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PART 1: Diverse and innovative organizational models in a hybrid field

Chapter 1 – Fair Trade: a hybrid concept and practice

In this first chapter, the history and notion of Fair Trade (FT) are examined as well as its affiliation with other concepts and initiatives that have inspired it. FT is interpreted as being composed of three interrelated dimensions: an economic one, a social one and a political one. Finally, the need for innovative organizational models allowing for the pursuit of these hybrid goals is highlighted based on the study of the affiliated concepts.

1. The emergence of the FT movement¹⁵

Most authors situate the origins of the FT movement just after the Second World War, with experimental initiatives of import and distribution of handicraft, led by NGOs and charitable organizations with a religious background (e.g., Nicholls and Opal 2005; Raynolds, Murray, and Wilkinson 2007; Diaz Pedregal 2007; Moore 2004). The most often mentioned initiatives include Oxfam UK, SOS Wereldhandel in the Netherlands, the Mennonite Central Committee (MCC; later “Ten Thousand Villages”), Self-Help Crafts program in the US, as well as the Church of the Brethren’s Sales Exchange for Refugee Rehabilitation and Vocation (SERRV) program (also in the US). A number of authors describe these initiatives as successive waves having inspired FT, together with the cooperative movement (Gendron *et al.* 2009a). The various names used to refer to these initiatives –charity trade, solidarity trade, developmental trade, alternative trade, etc.– each emphasized a particular dimension (Gendron, Bisailon, and Rance 2009; Low and Davenport 2005a). “Charity trade” emphasized the charitable logics that were often inherent in religious groups during that period (Low and Davenport 2005a). “Solidarity

¹⁵ In the growing literature on FT, much attention has been devoted to the origins and the evolution of FT. The aim here is to provide a brief summary of the story, the full account of which can be found, for instance, in Raynolds *et al.* (2007), Diaz-Pedregal (2007) or Gendron *et al.* (2009). For a more critical review of the “usual story”, see Anderson (2009a; 2009b).

trade” had a more political meaning; trading was considered as a means to support producers from countries excluded from the international trading arena (socialist countries at the time, such as Cuba, Nicaragua and Vietnam). “Developmental trade” focused on the assistance provided by NGOs to producers in the production and exportation processes.

While several authors locate the birth of FT in these initiatives, others highlight the striking differences that distinguish them from the current practice of FT. Often, these trading initiatives were punctual and constituted only a small part of the NGOs’ activities (Anderson 2009b; Tallontire 2000). Moreover, the producers whose products were sold, were not necessarily those who were basically supported by the NGOs (Gendron, Palma Torres, and Bisailon 2009). Finally, contrarily to a common view on these initiatives as being “non-commercial” and “partnership-based”, Anderson (2009b) emphasizes how Oxfam UK and other pioneers organized such trading in order to generate profits and thus revenues for the developmental activities.

According to Anderson (2009b), it is only in the 1970s that fair trading partnerships were set up as a model with explicit rules and that organizations were created specifically for this purpose. These organizations were called “alternative trading organizations” (ATOs), “*a name stemming from the early days of Fair Trade where ‘fair’ seemed too weak a description of the vision that these companies had*” (Moore 2004, 76). Products were sold through worldshops and volunteer-based networks. After two decades of practice and rule-setting, a first step¹⁶ of institutionalization and consolidation was achieved in the late 1980s with the creation of several

¹⁶ Several authors (e.g., Nicholls & Opal 2005) consider the initiatives previously referred to as “charity trade” as constituting the “first wave” of FT. Without neglecting the contribution of these previous initiatives to FT, the rise of ATOs in the 1970s can be considered here as the first concretization of FT as we know it nowadays (Anderson, 2009b; Gendron *et al.*, 2009a).

international networks (Diaz Pedregal 2007; Moore 2004; Crowell and Reed 2009; Raynolds and Long 2007). In Europe, the largest FT pioneers (CTM in Italy, Gepa in Germany, Oxfam in the UK and in Belgium, etc.) joined together in the European Fair Trade Association (EFTA) in 1987. Two years later, the International Federation for Alternative Trade¹⁷ was launched; it gathered producer organizations, importers and worldshops in a worldwide network. The international networks formalized the practices of the ATOs, which had been active for several years or decades.

