

## **Traidcraft plc Case Study**

### **Executive Summary**

Traidcraft is one of the UK's leading fair trade organisations, selling food and craft products from nearly 100 producer groups based in 31 countries in Africa, Asia and Latin America. Last year Traidcraft made a profit of £119,000. Traidcraft plc (Tplc) like any other business, needs to make profits to re-invest in the business. However, the constitution of Tplc means that its core aims are more than simply profitability. In what ways does this make Tplc different to the 'Average Company' (i.e. one whose aim is solely the success of the business), what are the costs and benefits of these differences and how could any of the benefits be transferred into the framework of the 'Average Company'?

This case study assesses Tplc's social accounts, relationship with stakeholders and the fair trade standards which Tplc works to. The main findings are presented in Chap. 6 and noted below:

(a) Fair trade standards and monitoring of Tplc provides credibility and dynamism to Tplc products. It does not stifle innovation;

(b) Tplc, a medium sized company, finds significant management advantages in producing social accounts. This benefit outweighs the cost (about £25,000) and indicates social accounts can be produced to a recognised standard by all companies;

(c) Integration of stakeholder consultation into Tplc management systems has improved management decisions making and outweighs the logistical difficulties of gaining stakeholder views from around the world.

- Crucially, a commitment to trade dialogue with suppliers for the medium-term has led to business benefits such as better quality products and more responsive relationships. Tplc's model of working with suppliers demonstrates it is possible to alleviate poverty through trade in a financially viable way;
- Mainstream outlets find that stocking fair trade products meets consumer demand as well as contributing to their corporate reputation and CSR programmes;
- Tplc has an active and growing body of shareholders who have invested their own money in support of Tplc's goals. The same drivers (interest in overseas development issues) has led to individuals (as consumers or shareholders) to challenge the investment sector to assess the impacts of companies their funds invest in.

### **Chapter 1. Introduction**

This case study is being prepared as a resource for Traidcraft's submission to the Modernising Company Law White Paper<sup>1</sup> and as a case study for the CORE Coalition Corporate Responsibility Bill<sup>2</sup>. Our aim in this case study is to draw on aspects of Tplc's corporate governance which are relevant to these corporate initiatives and use it as a basis for our response to the White Paper.

In this case study we first set out the Traidcraft structure. In Chapter 3, we look at the differences between Tplc and 'Average Company' plc, followed in Chapter 4 with a costs/benefits analysis of these differences. In Chapter 5 we look at specific areas where Tplc's practice and experience could be transferred over to 'Average Company' plc. In each chapter we will look in turn at each of the relevant key stakeholder groups.

Annex 1 compares the ways in which the White Paper and the CORE Bill are dealing with these key aspects, set alongside specific experiences which Tplc can offer to support or contend an issue.

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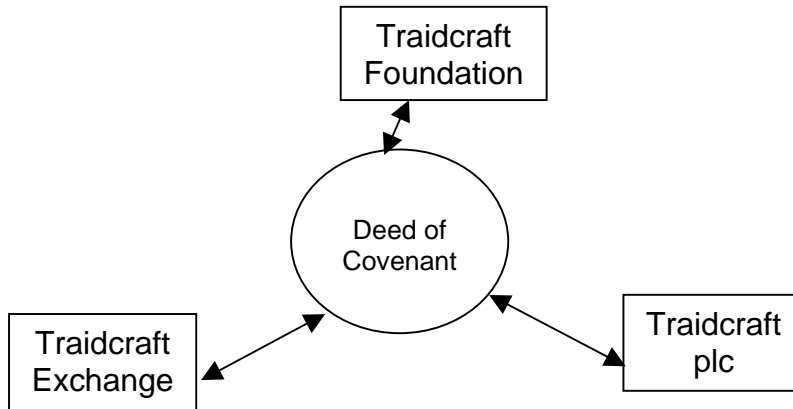
<sup>1</sup> [www.dti.gov.uk/companiesbill](http://www.dti.gov.uk/companiesbill)

<sup>2</sup> [www.corporate-responsibility.org](http://www.corporate-responsibility.org). A Bill to bring in mandatory reporting on social and environmental issues for companies, stakeholder consultation, new directors' duties and a new board to enforce standards.

## **Chapter 2. The Traidcraft structure**

The Traidcraft 'group' consists of:

- Traidcraft Foundation (a registered charity);
- Tplc (a trading company); and
- Traidcraft Exchange (a registered charity).



Most of Traidcraft's operations are based in Gateshead except for its policy unit which is based in London. Where reference is made to Traidcraft as opposed to a specific organisation within it, this refers to the group as a whole.

The Traidcraft 'group' is currently (Autumn 2002) undergoing a restructuring exercise centering around a £3.2 million share issue. This is expected to be completed by early December 2002.

