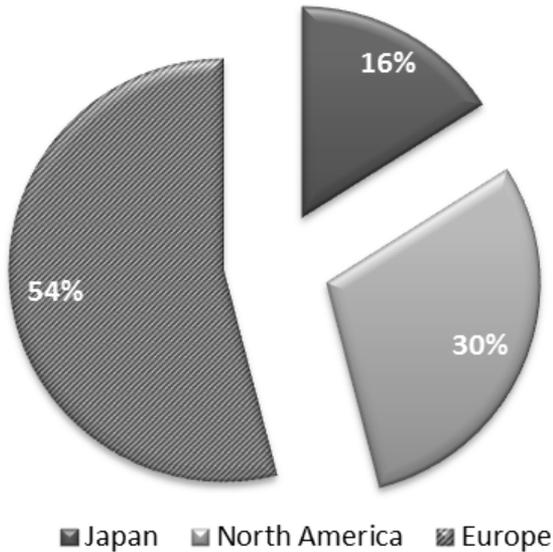
Source: *Impact Report Fair Trade USA*<sup>11</sup>

- **Rainforest Alliance (RAN) Certified Coffee:** RAN is regarded as the third largest initiative for NGOs’s based coffee certification after organic and Fairtrade (Raynolds et al., 2007). RAN is also the market leader in Japan (Pierrot et al., 2011). RAN press release claims that RAN certified coffee represented approximately 3.3 percent of the global coffee market share<sup>13</sup>. The growth rate of RAN certified coffee is impressive, with increase of 13% in sales volume from 2010 to 2011, from approximately 114,924 metric tons in 2010 to 129,864 metric tons in 2011. The production of RAN certified coffee grew by 20% from 2010 to 2011 (RAN, 2012). The impressive growth of RAN certified coffee was attributed to the increasing commitment from their alliances with mainstreams and large coffee companies, such as: Kraft Food, Nespresso, Tchibo, and others (Kolk, 2010; Pierrot et al., 2011; Raynolds et al., 2007). Nespresso, for example, committed to certifying

<sup>13</sup> <http://www.rainforest-alliance.org/newsroom/news/annual-growth-2011>

80% of their coffee with the Rainforest Alliance by 2013 (Pierrot et al., 2011).

Figure 4.3. Worldwide Imports of Rainforest Alliance Certified Coffee, 2009



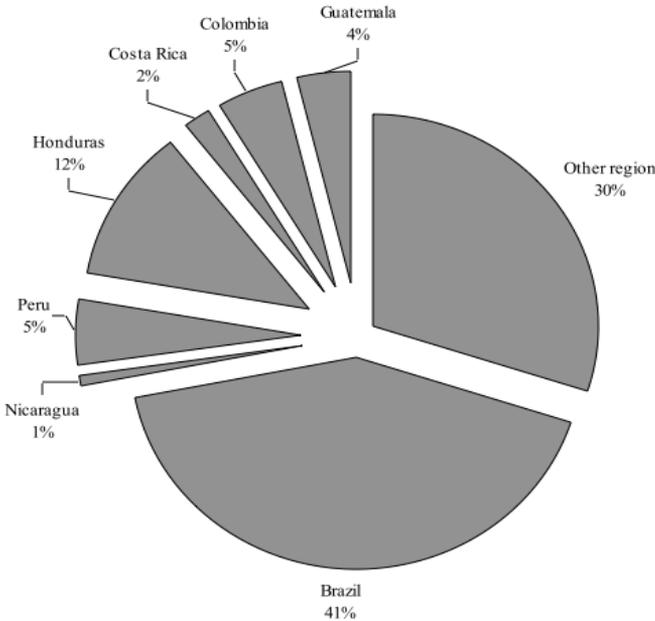
Source: adopted from Pierrot et al (2011)

- **UTZ Certified Good Inside:** UTZ certified coffee achieved strong growth in the European market, particularly in the Netherlands (Pierrot et al., 2011). Approximately 30% of coffee consumed in the Netherlands have UTZ label (Pierrot et al., 2011). The UTZ Supply and Demand update for 2011 indicates that the sales increased by almost 50% from 2009 to 2010 with sales in 2010 reaching 121,234 metric tons<sup>14</sup>. Similar to RAN, the growth of UTZ certified coffee is influenced by their alliance with large mainstream market corporations such as Sara Lee, Ahold and Safeway (Raynolds et al., 2007). The majority of imported UTZ

<sup>14</sup> See [http://www.UTZcertified-trainingcenter.com/home/images/documentos/general/supply\\_demand\\_report\\_2011\\_UTZ\\_certified.pdf](http://www.UTZcertified-trainingcenter.com/home/images/documentos/general/supply_demand_report_2011_UTZ_certified.pdf) or [http://www.katocoffee.com/com/info/goodinside/supply\\_demand\\_report\\_201104.pdf](http://www.katocoffee.com/com/info/goodinside/supply_demand_report_201104.pdf)

certified coffee originated from the Latin America region (69%) (Figure 3).

