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Outsourcing governance: Fairtrade's message for C21 global governance

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OUTSOURCING GOVERNANCE: FAIRTRADE'S MESSAGE FOR C21 GLOBAL GOVERNANCE

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Abstract

Globalisation and global challenges demand new governance models. The perceived success of the value chain as a governance mechanism for delivering better social and environmental outcomes has led a growing number of mainstream companies to incorporate brands associated with initiatives such as Fairtrade, the Forest Stewardship Council, and Rainforest Alliance into their procurement and marketing strategies. By buying from ethically certified producers and selling ethically labelled products, retailers and manufacturers are effectively outsourcing a significant part of their supply chain governance to third parties considered to have greater moral credibility than the companies themselves.

This paper explores the implications of such outsourcing for the companies concerned, and in particular the dangers to both corporate reputation, and to the wider credibility of alternative governance models. Drawing on empirical data from a longitudinal study of Kenyan communities producing for Fairtrade, and situating this within debates about voluntary self-regulation, value chain governance, and international development, the paper details how Fairtrade initiatives have been adopted as part of a governance outsourcing strategy, and the extent to which they are able to helps companies meet their societal responsibilities. The paper concludes with a discussion of the lessons for corporate strategy and the management of governance issues. The paper brings together ethical governance theory and empirical findings to examine the shifting nature of governance in global value chains, and the implications of this shift for mainstream companies. In particular, it examines one of the more mature models of ethical value chain governance, Fairtrade, and how this is being used by business.

Keywords

Governance; Fairtrade; corporate responsibility; value chain management

1. Introduction

Since the 1990s, there has been a growing acceptance that outsourcing business functions to a globally dispersed value chain does not absolve a company from responsibility for the behavior of those within that chain. The argument was first made by civil society organizations such as trade unions, and subsequently accepted by companies such as Levi and Mattel. As part of this trend, by the late 1990s, major companies in apparel, food, and retail were endorsing initiatives such as the Fair Labour Association, European Retailers Programme for Good Agricultural Practice, and the Forest Stewardship Council. Progress in monitoring, reporting, and remediation as reported for example by the Ethical Trading Initiative suggested that the era when companies sourcing from developing countries could or should not exert control over what their suppliers did (cf. Ballinger, 1997) was a thing of the past.

Subsequent analysis attributed this shift to awareness of the reputational risk posed by poor labor conditions or harmful environmental practices. As awareness of the value of the brand grew, so too did the arguments from corporate responsibility theorists that unethical behavior devalued intangible assets (Peters, 1999; Schwarz and Gibb, 1999). Since then, what Kramer and Kania (2006) call 'defensive corporate responsibility' (i.e., practices that protect the company's reputation) has flourished, despite the many challenges of implementation (Jenkins et al, 2002; Leipziger, 2003). A consensus has emerged that to be effective, companies should work in partnership with others, not just those in the supply chain, but also unions, NGOs, government agencies, industry peers, etc (Kolk, 1999; Mamic, 2004). But is the objective still reputation management, or have companies become more ambitious?

Various theories exist to explain what is happening, and the purpose of this paper is to examine the nature of what appears to be a shift in the way what Gereffi et al (2005) call the 'gatekeeper companies' of the value chain (i.e. those that give overseas suppliers access to the wealthiest consumer markets), relate to supplier, producers, and others. Does it, for example, represent an elision of defensive corporate responsibility with Kramer and Kania's offensive corporate responsibility with gatekeeper companies seeking to burnish their reputations by acting as development agents consciously striving to deliver benefits for producers and their communities (Blowfield, 2010)? Does it signify a shift from

constructivist corporate responsibility concerns about filling global governance gaps, to something more in line with the aims of the global justice movement (Newell, 2008)? Is it an example of governance supportive of neo-liberal social justice with its emphasis on self-interested reciprocity and the minimal state (Nozick, 1974)? Or is it an assault on that agenda founded on the belief that development and social justice are intertwined (Langhelle, 2000)? Likewise, is it an example of 'new ethicalism' (Sum, 2010) where elites use particular corporate responsibility theories and practices to ensure the sustainability of capitalism?

The array of possibilities shows the complexity of the issue, and to unpack it we focus on a particular approach to managing ethical dimensions of value chains, Fairtrade. We have chosen this because of the growth in Fairtrade's market share and product range, and its increasing adoption by mainstream companies. As important, it is an approach to value chain management that from the outset has been associated with non-instrumental measures of efficacy, and the Fairtrade Foundation's slogan states it "guarantees a better deal for Third World Producers" (Fairtrade Foundation, 2009a). Although it includes the basic codified safeguards found in ethical trading standards such as the Ethical Trading Initiative's Base Code, it goes further than this to include process rights, i.e. the elements required to ensure substantive performance is maintained in the longer term (Nelson 2007; Kolk and van Tulder 2006) As we shall discuss, Fairtrade involves not merely higher prices for producers, but also an emphasis on participatory governance, inclusion, and capacity building; elements associated with the social struggle of the poor and marginalized (Hall and Soskice, 2001; Evans, 2005). We will explore whether implicit recognition of this array of social development objectives by companies using Fairtrade labeled commodities and products such as Nestle, Cadbury, Starbucks, and Tesco represents a progression from defensive corporate responsibility, and in particular a rethinking of governance concerns. We will provide empirical evidence of Fairtrade's ability to deliver on its 'guarantee' to 'Third World Producers', and the extent to which any successes or failures in this regard are pertinent to gatekeeper companies. Finally, we use this evidence to theorize about what Fairtrade has to tell us about alternative governance constructs, in particular industry self-governance in tackling issues of social and environmental development and justice.