### 2.1 Traidcraft Foundation and the Guardian Share

At the top of the structure is Traidcraft Foundation. Traidcraft Foundation's key role is to maintain and stimulate the Traidcraft mission (specifically, fighting poverty through trade). It is the guardian of all that Traidcraft stands for. In order to perform this role the Traidcraft Foundation trustees will, following the restructuring, collectively hold a Guardian Share, the purpose of which is to:

- Ensure that social and ethical factors are taken into consideration other than profits and income (as set out in the Memorandum, Articles of Association and the Deed of Covenant) in the running of Tplc;
- Provide shareholders with the assurances that Tplc will remain accountable and true to its vision by ensuring that social accounts are produced<sup>3</sup> and rigorously challenged each year. Therefore social accounts are seen as a core part of Tplc's governance;
- Ensure that stakeholder views are represented in company deliberations and especially within the planning process.

In order to do this Traidcraft Foundation has various powers which enable it to protect the Tplc vision:

- Guardian Shareholder elects one director to Tplc board
- Guardian Shareholder can call an Extraordinary General Meeting if necessary
- Guardian Share must consent to:
  - The appointment of all directors to the Tplc board and can veto a director's appointment if it sees fit

<sup>3</sup> Tplc is a pioneer of social accounting in the UK, having published the first independently audited plc report in 1993. Since then, the methodological approach which Tplc developed initially with the New Economics Foundation has been adopted and adapted by many larger organisations. It has also helped shape the AA1000 standard run by the Institute of Social and Ethical AccountAbility (ISEA).

- The appointment of the chair of the Tplc board
- Any changes to the Memorandum & Articles of Association
- All dividends in excess of 2.5% over the RPI (Retail Price Index) inflation rate
- All major acquisitions or disposals ('major' to be in line with London Stock Exchange rules on SuperClass 1 transactions)

## 2.2 Traidcraft plc (Tplc)

Tplc buys products from agricultural, craft and textile suppliers on fair trade terms (see 3.3.1) and sells these products on to a variety of outlets (see 3.3.2). Sales in Tplc rose to £10.38 million in the year ending 31 March 2002; gross profit for the year was £3.63 million (2001 £3.00 million) and profit after tax was £119,000 (2001 £72,000). Tplc has 85 employees (including part-time staff) and employs up to 20 temporary staff at peak periods. It is anticipated that the number of shareholders will increase from approx. 3,600 currently as Tplc is planning to issue up to 3,250,000 shares (value is £1/share) during a share issue (Oct – Dec 02). Tplc's purpose is to be a model fair trade company and thereby influence other companies. Any profit goes back into the business or is paid-out in dividends (which may also be paid to stakeholders other than shareholders). The purpose of Tplc is not to raise money for Traidcraft Exchange.

## 2.3 Traidcraft Exchange

Traidcraft Exchange is a development charity whose work spans capacity building amongst producers in developing countries, market access, policy development and advocacy. In 2001/2 it had an income of £2.42m and it employs some 40 staff.

## 2.4 Deed of Covenant

Following the restructuring Tplc, the Traidcraft Foundation and Traidcraft Exchange will be bound together by a Deed of Covenant. (There is a covenant currently in place but this is being amended to reflect the new corporate structure). The new covenant will perform a number of functions:

- It sets out Traidcraft's Basis of Faith and Foundation Principles. These are binding on all three organisations and state that:
  - Traidcraft is a Christian response to poverty<sup>4</sup>
  - Its mission is fighting poverty through trade
  - Traidcraft respects all people and the environment
  - Traidcraft abides by and promotes fair business practices
  - Traidcraft strives to be transparent and accountable
- It provides for the calling of a stakeholder assembly;
- It sets out an undertaking by Tplc and Traidcraft Exchange to publish Traidcraft Foundation's response to the Social Accounts as part of the Social Accounts;
- It sets out an undertaking by Tplc to involve Traidcraft Foundation in its strategic planning process.

The Deed is particularly suitable to the Tplc situation as it binds all 3 parts of the Traidcraft group and provides a single point of reference where Traidcraft's key principles can be found.

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<sup>4</sup> Traidcraft is not an evangelistic organisation and is committed to working with people of any faith or none in the fight against poverty.

### **Chapter 3. Differences between Traidcraft plc and 'Average Company plc'**

#### **3.1 Tplc adheres to strict fair trade rules and standards**

Tplc conforms with two particular sets of fair trade standards:

The Fairtrade Foundation<sup>5</sup> (the UK arm of the international Fairtrade Labelling Organisation (FLO)<sup>6</sup>), produces rules which must be conformed to if a company wishes to use the fair trade label on any of its products. The Fairtrade Foundation only allows its labels to be put on certain products<sup>7</sup> for which it has specific standards. The Fairtrade Foundation monitors the producers of the products and ensures that they conform with their rules.

IFAT (International Federation for Alternative Trade)<sup>8</sup> members are self-monitoring, making regular assessments of their performance against Fair Trade standards and reporting on this in a process of peer review. IFAT mainly regulates the production and sale of crafts.