Figure 4.4. UTZ Certified Coffee imported Worldwide by Country of origin, 2010



Source: Supply Demand Update UTZ 2011<sup>13</sup>

- **Common Code for the Coffee Community (4C):** 4C is different from the other three certifications in two ways: first, 4C is designed around a business-to-business concept while the other three are more consumer-oriented, and second, 4C offers verification procedures that are less rigorous than the other certification processes (Pierrot et al., 2011). 4C Annual report in 2010 indicates that their sales in volume from 2008 to 2009 increase by approximately 140%, from 11,900 metric tons in 2008 to 28,600 metric tons in 2009. Much of the increases in purchasing volumes were attributable to the purchasing commitments of 4C buying members, such as Nestle, Kraft Foods and Tchibo,

which were members of the 4C steering committee until December 2006 (Kolk, 2010).

- **USDA Organic:** USDA Organic program acts as standard setter as well as an accreditor for certifying bodies that will certify compliance to USDA requirements on their behalf. In term of market growth, a survey by USDA’s Economic Research Service indicates a significant 4.86% growth in demand for organic food from \$3.6 billion in 1997 to \$21.1 billion in 2008 (Dimitri & Oberholtzer, 2009). The North American organic coffee market for 2009 accounted for \$1.4 billion (Pierrot et al., 2011), which is roughly 6% of the overall organic food market in 2008. Approximately 89 million pounds of organic coffee were imported into the United States and Canada in 2008 which represents a 12% increase from 2007 (Pierrot et al., 2011).
- **.A.F.E Practices:** C.A.F.E. Practices is a standard developed by Starbucks in collaboration with the Conservation International in 2004 to ensure that coffee sold to Starbucks met their environment and social criteria and financial viability (Semroc, Baer, Sonenshine, & Weikel, 2012). Starbucks C.A.F.E Practicse is the single largest sustainable coffee certification in the US (Raynolds et al., 2007; Pierrot et al., 2011). Starbuck’s purchase of C.A.F.E Practices certified coffee increased significantly; from 2007 to 2008 it increased by 77 , to 81% in 2009, to 84% in 2010 (Semroc et al., 2012), and reached 86% in 2011. Starbucks projected to have 93% (509 million pounds) of their coffee supplies either certified by third-party certifier or through C.A.F.E Practices by 2012 and to have them 100% certified by 2015<sup>15</sup>. With high volume of purchase from C.A.F.E certified coffee, only small number of coffee was certified by third-party certification. For instance, only 8.1% (44.4 million pounds) of Starbucks coffee was Fairtrade certified and only 1.6% (8.7 million pounds) was certified organic in 2012<sup>18</sup>.

The review of market penetration by the six major sustainable coffee certifications points to three significant issues. First, demand for certified coffee for all six types of certification is

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<sup>15</sup> [http://www.conservation.org/campaigns/starbucks/Pages/CAFE\\_Practices\\_Results.aspx](http://www.conservation.org/campaigns/starbucks/Pages/CAFE_Practices_Results.aspx) and <http://www.starbucks.com/responsibility/sourcing/coffee>

growing rapidly. The significant increase in market share of certified coffee implies that consumers increasingly trust certification, which in turn appears to drive increased demand for certified coffee products. Second, much of this rapid growth is attributable to alliances with mainstream coffee purchasers. The growth in RAN, UTZ and 4C is propelled by connections to, and commitments by, mainstream coffee purchasers. Third, market growth of third-party certified coffee is restricted by certification schemes propagated by private companies, such as Starbucks C.A.F.E. Practices.