2. From reputation to governance?

The ethics of commerce has long been a public concern, underpinning a range of consumer movements from the bread riots in the 18th century to the antislavery boycotts, cooperative

movement, and Buy Empire campaigns in the 19th and 20th (Bushman, 1992; Hilton, 2003; Smith, 2002; Trentmann, 2007; Thompson, 1971). Such movements had the effect of undermining the reputation of individual companies or entire industries, and after an interregnum in the post-Second World War era when companies were thought tamed by the social contract and 'countervailing power' (Galbraith, 1952), they gathered a new significance as the commercial, communications, and social networking possibilities in globalization became realized. Media exposés and civil society campaigns in the 1990s highlighted sweatshop conditions, ecological disasters, and human rights abuses attributed to global capitalism, and concerns about the morality of the market generated new waves of consumer activism.

Within this context, ethics became an organizational problem: how gatekeeper companies managed the social, environmental and economic impacts in their supply chains, and how they navigated the risks posed by stakeholder activism started to affect organizational legitimacy and market value. By the new century, business organizations such as the Conference Board felt that corporate reputation had outstripped financial performance as the foremost measure of corporate success (Powers, 2007). Increasingly companies created departments, committees, and processes to analyze and control "how they are experienced by others" (ibid.), while professional service firms housed reputation assurance functions to equip companies with the tools and expertise measure and handle reputational risk (Powers 2003:150).

Yet over time, risk management strategies were not only employed to defend corporate images against adverse publicity. Reputations are now also seen as resources that can generate benefits and be marshaled proactively to gain competitive advantage. As consumer interest in ethical sourcing has grown, brand manufacturers and retailers have recognized the commercial value of an ethical policy, and the LOHAS (consumers with 'lifestyles of health and sustainability') are recognized as an important market segment worth £35.5 billion in 2007 or 5% of UK consumer spending (The Co-operative, 2008).

Because of skepticism about companies' sincerity, and the many thousands of product lines a multiple retailer such as Carrefour carries, some retailers and manufacturers, especially in foods, have turned to other organizations including Rainforest Alliance, Forest Stewardship Council, and Utz Kapeh as a way to earn ethical credibility. Fairtrade, in particular, has entered the commercial mainstream, with Dunkin' Donuts, Ahold, and Cadbury carrying

Fairtrade product lines (Reed, 2009), and many supermarkets now retailing ‘own-brand’ Fairtrade products.

However, as we discuss in Section 3, Fairtrade with its roots planted in a mixed compost of socialism, theology, and international development, saw itself as something more than reputation management or even a guarantee of basic rights. Its mission was to remoralize the economy of trade, and in particular empower small producers. In contrast, for instance to a labor code of conduct, which specifies performance criteria such as limits on child employment children and overtime, but divorces such behavior from other value chain practices, Fairtrade defines a system of production, exchange, and organization intended to govern the chain. Put simply, basic performance codes may be part of a system of governance depending on how they are employed, but Fairtrade is a governance system in its own right.

By governance, we mean the processes of making and implementing decisions pertaining to the organization and the conduct of a definable group. In this case, the group encompasses the firms and organizations that make up the value chain as defined by Gereffi et al (2005) .[1] The processes can encompass the traditions, mechanisms, and institutions by which those in the group articulate their interests, exercise their rights, meet their obligations, and mediate their differences. Theories of value chain governance can seem at odds with a pure neo-liberal model where the market is the primary mechanism of socio-economic governance. However, governance in a neo-liberal economy takes many forms (Hollingsworth and Boyer, 1997), and the agency of companies and other organizations is often more informative than that of markets (Crouch, 2010).