#### **3.2 Traidcraft plc produces social accounts**

- Tplc's social accounts, based on AA1000, take the following step by step approach:
  - Define the social objectives and ethical values of the organisation
  - Identify the stakeholders of the organisation
  - Establish indicators with which to measure performance on objectives and values
  - Measure performance against the indicators
  - Gain the views of stakeholders about how they view the performance of the organisation
  - Report all of the above in as balanced a manner as possible
  - Submit the report to independent audit
  - Publish the report
  - Gain feedback from stakeholders on the report's findings

The Social Accounts articulate to investors the 'social dividend' i.e. a written account of the social and ethical impacts of the money invested. Tplc is moving to embed the collecting of quantifiable social data quarterly and then monthly. The purpose of the change is to collect social data to coincide with Tplc's collection of financial data so that management decisions can be more easily informed by social as well as financial considerations.

#### **3.3 Tplc integrates its stakeholders into its corporate ethos**

The rights which Tplc gives to stakeholders<sup>9</sup> relate to a moral accountability on the part of Tplc not a legal accountability (unless a stakeholder has a separate legal right of action e.g. contractual). If a stakeholder has a grievance they should contact Traidcraft Foundation or Tplc or their local point of contact. There is no formal complaints procedure.

The new constitution provides for a stakeholder assembly every 3 years where practical. Tplc works to a 3 year planning cycle and the aim would be to have the assembly 6 months before the next cycle in order to be able to take on board their comments. Traidcraft Foundation, Tplc and Traidcraft Exchange would collectively decide who would be invited. The assembly would be an important accountability tool although there are concerns about practicalities such as the logistical challenges of gathering such a diverse group together.

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<sup>5</sup> [www.fairtrade.org.uk/standards.htm](http://www.fairtrade.org.uk/standards.htm)

<sup>6</sup> [www.fairtrade.net/](http://www.fairtrade.net/)

<sup>7</sup> Currently coffee, tea, cocoa, chocolate, sugar, honey, biscuits, bananas, mangoes and orange juice.

<sup>8</sup> [www.ifat.org/](http://www.ifat.org/)

<sup>9</sup> Traidcraft's principal stakeholders are staff, funders, Traidcraft Foundation, Overseas Suppliers, UK customers and UK suppliers.

We will now look at each of the relevant key stakeholders in turn.

### 3.3.1 Tplc works closely with **suppliers** to alleviate poverty in their communities

In order for a product to be sold as a fair trade Traidcraft product, it must satisfy the following criteria:

- A fair price must be paid for the product by Tplc. A fair price is one that covers the cost of production and allows a reasonable surplus.
- There must be the intention that a relationship of partnership and co-operation between buyer and supplier will last for at least the medium term. 'Medium term' is not a defined term but is considered to be 5-10 years.
- Products must only be purchased from suppliers where there are clear and definable benefits accruing to the producers of the product which will arise as a result of the purchase. A definable benefit could be for example, community development<sup>10</sup>, improved working conditions or increased control of added value aspects such as processing.
- The working conditions for producers must be safe and non-exploitative
- Tplc must have followed FLO (see 3.1 above) and other internationally agreed fair trade standards

In general and in practice most relationships are long term. The longest producer relationships go back 22 years i.e. since Traidcraft began. Tplc balances the producers' need for financial security and the need to operate as other businesses to improve supplier business practices as well as their commercial viability. Tplc orders from suppliers according to the need of the season's catalogue, the emphasis is on regular orders over a period of time rather than guaranteed orders for every catalogue. Partnership Agreements/Producer Plans are developed between Tplc and each producer. These contain key terms of trade e.g. in relation to ordering and delivery and set out the basis on which trade will develop e.g. establish a strong commitment to transparency which encourages communication between the parties. Tplc's goal is for producer relationships to be as transparent as possible from day one.

Tplc and the producer work together in order to develop a particular product. Discussions on ordering, quality issues, pre-payments or access to credit via Shared Interest<sup>11</sup> take place on an on-going basis by telephone, email and through planned visits or workshops for groups of producers on business related issues e.g. quality assurance issues and fair trade criteria (listed above). To give some idea of the amount of contact time between Tplc and producer groups, the Social Accounts for 2001/2 show that (amongst other contact days) there were 13 visits which amounted to 171 days of contact. In addition Traidcraft Exchange participated in 1,499 partner/project days and 204 days spent on other consultancy work. The results of these discussions are seen as essential and the central driver for the business. They are therefore fed into the Social Accounts preparation process.

### 3.3.2 It has a diverse range of **outlets** ranging from individuals to supermarkets

Tplc's products are sold through four principle channels:

**Fair Traders** These are volunteer supporters of Traidcraft. Throughout Tplc's 23 years of trading they have been its principal sources of business. There are now more than 4,250 active Fair Traders and they contribute almost 50% (approximately £5.1 million) of sales in the financial year to 31 March 2002. Fair Traders are also vital as a means of communicating the message of fair trade to those to whom they sell.

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<sup>10</sup> E.g. the Citrusdal Community Development Association in South Africa which sells fair trade wine to Tplc has been able to provide crèches for the children of farm workers. This has meant that children perform much better when they go on to school.

