

Corporate Social Responsibility – does it make any difference?

October 2004 - Many businesses now undertake often high-profile Corporate Social Responsibility (CSR) activities, but what is CSR, other than just another set of catchphrases and acronyms and in reality how much impact is CSR having on the ground? The first briefing paper in this series explained how the fair trade movement is working to achieve greater equity in international trade. This paper looks in more detail at CSR and the lessons CSR can learn from Fair Trade to improve its social impact.

CSR, Ethical Trade, Sustainable Trade, Fair Trade... Confused yet?

The increase in CSR has meant that the 'ethical' marketplace is now much more crowded. The number of corporate 'social' initiatives including codes of conduct¹, standards and labels is growing fast. There are different practices behind each of these approaches but their similar names make it difficult to distinguish between them. All are hampered by the terminology that they use which are not only hijacked by commercial interests but also can claim more for the product than necessarily intended. A major part of a company's social and environmental impacts are generated by their supply chain activities. This briefing paper will aim to clarify the relationship between Fair Trade and ethical trade. Ethical trade is the main approach used by companies that are serious about improving the social conditions up to minimum international norms in their supply chains.

*CSR is the concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis.*²

2. Fair Trade's approach to bringing about positive social impact in the supply chain.

In recognition of the significant influence that buyers' decisions have on the supply chain the Fair Trade model requires standards of behaviour from buyers, not only of suppliers.

Fair Trade requirements for producers and importers

Suppliers – Producers in developing countries	Buyers – Importers in developed countries
<ul style="list-style-type: none">• Marginalised but organised & able to export• Democratic & transparent management• Decent working conditions and a fair wage• Workers have freedom of association• Equal opportunities for all, particularly the most disadvantaged• Long term co-operative relationships• Commitment to invest in the development of their organisation and the welfare of producers/workers, product quality and environmental stability	<ul style="list-style-type: none">• Pay a Fair Trade price (which covers costs of sustainable production and living) and a premium for producers to invest in development. (Minimum prices have been set for many fair trade products)• Buy from disadvantaged producers (including registered producers where a Fair Trade Label exists)• Provide business and financial support (including advance payment where necessary)• Long term co-operative and transparent trading relationships

These requirements were developed in conjunction with all players in the supply chain.

¹ Code of Conduct is a set of non-legally binding guidelines/standards an organisation agrees to follow

² European Commission DG Employment & Social Affairs 'Corporate Social Responsibility' July 2002

Fair Trade recognises that all parties have to be involved in reducing poverty through trade – local communities, workers, homeworkers, smallholders, suppliers, buyers and consumers. People in developing countries are actively involved in the development of all Fair Trade practices, rather than having these standards imposed upon them. Fair Trade standards recognise that the concerns and needs that different groups of people involved in trade vary with the type of production they undertake and their place in the supply chain. For example, small-scale farmers working their own land need of course to receive a fair price for their crop, but workers employed on plantations are rightly concerned about fair wages and decent working conditions. Dedicated Fair Trade organisations, such as Traidcraft, undertake scoping work to identify where their trade can make the most positive difference when sourcing a new product and then adopt a commercial relationship which is responsive to the needs of the identified beneficiaries.

Products sold by Fair Trade organisations include food, household products, soft furnishings and clothing. Most of the primary food products are sold with the Fairtrade certification mark. This mark is licensed by Fairtrade Labelling Organisations International (FLO)³, and provides an independent guarantee of adherence to agreed Fair Trade standards. FLO is continuously developing standards for new product categories. The Fair Trade labelling scheme enables all mainstream businesses such as supermarkets and restaurants to sell Fair Trade products with a guarantee to consumers.



3. CSR in the supply chain: Ethical Trade - a minimum labour standards approach

Ethical Trade aims to bring CSR into the supply chains of companies by focusing on meeting minimum labour rights as set out by the International Labour Organisation’s (ILO) Declaration on Fundamental Principles and Rights at Work. The ILO is the agency of the United Nations that sets minimum labour standards. Internationally negotiated norms are regarded as the minimum that companies seek to achieve in recognition of their responsibilities. The UK’s Ethical Trading Initiative (ETI) was set up 1998 and brings together companies, NGOs and international Trade Unions to learn about and promote good practice in the implementation of codes of conduct in relation to labour standards. ETI has developed a nine point Base Code, based on the ILO’s internationally recognised core labour standards⁴:

The 9 elements of the ETI Base code – a recommended minimum corporate code of labour practice