The notion of value chain governance is significantly different in implication and intent from those who argue attention to ethical issues in supply chains (sic) is justified by reputational benefits to a company (e.g. Amalric and Hauser, 2005). Commitment to Fairtrade signifies de facto engagement in the value chain as a mechanism for governance motivate by social justice. The company may not see anything significant in this other than certain constructivist reasons for aligning with Fairtrade’s moral standing at a time when the public is raising the bar on ethical performance, and multi-stakeholder co-governance has credibility as a way of

[1] The Global Value Chain Initiative, founded by Gary Gereffi of Duke University defines a value chain as “the full range of activities that firms and workers do to bring a product from its conception to its end use and beyond” including design, production, marketing and distribution (http://www.globalvaluechains.org/concepts.html).

tackling major social and environmental issues from poverty to deforestation. However, embedded within Fairtrade are elements of a new governance model that emphasizes accountability, transparency, inclusivity, duty, and participation in order to ensure that the interests of those who have traditionally had least power are served by the wealthier, and more influential elements of the value chain. It may be that individual companies are attracted to the reputational benefits of Fairtrade: however, not only is this an overgeneralization if applied to all brands, but inherent in Fairtrade's promise to benefit and be accountable for developing company producers and their communities is the expectation that adopting companies will shift away from a *noblesse oblige* view of corporate responsibility toward fuller engagement as more of a development agent with business accountable for development outcomes (Gooch, 2010). The extent to which Fairtrade is delivering on that promise is discussed in the next section.

3. Fairtrade – a case study of new governance

What is Fairtrade?

The Fairtrade movement describes itself as a response to the "failure of conventional trade to deliver sustainable livelihoods and development opportunities to people in the poorest countries of the world" (WTFO, 2009). This response takes the form of a trading partnership, based on dialogue, transparency and respect, that seeks greater equity in international trade (ibid.).

Over the years, there have been a variety of definitions of Fairtrade, and the two primary international Fairtrade bodies, the World Fair Trade Organization (WTFO) and Fairtrade Labelling Organisations International (FLO) have different interpretations for reasons described below. But in 2009, different parts of the movement agreed five core principles as follows:

- Provision of market access for marginalized producers.
- Fostering of sustainable and equitable trading relationships.
- Investment in capacity building & empowerment for Fairtrade producers.
- Engagement in consumer awareness raising & advocacy.
- Acceptance of Fairtrade as a "social contract" with a commitment to long-term trading partnerships based on dialogue, transparency and respect.

Fairtrade's value chain governance is regulated by a set of standards. In the case of certified Fairtrade commodities such as the tea discussed below, production must comply with the standards established by FLO. FLO's Generic Fairtrade Standards contain requirements on social, economic and environmental development (e.g. minimum price, democracy, participation, transparency, non-discrimination, environmental protection). Producers should be small family farmers organized into independent, democratic associations (FLO, 2009). Producers should receive a Fairtrade premium[2] to be used for community and/or economic development projects such as boreholes, schools, and daycare facilities (Fairtrade Foundation, 2006). The standards contain minimum requirements which all producers must meet from the moment they join Fairtrade, and a set of progress requirements, which specify the areas for future improvements over a given timeframe.

The standards' performance requirements provide producers, traders, and buyers with a technical blueprint of their responsibilities, and form the basis of Fairtrade's legitimacy amongst consumers. Part of this legitimacy is trust in the outcome expectations inherent in the standards, three of which we highlight here.

First, there is an expectation that the governance system will benefit poor producers by guaranteeing a fair price and long-term supply chain relations. The signature feature of Fairtrade is the provision of a minimum guaranteed price at least equivalent to the costs of sustainable production that ensures a living wage for growers (Linton, 2008). The minimum price is Fairtrade's "clearest direct benefit" for producers and workers (Taylor et al., 2005), but more than this the product standards require that, "When the relevant market price (where it exists) or the negotiated price for a product is higher than the Fairtrade Minimum Price, then this higher price must be paid" (FLO, 2007c:5). Part of achieving this is the establishment of alternative trading relationships, and the product standards stipulate that, "Buyers and importers will make efforts to establish long-term stable trade relationships with producers in which the rights and interests of both parties are respected" (FLO, 2007c:4).

Second is the expectation that Fairtrade will benefit the poor by fostering democracy, participation, and representation. Fairtrade advocates a model of entrepreneurial

[2] FLO defines the Fairtrade premium as "an amount paid to the producer organization in addition to the payment for their products. [It] is a tool for development, supporting the organization to realize their development objectives as laid down in its development plan" (FLO, 2009:10).

developmentalism in which communities are encouraged to assume responsibility for their own improvement through market engagement. This shift away from top-down state solutions to community-led entrepreneurial initiatives forms the crux of Fairtrade's vision of particpative democracy, and FLO standards state that the producer organization, "must be an instrument for the social and economic development of the members, and the benefits of Fairtrade must reach the members. The organization must therefore have democratic structures in place and a transparent administration" (FLO, 2009:7).

Third, Fairtrade aims to work deliberately with "marginalized producers and workers in order to help them move from a position of vulnerability to security and economic self-sufficiency" (FLO, nd). Thus, Fairtrade demarcates who the deserving recipients are, and reflecting corporate responsibility more broadly, seeks to benefit stakeholders "whose entitlement stems from the fact that they are directly affected by, or in some way involved in, the core business of the corporations concerned" (Sharp, 2006: 217).

