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Business for a Social Purpose: Traidcraft and shared interest

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ABSTRACT *Mary Mellor and Geoff Moore present case studies of two organizations that have Corporate Social Responsibility in the form of social purpose at the heart of their theory and practice. Traidcraft, a Fair Trading organization and Shared Interest a financial cooperative that supports Fair Trade, both seek to promote Fair Trade as a solution to poverty and marginalization in developing countries. This aim is explored together with an assessment of the radicalism of their approach.*

KEYWORDS *fair trade; corporate social responsibility; lending cooperative*

Introduction

In recent years, there has been a growing movement of trading organizations that put the social purpose of the business first, but also seek to operate profitably within the market place. This has been particularly exemplified in the Fair Trade movement which FINE[1] has defined as:

> a trading partnership, based on dialogue, transparency and respect, that seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, marginalized producers and workers – especially in the South. Fair trade organizations (backed by consumers) are engaged actively in supporting producers, awareness raising and in campaigning for changes in the rules and practice of conventional international trade (FINE, 2001, http://www.eftafairtrade.org/definition.asp, accessed 8 September 2003).

Fair Trade aims to provide a working model of international trade that makes a difference to both producers and consumers. Key principles are fair pricing and the development of consumer consciousness together with a more radical aim to challenge orthodoxy in business practice not simply by campaigning but by being a 'tool for modifying the dominant economic model' (Renard, 2003: 91; Moore, 2004).

Four phases have been identified in Fair Trade development: from goodwill selling (mid-1950s to early 1970s); to solidarity trade (1970s to late 1980s); to mutually beneficial trade (1990s); and finally to trading partnerships (1990s and the emerging trend)

(Tallontire, 2000: 167–9). In its increasing emphasis on partnership (see also the FINE definition above), Fair Trade sees itself as a model for development in which international trade can benefit producers in developing countries without creating dependencies or exporting the dominant model of capitalism. Indeed, it is possible to make a parallel between the effect of ethical consumers in the North, willing to pay higher prices such that the benefits flow to the southern producers in higher wages and social premiums for the local community, and that of trade unions and minimum wage legislation.[2] This is not to say that Fair Trade is without its challengers and its own difficulties. Space here precludes a discussion of these, but Moore (2004) in general and LeClair (2003) on the particular issue of Fair Trade pricing, give a clear indication of these.

This paper aims to explore how the principles and vision inherent in Fair Trade actually work out in practice through case studies of two organizations, Traidcraft and Shared Interest, both based in the north east of England. The paper draws on published documentation, the web sites of the two organizations, the direct experience of one of the authors and interviews with Andy Redfern, the International Director of Traidcraft and Sue Mayo, Business Development Manager at Shared Interest.[3]

The case study organizations

Traidcraft

Traidcraft was founded in 1979 by a group of committed Christians as a trading business seeking to respond to poverty in the developing world through trade. It emerged from a mail order and wholesale operation owned by the development charity TEARfund. Traidcraft rapidly developed its product range and developed an extensive network of volunteer sales representatives. It later set up an educational and development charity and an associated investment organization, Shared Interest. Christian philosophy remains central to Traidcraft's work with a 5,000 strong national network of volunteers selling products in their churches, schools and homes. A similar number of individual investors have provided its £5 million capital base; Traidcraft has very little institutional investment.

Traidcraft is committed to working with people of all faiths or none. It sees itself as a community of supporters, shareholders, customers, professionals and producers aiming to reduce poverty by trading with hundreds of small craft producers and farmers in over 30 countries. Its mission, to 'fight poverty through trade', encapsulates this. Traidcraft has been a leading organization in the Fair Trade movement and was a founder member of the International Fair Trade Association (IFAT) and the European Fair Trade Association (EFTA).

Traidcraft claims to be the leading Fair Trade organization in the UK with sales approaching £14 million per annum. In line with Fair Trade sales around the world, Traidcraft's product mix by category is 70 per cent food and beverages (including tea, coffee and wine as well as combination food products such as Geobars), 15 per cent crafts and 15 per cent paper. Traidcraft sells approximately 48 per cent through Fair Trader volunteers, 12 per cent by mail order, 12 per cent through retail and 29 per cent via wholesale of which 15 per cent is via supermarkets. In 2003/04 its turnover grew by 15 per cent against a declining general market and it expects a pre-tax surplus of around £400,000 in the current year.