### 4.5. The Governance of 3rd Party Certifiers

The main objective of 3<sup>rd</sup> party certifiers is to provide a consumer some degree of assurance in respect to the invisible attributes of a product. The main selling point of 3<sup>rd</sup> party certifiers is to invoke trust from consumers through appeals to values such as independence, objectivity and transparency (Deaton, 2004; Hatanaka, Bain, & Busch, 2005; Tanner, 2000). The claim of independence from conflict of interest (Hatanaka et al., 2005; Tanner, 2000) and the democratic nature of the decision-making process of the 3<sup>rd</sup> party certifiers (Raynolds et al., 2007) become distinguishing factors among different certification schemes. This section compares the governance mechanisms of the coffee certifiers in respect to participation and independence. Participation refers to the engagement of stakeholders in the governance of the certification, such as public comments during standard development. Independence refers to freedom from conflict of interest in the certification process.

The comparison of the independence and participation aspects of each certification focuses on three indicators: 1) compliance to National/International regulations, norms and conventions, 2) democratic standard setting process, and 3) the engagement of NGOs as coordinating organizations. The summary of the comparison is provided in Table 2.

- ***Fairtrade (FLO) Certified Coffee:*** FLO is a certification initiative with the broadest and strongest NGO support (Raynolds et al., 2007). The governance of FLO follows democratic mechanisms where members and other stakeholders can contribute to the strategy and standard setting through a general assembly. FLO has 25 members classified under five types: nineteen National Fairtrade

organizations, three producer networks, four Fairtrade marketing organizations, two Fairtrade applicant members, and Flo-Cert, an independent certification body for Fairtrade global certification. All members and other stakeholders are given the opportunity to participate at three annual assemblies: the general assembly, labeling initiatives' assembly, and producer network assembly. Certification bodies under FLO, such as Flo-Cert, are accredited by the ISO / IEC 65 to assure their independence in making certification decision.

- ***Rainforest Alliance (RAN) Certified Coffee:*** RAN is also regarded as certification with strong engagement with NGOs through their alliance to Sustainable Agriculture Network (SAN) (Raynolds et al., 2007; Pierrot et al., 2011). As of recent, RAN has not yet complied with the ISO 65 requirements. However, RAN established a set of principles to govern the integrity of their practice, including principles of independence and participation. Among others, these principles are (see [www.rainforest-alliance.org](http://www.rainforest-alliance.org)), a) separating the entity responsible for certification from the entity responsible for receiving donations, b) limit the objectives of contributions to fees from certifications, sponsorship for public events and funding for educational activities, c) initiate and create public consultation via stakeholders' outreach, local workshops or direct contacts, and d) forming International Standards Committee with membership from stakeholders to improve their standards.
- ***UTZ Certified Good Inside:*** UTZ Good Inside assigned monitoring activities to independent organizations external to UTZ and demanded that these external verifiers complied with the ISO / IEC 65. UTZ demonstrates a multi-stakeholder approach in their governance involving public and private entities, especially the supervisory board and standard committee. For example, Sara Lee and Ahold serve on the board and standard committee of UTZ. Their supervisory board consists of combination of representatives from coffee companies, NGOs and producer cooperatives (Raynolds et al., 2007). The standard committee of UTZ consists of between 6 to 12 individuals, ranging from private entities, NGOs and academics<sup>16</sup>.

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<sup>16</sup> See <http://www.UTZcertified.org/en/whoware/standards-committee>

- ***Common Code for the Coffee Community (4C):*** 4C Association claims to promote participatory decision-making process by including coffee producers, trade and industry, and civil society members<sup>17</sup> in their governance approach. These tripartite components form three separate chambers that have equal voices in the governing entity of 4C Association. The governance consists of five elements: the general assembly, the council, the executive board, the technical committee, and the mediation board. Similar to UTZ, 4C also employs independent external certifiers to conduct their verification process; and requires these certifiers to conform to ISO / IEC Guide 65.
- ***USDA Organic:*** USDA Organic is a state-based certification meaning that this certification is supported by government, in this case the U.S. Department of Agriculture. As a consequence, compliance to national or international regulations, norms and conventions is not applicable to the USDA Organic certification. USDA Organic is also unique because USDA acts as standard setter and accreditation body at the same time. As standard setter, USDA develops the National Organic Program (NOP), a federal regulatory framework governing organic food in the U.S guided by and based on the Organic Food Production Act of 1990 (<http://www.ams.usda.gov>). In developing the NOP, USDA solicited input from their citizen advisory board and the general public. As an accreditation body, USDA accredits certification organizations to inspect products for compliance to NOP on behalf of USDA. USDA also employs policy for complaints both against the standard-setting organization (USDA) and the certification bodies accredited by USDA (<http://www.intracen.org/>) to ensure accountability and integrity of the standard.
- ***C.A.F.E Practices:*** There is less information about the governance of C.A.F.E. Practices. C.A.F.E Practices are a result of collaboration between a private entity (Starbucks) and a non-governmental organization (Conservation International - CI). As such, the development of standards in C.A.F.E. Practices was led by these two organizations. On the other hand, to ensure the integrity and credibility of the

