

Case Study of Locally Oriented and Green Business Networks:

San Francisco's Local Exchange

By David Hess

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Local Exchange is the San Francisco affiliate of BALLE, the “Business Alliance for Local Living Economies.” BALLE supports decentralized, local ownership of businesses, with an emphasis on health, the environment, and living wages. Don Shaffer was influenced by years of reading Wendell Berry, and he subsequently worked for Comet Skateboards, a manufacturer in Oakland that uses solar energy and sustainable materials in its manufacturing process. He is the national coordinator for BALLE and the president of the board of Local Exchange, the BALLE affiliate for San Francisco. BALLE has nineteen active networks in North America, with the strongest networks located in the northeast and northwest. Local Exchange is one of the more recent and smaller networks, but it is growing rapidly.

Each network determines its admissions criteria for business. At Local Exchange the businesses must be owned and operated in the city and county of San Francisco. Other BALLE networks define local more broadly, such as a metropolitan region. To join, businesses do not have to be already “green,” but they need to have a commitment to learning about it and eventually making changes. As Shaffer describes it, “The main way that BALLE networks are organizing themselves is to have an annual pledge system that is essentially peer-reviewed by other members of the network at the beginning of the year. Each company sets annual goals in terms of environmental sustainability, social responsibility, transparency, and community-oriented action. At the end of each year the company examines how they have done for each of the goals. People aren't gravitating to BALLE for aggressive greenwashing. If they're not in it for the right reasons, it doesn't appeal to them.” Another key criterion is that firms are privately owned and relatively small. “We're mainly catering to smaller businesses, typically those that have \$20 million or less in sales. We will have a handful up to about \$60 million in sales. It's not a rule, but it is generally the case across the networks.”

BALLE's networks are organized into “building blocks” that are industry-based. “We recognize that not every city or county will have its own semiconductor factory or its own pharmaceutical R&D plant. There are some types of businesses that lend themselves to a classic, Wall Street model. Nationwide, the biggest building blocks are food (including restaurants), retail, renewable energy, capital, and manufacturing.”

The main reason businesses join the network is to share information. In addition, businesses join to help educate customers about the value of buying local. Each network defines its own role somewhat differently. As Shaffer noted, “San Francisco is saturated with nonprofit organizations focused on sustainability. There are dozens of speaker and networking events all the time, whereas in Bellingham, Washington, the first time they held one of these events 250 people showed. We shifted strategies. We still have occasional speaker events, but we're partnering with the Small Business Commission of

the City of San Francisco to run a green business summit and with the San Francisco Independent Merchants Association on a 'local first' campaign. There are 106,000 small businesses in San Francisco, and there are thousands that are at or near a tipping point, where they are expressing curiosity about how to make their businesses more sustainable. They want to know: what other companies in my industry are doing this? Where can I find the resources? How can I do this in a way to increase revenues and decrease costs to make my business more successful? They're starting to ask these questions and not knowing where to turn. I see a spectrum moving from curiosity to intention to action. To me, that's why Local Exchange exists. Once you get a critical mass of twenty to twenty-five committed members, then it is fairly easy to go to seventy or eighty members, then its another year or so before you get to a couple of hundred members."

Equity and Sustainability

Equity issues for local business networks involve the preservation of small, locally owned businesses when confronted with competition from large, nonlocally owned corporate chains. Local Exchange, like other local business networks, runs local first campaigns. The national organization has also published a "Local First"TM booklet, written by Michelle and Derek Long of the Bellingham, Washington, network. The how-to kit provides step-by-step information on how local business associations can put together a buy local campaign, and it includes various sample brochures as well as recommendations for policy issues at the local level.