The Traidcraft structure

Traidcraft is made up of three linked organizations: Traidcraft Foundation, a charitable Trust; Traidcraft plc a share-based company; and Traidcraft Exchange, a charity. The Foundation holds a Guardian Share in Traidcraft plc with a veto on appointments to the Board and the ability to limit some specific transactions including the level of shareholder dividend payments. The Foundation is also a founder member of the Traidcraft Exchange charity and appoints all the directors on the advice of a nominations committee. In practice the company and charity Boards hold joint meetings with overlapping membership and a common management team and support services. While the company conducts the main trading business the charity arm offers training, consultancy and information services. Most of the 132 permanent staff are located in Gateshead near Newcastle, an economically disadvantaged region within the UK. Four policy staff are located in London with two programme managers in Malawi and Bangladesh.

The three arms of the Traidcraft organization are linked by a Deed of Mutual Covenant based on core foundational principles. (http://www.traidcaft.co.uk, accessed 4 May 2004).

In terms of Corporate Social Responsibility, the key elements for Traidcraft are its mission of fighting poverty through trade and the aim to be transparent and accountable.

The Traidcraft approach to development through trade

Traidcraft works to help poor producers in developing countries trade more effectively by breaking down the barriers that prevent them gaining access to world markets. For example, in Malawi it found that most handicraft goods were being exported illegally at very low prices. Traidcraft set up a trading company with DFID support that doubled legitimate exports. Traidcraft's approach is based on the self-help principle that nothing is offered free. People are asked to pay a little even if it is notional, or to offer something in kind. In doing this it hopes to avoid the problem of dependency by prioritizing the criterion of sustainability. As Andy Redfern, International Director of Traidcraft pointed out, 'sustainability is the goal… on day one of any project or programme we ask the question, how can we sustain this?' Indeed, Traidcraft has developed a new policy in this area: 'For each partner or producer organization with whom we work, Traidcraft will develop and agree a clearer set of development objectives and timescales. While looking for long-term relationships, we shall also plan for 'exit strategies' that encourage our suppliers and partners to avoid becoming dependent upon Traidcraft' (Traidcraft, 2002: 4).

The trading company links with individuals, businesses and trading organizations directly. For example, in Bangladesh 100,000 artisans are linked to Traidcraft through 15 NGO marketing organizations. The charity, Traidcraft Exchange works on a wider level setting up business development services with partners in the field. With in-country partners it develops local producers' business skills and capacity and seeks to create a business environment in which poor producers can engage in sustainable trade. For example, in India it has set up International Resources for Fairer Trade an independent organization employing ten staff. Traidcraft partners can vary from NGOs with a trading aim, to trading agencies with a development aim, to commercial consultancies. What they must have is a commitment to trade as an anti-poverty strategy, something which Andy Redfern described as 'selling with a message'. Traidcraft also advocates on behalf of poor producers and campaigns to change unfair conditions of trade and make trade rules work in the interests of the poor. As its website states, 'We believe businesses should work in the interests of all stakeholders and in particular should be held accountable for their impact on the poor' (http://www.traidcaft.co.uk, accessed 4 May 2004).

Traidcraft is not the only, or even the original Fair Trade organization in the world; there are at least 30 northern Fair Trade buying organizations. However, only two or three of these organizations, according to Traidcraft, do wider developmental work and most only with their own direct producers. In that sense, Traidcraft can be considered unique in the Fair Trade movement in its wider involvement in business development and policy work.

Social responsibility through social accounting

Apart from its role in promoting development through Fair Trade, Traidcraft has contributed to Corporate Social Responsibility through its development of social accounting methods. The need to measure social benefit arose because Traidcraft found that while it had financial accounts to measure economic efficiency, it had no way of judging its social effectiveness. Before Traidcraft issued its first social accounts in 1992, there were organizations that carried out social audits, but these were external to the company. What Traidcraft initiated, together with the New Economic

Foundation, was an internal social accounting structure alongside financial accounts which were then externally audited.