The Evolution of Fairtrade

As the world's most recognizable ethical brand, Fairtrade is considered a laudable success story, evolving from a small alternative fringe movement to the center of mainstream retailing. The evolution of this success is well documented: in the mid 20th century small faith-based and aid organizations launched a system of solidarity exchange movement intended to empower small producers in developing countries, and inject a new morality into international trade, pioneering an alternative model of development captured in the slogan "Trade not Aid" that achieved commercial acceptance and impressive growth to become the 'archetypal brand" of the new economy (e.g. Barratt-Brown, 1993; Ransom, 2001; Paton, 2006). Four elements of this story are relevant to understanding Fairtrade as an example of new governance approaches.

First, the Fairtrade mark licensed to 4,500 products in the UK alone (Fairtrade Foundation, nd) represents only one type of Fairtrade, and one that is markedly different from the founding model of solidarity exchange. In the 1960s and 1970s, solidarity exchange, or what was then called Alternative Trade, had explicitly political goals – identifying markets for producers that had hitherto been excluded from mainstream trading channels and engaging in campaigning, lobbying, and awareness-raising around development issues. It achieved reasonable success amongst certain ethically motivated consumers using outlets such as churches and charity shops (see Tallontire, 2000; Davies, 2007; Nichols, 2010). Alternative

Trade Organizations (ATOs) continue to operate a model centered on grassroots development and poverty alleviation under the umbrella of the World Federation of Fair Trade Organizations (WFTO) (e.g. Traidcraft, Ten Thousand Villages), but visibility has waned since 1988 when the Max Havelaar mark or label was launched in the Netherlands, initiating the commercial model that most consumers recognize as Fairtrade today.

In contrast to the ATO model, where legitimacy was derived through the reputation of the organization itself (e.g., Oxfam, Christian Aid, Traidcraft), the Max Havelaar label was based on a system of inspection and certification that governed the production, trading, and marketing of Fairtrade products, thus providing consumers with assurance that a Fairtrade purchase brought certain benefits to small producers. The Max Havelaar model formed the basis for several subsequent national labeling initiatives (NI) that sprang up in Europe and North America. These NI joined to form FLO in 1997, an umbrella organization created to establish standards and oversee the accreditation of labels, ensuring uniformity in the production and trade of Fairtrade commodities. In 2002, FLO replaced the marks of national LIs (except in Canada and USA) with the International Fairtrade Certification Mark that is found on products sold in over 20 countries today (Fairtrade Foundation, nd).

Second, the market growth and expansion of Fairtrade products that is widely discussed, refers to growth in FLO-certified and labeled products. ATOs had primarily focused on building often quite personal relationships between small producers and ethically-oriented consumers; FLO was more concerned in expanding the market for Fairtrade products by making them available to everyone. In the UK, Cafédirect was one of the first brands to exploit the labeling advantage. It was formed by four leading ATOs with the purpose "to pioneer Fairtrade into the mainstream of consumer consciousness and purchasing" (Davies et al., 2010:96). By the early 1990s, it had become the first Fairtrade product sold through mainstream distribution channels, namely Safeway, the Co-operative Retail Group, and Sainsbury's (Hockerts, 2005; Davies et al., 2010). Other dedicated Fairtrade brands such as Divine and Dubble soon followed, embodying what Doherty and Tranchell (2007) term a 'radical mainstreaming' approach that bridged social justice goals with a commercial strategy of sales growth.

There is now something of a rift between non-certified, relationship oriented Fairtrade as pioneered by the early ATOs, and the far larger commercial model focused on market

building, certification, and standardization represented by FLO (Nichols 2010). Because of its influence on the commercial mainstream, we focus here on the latter.

Third, the first ATOs concentrated largely on sales of primarily sold handicrafts, which they came to recognize had limited potential for market expansion, and even when ATOs diversified into products like coffee and tea they had neither the scale nor scope to reach mainstream consumers. Labeling initiatives recognized that food offered better demand elasticity (Hockerts, 2005) and had greater potential to move beyond the 'niche' ethical market than crafts. The first Fairtrade-certified product identified was coffee, the price of which had plummeted due to the collapse of the international coffee agreement in 1989. Food became the bastion of Fairtrade sales, comprising 20 percent of sales in 1992, and rising to nearly 70 percent in 2002 (Nicholls and Opal, 2004).