To some extent, environmental and local ownership issues can be experienced as a trade-off. At a national level, BALLE tends to emphasize social responsibility and environmental stewardship, whereas a similar organization, AMIBA (American Independent Business Alliance), tends to emphasize more the Main Street, small retail sector. Tensions can also emerge within organizations. As Shaffer noted, "On the Local Exchange board, we had a camp that was very interested in local and a camp that was very interested in green. It wasn't especially clear to the people on the green side that local was as important to them, because to them the urgency was around the environment. Generally, the retail business owners are less oriented toward ecological sustainability, whereas paper, restaurants, and a hotel owner were more interested in the ecological side. Yet, independent of the buy local campaigns, there is the virtue of local ownership that seems to resonate with all the groups."

Another tension has been with the local Chambers of Commerce, which can be threatened by BALLE networks. The tensions may be greater in small cities. "Here in San Francisco, the Chamber of Commerce has seventy-three board members. Each and every one is from a gigantic publicly traded company, or they are attorneys, real estate developers, and consulting firms that are servicing those gigantic corporations. So it's a farce to say that the Chamber of Commerce in San Francisco supports small businesses. We feel that in certain areas the Chamber is a bit antiquated, and we're looking at it in a competitive sense of who can do more to improve the economic vitality and the sustainability of small businesses. Here in San Francisco, we're such small potatoes that they don't even care."

Policy Issues and Recommendations

BALLE is an educational organization, so it does not get involved directly in policy. It does support the various policy initiatives that local business associations take to limit the development of big box superstores and to channel local government procurement toward local businesses.¹ In addition, BALLE is looking at ways to connect locally oriented businesses on a continental and eventually global scale. Referring to the work of BALLE founder Judy Wicks, Shaffer elaborated: “Our vision is a global economy comprised of a network of local economies. So if there is a certain type of printer that I need, and it doesn’t exist in San Francisco, then I could go to BALLE marketplace and find a specialty printer in Portland, Oregon.”

One of the problems faced by small, socially responsible businesses is acquiring the capital to grow. By going public, firms can lose control and find that their core values are diluted. Shaffer describes the issue of capitalizing small, sustainable businesses as a key area that he is especially interested in developing: “Basically, there is a lot of momentum within the BALLE community to focus on new models for capitalizing local living economies, whether that’s regional funds, holding companies, or local stock exchanges. I have quite a bit of experience in equity financing, raising money for early stage companies, and I know that there are a lot of investors who might have a \$100,000 and are asking themselves, ‘Do I need to have all \$100,000 in General Electric or Walmart stock? Might it be interesting for me to put \$2,000 or \$3,000 in companies that are based within 30 miles of where I live? If there was a mechanism for investing in those companies, I’d rather keep my money in the local economy by investing locally.’

“Likewise, on the exit side, you have Ben and Jerry’s selling to Unilever, Odwalla to Coke, Stoneyfield to Dannon. We’d like to try and find a more creative solution for liquidity for early stage entrepreneurs. After a certain time, they’d like to get some money out for their effort, but they don’t want to see the values of their organization diluted by selling out to a big company. They don’t want to see their ownership spread out and become completely absentee-owned. So that’s where the idea of a local exchange comes in, where potentially you could have a bulletin board-style exchange to invest in local companies. There are a lot of regulatory issues there, and a lot of challenges. In addition, Judy Wicks set up the Greater Philadelphia Local Living Economy Fund. They give microloans and equity investments to sustainability-oriented companies in the Greater Philadelphia area. I predict that we’ll have something like that here in the Bay Area in the not too distant future.”

Another area that Shaffer is developing is “getting more qualified entrepreneurs to work in the local living economy. So I’m working with Marion Fuller (of BALLE) to match young people, primarily undergrads, with established, experienced local living economy entrepreneurs for an Americore-style year. You have to have really sharp entrepreneurs. Entrepreneurship is at the heart of BALLE. You have to have a high tolerance for ambiguity and risk to get out there and start these companies.”

Web sites:

www.livingeconomies.org

www.localexchange.org

Sources:

Interview with Don Shaffer by David Hess, March 17, 2005.

1. Long, Michelle, and Derek Long. 2004. *Local First Campaigns: A How-to Kit*. Bellingham, Wa.: Business Alliance for Local Living Economies.
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