

# Greed does not have to drive business: the role of Fair Trade Enterprises as proof of concept

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## Abstract

Maximising and extracting profits has become the central design feature of mainstream business. Fortunately, alternatives to this idea are on the rise, among them the Fair Trade Enterprises spread across over seventy countries. Distinct from commodity-focused models, Fair Trade's enterprise verification system (WFTO system) is focused on the mission, priorities and structures of an entire enterprise. Recent analysis of this Fair Trade Enterprise model has uncovered distinct structural features that shape their priorities and decision-making processes. Such structural features determine where profits go, which stakeholders are given power and, ultimately, whom the business is set up to benefit. By remaining mission-led, Fair Trade Enterprises demonstrate that business can be viable without endlessly pursuing profit maximisation. This is an idea that can transcend social and environmental objectives, particularly in tackling rising inequality. Fair Trade's community of verified mission-led enterprises can be a proof of concept for the enterprises of the new economy.

**Keywords:** Fair Trade; social enterprise; corporate governance; inequality; supply chains; labour rights; sustainable development; certification; smallholder farming; poverty

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## The Question of Business Design

Fair Trade Enterprises embody a very specific idea of business design. They are about building an entire business with a social mission at its core. They are about trade and markets, but the priority must be to benefit workers, farmers and artisans. This design feature means they are about taking off the straitjacket that mainstream business wears, under which they can do right by people and planet only if this can be shown to lead to increased profits. They challenge the assumption that we must work with and around pursuit of ever-greater profits as the core driver of business. This is why Fair Trade Enterprises are a model of business that is in stark contrast to the design of mainstream business.

Greed is defined as 'a very strong wish to continuously get more of something'.<sup>1</sup> To maximise profits is to continuously pursue more profits. To maximise profits is not about delivering adequate profits or about commercial viability, but to always aim for greater profits. This continuous pursuit of more profits is a manifestation of greed. It is an endless pursuit that has been accepted as a central pillar of mainstream business.

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<sup>1</sup> Cambridge Dictionary. (2019). Retrieved from <https://dictionary.cambridge.org/dictionary/english/greed>

Maximising profits as a means of maximising shareholder value is widely accepted as a part of corporate law in many jurisdictions (especially in Common Law jurisdictions).<sup>2</sup> While the legal basis for this can be challenged, the legal form of corporations has, in effect, been shaped to embody this principle. This is a choice that society (through lawmakers and policymakers) has made – to have profit maximisation as an organising principle of business. Mainstream business has been optimised to achieve high profit, and then to increase it, and increase it again, without end. Fair Trade Enterprises are among a broader range of businesses that show that an alternative design choice can be made.

The Fair Trade movement has built different systems to pursue its common vision of a Fair Trade economy. Together, we are all committed to the Fair Trade Charter.<sup>3</sup> In our movement, there exist commodity-focused systems that cover raw materials like cocoa, coffee and cotton that have redefined supply chain sustainability (in particular Fairtrade International). There is also the Fair Trade Enterprise model verified through the WFTO. Dubbed by some as the social enterprise system of the Fair Trade movement, this model is becoming increasingly relevant as societies around the world revisit the purpose and mission of business, and how it features in a transformed economy.

Over the last few decades, the language of corporate purpose, sustainability and ethics has been embraced by most companies (especially those with consumer-facing brands). Yet the results tell a different picture. Economic inequality keeps on growing and the ecological crisis deepens. Business is at the core of this, with commercial decisions pivotal in determining how the fruits of economic activity are shared and in determining our collective environmental footprint.

In contrast, the idea of a Fair Trade Enterprise is a radical proposition. While pursuing commercial viability, these enterprises do not chase maximum profits. Instead, they embody more balanced goals and prioritise a social mission. Currently, there are over 330 Fair Trade Enterprises that are members of the WFTO, across over seventy countries, and this essay will explore how they are structurally and culturally distinct from mainstream models of business built around the pursuit of maximum profits. Importantly, this essay explores why this alternative to profit maximisation matters now more than ever. It argues that the time is right for campaigners, academics, entrepreneurs and policymakers to study and draw insights from these enterprises in the urgent quest to transform business.