<sup>11</sup> Shared Interest is a co-operative lending society. Their 8500 members invest part of their savings in order to help producers pay for the costs of producing their goods until the goods can be sold to consumers. For more details see [www.shared-interest.com/](http://www.shared-interest.com/)

They receive no payment from Tplc, but receive modest discounts on the products they purchase to sell on to other customers. Many Fair Traders run stalls in their churches, while others run market stalls or sell in other ways in their workplaces and local communities.

**Wholesale** This is a rapidly growing area as Tplc has successfully placed products in supermarkets. Wholesale turnover nearly doubled in the financial year to 31 March 2002, reaching almost £2.9 million (27% of total sales). The success of the sales of the snack bar product, Geobar, was the main reason for this. Margins on wholesale sales are lower than those achieved through other channels.

**Mail Order** Sales grew by more than 60% in this area during the last financial year to around £1.1 million (10% of total sales). This rate of growth was helped by winning some customers from the discontinued Oxfam fair trade catalogue, and by the introduction of wines to the product range. An e-commerce site has been established in conjunction with Oxfam which offers a selected range of products.

**Independent Retailers** Tplc supplies more than 150 trade and independent retail customers with a wide range of its products, including a number produced exclusively for the retail market. Sales in this are totalled £1.3 million in the financial year to 31 March 2002 (13% of sales).

### 3.3.3 It has the support of ethical **shareholders** who demand that social and ethical considerations rank above the need for large profits

Most of the people who invest in Tplc are individual investors but there are also some trusts and churches. Many people are willing to receive a modest income on investment if they know that it is being ethically invested. For example, the last time Tplc paid a dividend over half of the shareholders opted for their dividend to be reinvested in Traidcraft. Tplc is increasingly aware of the need for investors in Tplc to be able to make a reasonable return on their investment, because of the importance of setting a viable example of how a company can work.

Tplc Extraordinary General Meetings/Annual General Meetings are different to 'Average Company' plc as both the financial and Social Accounts are presented to the shareholders and get approved. Tplc also invites its Fair Traders and significant donors to Traidcraft Exchange to its Annual General Meeting (although neither have voting powers) this could be more accurately described as a UK Stakeholder Assembly.

### 3.4 **Directors** of Tplc must satisfy particular requirements

In addition to the usual directorship requirements, directors must be practicing Christians and subscribe to Traidcraft's Foundation Principles (see 2.4). Although they are elected by Tplc's shareholders their election is subject to the Guardian Shareholder's power of veto.

Tplc has considered having producer directors (e.g. an Indian craft producer) on the board<sup>12</sup> but this has been rejected on grounds of:

- Logistics
- Its negative developmental consequences i.e. taking key people away from their primary work to attend ten meetings each year
- Difficulty of achieving any real representation given the diverse issues and concerns that arise from the many producer groups. Tplc uses the Social Accounts to gather these diverse views to input into company activities.

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<sup>12</sup> The Day Chocolate Company is a UK fair trade company which sells chocolate. Kuapa Kokoo, the Ghanaian farmers' co-operative that organises the farmers that grow the cocoa, owns one third of the shares in the company, elects two farmer representatives sit on the board and a board meeting is held in Ghana every year.

Tplc does make a conscious effort to ensure that a balance of skills and gender is reflected on the board of directors, although there are no formal quotas. The aim is that non-executive directors should at least equal the number of executive directors, thereby giving the non-executive chair the casting vote.

## **Chapter 4. Costs/benefits of Tplc's structure**

### **4.1 Consumers are assured that Tplc meets fair trade standards**

As Tplc voluntarily conforms to international standards for fair trade, customers are assured they are buying fair trade products. The relationship which Tplc has with the regulatory organisations means that Tplc is at the cutting edge of fair trade developments and has an opportunity to influence decision-making and policy decisions. It also means that Tplc can stand up to criticism and present an honest and transparent case to its customers.

### **4.2 Social Accounts enable the company to be more effectively managed**

Putting in place measurement systems can improve management decision making and can act as an incentive to influence behaviour. At board and senior management level Tplc's Social Accounts are a useful driver and source of information with which to better understand Tplc's effects on stakeholders, and monitor and improve the way the business is working. The Social Accounts measure Tplc's performance against strategic social and management objectives and against stakeholder views.

For example, it has become apparent that within the Social Accounts there is insufficient dialogue about environmental issues at present. Although Tplc's reporting on the environment is much more advanced than most companies, the view amongst stakeholders is that more can and should be done. Tplc has therefore commissioned an environmental audit, initially to cover UK operations. It is hoped this will be repeated overseas in the future. The stakeholder views expressed in Social Accounts have also flagged up the inadequacies in Tplc's current position on the issue of GMOs. The directors of Tplc have responded in the Social Accounts recognising the importance of the issue and that this is an issue which Tplc will need to take a position on in the future. The Social Accounts are seen by Tplc as being a key tool for running a business. Their usefulness goes far beyond a desire to be transparent. The Social Accounts allow Tplc to pioneer new social and ethical policies and models and encourages the company and its stakeholders to proactively pursue and develop best practice in these areas.