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<sup>17</sup> See <http://www.4c-coffeeassociation.org/aboutus/our-governance.html>

certification process, the enforcement of C.A.F.E Practices is conducted by a third-party certifier, the Scientific Certification System (SCS) Global Service. The SCS accredits third party certifiers to perform the certification process for C.A.F.E Practices on their behalf. According to the Starbucks’ website as well as Conservation International’s website, there is no policy for complaints against the standard setting organization<sup>18</sup>. However, complaints can be submitted against the third-party certifiers and the SCS Global Service.

The comparison of the six major coffee certifications indicates that they assert their credibility and legitimacy in three ways (Table 4.2). First, they promote their good governance through the engagement of multiple stakeholders, particularly engaging civil society organizations such as NGOs. For some certification, this multi-stakeholder engagement includes the involvement of private sector organizations, such as Sara Lee for UTZ.

**Table 4.2. Comparison of Governance Process**

INDICATOR	FLO	4C	UTZ	RAN	USDA	C.A.F.E
Multi-stakeholder engagement in governance and standard setting	Yes	Yes	Yes	Yes		No
Involvement of private entity in setting standard	n/a	Yes	Yes	n/a	No	Yes
General assembly or Supervisory board as the highest authority	Yes	Yes	Yes	No	No	No
Engagement of NGOs in the governance mechanism	Yes	Yes	Yes	Yes	No	Yes
Compliance to National/International Regulations, Norms, and Conventions	Critical	Critical	Critical	Short-term	Not covered	n/a
Policy for complaints against standard-setting organizations is available	Yes	Yes	Yes	No	Yes	n/a
Policy for complaints against certification	Yes	n/a	Submit to	n/a	Yes	Submit to CB

<sup>18</sup> For more information refers to <http://www.scsglobalservices.com/starbucks-cafe-practices>

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body (CB) is available			CB			
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*Source: Majority of the data was obtained from the voluntary standard analysis and research of the ITC<sup>19</sup> (International Trade Center) and data for C.A.F.E was extracted from the Conservation International website<sup>20</sup>.*

Second, they emphasize their legitimacy by complying with national and or international regulations, norms and conventions. This is especially the case for non-state certification schemes. The state-based certification such as USDA Organic uses their adherence to legislation to demonstrate legitimacy. Third, these certification schemes highlight the availability of mechanism to lodge complaints against the standard setting organization and or the certification body to ensure accountability and integrity of the standard.

#### 4.6. The Assessment Processes of 3<sup>rd</sup> Party Certifications and Labels

The robustness of an assessment process, also called audit, determines the reliability of a certification and label quality (Albersmeier, Schulze, Jahn, & Spiller, 2009; Jahn et al., 2005). As a result, the quality of the assessment process becomes the determining factor of the information quality of a label (Jahn et al., 2005). Borrowing from the financial audit literature, two factors affect the quality of an audit: the competence and the independence of the auditor (DeAngelo, 1981; Duff, 2004). Competence refers to the ability of the auditor to conduct due diligence and a thorough assessment of the audit object (DeAngelo, 1981). Auditor competence was also influenced by applicant’s perception of auditor independence and elimination of conflict of interest (Ammenberg, Wik, & Hjelm, 2001).