It is at that same period that labeling initiatives appeared, starting in the late 1980s with “Max Havelaar”¹⁸ in the Netherlands. This label emerged from the joined efforts of a Dutch priest involved in a Mexican coffee cooperative (UCIRI) and Dutch NGOs (Roosen and van der Hoff 2001). Standards were set up and implemented through different “national initiatives”. These initiatives joined together into “Fairtrade Labeling Organizations International” (FLO or FLO-I), now “Fairtrade International”, in 1997. Most academics and practitioners agree on the fact that the emergence of certification¹⁹ brought a fundamental change in the evolution of FT (Moore, Gibbon, and Slack 2006; Reed 2009; Raynolds and Long 2007). Indeed, the possibility of having products recognized as meeting the FT standards by an external certifying body and not by the importer (or distributor) itself, as it was the case previously with ATOs, opened the door of the FT sector to any type of company. Mainstream businesses, including supermarkets and food multinationals, started selling FT products. This resulted in a huge increase in the volume of FT sales but also in debates about the possible “dilution” of FT. Much of the literature on FT has

¹⁷ Later changed into “International Fair Trade Association” and finally “World Fair Trade Organization” in 2009.

¹⁸ In Edouard Douwes Dekker’s (“Multatuli”) books, “Max Havelaar” is the name of a fictive hero who takes the defense of small-scale tea producers in Dutch colonies.

¹⁹ Certification will be used here as the term encompassing different types of labelling practices.

been analyzing the consequences of mainstreaming on the FT movement (Moore, Gibbon, and Slack 2006; Nicholls and Opal 2005; Raynolds and Wilkinson 2007; Jaffee 2010).

The formalization of the international networks and the emergence of labeling constituted two steps of institutionalization during the late 1980s, period that can thus be seen as a crucial “momentum” in the FT movement (e.g., Reed 2009; Raynolds and Long 2007; Gendron, Bisailon, and Rance 2009). Following the distinction relayed by Gendron and her colleagues (2009a), while the first institutionalization step was a rather “political” one, the second step was closer to an “economic one”. This concretized into two distribution strategies: the historical, “alternative” one, consisting of worldshops and volunteer networks; and the mainstream one, consisting of supermarkets and other non-specialized shops. It is common in the practice²⁰ and in the FT literature to divide the movement into two main spheres according to these two distribution strategies (e.g., Renard 2003; Gendron 2004b; Moore 2004; Nicholls and Opal 2005; Raynolds, Murray, and Wilkinson 2007).

The first sphere, “integrated FT”, is mainly composed of craft producers and importers and is often associated with a “radical” or “political” vision of FT, embodied by a large part of the pioneers grouped in the WFTO network as well as in other local networks of worldshops (e.g., NEWS: Network of European World Shops), importing FTSEs (e.g., EFTA in Europe) and WFTO-member producer organizations (COFTA in Africa, IFAT-LA in Latin America, AFTF in Asia) (e.g., Raynolds and Long 2007; LeClair 2002; Renard 2003; Gendron 2004a). WFTO differentiates itself from the Fairtrade labeling model on various aspects. First, it boasts its membership, the majority of which is composed of producers, and its democratic functioning, to

²⁰ http://www.WFTO.com/index.php?option=com_docman&task=doc_download&gid=612, viewed on May 1, 2009 (one example among others).

claim a stronger representation and thus legitimacy (Raynolds and Long 2007). Second, it has developed a more demanding definition of FT, based on a trust relationship rather than on standardized control (e.g., Wilkinson 2007). Such differentiation has translated into the development, in 2004, of an own certification scheme, namely the “Fair Trade Organization Mark”. The “FTO Mark” applies to organizations rather than products and aims to help consumers and FT supporters identify the “*true* Fair Trade organizations”²¹, 100% dedicated to FT and complying with standards that include fairness within the organization (e.g., democratic decision-making) and involvement in education and advocacy.

The second sphere, “certified FT”, mainly deals with food products²² and is associated with a more commercial or “pragmatic” vision of FT (e.g., Diaz Pedregal 2007; Gendron, Bisailon, and Rance 2009; Renard 2003). The focus here is on expanding the FT market as the main strategy to improve the producers’ livelihoods. The rise and legitimacy of the labeling sphere is linked to several factors. Crowell and Reed (2009) point out that several NGOs and FTSEs have supported the development of labeling and mainstreaming, beyond labelers themselves. Moreover, it is often suggested that most producer organizations have welcomed positively the perspective of reaching the mainstream and thereby increasing their production volumes. Although producers’ visions are far from homogeneous (Poncelet, Defourny, and De Pelsmacker 2005; Lemay 2007), the latter’s assumed positive attitude towards mainstreaming is a key argument put forth by labelers and stakeholders favorable to mainstreaming (Low and Davenport 2005b).