The format and procedure for Social Accounts is constantly evolving each year as new suggestions are considered and tested, fresh information emerges, lessons are learnt and feedback is heard. Tplc is currently seeking to make Social Accounts more fully integrated within the company's regular reporting systems which will lead to them having greater influence on management activities. Social Accounts are becoming increasingly useful as they are prepared more systematically. Questionnaires, which were the initial method used to gain stakeholder feedback, are only partially useful as they are costly, only take place once a year and are no use to those that are illiterate in Tplc's international network. As a result there has in the past been a 30-50% response to questionnaires (although a targeted customer survey sent to Fair Traders got a much higher 66% response). In order to increase stakeholder participation, the aim is now to interact at various points during the year and through the departments that are directly dealing with the stakeholder. The objective is an on-going 'live' dialogue with stakeholders which is much more embedded in Tplc's everyday operations. For example, the staff association meets monthly and there are quarterly meetings with the executive. Questions are asked of stakeholders approximately three times a year and although this is not fixed, they serve as a reminder to those in contact with stakeholders to ensure that they encourage stakeholders to give feedback.

Actual costs of Social Accounts:

Staff costs <sup>13</sup>	£15,000 (Approx.)
Data collections and dissemination <sup>14</sup>	£5,000
External audit fee	£5,000
<b>Total</b>	<b>£25,000 (Approx.)</b>

**4.3 Stakeholders** of all types have a different and usually a more constructive relationship with Tplc in comparison with 'Average Company' plc

**4.3.1 Suppliers** see tangible improvements in their communities as a result of trading with Tplc

The advantages of Tplc's relationship with its suppliers as supported by the Social Accounts process are:

- Better risk management
- More accurate and honest budgeting and planning
- A greater understanding of capacity
- Increased opportunity to develop appropriate products
- A greater understanding of strengths and weaknesses of producer organisations and of Tplc
- Better awareness of the impact of fair trade (for both producer and buyer)
- Allows Tplc to achieve its mission

Tplc's policy of promoting a partnership between itself and producers has led to:

- Improved reliability of products and communication.
- Improved quality of product (as suppliers tend to save their best produce for purchasers who pay more for the product).
- Producer loyalty to Tplc
- Producers have a good understanding of Tplc's needs/requirements e.g. they are responsive to PR/marketing requests or to the need to produce extra orders when a product sells particularly quickly.
- Relationships which benefit both Tplc and the producer groups by recognising that each party has different skills/expertise and that a sense of equity and mutual respect is an important part of the relationship.
- Stability in a highly risky and vulnerable market

**4.3.2 Outlets** gain PR benefits from being able to state that they sell fair trade goods

For supermarkets in particular, fair trade products may have an inherent and tangible marketing quality enabling retailers to use the sale of Traidcraft or fair trade products as an example of their commitment to internal Corporate Social Responsibility (CSR) programmes. A number of fair trade products are also able to meet consumer demand for high quality goods (again this is particularly the case for supermarkets). This can be seen from the evolution of Cafedirect's marketing approach over the past 11 years from an emergency response to the collapse of coffee prices, to a successful quality coffee producer in 2002 (it is now the 6<sup>th</sup> largest coffee retailer by market share).

<sup>13</sup> This includes time spent by the finance director (approximately 2 months) and input from the 8 person Social Accounts team (who meet for approximately 2 hours fortnightly in the run-up to publication and less frequently during the rest of the year).

<sup>14</sup> This includes time spent compiling and distributing questionnaires, arranging focus groups and publishing the results on the internet.

#### 4.3.3 Shareholders appreciate that their money is being put towards ethical purposes

Tplc has a differential advantage over other companies by being able to raise capital via ethical shares, and that there is a significant pool of social/ethical investors into which it can tap. The current share issue will be the biggest share issue by a fair trade organisation to date.

Ethical shareholders tend to be more supportive but not less critical because they expect good results on the social/ethical side. Recently a significant number of shareholders<sup>15</sup> cast their proxy votes in relation to the new corporate structure indicating active monitoring of Traidcraft's development by its shareholder base.

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<sup>15</sup> 700,000 out of 1,800,000 votes or approximately 40% of shareholders.

## **Chapter 5. Transferability into 'Average Company plc'**

### **5.1 Arguments that **regulation** stifles creativity and success are unfounded**

Tplc voluntarily conforms with fair trade regulation as it provides transparency to its work. Standards and constructive criticism from external sources are seen to be intrinsic to the growth and credibility of the fair trade movement.

### **5.2 There is no reason why companies of all types and all sizes cannot produce **social accounts****

Tplc's turnover was £10.38 million in the year ending 31 March 2002 and it has 85 employees, Tplc is therefore classed as a Medium Sized Enterprise<sup>16</sup>. The Social Accounts conform to recognised social accounting standards (AA1000) and they are audited by external auditors. This clearly goes to show that small companies can affordably produce social accounts – if the will is there.