In general, an applicant has to undergo two types of audit - a desk and a field audit. The desk audit compares the requirements listed in the standard against documentation submitted by an applicant. The desk audit is useful for planning the scope and focus of the field audit. During field audit, auditor assesses the degree of compliance by reviewing the current practices of the applicant against a set of decision criteria. These decision criteria, usually called compliance criteria or control criteria, represent a set of

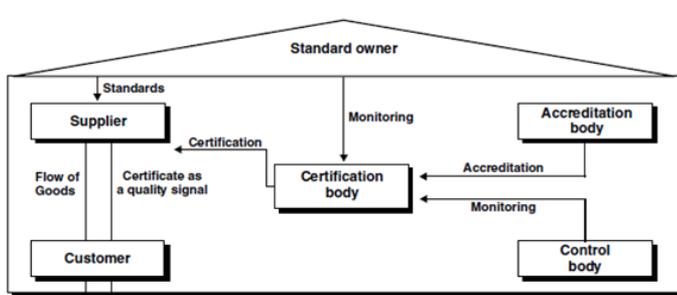
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<sup>19</sup> <http://search.standardsmap.org>

<sup>20</sup> [http://www.conservation.org/campaigns/starbucks/Pages/CAFE\\_Practices\\_ResuIts.aspx](http://www.conservation.org/campaigns/starbucks/Pages/CAFE_Practices_ResuIts.aspx)

measurable control points derived from the certification standard. In some certification schemes, such as FLO, the result of the field audit will be sent to the certifiers for final certification decision. Other certification schemes, such as UTZ, rely on the judgment of the auditor to make the final certification decision.

Figure 5. The Basic Structure of Certification Process



Source: Jahn, Schramm & Spiller (2005)

The strengths and weaknesses of each of the six certification schemes are presented in the paragraphs bellows, with a summary of the comparison presented in Table 3.

**Fairtrade International (FLO).** FLO established Flo-Cert as an independent unit under FLO to organize and coordinate their certification process. As a certification body, Flo-Cert is conforming to the specific quality requirements in the ISO 65. The audit begins with a desk audit performed by Flo-Cert, which is followed by a field audit performed by a local auditor. Local NGOs and civil society representatives are involved during the audit process as a demonstration of the value that FLO places on local knowledge. Following field audit, the auditor sends the evaluation results to Flo-Cert for a quality check by the responsible certification analyst and for the final certification decision. After initial audit, the certificate is issued for six years, but it is contingent on passing an annual audit. The robustness of the FLO certification is enhanced by their requirement to conduct full audit of all functions in the applicant’s organization, in contrast to a sampling audit, which only assesses certain functions of the organization. In addition, Flo-Cert ensures competence of their auditors by requiring comprehensive training and by establishing a designated entity that is responsible for evaluating the auditor’s work and skills.

- **Rainforest Alliance Network (RAN)** uses internal auditors, which does not conform to the ISO 65 requirement<sup>21</sup>. RAN requests a written declaration of independence from the members who conduct audits to ensure independent nature of their assessments. RAN also makes sure that the member who conducts an audit is not involved in the final certification decision. The responsible authority for certification decision is the Sustainable Farm Certification International, Ltd (SAN). RAN also administers two types of audit, annual audit and surprise audit<sup>22</sup>. To ensure competence, RAN requires that their auditors acquire specific educational background, at minimum a university degree. The auditors are required to go through a training program to qualify for auditing responsibilities and are evaluated internally to assess their work and skills.
- **UTZ** relies completely on independent certification bodies external to UTZ for both the assessment process and certification decision. They require the independent certification bodies to be accredited by ISO and comply with ISO 65. In contrast to the other certification bodies, UTZ relies on the lead auditor for the final certification decision. UTZ consulted their stakeholders in the development of local indicator development, which is part of their code development procedure. UTZ also combines annual and surprise audit. Similar to the other certification schemes, UTZ requires the auditors to go through training program to ensure the competence of the auditor and the quality of audit. The rules and policies to evaluate the auditor's works and skills are developed by external certification bodies and auditors are audited only if there is complaint from the applicant.
- **The Common Code for Coffee Conducts (4C)** relies on external independent bodies, such as Control Union or Bio Cert, to perform their audits. In case of 4C, the final decision is still made by 4C and not the independent certifiers. These external independent certifiers must be

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<sup>21</sup> Per July 2012, for more information refers to:

<http://www.rainforest-alliance.org/about/integrity/accountability>

<sup>22</sup> Surprise audit means that the audit process is unplanned, unannounced and without warning (Wells, 2002)

accredited by ISO and must conform to the specific requirements in the ISO 65. The use of external certification body ensures the independence of the certifiers from the governance mechanism of 4C. Similar to FLO or UTZ, the 4C also uses local or locally operating companies but they did not use multi-stakeholder processes such as one followed by FLO. 4C auditors conduct surprise audits to ensure consistent adherence to standards. Similar to UTZ, the auditor needs to go through a training program to qualify for audits, but for 4C specific education background of the auditor is not necessary. 4C also employs rules and policies to evaluate the auditor's work and skills.