²¹ IFAT (now “WFTO”) website (www.ifat.org), viewed on April 21, 2007. Italic has been added by the author.

²² Non-food products certified by FLO are few at this date (e.g., cotton or roses) but are likely to expand in the future.

Despite their diverging orientations, these two wings and visions of FT dialogue with each other at the institutional level through “FINE”²³. The goal of FINE is to maintain a minimal consensus around FT principles and orientations. For that purpose, a common definition was established in 1999, revised in 2001 and completed by a “Charter of FT principles” in 2009 (see next section). Beyond the definition of FT, a major issue for the four international networks constituting FINE is advocacy. In order to coordinate the advocacy activities, particularly towards the European Union, FINE created the “Fair Trade Advocacy Office” (FTAO)²⁴ in Brussels in 2004.

While this dual picture of FT is useful insofar as it explicitly reveals the fundamental tension in the FT movement (e.g., Wilkinson 2007), it has become insufficient to capture the whole diversity and complexity of the current FT landscape (Özçağlar-Toulouse et al. 2010). Certain authors call for a reconciliation of the two spheres (e.g., Gendron, Bisailon, and Rance 2009; Nicholls 2010). As Wilkinson states (2007, 220), “[i]n spite of the more obvious tensions, there are also unexpected synergies and, it is, precisely, the multifaceted nature of the movement that has accounted for its success to date”. Furthermore, recent work also brings nuances to the distinction between the two spheres, observing that several organizations and supply chains are based on both distribution strategies (Wilkinson 2007; Ballet and Carimentrand 2008). For instance, Traidcraft in the UK or Oxfam Fairtrade in Belgium sell their products –some of which are labeled, and others not– both through specialized channels (worldshops, catalogues, etc.) and through supermarkets. In the same way, some businesses launched by pioneer FTSEs themselves, such as Cafédirect or Divine Chocolate, have a strong positioning in the mainstream

²³ FINE is an informal network set up in 1998 and gathering the four main Fair Trade umbrella organizations of the time: FLO, IFAT, NEWS! and EFTA.

²⁴ www.fairtrade-advocacy.org

market while at the same time being WFTO members and being partially owned by FT pioneers (Davies and Crane 2003; Doherty and Tranchell 2007).

The distinction between the two spheres seems even less adequate when considering the local level (Özçağlar-Toulouse et al. 2010; Sarrazin-Biteye 2009). In many places, new FT-focused businesses are emerging, selling non-labeled FT products through a variety of channels, some of which can be “mainstream” (B2B sales, for instance), and others, “specialized”. In recent years, many small businesses have engaged in a “100% FT” practice²⁵ without belonging to one of the traditional FT systems (Özçağlar-Toulouse et al. 2010): they constitute what some start calling a “third FT wave” or third institutionalization, after the foundation of FT by pioneers (first wave) and the certification- mainstreaming process (second wave) (Poos 2008). These new companies have often established links with other FTSEs leading to the emergence of local “bottom-up” networks that cannot be captured through the classical distinction in terms of affiliation to a particular sphere. Before further exploring the current organizational landscape, the next section defines and analyzes the concept of FT as well as that of FTSE.

2. Fair Trade and its participants

2.1. Fair Trade as a hybrid concept

The definition developed by FINE, which is based on a consensus among several FT networks, is the one that is most commonly used in practice and in the academic literature (e.g., Moore 2004).

²⁵ “100%” is generally understood in a flexible sense, considering that many FT retailers also include part of products that are not strictly speaking FT but follow the same principles (local FT, products from social economy networks, etc.).

Fair Trade is a trading partnership, based on dialogue, transparency and respect, that seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, marginalised producers and workers - especially in the South. Fair Trade organizations (backed by consumers) are engaged actively in supporting producers, awareness raising and in campaigning for changes in the rules and practice of conventional international trade.