- | | | |
|---|------|--------------------------|
| 1. Trade union freedoms | PLUS | 5. Living wages |
| 2. Freedom from forced labour | | 6. Health and safety |
| 3. Freedom from [exploitative] child labour | | 7. Working hours |
| 4. Freedom from discrimination | | 8. Regular employment |
| | | 9. No inhumane treatment |

In addition to adopting all the elements of the ETI base code, companies participating in the initiative undertake to communicate the code throughout their supply chains, to monitor against the code, agree improvement plans with suppliers, inform workers of their code, and of any complaints mechanism. ETI's members work together to identify what constitutes “good practice” in code implementation through experimental projects and research. As such ETI takes an experimental approach and, as distinct from Fair Trade labelling, is *not a certifier or verifier* of companies or products.

Though many companies espousing CSR now claim to have more ethical supply chains, very few have actually adopted codes of conduct which include all the minimum components proposed by ETI. The 35 company members of ETI vary significantly in the extent to which they promote the implementation of the Base Code and in their commitment to compliance. Many companies are reluctant to commit fully to these provisions for fear of losing commercial advantage. Short term commercial self interest combined with no knowledge of impact has frequently meant that those buyers that have adopted codes of conduct have passed the cost of compliance down to their suppliers. Often, they do not recognise that the purchasing practices of companies – including the price they pay – will inevitably limit the capacity of suppliers to give workers decent working conditions or producers a sustainable price. In this case, when the code is applied purely as an additional standard, the enforcement of codes of conduct has led to workers finding themselves in a more precarious situation than before the code was developed

*“WHAT IS ETHICAL?
Kenyan farmers’ definition of ethics would include a concept of cost and risk sharing. “What is ethical about prices below production costs?” The producer gets only 5% of the value of retail price, why should they meet all the costs? You come and audit us, you know everything about us, our salaries, working conditions etc... and yet we can’t question your practices?”*

³www.flo.org

⁴www.ilo.org

4. Differences between Fair Trade and Corporate Social Responsibility (CSR) in supply chains

The principles that underpin CSR - that businesses should recognise, understand and seek to improve their environmental, economic and social impacts - are the same ones that the Fair Trade movement supports. However, there are some fundamental differences between the two approaches.

1. CSR activities seek to render the trading activities benign, without challenging the status quo. → Fair Trade advocates greater equity in the international trading system.
2. CSR relies on its power within a supply chain (usually highly concentrated among purchasers) to force compliance with standards that have been developed without a specific focus on local consultation. → Fair Trade develops standards through partnership with suppliers and local civil society and involves them in monitoring impact.
3. CSR, when applied to supply chains, aims to help companies voluntarily comply with already-agreed and accepted norms (such as the UN Universal Declaration of Human Rights and the ILO Core Conventions), some of which continue to be breached. → Fair Trade objectives go beyond legal compliance to have a positive developmental impact, and Fair Trade advocates stronger regulatory systems to improve the social impact of mainstream business practices.
4. CSR can actually make producers in developing countries worse off when it involves unreasonable demands without basing standards and processes on local priorities or needs. Small suppliers may be 'sanitised' – i.e. eliminated from the supply chain. This is either because they are perceived as representing a 'risk' or are not able to prove their compliance with certain set standards. This short-sighted approach can actively increase poverty. If a company adopts CSR approaches only as a means of limiting the risk to its brand and applies these in a generalised top-down manner, this is likely to result in culturally insensitive actions that will backfire on the 'claimed' social objectives. → Fair Trade aims to, and does, improve the livelihoods of small producers and their families because Fair Trade standards have been developed in consultation with producers and workers to address their priorities.

5. Is it possible to know when social conditions in the supply chain meet minimum international standards?

Only those organisations living and working with smallholders and workers all the time will know whether rights are being violated. However certain actions can enable the social circumstances of production to improve, including transparency within supply chains. Fair trade has many years of experience working with organisations based in developing countries to bring about positive improvements.

6. What the Fair Trade experience can teach CSR

Fair Trade organisations take a proactive approach to socially responsible business practices, focusing on the positive benefits for all in the supply chain. The success of Fair Trade in coupling economic viability with international development objectives makes it a particularly valuable model to inform mainstream businesses on how to move their CSR activities beyond rhetoric towards impact.