Fourth, the success of Fairtrade is typically discussed in terms of market growth and expansion, which are often equated with impact. In 2008, Fairtrade certified sales amounted to approximately €2.9 billion (US $4.08 billion) worldwide, a 22 percent increase over 2007 (Fairtrade Foundation, 2009b). In the UK, which has arguably the most commercially focused Fairtrade industry (Davies, 2007), labeled products have substantial market share in some categories (e.g. 27 percent of bananas; 10-12 percent of roast and ground coffee; and 9-10 percent of tea in 2008 [Fairtrade Foundation, nd]). Although tea was a relative late-comer to the range of certified products (following both coffee and bananas), its sales increased from £2 million to £30 million in value from 1998 to 2007, registering a 21 percent increase in volume in 2007 alone (Table 1). At the same time, Fairtrade products have become widely available in mainstream outlets. Fairtrade products are sold in 20 countries across Europe, North America and Asia in market outlets from cinemas and coffee houses, to caterers and airlines, to the shelves of Wal Mart and Tesco's. Marks and Spencer and the Cooperative have both made Fairtrade labeling central to their brand image, and in 2009 and 2010 Starbucks, Cadbury and Nestlé announced that Fairtrade commodities would be used in some of their best-selling products.

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Table 1: Estimated UK Retails Sales of Fairtrade Tea by Value 1998-2007 (£million)	
1998	2.0
1999	4.5
2000	5.1
2001	5.9
2002	7.2
2003	9.5
2004	12.9
2005	16.6
2006	25.1
2007	30.0

Source: Fairtrade Foundation, 2008a

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Fairtrade labeling and corporate mainstreaming

The preeminence of Fairtrade labeling with its focus on the production of food commodities according to standardized ethical criteria, and its tendency to prioritize emphasis on market over political objectives, is significant for various reasons. First, it has spawned divisions with the Fairtrade movement on the purpose and future of Fairtrade. Critics of mainstreaming, for example, argue that it devalues the founding principles of 'alternative' exchange (Low and Davenport, 2005). Critics of corporate responsibility argue that the mainstreaming of Fairtrade allows companies to capitalize on the 'halo effect' of ethical branding without embracing Fairtrade's seminal values and transformational ethos (Renard, 2003; Raynolds et al, 2004; Dolan, 2008). They point to structural failures in the certification system that sustain the power and privileges of global buyers. Retailers can evade FLO licensing by outsourcing roasting, labeling, processing and packing whilst continuing to wrest maximum price, delivery and quality concessions from suppliers of Fairtrade products (Barrientos and Smith, 2007). Because the FLO certification process does not distinguish large corporations with a shallow commitment to Fairtrade from dedicated Fairtrade companies with direct relationships to producers (Davies et al., 2010), the boundary between mission and marketing is becoming increasingly blurred. The fear is that mainstreaming and

the attendant growth in Fairtrade labeling has created and legitimated ‘Faitrade lite’ (Gogoi, 2008).

It is probably true that for some companies using Fairtrade-labeled commodities is a way of burnishing their reputation, and is a decision taken without much thought to the philosophy or practice of the Fairtrade value chain. Other companies look beyond this halo effect, and are interested in Fairtrade as an alternative system of value chain governance. This is true of the larger specialist Fairtrade brands such as TransFair and GEPA, but also of some mainstream companies. For example, Cadbury which has become the major buyer of cacao from Fairtrade certified producers in Ghana, links this to its broader Cocoa Partnership programme.

While the advantages and disadvantages to Fairtrade of this corporate mainstreaming have been well analyzed, the implications from a corporate perspective have tended to be overlooked. In fact, despite a considerable amount of research and commentary on the way corporations are shaping the viability of Fairtrade networks (e.g. Goodman, 2007; Dolan, 2010), there has been little attention awarded to how the mainstreaming of Fairtrade might affect business. Even the most shallow commitment to Fairtrade such as the use of Fairtrade-certified commodities in a narrow range of product lines implies some degree of support for a non-conventional value chain with explicit social justice goals. The more a company uses Fairtrade-certified inputs, the more it legitimizes the particular Fairtrade governance system. They may want to leverage Fairtrade’s moral capital, but this is not without risk. First, few large companies are ‘partners’ in Fairtrade. Rather, they are buyers that effectively outsource the value chain functions required to bring Fairtrade products to market, including production, distribution, monitoring, and certification. As such Fairtrade organizations (i.e. licensees, producer cooperatives, etc.) resemble all suppliers, exposing lead firms to potential social and ethical risks, and rendering them accountable for supplier performance. Yet in contrast to the caricature of unscrupulous suppliers, Fairtrade has accrued considerable organizational legitimacy and ethical currency over time. Like NGOs more broadly, Fairtrade serves as a proxy for moral credibility;, its normative values of solidarity, democracy and transparency are seen as impervious to the ‘politics of government or the greed of the market’ (Fisher 1997). Companies want a share of the consumer trust imparted to Fairtrade, and are prepared to accept Fairtrade’s role as a “monitor and, in some cases, enforcer of social and environmental standards” in return for enhanced ethical and financial capital (Hart, 2005:19;

Edwards, 1999). In other words, companies are outsourcing an important aspect of value chain governance to Fairtrade, something seen as beneficial to companies, perhaps a risk to Fairtrade, and a cause for celebration by consumers. Yet, for all the furor, there has been little attention awarded to the consequences of Fairtrade failing to fulfill this role judiciously.