A first draft of this definition was written in 1999. It focused on producers (not on workers) and insisted on FT as being an “alternative” to conventional trade. The evolution of the definition towards a less radical standpoint has been seen by some as an adaptation of FT “*aimed at making it more palatable to corporations*” (Crowell and Reed 2009, 148). In 2009, FLO and the WFTO completed the definition of FT thanks to a common “Charter of Fair Trade principles”.²⁶ The goal was to be more explicit about the implementation of FT through the two types of distribution strategies embodied by the two networks. Besides the statement of a common vision of FT and a comparison with the ILO standards²⁷, five core principles were identified and detailed: market access for marginalized producers, sustainable and equitable trading relationships, capacity building and empowerment, consumer awareness raising and advocacy, and long-term commitment “*in the context of a social construct*” (as stated in the Charter).

Since the FINE definition and the charter of principles result from compromises among different approaches to FT, they remain relatively general, allowing for a wide range of interpretations and practices. What clearly appears in these definitions is that FT is an innovative and highly hybrid

²⁶ <http://www.fairtrade-advocacy.org/images/charterfairtradeprinciples.pdf>, viewed on April 20, 2009.

²⁷ International Labour Office. FT standards aim to complete ILO standards, which are considered as the minimum basis for any trading relationship.

concept²⁸, which is made of paradoxes (e.g., Renard 2003; Schümperli Younossian 2006). The study of these paradoxes, which will further be examined at the organizational level, first requires to define more precisely the different dimensions of FT and the elements that they entail. Among the various possible categorizations, three dimensions are identified here: producer support (the ultimate goal); trade (the mean to achieve this goal); and education, regulation, and advocacy (the actions to scale up the initiative and influence the broader context).²⁹

Producer support

FT aims to practice trade under conditions that are “fair” for producers, in order to support them beyond what they would obtain from a traditional trading exchange. These conditions constitute the core of the FT concept: fair price, social premium, pre-financing, provision of market access, long-term relationship, etc. (Raynolds and Wilkinson 2007; Moore 2004; Nicholls and Opal 2005). Such tools are supposed to orient the trading relationship in a way that genuinely improves the livelihoods of the producers in the South. The content and the impact of producer support may, however, vary across FTSEs, even when a label aims to homogenize practices.³⁰

The ambition of fairness in FT partnerships can be considered as a social dimension, and more precisely as the heart of FT as a social innovation (see further). “Social” means that FT aims to

²⁸ Different expressions in the FINE definition reflect this hybrid character: “market access”, “sustainable and equitable trading partnership”, “equity in international trade”, “sustainable development”, “better trading conditions”, “securing rights”, “raising awareness and campaigning”, etc.

²⁹ It is worth noting that other authors identify three similar dimensions, albeit with other names (Diaz Pedregal 2007)

³⁰ The main Fair Trade label is managed by Fairtrade International and applies to most food products (coffee, bananas, etc.). Such a label guarantees the respect of a range of social and environmental standards, beyond which FTSEs are free to bring additional producer-oriented benefits. The “Gold Standards” developed by “Cafédirect”, a British FT coffee company, are an example of such benefits. In the craft sector, where no product-related label exists but where WFTO proposes a certification system for FTSEs, producer support practices are also heterogeneous among FTSEs.

serve a specific category of people considered as “disadvantaged”³¹. In other words, an FTSE aims, at least as one of its goals, to provide benefits to people who would normally not –or very little– enjoy the fruits of equitable trading partnerships. The idea of improving the livelihoods of certain producers in the South is central to FT, and FTSEs’ practices and decisions are often justified in the light of this central goal (Davies and Crane 2003). It is mainly through their social mission that FTSEs distinguish themselves from traditional businesses. The importance of producer support does not mean that this is the only social dimension of FT. For instance, FTSEs may seek to provide employment to low-skilled people or to provide ethical products to poor consumers in the North. But producers in the South are generally the primary declared beneficiaries of FTSEs’ activities. Specific to FT, compared to development projects, is the idea of pursuing the social aim through an economic partnership with these producers.³²

Trade

Trade refers to all the market activities (import, transformation, distribution), which are similar to those carried out by any company. Albeit “fair”, FTSEs are running trade and using market mechanisms: FT as a whole relies on the market to achieve its social goals (Nicholls and Opal 2005). The positioning of trade within the overall strategy of FTSEs, however, can vary on a continuum between “trade as a mean” and “trade as a goal” (Gendron 2004b).

Such a trading activity can be described as the economic dimension of FT. It is often used to distinguish FT from traditional charity or development cooperation initiatives. There may be

³¹ The FT practice and literature also use the notions of “marginalized” or “small” (see Lemay 2007 for a discussion of these notions).