- **USDA Organic.** The USDA Organic audits are conducted by third-party certifiers or certifying agents. Only certifiers that have been accredited directly or authorized by the USDA are allowed to verify compliance to the NOP and certify products. The accreditation is valid for two and a half years and afterward the certifiers have to re-apply for accreditation. Similar to other certification, certifying agents have to comply with ISO 65 requirements. Certifiers that are authorized by USDA are certifiers accredited by foreign governments that have recognition agreement with USDA. These certifiers can be private, foreign or State entity that are located around the world. USDA has accredited and authorized 84 certifiers, with 49 certifiers located in the U.S. and 35 certifiers in other countries. The certification process conducted by third-party certifier consist of five steps: a) application by applicant, b) desk-audit by certifier, c) field inspection by inspector<sup>23</sup>, d) review of inspection report and documents, and e) certifying agent/certifier issues organic certificate<sup>24</sup>. The USDA also does not require specific educational background but inspectors need to participate in a training program to qualify for inspection. In addition, USDA also applies rules and policies to evaluate the inspector's work and skills.
- **C.A.F.E:** C.A.F.E Practices rely on the SCS (Scientific Certification System) to administer and enforce their certification process. The SCS accredits third-party

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<sup>23</sup> The term "Inspector" in the USDA Organic is comparable to the term "Auditor" for Fairtrade

<sup>24</sup> [www.ams.usda.gov](http://www.ams.usda.gov)

certifiers to act as certifying agents on behalf of the SCS. The SCS and the third-party certifiers need to comply with the requirements of ISO 65. The SCS also requires that the auditors employed by the third-party certifiers take training program and have specific educational background to qualify for audit. The SCS also frequently evaluates the auditor's works and skills<sup>25</sup>. The guidelines in C.A.F.E Practices consist of 249 indicators. These indicators are used to evaluate the social and environmental performance of applicant (Semroc et al., 2012). C.A.F.E Practices employ four different degrees of assessment results: non-compliant, verified, preferred, and strategic. Non-compliant is a condition when the applicant failed to meet the minimum requirements. Verified is assigned to applicant who met the minimum requirements and achieved a score of less than 60%. Preferred is assigned if the applicant achieves a score between 60 – 80% and Strategic if over 80% (Starbucks, 2013).

In general, the certifying agents use three strategies to assert the trustworthiness of their certification process. First, they ensure the independence of their certification process by eliminating conflict of interest between the certification agents and standard setting bodies. Independency is in general assured by using independent (external) auditors and separating auditors from those that make final decisions about granting certifications. Second, the assessment process involves local knowledge and resources, especially during field audit. Most certification schemes also advocate connection with local knowledge and context by either involving local auditors or using multi-stakeholder process to develop audit indicators. Finally, the certification schemes use different strategies to emphasize the strength of their audits such as alternating between annual and surprise audits.

In sum, different certification schemes showcase different strictness in their assessment process to demonstrate the trustworthiness of their claims to the consumers. The existence or non-existence of these assessment indicators, such as presented in Table 3, could signify different degree of trust. For instance, full independence of certification body from the standard-setting body and full independence of auditor from the certification body is argued to guarantee fairer audit results and limit possibility of

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<sup>25</sup> [www.intracen.org](http://www.intracen.org)

collusion and manipulation (Deaton, 2004). Unfortunately, while these processes are to the applicants, they are generally not known to consumer. As a consequence, the ability of consumers to discern the trustworthiness of a certification and meaning of a label remains limited.