## **The Two Systems of Fair Trade: Enterprise Models and Third-Party Commodity Certifications**

The Fair Trade movement has developed two distinct systems to make trade fair. The first is the commodity certification model, a system available to any business to ensure that they buy some of their raw material on Fair Trade terms. This is the essence of certification systems run by Fairtrade International, Fair Trade USA and others. These systems can be used by companies of all types and allow such companies to carry a label on their products. They can also include support for farmers and their communities. Fair for Life is another commodity-focused system, one that differs slightly, as it also asks some further questions about the model of the business or brand that wishes to use the certification and label. There are certainly many benefits of third-party commodity certification,<sup>4</sup> which allows conditions to be verified, provides stable and fairer prices for producers, and enables funding to support farmers and their communities.<sup>5</sup>

These commodity-focused systems are themselves run as mission-led organisations. Some also explicitly provide a real voice for producers (e.g. Fairtrade International is partly owned by the farmers' groups). These systems are not run as businesses trying to make a return on capital through selling certification services. They remain organisations with a clear social goal, and were born with the mission of helping producers get a better

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<sup>2</sup> Stout, L.A. (2013). The toxic side effects of shareholder primacy. *University of Pennsylvania Law Review*, 161(7), 2003–2023.

<sup>3</sup> The International Fair Trade Charter. (2018). Retrieved from <https://www.fair-trade.website/>

<sup>4</sup> Jena, P.R. & Grote, U. (2017). Fairtrade certification and livelihood impacts on small-scale coffee producers in a tribal community of India. *Applied Economic Perspectives and Policy*, 39(1), 87–110. <https://doi.org/10.1093/aep/1006>

<sup>5</sup> Fairtrade International. (2018). *Benefits of Fairtrade*. Retrieved from <https://www.fairtrade.net/about-fairtrade/benefits-of-fairtrade.html>

deal, improve their livelihoods and achieve better conditions. Critically, they are third-party certifiers, which is meaningful given recent attempts by some major brands that had previously used these certifications to now self-verify claims of fairness in their supply chains (e.g. Sainsbury's).<sup>6</sup> Other models such as direct trade have also arisen as alternatives to third-party commodity certification, with mixed success.

The second approach embraced by the Fair Trade movement is the enterprise model. This is where an entire business is verified to prioritise Fair Trade in everything they do. As such, these are not enterprises that must show the return on investment for trading fairly, but ones where the principles of Fair Trade are in their DNA, regardless of whether this leads to increased profits.

The enterprise model approach (verified through the WFTO Guarantee System) asks what the real mission of the entire business is, whether they have structured themselves to channel greater power, voice and value to the people who are producing, and how they have built all their management systems to prioritise Fair Trade. This includes, but goes beyond, their supply chain and is central to their governance, ownership and broader model of business. It is focused on the key design features of a business. WFTO verifies this through peer visits and independent audits (both of the businesses and their suppliers). Once verified as Fair Trade Enterprises,<sup>7</sup> they democratically control the WFTO, which supports and promotes this model of business. They also can carry the WFTO Guaranteed Fair Trade label on their Fair Trade products.

This second approach, based on identifying and promoting mission-led models of enterprise, is the focus of this essay. It is an under-explored part of the Fair Trade movement, but is the very identity of the pioneers of Fair Trade, who founded enterprises that were designed to prioritise the producers in everything they do.

### **Fair Trade Enterprises as an Alternative Model of Business**

The business world is diverse, but in most countries it is dominated by businesses that exist primarily to grow the capital of their investors. This means that they are profit maximisers, geared to capture as much value as possible and to distribute this value to investors. Most companies are trapped in a model of governance and ownership that means investing in sustainability, paying people fairly and remaining committed to communities are only allowed if they are the path to the highest profits. If a business is structured so it must always make decisions that maximise profits, then that business is in a straitjacket and any other 'purpose' can really only ever be in service of the mission of making investors as rich as possible. Communities, workers, producers and the environment can pay the price for this endless pursuit of higher profits.

Fair Trade Enterprises are a part of a broader alternative, often captured by the term 'social enterprise'. A commonly used definition of social enterprise is 'a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximize profit for shareholders and owners'.<sup>8</sup>

Two aspects of the definition of social enterprise are critical. First, social enterprises make a clear choice that their social objective takes primacy. It is not triple bottom-line, where all objectives are balanced and considered (which avoids the scenarios where there are trade-offs). Nor is it a long-term view of profit maximisation (which can broaden the range of actions that increase profits, and often allow for a greater number of sustainable practices). It is about giving true primacy to the social and environmental mission.