Tplc's experience of producing social accounts has enabled the board to run the business better and has made the business more sustainable as a result – therefore the benefits are easily identifiable to all companies.

At Tplc the impetus for producing Social Accounts stems from its fair trade character and its mission to 'fight poverty through trade'. Other companies may be driven by a different risk mitigation impetuses e.g. a desire to avoid boycotts/bad press, reduce number of staff leaving, change their image etc. Whatever the driver, the Tplc model is one which has been tried and tested and which is still evolving since they were first produced in the early 1990s, but which is already readily transferable into other sectors.

### **5.3 There is no reason why companies should not be willing and able to engage and listen to **stakeholders****

Stakeholder consultation is akin to going through an internal organic consulting process but cheaper and, one would hope, more accurate, than using external consultants. Once the system is in place the information should keep coming thereby providing a constant source of valuable product/business related statistics whilst at the same time building a sense of team spirit which flows from the chief executive out to the producers as well as retailers and customers. Tplc has stakeholders in over 100 producer groups across Africa, Asia and Latin America, all of whom are encouraged to participate in stakeholder dialogue – if Tplc can co-ordinate this dialogue then surely the process is transferable to other larger companies.

#### **5.3.1 Companies and **suppliers** can benefit from more equitable and sustainable relationships**

Tplc is developing producer plans and/or partnership agreements with its suppliers as appropriate. These encompass:

- Issues of transparency;
- A commitment to the medium term (rather than to a single order); and
- An awareness of particular producer problems e.g. access to credit.

The concept of partnering within the supply chain is not unique to Tplc (it is common, for example, in the higher levels of the construction industry and amongst some retailers). It is perfectly possible for transparent and equitable partnering to be transferred to 'Average Company' plc's supply chain..

#### **5.3.2 There is potential for non-fair trade **outlets** to stock and sell fair trade products**

Although there are no differences in the relationship between Tplc and retailers on pricing, there are differences which are specific to the fact that Tplc is a fair trade organisation. Increasingly non fair trade

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<sup>16</sup> As defined by s.247 of Companies Act 1985 (as amended)

companies are seeing the benefits of stocking fair trade products or even co-branding fair trade products<sup>17</sup>, as part of their CSR programme or in response to consumer demand.

### 5.3.3 Companies can have better access to **shareholder** capital if they are seen to manage social ethical and environmental issues well

Those that want to invest in 'ethical' shares form an increasingly important consumer group for many retailers and Tplc is by no means the only ethical company offering shares to the public. Shared Interest (see the footnote to 3.3.1), a co-operative lending society, has around 8500 investors and a total share capital of £16 million. The Ethical Property Company, which buys properties and leases them to charities/NGOs at favourable rates, is also in the process of a public share issue which aims to raise £4 million. Tplc itself has 3,600 existing shareholders who have paid £1.8 million to the company and is seeking to raise £3.25 million. This is clearly a key growth area which is benefiting from the current instability of stocks and shares. Those that invest in ethical shares tend to be more wealthy and they are an important and influential trend-setting consumer group for many retailers .

Tplc's policies are setting an example of a way to operate which can attract the support of this group of people as shareholders and consumers and provide a model for companies like 'Average Company' plc avoid boycotts and protests.

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<sup>17</sup> For example, Sainsbury's is now selling its own-brand fair trade tea

## **Chapter 6. Conclusions**

This case study assesses what ways Tplc is different or similar to 'Average Company' plc, assesses the costs and benefits of these differences and evaluates how benefits can be transferred to the framework of 'Average Company' plc. The following conclusions look at Tplc's Social Accounts, its relationships with stakeholders and the fair trade Tplc operates within.

### 6.1 Rules and Standards

Tplc is regulated as part of the fair trade movement. This does not stifle innovation. On the contrary, the rules and independent monitoring provide credibility and extra dynamism to the fair trade movement.

### 6.2 Social Accounts

Tplc produces social accounts and has found significant management advantages in doing so. Tplc is a medium-sized company which has discovered that the benefits of producing social accounts far outweigh the cost, which has not been prohibitive. This is proof that undertaking the production of social accounts to a recognised standard, is replicable in all companies.

### 6.3 Stakeholders

Tplc has integrated stakeholder consultations into its management systems. This includes undertaking social accounts. Tplc has found improved dialogue with its stakeholders has enhanced its management of the company and that this outweighs the logistical difficulties of gaining stakeholder views from around the world. In recognition of this Tplc intends to hold stakeholder assemblies specifically in order that the results may be factored into Tplc's strategic planning process.

#### 6.3.1 Suppliers

Tplc delivers its mission "fighting poverty through trade" via its supply chain trading practices, which explicitly set out to alleviate poverty. This includes producer partnership agreements. Tplc has found business benefits from this approach, such as better quality products and more responsive relationships with suppliers.