4. Fairtrade's impact

The promise of Fairtrade is simple and appealing: that purchase of Fairtrade-labeled products helps the poor and marginalized. As British Prime Minister, Gordon Brown, said at the launch of Fairtrade olive oil from Palestine, "In buying this oil, British shoppers will be helping the farmers of Palestine to make a living" (cited by Fairtrade Foundation, 2009a:4). Or as the head of a Fairtrade organization put it in the Financial Times, "[Companies] can meet some [corporate responsibility] targets just by changing their coffee" (Bounds, 2009).

Yet the evidence that Fairtrade is delivering on its 'guarantee' to producers is mixed. Case studies of producer groups around the world show that the Fairtrade price for farmers can be significantly higher than that available on conventional markets (Raynolds et al., 2004; Vogel, 2005). And even when Fairtrade only results in modest increases in per capita incomes, this can be the difference between destitution and survival (Vogel, 2005). However, there are also case studies of disappointment amongst Fairtrade producers (e.g. NRET, 1999; Collinson and Leon, 2000; Nelson and Galvez, 2000), including increased economic differentiation within communities, onerous monitoring systems, and gender inequalities in the distribution of benefits. However, overall information on the actual impact that Fairtrade has on individual producers is scarce (Ronchi, 2002), a problem acknowledged by WTFO's predecessor, the International Federation of Alternative Trade, which admitted that there is neither a comprehensive collection of data about Fairtrade producers, nor a clear methodology about how to quantify impact (IFAT, 2006).

Much of the knowledge about impact comes from case studies, but these are problematic as a source of conclusive information because they employ diverse methodologies, and normally provide only snapshots in time. A review of 33 case studies, the majority from coffee growing, found that the majority of farmers earned higher returns and had more stable incomes because of Fairtrade, but in other areas such as local democracy and labor rights the evidence was less compelling (Nelson and Pound, 2010). Our own research amongst Fairtrade tea producers in Kenya is also only one example, the findings of which cannot be

easily extrapolated elsewhere. However, it is a rare example of Fairtrade's impact being measured at the grower and community level over a period of several years, and for that reason offers particular insight into the delivery of the guarantee at the heart of the Fairtrade system.

Methodology

This data presented below are drawn from a multi-sited study of the socio-economic implications of Fairtrade conducted from 2005-2007. In Kenya the research consisted of 252 semi-structured interviews (SSIs) with smallholders, 52 SSIs with wage employees in the processing factory, 12 participatory focus group discussions, 43 in-depth interviews with smallholders, and over 50 'key informant' stakeholder interviews. In the UK, it comprised 40 in-depth interviews with Fairtrade consumers and NGOs. The following is a summary of findings from this research, which is published more fully elsewhere. [3]

Fairtrade in Aruka[4], Kenya

The study centers on the Aurka Fairtrade-certified tea factory, managed by the Kenya Tea Development Authority (KTDA). Since 2005, all Aruka's tea has been cultivated and processed in accordance with the Fairtrade standards established by FLO, incorporating over 10,000 smallholders and 200 waged employees, and supplying a range of overseas buyers. The first thing to note is that until January 2008, tea in Aurka was exempted from FLO's minimum price and was sold at the standard market price (Kariuki, 2007), even though improved farmgate price was an important part of Fairtrade's attraction for small producers. In reality, however, the Fairtrade minimum price is less than Aruka producers can receive through the Mombasa Tea Auction (see below) due to the superior quality of their tea. This is unlikely to change because the FLO minimum reflects average production costs in a variety of Asian and African countries, all of whom undercut Aruka producers. This opens the possibility of promiscuous buying by Fairtrade tea companies, something that threatens the long-term buying relationships that are part of Fairtrade's governance system. Two structural issues also threaten this commitment: first, the majority of Kenyan Fairtrade fact that tea is sold through the established and influential Mombasa Tea Auction, through which approximately 85 percent of Kenyan tea flows (Kinyili, 2003); and second, that supermarkets

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[3] Blowfield and Dolan, 2010

[4] Because of media controversy surrounding previous research in this region, we have not used the real name of the community.

do not need to be Fairtrade licensees (and hence build a relationship with producers) in order to use the Fairtrade label. The auction system provides a transparent and fair marketing mechanism which accurately reflects fluctuations in supply and demand, but it is also a system dominated by brokers and agents which tends to mediate the trade between producers and consumers, and in many ways preclude opportunities for the sustained collaboration and the long-term trading alliances that Fairtrade exhorts (Bacon, 2005). Even when retailers purchase tea outside the auction, their market ties (or 'partnerships) exist with direct suppliers rather than with producers, with whom they typically have arms-length relationships. Likewise, the arms-length relationships between supermarkets and producers jeopardizes Fairtrade's principles of partnership and sustained collaboration (Reed, 2008).