Sometimes, the social and profit objectives will coincide and a trade-off can be avoided. However, in a social enterprise, where a trade-off cannot be avoided, the social mission takes priority. This is important in distinguishing social enterprises from BCorps and other emerging models of business (discussed later in this

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<sup>6</sup> Fairtrade Africa. (2018). *An open letter to Sainsbury's from Fairtrade producers*. Retrieved from <https://www.fairtradeafrica.net/uncategorized/an-open-letter-to-sainsburys-from-fairtrade-producers/>

<sup>7</sup> WFTO members are predominantly Fair Trade Enterprises (also known as Fair Trade Organisations), who must earn the majority of their income from trading. There are also other categories of WFTO membership: Fair Trade Networks (network organisations with their own members) and Fair Trade Support Organisations (these predominantly support Fair Trade but do not earn the majority of their income through trade). The WFTO Guarantee System applies to all these categories of membership and all are audited independently. Most members have successfully completed the monitoring requirements to become Guaranteed members. Others are classified as provisional members until they have completed these requirements. They have a specific period in which to complete this.

<sup>8</sup> DTI. (2002). *Social enterprise: A strategy for success*. London: Department of Trade and Industry.

essay) that aim to ensure businesses consider their impact and improve how they balance their priorities. Social enterprises go beyond attempting to find win-win solutions that avoid a trade-off between profit and social objectives. Social enterprises are about the primacy of the social mission.

Second, the definition of social enterprise makes clear that it is an alternative to maximising profits for shareholders.<sup>9</sup> Social enterprises must be commercially viable, and this is part of pursuing the social mission (a bankrupt enterprise is good for no one) but it is clearly a different matter from profit maximisation for shareholders.

Both aspects of social enterprise, the mission-primacy and being an alternative to profit maximisation, are central elements of the models of business that exist across the WFTO community and that are verified through the WFTO Guarantee System. Analysis by the WFTO about the business structures of its membership demonstrates some of its members' uniquely mission-led characteristics. This analysis, led by a senior member of the WFTO's Guarantee System team and involving three interns (who together populated a spreadsheet with key information on each member), was based on a review of the profiles and self-assessment reports of all 323 trading members of the WFTO (based on information during May 2018). The profile and self-assessment forms are completed by each WFTO member as part of the membership process, and are verified later through peer visits and subsequently through independent audits, thereafter being updated every four years. The analysis identified a range of issues across these forms (e.g. prevalence of refugee artisans, upcycling, organic practices), with a particular focus on the structural characteristics that help ensure that enterprises remain mission-led.

The structural characteristics assessed were taken from literature, documents about certification models and other reports relating to social enterprise. Structural criteria about enterprises is emerging in procurement tools<sup>10</sup> and certification schemes for social enterprises. For instance, the Social Enterprise Mark requires that:

Your constitution should ideally define your social objectives, but at the very least confirm that you are trading in support of a clear social and/or environmental purpose, and that a principal proportion (51% or more) of any profit made by the business is dedicated to such purposes, as well as any remaining assets, if your organisation was to close.<sup>11</sup>

Key characteristics<sup>12</sup> adopted into the analysis from the social enterprise movement were: (a) whether the social mission is incorporated in the constitution or legal articles; (b) how profits were used; and (c) the structure of the board.

The WFTO analysis of Fair Trade Enterprises shows that there is a broad range of approaches taken by Fair Trade Enterprises to channel their profits into pursuing their social mission of supporting economically marginalised producers.<sup>13</sup> These include investment in training, social support programmes and promoting Fair Trade more broadly, as well as distributing profits to members or investing in marketing and production that will lead to higher orders and incomes. What was common was a limit on profit extraction – some mechanism or policy (some informal, for smaller enterprises in particular) to ensure that the business does not become fixated on increasing returns to shareholders. This keeps the money in the business or channels it to directly benefit producers. The analysis also found that a range of members had boards that typically represent the voices and interests of their producers and communities. This was sometimes through having representatives of the producers with substantial power on the board, or having mission-led organisations like church groups, community organisations or NGOs on the board, aimed at being a strong voice to focus on the social mission.<sup>14</sup> Lastly, the primacy of the social mission was found in all WFTO members, achieved through a range of legal and policy documents, including constitutions and by-laws.