In order to have a positive impact, suppliers and buyers must intend for the relationship to last at least in the medium term. Tplc encourages more stable contractual relationships with suppliers through partnering and through equitable contracts which are negotiated to take account of each party's situation.

The impact of business in developing countries is not benign – it either exacerbates or alleviates poverty. Poverty is a crippling factor to businesses operating overseas. It is therefore to companies' advantage to address poverty concerns. Tplc's experience of sourcing products from developing countries demonstrates that it is possible to alleviate of property, in a financially viable way.

#### 6.3.2 Outlets

Mainstream outlets are becoming increasingly aware that by stocking fair trade products they are meeting consumer demands, improving their corporate reputation and contributing to their Corporate Social Responsibility programmes.

Tplc supplies to four different types of outlets. Notably, approximately 50% of Tplc's sales are sold by individuals who are committed to fair trade and the benefits that result from fair trade in developing countries.

### 6.3.3 Shareholders

Tplc has benefited from increasing numbers of individuals who are concerned about social issues in developing countries, and has been able to recruit them as shareholders (as well as consumers and fair traders, see 6.3.2 above).

These individuals have invested their own money in support of Tplc's goals, and are active participants in Tplc's governance.

With increasing awareness of companies' impacts overseas there is more and more pressure on corporates to improve their impact from socially responsible investors.

Written by Jenny Rawstone

**Annex 1**

		<b>Modernising Company Law White Paper</b>	<b>CORE Corporate Responsibility Bill</b>	<b>Tplc's experience</b>
<b>A1</b>	<b>Disclosure re social, environmental and ethical issues</b>	Operating and Financial Review where directors decide that such information is needed for shareholders to assess company's operations, financial position and future business strategies and prospects	Mandatory reporting on environmental, social, economic and financial impacts of its operations or any proposed activities; employment policies and practices; payments to and from governments and political parties; how directors have fulfilled their environmental and social duties. Also annual report by directors (see below).	Social Accounts (see 3.2 above)
A2	Who are they written for?	Shareholders. Public quoted companies must publish their accounts on a website, but it is not clear whether the general public will have free access to the accounts on the web.	Report to be made available to its stakeholders (shareholders and investors, employees, communities, individuals), any regulatory body and any other interested person. Background documents are also to be made available to the public.	Stakeholders. Social Accounts published on website (which is accessible by the general public). Social Accounts include a summary of the financial results.
A3	Which companies must produce them?	Companies which satisfy 2 of the following (for 2 consecutive years). For <b>public</b> companies: (a) turnover of at least £50M; (b) balance sheet total of at least £25M; (c) at least 500 employees. For <b>private</b> companies: (a) turnover of at least £500M; (b) balance sheet total of at least £250M; (c) at least 5000 employees.	Bill specifically states that it applies to all operations of all UK companies with a turnover over £5M wherever they take place.	Tplc would not have to produce an OFR under current proposals (see statistics below), but it currently does produce social accounts and will continue to do so.  <b>2002</b> Turnover of £10.38M in the year ending 31 March 2002. Balance sheet total of £1,784,000. 85 permanent employees. <b>2001</b> Turnover of £8.39M in the year ending 31 March 2001. Balance sheet total of £1,665,000. 77 permanent employees.
A4	What about subsidiaries?	OFR to be produced on group basis where consolidated accounts are produced or where	UK company must ensure that a subsidiary company complies with the Act regardless of where the	N/A

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		company is a parent	subsidiary is registered. Requires Secretary of State to consult further on liabilities of parent company and provision for satisfying claims brought against the subsidiary where there has been company restructuring.	
A5	Audit process	Auditors to check that directors have considered the non-mandatory issues, consider whether there are any further issues which need to be considered; check that decisions were based on appropriate information; check information is consistent with financial information and report on whether OFR complies with rules set by Standards Board.	Corporate Responsibility Board (CRB) to be set up which shall carry out random audits to check whether its guidelines are being complied with.	<p>The audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Social Accounts. It also includes the auditor's assessment of:</p> <ul style="list-style-type: none"> <li>(a) the significant estimates and judgments made by the directors in the preparation of the Social Accounts;</li> <li>(b) of conclusions drawn and representations made from external reports, completed questionnaires and stakeholder interviews included in the Social Accounts;</li> <li>(c) of whether the methodology is appropriate to the companies' circumstances, consistently applied and adequately disclosed.</li> </ul> <p>In performing an audit, the auditor considers the processes involved in identifying the stakeholder groups and assesses their completeness. The auditors plan and perform the audit so as to obtain all the information and explanations which are considered necessary in order to provide them with sufficient evidence to give reasonable</p>