While Traidcraft has traded successfully for 25 years and is continuing to expand, it is still looking for evidence of its impact in the field. The annual reports and social accounts provide a large quantity of anecdotal evidence, but full-scale impact assessments, particularly with trading partners, have proved too expensive. One externally funded project in Malawi has now incorporated a baseline study and impact assessment and is showing very positive results. This year a PhD student is starting an impact assessment of Traidcraft's work in Bangladesh.

Shared Interest society limited

Established in 1990, Newcastle-based Shared Interest grew out of a Traidcraft initiative to supply credit on fair terms to facilitate trade between producers in the developing world and northern Fair Trade buyers. It now lends to around 30 northern buyer organizations and around 45 southern producer organizations as well as making payments on the buyers' behalf to over 350 such organizations. Any producer or buyer it works with must be a member of IFAT or certified by the Fair Trade Labelling Organization (FLO).

Shared Interest plays a unique role in the circuit of international Fair Trade and estimates that it finances approximately 10 per cent of global Fair Trade transactions. A principle of Fair Trade is that producers receive a part payment in advance and are then paid promptly on delivery, but this can produce a cash flow problem for buyers. Shared Interest provides the necessary finance to allow trade to flow and its particular focus is in supporting the producers. When an order is placed by the Fair Trade buyer, Shared Interest is able to pay immediately a percentage of the agreed contract value to the producer on behalf of the buyer and can lend more money directly to the producer up to 80 per cent of the value of each order. Upon delivery of the goods, it pays the remainder of the contract value net of any export credit and interest owed by the producer. Shared Interest is then repaid (with interest) by the buyers when the products are delivered or subsequently sold. The benefit of this system is that producers are given more financial security and the credit and repayments are all in hard currency. As the producers do not have to repay any money they do not need to engage in hard currency transactions. Equally, Shared Interest never gets involved with soft currencies.

Shared Interest also provides a commercial order export credit facility to producers to enable them to trade with conventional companies and offers term loans to producers to buy larger items such as equipment or transport. The payments and interest for these are made from future trade contract payments. Interest rates vary according to risk but are usually around 10 per cent per annum on US dollar loans.

Shared Interest structure and operations

Shared Interest is a lending cooperative. A related charity (Shared Interest Foundation) is in the process of being established. As far as Shared Interest is aware, there is no other social finance organization that links a cooperative structure of investor-members with externally focused loans. This structure enabled the company to build up withdrawable share capital (minimum £100 maximum £20,000) while retaining the cooperative principle of one member one vote. In 2003 it had share capital of around £18 million with 8,200 individual investors and around £9 million on loan. There are no corporate or institutional investors. The average investment is £2,200 and the loyal membership is willing both to maintain and increase its investment although Shared Interest is currently seeking to increase both its share capital and its membership. Interest paid to investors is normally 4 per cent less than the UK base rate; in May 2004, the interest rate was 0.5 per cent. Investors are happy to forego higher interest (and one third waive their interest entirely) because they are interested in social rather than purely financial returns. According to Sue Mayo, the Business Development Manager they are 'passionate' about helping businesses in the developing world to trade on fair terms.

In addition, six annual £1 million five-year zero-interest bonds have been issued to provide funds for micro-credit. Loyalty to the bonds has produced a two-thirds roll-over on maturation. Shared Interest (like Traidcraft) does not engage with micro-credit itself but has a long-term relationship with a Dutch organization, Oikocredit.

In 14 years of operation Shared Interest has faced only one major non-payment, but was strong enough to withstand this without a reduction in interest rates or a charge on capital. In other cases, where there have been difficulties over payments these have usually been resolved over time through payments from future earnings.