9 Doherty, B., Haugh, H. & Lyon, F. (2014). Social enterprises as hybrid organizations. *International Journal of Management Reviews*, 16, 417–436. doi:10.1111/ijmr.12028

10 Maitland, A. (2019). *Fairer procurement: The equitable business tool*. Retrieved from <https://views-voices.oxfam.org.uk/2019/01/how-to-buy-from-fairer-business/>

11 Social Enterprise Mark CIC. (2019). *Application information*. Retrieved from <https://www.socialenterprisemark.org.uk/assessment/#toggle-id-11>

12 Shahzad, A.M., Rutherford, M.A. & Sharfman, M.P. (2016). Stakeholder-centric governance and corporate social performance: A cross-national study. *Corp. Soc. Responsib. Environ. Mgmt.*, 23, 100–112. doi: 10.1002/csr.1368

13 Based on a review of member profiles of the 323 trading members of the WFTO in June 2018.

14 It is difficult to report figures at this stage without analysing the legal requirements for different business legal forms within the seventy-two countries but there was significant reporting of boards with such characteristics.

Fair Trade Enterprises take on a broad range of legal forms. These include member-owned businesses (such as producer co-operatives), private businesses, Benefit Corporations (distinct from the BCorp certification, discussed below) and social enterprise legal forms, where they exist.

The business models also typically embed the business in their communities in a range of ways. These include contractual commitments to producers and policies to retain long-term business relationships even if more profitable options arise. For most members, this means relationships with producer groups that go back to the early years of the founding of the enterprise. It also means an absence of temptation to look for cheaper locations to produce or source from. Partly due to the fact that WFTO members must demonstrate a long-term commitment to their producers, and partly because their social mission is locked-in structurally, the analysis revealed no instances in which members who are producing were relocating primarily to save costs or increase profits. When faced with a choice between additional profits or the interests of producers, they prioritise producer interests.

Commitment to their producers and the prioritisation of their social mission are design features of Fair Trade Enterprises. Their practices are not simply motivated by a strategy to have sustainable or resilient supply chains to serve their commercial goals. In the mainstream business community, there are a host of sustainability initiatives, commitments to certification and standards, and even long-term partnerships with producers. But these are based on enlightened self-interest, and will be pursued only where it is necessary to achieve the goal of maximising profits and ultimately shareholder returns. Mainstream brands may buy certified raw materials today when it gives their brand a boost, but will stop tomorrow if the cost exceeds the benefit to their bottom line. Fair Trade Enterprises are not designed to do that calculation. They are designed to prioritise the social mission, no matter what. That is a big and bold idea that is key to ideas around the new economy.<sup>15</sup>

It is a minor miracle that Fair Trade Enterprises have successfully competed for decades within a market ecosystem that channels finance and opportunity to the companies who promise to extract the highest returns. They deal with complex distinctions (e.g. commercial viability versus profit maximisation and trade-offs between sustaining margins and increasing producer incomes) and invest resources into ensuring that their social mission remains central (including through completing WFTO forms and audits). They are a proof of concept that profit maximisation does not need to be the central pillar of business. By showcasing an alternative to the core of today's mainstream companies, they can help inspire a broader transformation of our economies. This can be essential in creating a business world that is driven to address the inequality and ecological crises with which we are all grappling.

## The Fight Against Rising Inequality

Economic inequality is growing and Fair Trade Enterprises may hold the key to tackling it. Reducing inequality is desirable because it can help end poverty,<sup>16</sup> stabilise societies<sup>17</sup> and create sustainable economies.<sup>18</sup> According to research (articulated in the bestseller *The Spirit Level*), growing economic inequality leads to more crime and corruption and shorter life expectancy (for rich and poor).<sup>19</sup> Rates of child wellbeing, education, teenage births, obesity, drug use, mental health and physical health are all more favourable in societies with greater economic inequality.<sup>20</sup>

Inequality also hinders the fight against poverty. According to the Overseas Development Institute's calculations, if economic growth had been equal in all countries (including the poorest 40% growing at the same rate as the average), the rate of poverty would have dropped to 13% in 2010, as opposed to 16% (the

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15 By 'new Economy', I refer to the ideas of organisations such as New Economy Coalition, Wellbeing Economy Alliance and others involved in gatherings such as NESI (New Economy and Social Innovation Forum).