³² To differentiate FT from ethical labels in which part of the sales are donated to social projects involving producer organizations, FT operators and networks often underline the fact that in FT, the social mission is rooted in the economic partnership itself, through the payment of a fair price and a long-term relationship.

confusion, however, on the term “economic”. Indeed, in the broad sense, “economic” refers to the production of goods and services, which does not necessarily take the form of trading on the market. In a more restricted sense, “economic” may mean “market-oriented” Nicholls and Cho (2006) suggest a number of concrete elements to characterize market orientation: risk-taking, cost recovery, efficient deployment of resources, strategic operations, etc. The importance of the market in the discourse and practice of FT has strongly increased in the last years, which has resulted in vivid debates about the relationships of FT actors with mainstream market players (Renard 2003; Gendron 2004b; Raynolds, Murray, and Wilkinson 2007).

Although both the “fairness” and “trade” dimensions are intertwined in the practice of partnerships with producers in the South, they may be distinguished from a conceptual point of view. This dual nature is observed by most authors who have studied the FT movement, albeit with various foci and names.³³ As we will see further, the combination of economic and social dimensions also lies at the heart of other movements or concepts. It is suggested here, however, that these two dimensions are not sufficient to fully describe the scope of the FT concept and practice. Indeed, they leave aside the ambition of acting for a fairer world beyond the specific partnerships with FT producers. Such ambition can be viewed as the political dimension of FT and finds concrete expressions through education, regulation and advocacy.

Education, regulation, and advocacy

At the origins of FT, there is the intent of creating a new regulation framework for commercial exchanges. The creation of such a framework, its continuous adaptation, and its promotion in front of national and international public authorities is a fundamental element of FT that falls

³³ FT is seen as located, for instance, between “market” and “solidarity” (Poncelet, Defourny, and De Pelsmacker 2005), or between “social movement” and “business” (Raynolds & Long 2007).

under the term of “regulation”, i.e., using FT as a new governance system for international trade (Gendron, Palma Torres, and Bisailon 2009; Renard 2005; Macdonald and Marshall 2010)

Closely linked to regulation is the advocacy work undertaken by FTSEs, networks and support structures. This action is aimed not only at public authorities but also at corporations. It may be the denunciation of unethical trading practices and rules, and/or the promotion of FT as a source of inspiration to raise the global ethical standards. Education is slightly different from –although closely linked to– advocacy in the sense that it aims individual citizens/consumers. Education campaigns are intended to change consumption habits towards FT and, more generally, towards more respect for people and for the environment. They are different from marketing campaigns if they do not aim to promote one organization’s specific products but rather to foster change in consumers’ overall behavior. Education, regulation and advocacy mainly have a political focus: the purpose here is not so much to support particular producer communities, but to influence the broader economic system. It is in fact the translation of the “fairness” dimension at the macro-level, with the goal of transforming the context of international trade by scaling up the FT principles.

Naming this the “political” dimension follows authors such as Laville and Eme (2003, 1994), themselves drawing on Polanyi (1944) and Mauss (1950). While these authors’ approach to the political dimension in the context of the “solidarity economy” will be detailed further in this chapter, it should be mentioned that “political” will be used here to refer to the ambition of societal change inherent in FT. The “political” goals and activities are those that explicitly aim to change the society by influencing consumption habits and making international trading rules and practices more favorable for small-scale producers in the South. These goals and activities may

take three, interrelated forms: educating and informing citizens about the context, rules, and consequences of international trade and the economic system in general; lobbying public and private institutions and advocating for fairer trade (either directly or indirectly, for instance through campaigns, writing, conferences etc.); and participating in the formulation of new rules for trading relationships (in the context of FT but also aimed at other economic and political actors).

Synthesis

The three dimensions can be viewed as the three edges of a triangle:

[INSERT FIGURE 1.1 ABOUT HERE]

Three observations should be made about the distinction and characterization of these dimensions. The first is that each of the dimensions is ambivalent: there is no single way of conceiving and applying the economic, social and political dimensions. Different organizations may for instance, develop political visions that are totally incompatible. The remainder of this work will try to take such ambivalence into account (see for instance, Nicholls and Cho's discussion of the social mission further in this chapter). The second observation is that FT hierarchizes these three dimensions. In particular, the economic *activity* is presented as a tool to serve the social *goal*. The term "dimension" is purposively chosen here to avoid hierarchies and keep these elements as neutral as possible. Indeed, from a critical perspective, partnerships with producers, for instance, can in some cases be seen as tools to serve economic or political goals. Third, it should be noted that these three dimensions are difficult to distinguish from each other in practice. As previously mentioned in this chapter, most FT authors would, indeed, describe the