The expectation that Fairtrade fosters democracy and participation – what Rose (1996) terms governance through community – is also contested by the evidence from Aruka. Fairtrade conceptualizes poverty alleviation as an outcome that can be delivered through new sets of relationship, not only between buyers and sellers, but through the formation of "responsible, autonomous, self-governing communities" (Li, 2007: 241). In Aruka, there are several institutional structures through which farmers and workers are represented (e.g. workers' committee, buying centre committees, board of directors, social premium committee). Despite Fairtrade's requirement that producers and workers participate in committees, and that the decisions taken by the committee are "thoroughly understood and democratically approved" by them (Sexsmith, 2008: 65), over 95 percent of farmers in the Aruka study associated Fairtrade with development projects, not democracy. As a KTDA official said, farmers "don't understand the Fairtrade concept, but see it as a way to get schools free of charge" (Interview, 11 October 2006). Over half of farmers surveyed had never attended an annual general assembly meeting, and less than 40 percent could describe what happens at such meetings. As one Fairtrade auditor remarked, "If you ask, 'Do you understand what Fairtrade is?' …the sad thing is that more often than not the answer is No" (Interview, 25 June, 2007). Although the majority of people knew about, and appreciated, projects paid for through the social premium, only one third of them (34.1 percent) participated in project selection, a fact reflected in that many respondents wanted different projects to the ones delivered. In fact, many felt that FLO representatives had discouraged them from pursuing certain projects even though they were the "community's ideas" (Interview 15 July, 2008).

The shortcomings in democratic practice in Aruka have ramifications too for who benefits from Fairtrade. Non-participation increases the likelihood that Fairtrade serves and reinforces hierarchies and vested interests in the communities, and to a degree non-participation is a result of those forces. Social premium projects are inclusive insofar as when a school is built, for example, all children may attend and when a road is constructed all may use it (Interview, 21 June 2007). But the Fairtrade model, even if inadvertently, privileges certain categories of beneficiaries (the landed, men, entrepreneurs) whilst marginalizing others (the very poor, landless, and certain categories of women). For example, it excludes those who lack the resources to participate. Echoing the situation amongst organic coffee producers in Mexico where standards were observed to carve out new forms of distinction and uneven development in rural economies (Mutersbaugh, 2002), in Aruka the relatively high cost of FLO certification (€42,500 for initial certification,[5] plus an annual inspection fee of €1,575 for a group with 50-100 members in a country with average per capita incomes of approximately €385 per annum ([FLO, 2006; Elliot, 2004b; World Bank, 2005]), imposes a new form of 'conditionality' on market entry, eclipsing "some of the poorest and least 'connected' farmers and cooperatives" (Goodman, 2007:1).

Inclusion is also determined by prevailing socio-economic relations and the cultural norms, social hierarchies, and gender conventions that ultimately shape who can benefit from Fairtrade. For example, even while Fairtrade aspires to reform gender relations, stipulating that there "must be no discrimination regarding participation, voting rights, the right to be elected" etc. in the organization (FLO, 2009:9), women remain practically invisible, comprising zero to 27 percent of membership in local decision-making structures. Women have less knowledge and understanding of Fairtrade, and men are more than twice as likely (54 percent to 20 percent) as women to participate in the process of social premium project selection.

The marginalization of women from Fairtrade bodies is compounded by customary norms of gendered rights and responsibilities that in turn undermine the distributional effects of Fairtrade and its capacity to deliver gender equity for smallholders. Women and children perform the most labour intensive on-farm tasks such as weeding and tea plucking, but

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[5] This includes an application fee of € 500 application fee and certification costs of € 3,400 (an organization with over 1000 members) and € 600.00 (for a processing facility that employs over 100 workers) (FLO, nd).

women's other responsibilities such as childcare and domestic labor mean they have little time to engage in Fairtrade democracy. (For example, only seven of the 240 registered women attended the annual AGM meeting in June 2007.) A further constraint on the potential benefits to women is land-ownership. Participation in Fairtrade governance structures is restricted to those who possess a tea registration number, without which a farmer cannot receive payment for tea or vote in certain committees. Yet, women, despite being a major source of labor, comprise less than 20 percent of Aruka's 12,000 registered smallholders because they are not landowners, and consequently are excluded from the main institutional channels through which empowerment is potentially fostered.

5. The significance of outsourced governance

The evidence from Aruka suggests that there is good reason to question how far Fairtrade is able to meet its guarantee of a better deal for poor producers. Although it is only one case study, there is supporting evidence from other studies, and moreover – especially if one looks beyond Fairtrade coffee – there is little counter-evidence drawing on longitudinal empirical research. The Aruka situation gives reason to doubt the unquestioned and increasingly ubiquitous belief in Fairtrade's benevolence, suggesting instead that assumptions about a unified community of beneficiaries who share a set of common interests that can be met through value chain governance is at best misguided and at worst possibly harmful. Echoing the findings of earlier research, Aruka offers proof that not only is the impact on producers sometimes discounted by the system, but that Fairtrade also disregards "the practices through which one social group impoverishes another" (Li, 2007:7).