16 Lakner, C., Lakner, C., Negre, M. and Prydz, E.B. (2014). *The role of inclusive growth in ending extreme poverty*. Retrieved from [http://www.ecineq.org/ecineq\\_lux15/FILESx2015/CR2/p191.pdf](http://www.ecineq.org/ecineq_lux15/FILESx2015/CR2/p191.pdf)

17 Oxfam. (2014). *Even it up: Time to end extreme inequality*. Retrieved from [https://www.oxfam.org/sites/www.oxfam.org/files/file\\_attachments/cr-even-it-up-extreme-inequality-291014-en.pdf](https://www.oxfam.org/sites/www.oxfam.org/files/file_attachments/cr-even-it-up-extreme-inequality-291014-en.pdf)

18 Raworth, K. (2017). *Doughnut economics: Seven ways to think like a 21st century economist*. White River Junction, VT: Chelsea Green Publishing

19 Wilkinson, R. & Pickett, K. (2010). *The spirit level: Why equality is better for everyone*. London: Penguin

20 Ibid.

actual poverty rate).<sup>21</sup> Despite impressive reductions in overall poverty rates, growing the income of the poorest people as fast as the growth of the incomes of the richest would have lifted many millions more out of poverty.

Central to the fight against inequality is how businesses are prioritising different goals and benefiting different stakeholders. As Fair Trade Enterprises focus on benefiting the economically marginalised, prioritising goals and principles that supersede profit maximisation, they may hold critical insights into transforming economies by populating them with businesses that distribute value more broadly and equitably.

Current trade, business and financial models are increasingly channelling value to the richest, fuelling more unequal societies around the world. While economies around the world are growing, an alarming portion of the benefits of growth is being channelled to the wealthiest. According to Oxfam, 82% of all wealth created in 2017 went to the top 1%.<sup>22</sup> Meanwhile none went to the bottom 50%. Something is wrong in the way our economies, and the businesses that populate them, are spreading the fruits of economic growth. There are multiple reasons why we need to tackle this spiralling inequality.

Profit maximisation is a part of the inequality story and the obsession with delivering more profits to shareholders has become worse. In the 1970s, a typical corporation in the United States would return about 33% of its profits to shareholders.<sup>23</sup> Today, it is 70%.<sup>24</sup> The trend of increasingly channelling growing profits to shareholders is happening everywhere. From the United Kingdom to the United States to India, shareholder capitalism has become supercharged.<sup>25</sup> Yes, shareholders benefit from growing profits and, for publicly listed companies, shareholders can be anyone (e.g. workers through their pension funds). But, naturally, the richest own the most shares and get the largest dividend cheques. For instance, in the United States, the richest 10% own 84% of shares.<sup>26</sup> When shareholders are the priority, by and large these are people with the largest wealth.

If profits are the obsession of companies (as their core design feature) and these profits are distributed proportionately to the ownership of capital, we are locking in higher inequality. The World Inequality Report tells us that 'Economic inequality is largely driven by the unequal ownership of capital'.<sup>27</sup> Designing business around rewarding people based on the size of their ownership of capital would perpetuate the unequal distribution of capital and hardwire growing inequality into our corporate and economic models.

Businesses of all sizes and shapes drive commercial activity across the planet. They trade, invest and produce, making decisions that impact incomes, wages, profits and taxes across the world – impacting who benefits most from commercial activity with every decision. Critically, key factors that distinguish company impacts on inequality are their mission, ownership and governance model.<sup>28</sup> This determines who gets their profits, how they prioritise investments, how they shape relationships with workers and suppliers, and the overall purpose driving their business. In other words, to get to the core of whether a business is able to truly tackle inequality, the question to ask is whether a business bucks the norm of always prioritising returns to investors. Fair Trade Enterprises are designed to do just this.

## **The Distinguishing Features of Fair Trade Enterprises**

The Fair Trade movement is littered with enterprise models that are designed to prioritise the interests of workers, farmers, producers and communities. The essence of all these models is the requirement that they

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21 Hoy, C. & Samman, E. (2015). *What if growth had been as good for the poor as everyone else*. Retrieved from <http://www.odi.org/publications/9588-income-inequality-poverty-growth>

22 Alejo Vázquez Pimentel, D., Macías Aymar, I. & Lawson, M. (2017). *Reward work, not wealth*. Retrieved from <https://policy-practice.oxfam.org.uk/publications/reward-work-not-wealth-to-end-the-inequality-crisis-we-must-build-an-economy-fo-620396>