The Shared Interest approach to development through trade

Like Traidcraft, Shared Interest sees trade and self-help as a means of development and empowerment. It started from the view that, 'there was a qualitative difference between giving (which produces a relationship of dependence) and investing (which produces a relationship of mutual partnership)' (Moore, 1993: 69). As rule three states:

> The object of the society shall be to carry on the business of providing financial services, especially for production and trade, in a manner which reflects the principles of love, justice and stewardship which are fundamental to the faith of the Christian Church and are accepted by many other people of goodwill and compassion and in order to promote wholesome, dignified and sustainable employment for the benefit of people in need in any part of the world, particularly in poor countries.

Despite this overt link to Christian ethics in its rules, Shared Interest has not sought to identify itself as a faith-based organization in the same way as Traidcraft. As with Traidcraft, Shared Interest works with producers on an entirely inclusive basis subject, of course, to Fair Trade criteria.

The 18 staff of Shared Interest are all located in Newcastle but there are plans to internationalize the business and get closer to the producers. This arose out of a revised vision/mission/values statement that was approved in September 2003. The vision is 'to achieve real and lasting improvements to the lives of disadvantaged producers, particularly in poorer parts of the world, by providing fair and just financial services and sharing risk' and is backed by a mission which is 'to finance Fair Trade'. Part of realizing this mission involves 'listening to and promoting southern voices and views' (http://www.shared-interest.com, accessed 4 May 2004) and it was this statement, in particular, coupled with the stage of development that the organization has reached, that has given rise to a consideration of how staff located in less developed countries might better enable the organization to be effective.

Social responsibility through social accounting

Shared Interest is not nearly so far advanced as Traidcraft in relation to social accounting but is aiming to produce its first social report in 2005. Like Traidcraft, it has a range of anecdotal evidence in support of its positive impact and an increasing demand for its services. Since it finances buyers and producers directly, it has ready access to financial measures of success for these organizations, but it is the broader span of stakeholder concerns that social accounting will enable it to address.

Trading out of poverty – a challenge to the mainstream?

The fundamental philosophy of both Traidcraft and Shared Interest is self-help through enterprise via partnership. The aim is to overcome poverty, marginalization and disadvantage through international (fair) trade. This approach is certainly a challenge to unfair and exclusionary conditions of trade, but it also goes against trends towards more radical anti-globalization alternatives to export-oriented trade (Hutchinson *et al.*, 2002). In contrast to more localist and non-market approaches, Traidcraft and Shared Interest make the case for trade as an immediate solution to poverty. Andy Redfern of Traidcraft argues strongly that having a cash trading element within the local subsistence economy can cushion people against hard times: 'if you haven't got cash in today's world it is hard to cope with the knocks that people can face'. He recognizes that this is at cross-purposes with many aid organizations and acknowledges than many NGOs are suspicious of trade and tend to favour subsistence or sustainable livelihood models (Hines, 2000). However, Traidcraft's aim is always to add value and not duplicate or undermine other development initiatives. Traidcraft certainly does not have to search for work; it receives around 200 enquiries per year.

One of the concerns of Traidcraft and Shared Interest is that their work could be in danger of disrupting local economies and undermining the local circulation of trade and capital. For example, while Shared Interest's US dollar rate of interest is around 10 per cent per annum, the local rate currently in Tanzania is 22 per cent per annum. Fair Trade also means paying a premium over the commercial market rate for goods and so benefits some groups and not others, thereby being potentially divisive within the local community. Traidcraft overcomes this by seeking to ensure that the Fair Trade premium is allocated to the wider community wherever possible. For example, in Uganda Traidcraft faced the problem of buying at Fair Trade prices around 5–10 per cent of the production of previously state-owned tea cooperatives employing 2,000–3,000 members. As it would be unfair to reward only a small number of producers with the Fair Trade premium, this was put into a fund for the whole local community providing school books, water pipe extensions and bridge repairs.

On the other hand, a more hard-nosed approach was taken in the Philippines where there were many small paper-making producers, often with only one or two employees. Traidcraft chose to work with the most entrepreneurial business which rapidly expanded to 140 employees so becoming the biggest employer in town. This obviously competed with other small producers, but Traidcraft's argument was that the overall wealth of the community was enhanced dramatically. Traidcraft's aim is to work with the most marginalized and disadvantaged groups whether they be women, those with HIV/AIDS or ethnic or religious minorities, supporting Chambers' (1983) aim of 'putting the last first'.