**Table 3. Strictness of Audit Process**

INDICATOR	FLO	4C	UTZ	RAN	USD A	C.A. F.E
Involvement of certification body with governance mechanism of standard setting organization	Yes	No	No	Yes	No	No
The use of local knowledge and stakeholder involvement	Yes	Yes	Yes	Yes	Yes	n/a
The use of local auditor to conduct the audit	Yes	n/a	n/a	No	Yes	Yes
The scope of the audit (Full or Sampling)	Full	No	n/a	No	n/a	n/a
The frequency of the audit	Annual	Surprise	Annual, Surprise	Annual, Surprise	Annual, Validity 365 days	Annual, Validity 365 days
Independency of auditor	Yes	Yes	Yes	Limited	Yes	Yes
Auditor undergoes training program to qualify for audit	Yes	Yes	Yes	Yes	Yes	Internal by the Certifier
Information on certification decision is made accessible to the stakeholders	Public	Public	Public	n/a	Public	n/a
Certification body is independent of standard setter	Yes	Yes	Yes	No	Yes	Yes
Specific educational background is requested to act as auditor	No	No	Yes	Yes (Univ. degree)	No	Yes
Rules and policies exist to evaluate auditor's work and skills	Yes	Yes	Internal of CB	Internal Policies	Yes	Yes
Responsible entity exist to evaluates auditors	Yes, every 3 years	Yes	Yes, after planning or complaint	Yes, annual	Yes every 2.5 years	Yes, frequent
Certification body complies to ISO 65 requirements	Yes	No	Yes	No	Yes	Yes

*Source: Majority of the data was obtained from the voluntary standard analysis and research of the ITC<sup>26</sup> (International Trade Center) and data for C.A.F.E was extracted from the Conservation International website<sup>27</sup>.*

## 4.7. Concluding Remarks

Certifications and labels in the certified coffee market enable companies to provide its consumers non-price information, such as information about products' environmental and social sustainability. They are used to differentiate among companies based on their conduct, and as a way for companies to limit competition or gain competitive advantage (Bartley, 2007). Endorsement by an external and independent organization is assumed to create trust among consumers who tend to disregard company's own claims regarding their ethical and sustainable conduct. However, as certifications and labels proliferated, consumers' trust in the validity of various seals slowly decreased. The decline in trust was caused mainly by the difficulty faced by consumers in verifying information behind the certifications and in the increasingly complex nature of the certification environment. In other words, the large number of certification and labeling schemes presents consumer with too many alternatives to choose from and obscures the meaning behind each individual label.

A close look at the six major coffee certification initiatives presented above reveals that in order to reassert their trustworthiness in the eyes of the general public, certifications emphasize transparency, legitimacy and accountability of their practices. Majority of the certification and labeling schemes openly publicize their standards and principles to demonstrate the transparency of their governance process. They also use a number of approaches to assert the legitimacy of their practice, such as accreditation from reputable national or international organization. They also put emphasis on the democratic nature of their governance processes, such as strong collaboration with NGOs and producers during the standard setting phase. The six certification and labeling schemes also demonstrate the accountability of their practice by emphasizing the independent nature of their certification agents, frequently evaluating their inspectors/auditors, and establishing formal mechanisms for complaints against the standard-setting body and certification agents.

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<sup>26</sup> <http://search.standardsmap.org>

<sup>27</sup> [http://www.conservation.org/campaigns/starbucks/Pages/CAFE\\_Practices\\_Resul.ts.aspx](http://www.conservation.org/campaigns/starbucks/Pages/CAFE_Practices_Resul.ts.aspx)

Unfortunately, information about the steps certifications are taking to increase their trustworthiness is not readily apparent to the consumer. The information is unavailable either because consumers need to expand significant effort to research this information or some of this information might be proprietary. In addition, even if this information was available to the consumers, the magnitude of this information might deter consumers from using it as a basis for their purchasing decisions. We propose that one way to address these issues is to build an interoperable data platform that would enable private sector actors to share information and data through the use of agreed-upon semantic and ontology standards. Such platform can enable data owners and producers to make their information readily available by standardizing and simplifying the process for publishing information using semantic web-based technology. By making such information standardized and semantically interoperable, such platform would also enable social entrepreneurs to build decision-assistance tools that are designed to empower a consumer to make a purchasing decision consistent with their values.

As argued in the previous chapter (see chapter 3), considerable collaboration and trust-building among public and private entities are crucial to push for private transparency to enable choice architecture of product information for the benefit of public. In addition, publishing the information also need to take into account the three-exceptions to information disclosure which are privacy, secrecy/confidentiality/proprietary, and national security (Stiglitz, 1998). One key problem with pushing private sector to share information is that the relevant data is often considered to be confidential, proprietary and in some case held privacy data. In addition, considering the complexity of certification process, ensuring quality and security of the data and information for consumers use become crucial. The subsequent chapter outlines the issues of privacy, secrecy and security in information disclosure of commercial data and existing mechanism and strategies for negotiating these issues.

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