23 Konczal, M. (2018). *The shareholder revolution devours its children*. Retrieved from <https://www.thenation.com/article/the-shareholder-revolution-devours-its-children/>

24 Ibid.

25 Hardoon, D. (2016). *An economy for the 99%: It's time to build an economy that benefits everyone, not just the privileged few*. Oxford: Oxfam. Retrieved from <https://policy-practice.oxfam.org.uk/publications/an-economy-for-the-99-its-time-to-build-a-human-economy-that-benefitseveryone-620170>

26 Konczal, M. (2018). Op. cit.

27 Alvarado, F., Chancel, L., Piketty, T., Saez, E. & Zucman, G. (2018). *World inequality report*. Retrieved from <http://wir2018.wid.world>

28 Sahan, E. (2016). *Does business structure influence social impact*. Retrieved from <https://www.enterprise-development.org/wp-content/uploads/Does-business-structure-influence-social-impact-OxfamDCED-Briefing-Note.pdf>

prioritise opportunities for economically marginalised producers. This is the first and perhaps most defining question in the WFTO Fair Trade Standard, one that all WFTO members are required to embrace.

Other Fair Trade principles go further to identify key features of Fair Trade Enterprises. The WFTO Standard includes a requirement of accountability to all stakeholders through transparency and participatory ways in which to involve producers and workers. This lays the groundwork for ensuring that relationships with workers and producers are not just transactional but central to the way the business makes all decisions.

Then there are the specifics of how a business deals with suppliers, workers and producers. The requirements on immediate payment, pre-financing, provision of a share of the consumer price, fair negotiation and payment of a local living wage identify only businesses who are designed to pursue the interests of economically marginalised producers. Profit-maximising businesses that are designed to extract maximum value through every commercial dealing would not pass these requirements.

These design features and practices provide a fundamentally different kind of power relationship between stakeholders involved in the enterprise: workers, producers, communities, management, trading partners and investors. Below are specific examples of such enterprises and organisations.

### **Examples of Fair Trade Enterprises**

**CORR** – The Jute Works in Bangladesh is structured to embody democratic participation of about 5,000 producers. They are represented on a range of boards and management committees, including on their board of trustees, where five of nine members are representatives of producer groups. Their profits are reinvested in the business, distributed to artisans or spent on projects to support these communities.

**Craft Link** in Vietnam is another example of a business that serves the specific needs of particular communities. Their mission is to help to revive Vietnamese artisan culture and improve artisans' livelihoods through handicraft production and marketing. This mission is part of their governance model, and drives their commercial decisions. Their profits are being used for the organisations' development activities and for developing new projects.

**El Puente** in Germany is perhaps a textbook example of a multi-stakeholder model of business. Producers, employees, customers and founders have equal shares and equal power in the board. Profits are always used to further the goals of Fair Trade, based on the mission of supporting economically marginalised producers.

**Global Mamas** in Ghana is a business that exists solely to support independent women-owned micro-enterprises producing garments, handicrafts and other products. They use any profits to support these women-producers.

**Creative Handicrafts** in India is owned and controlled by 270 workers and producers, 240 of which are women. All profits are reinvested or used to further the mission of supporting these producers.

**PODIE** in Sri Lanka is structured to give their 2,000 spice farmers majority control on their board and to ensure that all profits are used to benefit these farmers. They emerged through community-level investments that supported trading activities back in the 1970s and have since become a business that exports to Europe, New Zealand and across Asia.

**Maquita** is a co-operative in Ecuador that runs several social businesses, operating as a foundation driven by a mission to support Ecuadorian families who are in a vulnerable situation. They invest all profits for this purpose and have representatives of communities on their board.

**Mahaguthi** in Nepal is a private business that manufactures clothes (including for People Tree, Mata Traders and other Fair Trade brands), as well as toys and various paper products. They lock in the social mission by requiring that all profits be reinvested to benefit its workers and artisans. Without shareholders pressuring them to extract profits for them, they can adopt a model that pursues commercial viability while prioritising the interests of producers.

The chief executives of such businesses are not constantly pressured to drive down costs and squeeze their suppliers. While they are focused on commercial viability (i.e. sustainable margins), this can be distinguished

from the pursuit of ever-higher margins and profits that is common in mainstream business. In Fair Trade Enterprises, the workers and farmers are the voices represented in their boardrooms, pressuring management to run the business in their interests.