One of the critical factors in reaching the poorest is the level of risk that a trading or investment organization can take. While more active members attending Shared Interest regional meetings have repeatedly suggested that Shared Interest should take more risk, a Membership Survey of 2001 showed that only 12 per cent of respondents thought the organization should do so. Both Traidcraft and Shared Interest make risk assessments of both producers and buyers, often visiting the relevant countries.[4]

More radical approaches to local economic action often support the principle of cooperative or social enterprise or stress environmental sustainability. While Traidcraft and Shared Interest certainly support these principles they are not prioritized over the relief of poverty. In the experience of Andy Redfern, cooperatives could be long on promises and short on delivery; a good commercial enterprise could provide local wealth more quickly. If poverty can be alleviated by support for conventional trading activity, then so be it: 'enterprise development is at the heart of things'. While Fair Trade is the ideal, the main priority is relief of poverty. The main aim is to get cash into the local economy on a long-term and sustainable basis and in such a way that the community as a whole benefits. Trade growth is thereby the route to wealth and security. What Traidcraft is looking for in local economies is dynamism and entrepreneurship. Structure is not so important as motivation and the motivation must be a commitment to trade as a solution to poverty; Traidcraft has in the past withdrawn support from a local programme where the local Board was acting in its own interest rather than that of local people.

While Fair Trade's approach may not satisfy more radical critiques of development through international market systems, it has played a part in the wider debate about the social responsibility of business and the prioritization of the interests of shareholders. Since the publication of Freeman's ground-breaking book (Freeman, 1984), there has been a continuing debate around stakeholder theory (Donaldson and Preston, 1995; Mitchell *et al.*, 1997; Phillips *et al.*, 2004) and the competing shareholder theory (Moore, 1999; Smith, 2003). Corporate Social Responsibility is becoming increasingly important within the commercial sector and the stakeholder theory of the firm has established itself at the forefront of this development 'using a framework based on the management of a corporation's relationships with it stakeholders' (Clarkson, 1995: 92). For Traidcraft and Shared Interest, in combination with the Fair Trade movement as a whole, the single most important stakeholder group is clearly not the shareholders/investors, but the southern producers for whose benefit they exist. This is understood as a partnership of equals and one in which other stakeholders – shareholders/investors, employees, customers, the natural environment – are all seen as having intrinsic interests that need to be taken into account. Social accounts are viewed as exactly that – the opportunity to provide an account to these different stakeholders.

Reflecting on the competing frameworks of left and right, Andy Redfern of Traidcraft sees the organization as part of the 'radical middle' which seeks a middle way between the potentially destructive commercialism of the market and non-market solutions. However, he recognizes that the dilemma of holding this position is that the organization 'can be everybody's friend or nobody's friend'.

Conclusion

As a working model, Fair Trade as practiced by Traidcraft and supported by Shared Interest does provide an effective tool for challenging the dominant economic model. As Fair Trade products become increasingly available through mainstream channels such as supermarkets, these organizations come into direct contact with trade conducted along different lines and, while there is always the danger of image-laundering and dilution of the Fair Trade concept, there is also the reverse possibility that mainstream business will modify its practices along fairer lines with the potential this may have for a fairer trading system that also benefits less developed nations.

At the same time, Fair Trade is still limited to mainly handicrafts and commodity food products. It is unclear whether this range could be broadened in the longer run. While the model can support international trade, it is also not clear whether it could provide the basis for the generation of ecologically sustainable and socially just local economies. However, the two organizations discussed here are innovative and exemplary organizations within the current framework of international trade.

Notes

1 FINE is an informal network that involves the Fairtrade Labelling Organizations International (FLO), the International Fair Trade Association (IFAT), the Network of European Shops (NEWS!) and the European Fair Trade Association (EFTA).
2 The authors are grateful to Dr Mark Hayes for this insight.
3 The authors would like to thank the two individuals and their organizations for their willingness to participate in this research.
4 One of the current authors has addressed the questions of social investment and risk elsewhere (Affleck and Mellor, 2003).

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