- Understanding impact. CSR initiatives will be judged on their social and environmental outcomes. Groups like Twin Trading, Oxfam Trading and the Dutch Fair Trade Organisatie have already undertaken studies of their impact. In addition several independent research studies on impact have been conducted.
- Stakeholder engagement. Genuine stakeholder dialogue is critical to ensure a company's future operations are developed in recognition of its impacts on, and the concerns of, its stakeholders. Fair Trade organisations have embedded stakeholder dialogue into their management approaches in various ways.
- Balancing commercial and social considerations in management and governance. For CSR initiatives to be taken seriously social issues also need to be considered at the heart of the company's corporate governance and management approach. At Cafedirect and the Day Chocolate Company, for example, raw material producers are part owners of the company and sit on the Board.
- Managing global supply chain relationships. Through their trading partnerships Fair Trade organisations are able to understand the local context and work with their suppliers to improve their businesses as well as bring benefits to the local community. Alleviating poverty in the supply chain can contribute to reduced absenteeism and staff turnover, improved staff motivation, product quality and productivity. Yet many companies do not commit to anything more than short-term (often seasonal) trading relationships. Their approach to CSR can often centre around setting and enforcing a standard, rather than arriving at a solution through multi-stakeholder consultation. Fair Trade undertakes dialogue on an equal footing and both parties seek to improve the livelihoods of developing country communities.
- Empowerment of workers/smallholders. Fair trade ensures that workers or smallholders are able to influence how income from the sale of the Fair Trade product is spent, this crucially empowers those producing products. Empowering workers and smallholders frequently gives them the confidence to speak up when needing to address challenges they face in other aspects of their lives. Many companies do not recognise that an essential and sustainable way social rights can be realised will be if workers or smallholders are organised and have a credible mechanism of discussing their workplace issues with managers or buyers, respectively (e. g. through trade unions, co-operatives).

7. Implications for CSR and for Fair Trade

CSR has the potential to bring real benefits. However, much CSR currently is characterised by a lack of understanding of companies impacts followed by a lack of commitment to improve. The danger is that as the CSR 'industry grows, companies will want to claim credit for their 'socially responsible' activities, some of which actually make poverty worse. Ill-conceived or mismanaged CSR initiatives are already being discredited as only being corporate 'window dressing' initiatives. In this context opportunities for CSR approaches to make a difference could be lost.

Fair Trade brings disadvantaged producers into the market under conditions that give them access to wider commercial expertise and bring social benefits to their community, in order to reduce poverty in the long term. As Fair Trade labelled products are increasingly sold in mainstream companies, the structure of the Fair Trade model and the quality of its standards, may come under threat as it faces the challenge of scaling up and balancing the often conflicting demands of producer and buyer. As terms of trade worsen for developing country producers the credibility of Fair Trade will depend on how the new stresses of significant growth are managed.

8. How can you help?

i) *Contact Company Board Directors responsible for purchasing and ask them to:*

- A) Recognise that they are responsible for the impacts of their business activities, and make a commitment continuously to improve their supply chain activities to the minimum standard set in the Ethical Trading Initiative base code. This will involve talking to suppliers, trade unions, workers and community organisations based in the countries of production.
- B) Raise awareness among staff and suppliers of international minimum human rights standards. (These are usefully set out for companies in "Responsibilities of Transnational Corporations and Other Business Enterprises with Regard to Human Rights", published by the United Nations Sub-Commission on the Promotion and Protection of Human Rights in 2003⁵).
- C) Evaluate which of their internal sourcing and procurement activities, including pricing and forecasting, cause harmful social impacts in producer groups. Change purchasing activities to meet the priorities of the vulnerable in their supply chain; and engage with suppliers and local organisations to bring about improvements to the social conditions of production. Encourage suppliers to establish credible mechanisms to enable workers/smallholders to meet with managers/buyers to discuss key issues.
- D) Establish a complaint mechanism so that people in their supply chain can raise their concerns.

ii) *Contact the Department for Trade and Industry, and ask them to:*

- A) Promote awareness of the actual social impact of CSR initiatives to all stakeholders.
- B) Support only credible CSR initiatives and challenge those resulting in negative social impacts.
- C) Recognise that initiatives with multistakeholder *governance* (i.e. including companies, trade unions and NGOs) have a greater focus on having a positive impact than industry-driven initiatives, because of their relationships with local organisations.
- D) Evaluate the appropriate balance of voluntary and mandatory mechanisms to maximise the positive impacts of business.
- E) Amend company law so that directors have a 'duty of care' for their social impact.
- F) Create a mechanism so that those who have suffered as a result of UK companies' practices are able to seek redress.

For more information on CSR or to comment on this briefing paper email: policy@traidcraft.co.uk

⁵<http://www.unhchr.ch/Huridocda/Huridoca.nsf/0/64155e7e8141b38cc1256d63002c55e8?opendocument>

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