When we study the data we have on WFTO members, what we find are specific structural features that prevent a single-minded pursuit of profit extraction for shareholders. We found a common thread among WFTO members in that at least one of the following features exist in them:

- mission is prioritised in their legal documents, such as constitution, articles of association or by-laws (where legally possible);
- board has representatives of producers or organisations that are mission-led themselves;
- profits are mostly reinvested into the Fair Trade business or used to directly benefit workers, farmers or artisans; or
- ownership is substantially controlled by producers or mission-led organisations.

While they adopt these distinct structural characteristics, Fair Trade Enterprises take many legal forms. They are private businesses, co-operatives, non-profits and associations. This makes them particularly attractive as a focus of research that goes into the diverse mechanisms they deploy to ensure that their social mission is the priority in their business decisions.

## **Global Agenda is Going from Improving Business to Transforming It**

While sustainability initiatives have proliferated across the corporate world, we have also seen a growing chorus of initiatives that ask the question: 'What makes a company truly good for society?' Following the very same logic of Fair Trade Enterprises, the social enterprise movement has grown to identify and promote entire models of business that have embraced the primary objective of achieving social goals. This means being commercially viable, but not maximising profits. In the words of the late director of Oxford's Skoll Centre for Social Entrepreneurship, Pamela Hartigan, they need to embrace 'reasonable profits as opposed to maximizing profits'.<sup>29</sup>

The social enterprise movement has created various ways of verifying if a business is mission-led, including the Social Enterprise Mark,<sup>30</sup> Social Traders Certification<sup>31</sup> and through membership organisations like Social Enterprise UK.<sup>32</sup> These systems are broader than the WFTO, and encompass multiple social and environmental missions that may be pursued (the WFTO is tailored for enterprises targeting the social mission of benefiting producers and their communities). In studying the criteria of these other social enterprise verification systems, one notices two central common requirements around: (1) the social mission being in the legal documents; and (2) the majority of profits being reinvested in pursuit of the mission. The WFTO system covers both criteria, but with a specific focus as a social enterprise verification system where the social mission is to support workers, farmers and artisans.

Over the last two decades, the BCorp movement has also grown rapidly, asking a very similar question to Fair Trade Enterprises and the social enterprise movement: 'How do we create businesses that have goals broader than just profit?' BLabs run the certification for BCorps, which is a points-based system that allows businesses to accumulate sufficient points through a broad choice of areas that may be their strength. They also need to ensure they consider their impact on a broad range of stakeholders.<sup>33</sup> There are now over 2,000 BCorps in over fifty countries, most of which are larger than the average Fair Trade Enterprise.<sup>34</sup> The

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29 Hartigan, P. (2014). *Why social entrepreneurship has become a distraction: it's mainstream capitalism that needs to change*. Retrieved from <https://oxfamblogs.org/fp2p/why-social-entrepreneurship-has-become-a-distraction-its-mainstream-capitalism-that-needs-to-change/>

30 Social Enterprise Mark CIC: Upholding the Standard for Social Enterprise. <https://www.socialenterprisemark.org.uk/>

31 Social Traders. <https://www.socialtraders.com.au/>

32 Social Enterprise UK. <https://www.socialenterprise.org.uk/>

33 BCorporation. (2019). *A global community of leaders*. Retrieved from <https://bcorporation.net/>

34 B.Corporation. *What are BCorps*. Retrieved from <http://bcorporation.eu/what-are-b-corps>



fundamentals of BCorps do not require the prioritisation of social goals over profit extraction, but move the narrative around business purpose to challenging the prominence of shareholder value creation. In fact, some Fair Trade Enterprises are also BCorps, including Fruandes in Colombia and Dr. Bronners in the United States. Their dual identity reinforces the broader goals of these businesses being about social and environmental impact.

Even in the corporate world, exploring the mission or purpose of business has become a vogue. Businesses large and small now talk about purpose through initiatives such as 'Coalition for Inclusive Capitalism'<sup>35</sup> and 'Blueprint for Better Business'.<sup>36</sup> Publications such as *Harvard Business Review*<sup>37</sup> and *Forbes*<sup>38</sup> are also focusing on this question for companies large and small. Usually, these become a subset or wordsmithing of the purpose of maximising sales in order to grow profits (e.g. purpose for consumer goods companies usually gets summarised as delivering products consumers want). These initiatives are moving the debate, acknowledging that business cannot just be about maximising profits, but have had questionable success in actually moving corporate priorities. This is because, too often, there is no real change to the power structures within these companies, which continue to require the board and management to deliver maximum profits. Shareholder power is not curtailed and the straitjacket of profit maximisation is left in place. In stark contrast, Fair Trade Enterprises have gone further in demonstrating that businesses can truly prioritise a social mission because they must put people and planet ahead of growing their profits.

