

Corporate Governance: Fair Trade

By Paul A Zaman MBA, MSC



Paul A. Zaman highlights the growing awareness of corporate governance enhancing business credibility by integrating corporate social responsibility into management decisions including 'fair trade'.

Fair trade is one aspect of triple bottom line reporting that is currently getting increasing attention. In triple bottom line reporting, the company reports upon the impact of operational performance in three areas of: financials, social and societal; and the environmental. With the mainstream businesses growing sensitive to address to their social impacts, fair trade organizations have demonstrated the viability of a business approach that makes sustainable poverty reduction, a central element of their business operations. Fair trade currently is focussed upon, fairly distributing profits down the supplier chain so that even the suppliers in third world countries get an equitable share of profits. Fair trade also involves fairly dealing with customers.

Good corporate governance is about ensuring a sustainable business, which to an enlightened Board of Directors clearly means preserving the supply chain and creating customer loyalty for referral and repeat business. Therefore this aspect of fair trade, in the triple bottom line, is a BGO. That is a blinding glimpse of the obvious, as my professor at business school used to say.

Doing well and doing good are inextricably linked. This is a statement made on the Timberland web page. Timberland is a listed company in USA and has seen its share price increase to US\$28.75 in February 2007 from a listing price in 1987 of under US\$2 that is around a 14 times gain, which is around 10 times better than S&P index over the same time. In 1989, Timberland became a founding sponsor of City Year, the Boston-based "urban Peace Corps" that brings together young people from diverse backgrounds for a year of full-time community service. Today our relationship with City Year is more powerful than ever. During the '90s, bold ideas like the Path of Service™ program began. It gives Timberland employees 40 hours of paid time-off to serve in their communities.

In Asia, the Banyan Tree Resorts listed in Singapore in 2006. It has seen its share price increase from around 85cents to currently trade at 170 cents in February 2007, a 100% gain whereas the broader market as measured by the

STI index has increased around 20%. Banyan Tree Holdings has a clear participation in providing fair trade of craft and artefacts into their resorts and into the Asian based museum based retail outlets.

Starbucks, a listed company in USA has seen its share price increase to around US\$33 in February 2007 that is around a 40 times gain since listing in 1992 taking into account share splits, which is over thirty times better than S&P index over the same time. Starbucks has a sustainability report, which covers fair trade with coffee bean suppliers in developing countries. Starbucks is also voted as the top corporate to work for.

Fair-trade is an organized social movement, which promotes equitable standards for producers. The movement focuses in particular on exports from developing countries to developed countries. Currently it is largely agricultural products such as quinoa, rice, avocados, coffee, tea and wine. It also includes sports balls such as cricket and football and could easily include any manual intensive production process such as: musical instruments, carpets, linen, carvings and even hand soldered electronics.

The biggest and most well known movement has been in coffee with Starbucks selling fair trade coffee beans in its outlets. Although Starbucks has critics, never the less the fact remains that they buy around 25% of coffee from farmers whom are certified that they receive a fair margin.



Starbucks pays around double the broad coffee market price for these beans. As a result, Starbucks paid overall a 23% premium to the broad coffee market for beans. Critics would say that this is largesse as Starbucks milks the image of being a good fair-trade citizen. The point is that Starbucks is perhaps doing more than the other major coffee bean and instant coffee producers.

Fair trade advocates include a wide array of international social and environmental development organizations such as Oxfam, Amnesty International and Caritas International. Fair-trade has proved itself controversial and has drawn criticism from both ends of the spectrum. Some see fair trade as a type of subsidy that impedes free trade and impedes growth. Some Fair-trade advocates see the current fair-trade initiatives as being not radical enough. Although free trade is focussed upon protecting producers from

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developing countries, the principles also apply to developing and developed countries. Simply in developed countries such as OECD members, they generally have framework of law that protects small suppliers from dominant and much larger corporate buyers. In some developing countries, these laws are not present and the large corporations are often unaware and abuse their buying power and force smaller businesses into survival level margins or even out of business.

The benefits to increasing shareholder value from good corporate governance practices are steadily becoming more apparent. So perhaps, corporation should embrace fair-trade philosophy and practice and extend this to other secondary and tertiary industries where small local producers get thin margins.

Fair trade with buyers

The other side of fair trade is with a company's customers. In the ugly past consumers were sometimes abused by major corporations in sectors such as banking, telecommunications, utilities and transportation. In most developed countries, there are consumer protection laws and industry trade practice law. Many countries also have Ombudsman that represent consumers and small businesses and have a strong voice to ensure that abuse is reduced. Also in some countries there is a strong consumer protection authority be it public or private that lobbies for fair consumer rights. In some European countries, this protection extends beyond consumers to small businesses, to again help protect them from dominant power of large corporations. Nevertheless, there is constant tension between large corporates and consumers. The Telecommunications Industry Ombudsman of Australia receives around 120,000 complaints a year about fixed, mobile and Internet unresolved complaints. The Office of the Telecommunication Ombudsman in the UK receives around 90,000 enquires a year and has staff of 50 people plus contractors working on cases. In Australia there is a Banking and Financial Services Ombudsman and the UK the Financial Ombudsman Service. This illustrates that there remains a need to protect consumers and small business buyers in developed and by deduction in developing countries. Why is it that these sectors still need a watchful eye? The Critics would say just look at the huge profits made by the handful of giant companies in these sectors, largely from the consumer and small business customer segment.

Across all business segments, customer loyalty means referrals and repeat business. The acquisition of a new customer costs many times more than retention of an

existing customer. Therefore it makes excellent business sense to improve customer satisfaction and avoid abusing market strength. There was a growth in class action that is aggrieved consumers taking group action against major corporations. This has occurred in areas like cigarettes, medicines and even stock exchange investments. There is a growing concern by consumers on issues such as global warming, excessive water consumption, genetically modified foods, the pricing and efficacy of western drugs. Enlightened major corporations are reviewing their decisions and practices in areas like suppliers, resource consumption, environmental pollution, aggressive marketing and pricing. Do the consumers have any power, beyond a Government appointed Ombudsman or class action lawsuit? The answer is yes, as it is these same consumers whom in the sense of unfairness have sponsored initiatives like fair-trade. It is not the suppliers whom achieved this.

Qualvin Advisory was founded in 2003. We provide advisory services to the Board, CEO and CFO of listed and unlisted companies in S.E.Asia. Qualvin facilitates the Board in areas such as formulating corporate goals & strategy and governance & CSR. Qualvin also formulates and executes the financial investor relations strategy to: increase shareholder value and institutional following; firm the share price and raise new capital. Contact Paul Zaman at email pzaman@qualvin.com.