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				assurance that the Social Accounts are free from material misstatement. In forming their opinion they also evaluate the overall adequacy of the presentation of information in the Social Accounts.
A6	Guidelines for auditors	To be provided by Standards Board	Corporate Responsibility Board	Audited by Rainbow Gillespie Chartered Accountants (who are registered as auditors with the Institute of Chartered Accountants of England and Wales) in accordance with AccountAbility 1000 Section 3 – Guidelines for the social and ethical auditor.
<b>B1</b>	<b>Audit rule-making and review bodies</b>	Standards Board (SB) (rule-making) and Reporting and Review Panel (RRP) (review). RRP and Secretary of State can apply to court for declaration that company's disclosures do not comply with requirements and request order requiring revised accounts to be produced	CRB to carry out both functions – issuing guidelines, carrying out random audits (see above) and issuing directions if guidelines not complied with (failure to comply with directions would be an offence and obstructing an investigation).	
B2	Who is on the regulatory bodies?	SB to have a suitable and balanced composition for its intended functions and have the necessary expertise and resources to carry out the functions.	To include persons with expertise and experience in: environmental impact, social impact, and economic and financial impact and stakeholders.	In addition Tplc (as a fair trade organisation) is monitored by the Fairtrade Foundation (the UK arm of the international Fairtrade Labelling Organisation (FLO)), which regulates and checks whether Tplc is meeting a rigorous set criteria for a limited range of fair trade agricultural products. Tplc's crafts are regulated by IFAT.

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<b>C1</b>	<b>Directors' duties re social, environmental and ethical impacts</b>	Basic duty to shareholders is to bring about success of the company but directors should recognise, as the circumstances require, the company's need to foster relationships with its employees, customers and suppliers, its need to maintain its business reputation and its need to consider the company's impact on the community and the working environment.	Basic duty to stakeholders to promote success of the company, but also to consider environmental, social and economic impacts of operations and interests of all stakeholders; take all reasonable steps to minimise negative environmental, social and economic impacts of operations and prepare an annual report which identifies any risks to the company as a result of environmental, social and economic impacts and states how any risks will be managed (this report is then sent to Financial Services Authority (or other regulatory body) and/or London Stock Exchange).	Additional duties are set out in the Memorandum & Articles and Deed of Covenant (see Ch. 2).
C2	Directors' liabilities	Case law is currently being codified by DTI.	Liable for any significant adverse environmental or social impacts of their operations which arise from: their negligence, their wilful misconduct in relation to duties under the Act; or, their wilful misconduct relating to the disclosure of information required under the Act.	N/A
C3	Directors' qualifications	Not dealt with. Standard of duty of care expected of directors is that which would be exercised by a reasonably diligent person with both the knowledge, skill and experience which may reasonably be expected of a director (objective test) and any additional knowledge, skill and experience which the director has	Directors to disclose in annual report any training, qualifications or experience relevant to environmental and social matters and the disclosure of economic and financial information by companies.	Not formally set out, although there is a desire to have a balance of skills and gender.

		<b>Modernising Company Law White Paper</b>	<b>CORE Corporate Responsibility Bill</b>	<b>Tplc's experience</b>
		(subjective test).		
<b>D1</b>	<b>Shareholder meetings</b>	<p><b>Public</b> companies must call an AGM but can opt-out of AGMs by passing a unanimous resolution in favour of doing so.</p> <p><b>Private</b> companies will not have to call an AGM unless they opt-in.</p>	N/A	<p>Shareholder meetings called annually (some other stakeholders are also invited but do not have a vote).</p> <p>New constitution provides for stakeholder assembly every 3 years where practical.</p>
D2	How can shareholders call a meeting?	<p><b>AGMs</b> One shareholder or auditor of company can requisition AGM by giving notice to company, not more than 14 days after the company sends out its financial statements and reports to members.</p> <p>Alternatively, where a company had opted-in to call AGMs at the end of the financial year, but then opted-out before the deadline for calling an AGM, one shareholder or auditor of company can requisition AGM by giving notice to company if they do so within specified time-limits.</p> <p>A shareholder of an opted-out public company can cause the company to opt-in, and call AGMs annually, gives the company notice of his/her wish that the company opt-in.</p>	N/A	N/A

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		<p><b>EGMs</b> Unless a company's constitution provides for another method for members to call a general meeting, members can call a general meeting if:</p> <p>(a) (in a company having a share capital), 2 or more shareholders who together represent 10% or more of the total voting rights of all the shareholders who would have the right to vote at the meeting; or</p> <p>(b) (in a company without a share capital), 1 or more shareholders who together represent 10% or more of the total voting rights of all the shareholders who would have the right to vote at the meeting.</p> <p>Alternatively, one or more shareholders who together represent 10% or more of total voting rights of voting shareholders, may requisition an EGM.</p>		
D3	Any stakeholder remedies?	No. Proposal is for the Secretary of State or RRP to have power to apply to court for a declaration that a company's disclosures do not comply with the requirements of the Act and for an order requiring it's directors to produce revised accounts or statements.	If believes report is seriously inaccurate or omits serious matters can ask company to amend report and company must consider request. If this fails can apply to CRB to use its power to rectify report. Stakeholders have right against company and any directors for breach of duty under the Act.	No. Stakeholders can voice their concerns through the Social Accounts and their opinions are published. They are also encouraged to contact Tplc, Traidcraft Foundation or their local point of contact.