Transformational change will mean populating the new economy with businesses designed to pursue a social mission. This transformation cannot happen in a business ecosystem designed for profit-maximising companies. A new business ecosystem will need to emerge that is designed to foster mission-led enterprises. Financial systems, tax codes, business school curriculums and business regulations will need to be transformed. In many instances, mainstream businesses are at a cost advantage as they avoid investments in social and environmental impact where the business case is weak. Consumer choice and impact investing are mechanisms that can show the viability and desirability of mission-led models but, for broader change, we need an ecosystem designed to foster mission-led businesses. This is a shift in mindset, going beyond regulations designed to compel businesses to behave responsibly. It is about giving policymakers the liberty to adopt design thinking, re-imagining the design features of businesses that will be mission-led and creating the ecosystem to support them.

The transformation of the business ecosystem will not be comfortable or convenient. Mission-led businesses, by their very nature, challenge the assumption that financial capital should have a monopoly on the levers of power within a business (the board, distribution of profits, setting of business goals, etc.). Under current financial market structures, this will not gain the support of mainstream investors (beyond the relatively few social and impact investors that put impact first). International trade and finance currently rewards economies that offer the highest returns to investors. There will be short-term pain for economies that are keen to undergo such a transition to mission-led enterprises as a core part of their economy.

There is a growing chorus around the idea that saving our societies, economies and planet will require a transition away from the pursuit of maximum profit, returns and growth<sup>39</sup> and that this transformed economic model can be populated with mission-led enterprises of all shapes and sizes. The Fair Trade Enterprise model has shown a resilience going back many decades and across many contexts to serve as a reminder that business can be de-linked from the endless pursuit of profit and growth. Under the status quo, these enterprises do compete with mainstream brands, with more (and cheaper) access to capital (e.g. because they can access share-markets by embracing profit maximisation) and a willingness to cut costs that mission-led

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35 Coalition for Inclusive Capitalism. <https://www.inc-cap.com/>

36 A Blueprint for Better Business. <https://www.blueprintforbusiness.org/>

37 Kenny, G. (2014). *Your company's purpose is not its vision, mission, or values*. Retrieved from <https://hbr.org/2014/09/your-companys-purpose-is-not-its-vision-mission-or-values>

38 Vanderbloemen, W. (2017). *Why purpose should be a pivotal part of your business strategy*. Retrieved from <https://www.forbes.com/sites/williamvanderbloemen/2017/01/29/why-purpose-should-be-a-pivotal-part-of-your-business-strategy/#496e67cf4135>

39 Trebeck, K. & Williams, J. (2019). *The economics of arrival: Ideas for a grown-up economy*. Bristol: Policy Press.

enterprises would refuse to cut (such as moving operations to cheaper locations, or only having some Fair Trade products or ingredients). They can also pick and choose the product lines where they use Fair Trade labels or make ethical claims, incurring costs only where they are assured that consumers will reward them. Policymakers can draw courage from the fact that mission-led enterprises have survived and thrived across the world despite financial and trading systems that often work against them. Their persistence demonstrates that such a transition is indeed possible.

### **Fair Trade Enterprises as Proof of Concept**

The 330 Fair Trade Enterprises spread across the world (and growing in number) are an experimentation ground for identifying the kind of enterprise models that distribute power and value more equitably. They are proof that business can genuinely pursue a social mission, not just make that mission a vehicle to extract more profits. This challenges the very idea that greed must drive business. In essence, Fair Trade Enterprises can help determine the features of the businesses of the new economy that are equitable and sustainable everywhere. This goes beyond being more ethical or sustainable where there is a business case to do so. It is about prioritising a social mission, while being commercially viable without maximising profits. If we can better understand the features of these businesses and the conditions that can foster their proliferation, we can help inspire the transformation of the broader business community. It is time for academics, campaigners and policymakers to look more closely at the mission-led models of business that the Fair Trade movement has developed.