This should be important to the Fairtrade movement, which even if it avoids accusations of false advertizing about its guarantee to the poor, is putting its own reputation at risk, not simply because of Aruka, but because it cannot provide robust evidence that Aruka is an exception. However, our concern here is what the findings mean for ethical governance by mainstream companies in global value chains, and in this respect we would highlight two points.

First, the above discussion has relevance beyond Fairtrade to any number of labeling initiatives such as the Rainforest Alliance and the Marine Stewardship Council. At first glance, these might seem to be examples of multistakeholder co-governance, but in practice, as discussed earlier, the gatekeeper companies of the value chain are normally passive

participants with little discernible interest in non-instrumental impacts. They enjoy the halo effect of being linked to Fairtrade, and in return offer unprecedented market access. But rather than co-governance, this is better seen as the outsourcing of governance whereby responsibility for ethical performance is entrusted to those with greatest moral credibility.

Second, this credibility is not convincingly evidence-based. On the contrary, it is based on various assumptions that have little to do with producers' - but everything to do with consumers' - reality. The Fairtrade premise, for instance, is based on consumer skepticism about the fairness of conventional value chains, social trust in NGOs, perceptions of developing country farmers as poor and homogenous, belief in participation, accountability and democracy as universal goods, and acceptance of trade as a mechanism for achieving social justice. However, the fact that some of these beliefs have not been proven to benefit the people in Aruka is mostly irrelevant provided they are upheld by consumers, retailers, and the media in Fairtrade's main markets.

The fact that governance is being outsourced may seem to put companies in jeopardy. Despite the apparent promise that Fairtrade harnesses trade for social justice (just as other initiatives harness trade for sustainability and environmental management), the failure to achieve the desired outcomes for the poor makes it difficult to argue that it is engaging mainstream business in a global justice movement (cf. Newell, 2008). While companies that source Fairtrade products tacitly acknowledge weaknesses in a pure neo-liberal, market-based social justice model (*pace* Nozick, 1974), their actions partly show a willingness to accept a degree of nuance to free trade. More importantly, however, they provide an example of Foucault's governance at a distance where the gatekeepers in the value chain remain independent of the governance system (and gain credibility thereby), but through their influence and position maintain the role of arbiters as to what is acceptable and significant. Alternatively, one could see these companies as agents in the Gramscian derived idea of new ethicalism or neo-constitutionalism mentioned earlier where the sustainability of capitalism is preserved by adjustments to considerations of ethical performance (Sum, 2010).

The distinction is not important here (although we would express a preference for a Foucauldian interpretation) because both interpretations highlight ways value chain gatekeepers can influence the governance system even as they outsource the governance function. Indeed, rather than seeing outsourcing as a risk due to the failings of other organizations, it can be interpreted as a pragmatic, derisking strategy. Pragmatically, it allows

companies to outsource particularly difficult aspects of value chain governance to specialists when at one stage there was an expectancy that the auditing, monitoring, and remediation functions would need to be in-house. However, it also enables companies to potentially wash their hands of the risk that consumers (or producers) will object to the unfulfilled promises. We do not believe this risk is strong, at least in the short to medium term, because faith in civil society actors to address major societal challenges remains strong, and companies are at present more likely to enjoy the halo effect for their actions than criticism. But even if this situation changed, companies could not realistically be blamed for Fairtrade's own failings. While a company such as Marks and Spencer will continue to made accountable for labor conditions when it outsources production, it is unlikely to be held accountable for outsourcing ethical governance to organizations that once enjoyed strong social, if not moral capital.

6. Conclusion

Companies that serve as gatekeepers to lucrative markets are looking to other organizations with high social credibility not only to protect their reputations, but also to outsource important aspects of value chain governance. The commercial mainstream's embrace of organizations with strong public credibility for tackling social and environmental issues has been welcomed as a significant step in remoralizing trade. However, there is good evidence that the labeling schemes these organizations have developed are not delivering the outcomes they promise (and little systemic counter-evidence of their success). As discussed in the previous section, this is not currently a threat for the business users of the labels. But what should companies do next?

It is of course possible companies will abandon initiatives such as Fairtrade, but the current disconnect between consumer perception and apparent impact suggests this would provoke public backlash. It might therefore be in companies' interest to invest in building Fairtrade's capacity to improve, understand, and communicate its impact. This would require a more genuine partnership and approach to co-governance than is presently the case. However, it could exacerbate consumers' skepticism about the increasing 'corporatization' of Fairtrade, and the public might interpret it as commercial interference and co-option of trusted not-for-profit organizations. Indeed, it is an irony that efforts to strengthen multistakeholder co-governance could be perceived as dilution. Yet against this should be weighed the possibility that if companies can manage the situation well, and are able to help build better co-

governance systems despite the risk or lack of pressure to do so, then this would signify a genuine commitment to enhancing the social and environmental impacts of the value chain.

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