“pragmatist” vision of FT as one that emphasizes the extension of the economic activity as a vehicle to pursue the social mission, and the “radical” vision as one that submits the economic activity to social goals and to a broader political project. Instead, this work focuses on the micro, organizational level, rather than the macro, field perspective. In other words, individual FTSEs should not be considered based only on their “affiliation” in terms of international networks or on their distribution strategies. This work rather follows Gendron *et al.* (2009b, 190, author’s translation) who suggest that “*Fair Trade is translated into chains, structures and organizations that are far more numerous and varied than what a simplistic analysis [...] restricted to the sole labels [and networks] grouped within FINE might suggest*”. Rather than restricting FT to its most institutionalized components, it is preferable to “*recognize the plurality of practices likely to underlie the Fair Trade project in the context of a dialogue between pioneer and newcomer organizations*” (Gendron, Palma Torres, and Bisailon 2009, 191, author's translation; see also Sarrazin-Biteye 2009).

This requires deconstructing FT into its elementary building blocks, to see how individual FTSEs reassemble these blocks through their organizational model and practices. Considering these dimensions as necessarily intertwined and complementary would, furthermore, neglect both the fundamental tensions that may appear among them and the differences among FTSEs in the way in which they balance and combine them. Several authors identify FT as being simultaneously “in the market” and to a certain extent “against the market” (Renard 2003; Le Velly 2004; Fridell 2003). This inevitably leads to a tension in the sense that FTSEs wish to use market mechanisms as a tool to increase their social impact, but at the same time promote a political project that questions the functioning of the market. While this and other tensions have been at the center of numerous analyses of FT (Bisailon, Gendron, and Turcotte 2005b; Schümperli Younossian

2006; Haynes 2006), a key question that has only little be examined is the way in which the three dimensions and their inherent tensions are managed *within each individual FTSE*. In order to focus on the organizational level, it is important to first define which organizations will be considered here as FTSEs.

2.2. Fair Trade Social Enterprises

Originally, as previously mentioned, pioneer FTSEs were referred to as “alternative trading organizations”. This term, however, is less and less used, simply because the term “alternative trade” has been replaced by that of “fair trade”. Moreover, many organizations that recognized themselves as such (including, in Europe, most of the historical importers members of EFTA) have become less “alternative”. The frontiers between “ATOs” and “businesses” and the historical distribution of roles between import (ATOs) and distribution (worldshops) have also become increasingly blurred.

Whatever the name, several authors find it useful to distinguish 100% FT companies from corporations involved only to some extent in FT (Reed et al. 2010; Nicholls and Opal 2005; Raynolds and Long 2007). A first criterion is the focus on FT as a “100% commitment”. Such a commitment is central in the previously mentioned WFTO definition. The Charter of FT Principles also defines FTSEs as “*organizations of which Fair Trade is part of their mission and constitutes the core of their objectives and activities*”. Reed and his colleagues (2010) distinguish four types of “FT businesses”: “*FT co-operatives (including buyer and worker coops), FT social enterprises (established by NGOs as not-for-profit businesses to promote FT), FT social entrepreneurs (who have set up their own SMEs with the purpose of promoting FT) and mixed FT enterprises (with ownership by a group of SE businesses dedicated to promoting FT)*” (155).

Reed, Nicholls and their respective co-authors propose a second discriminating element: FTSEs (or ATOs) are engaged in education and advocacy. This might be linked to the FINE definition, which ends by stating: “*Fair Trade organizations (backed by consumers) are engaged actively in supporting producers, awareness raising and in campaigning for changes in the rules and practice of conventional international trade*”. But this definition of FTSEs insists *only* on education and advocacy, thereby referring to the whole range of structures supporting FT (networks, NGOs, labelers, etc.) rather than to the organizations and businesses engaged in a trading activity. On the contrary, the World Fair Trade Organization (WFTO) defines FTSEs as “*organizations directly engaged in Fair Trade through their trading activity*”.³⁴ As involvement in education and advocacy may take many forms and include organizations supporting FT but not directly dealing with FT products, it seems more logical to apply the “100% FT” commitment to the trading activity when defining FTSEs.

Both Nicholls and Opal (2005), and Reed *et al.* (2010), each propose a third criterion, but not the same one. The former consider that, if a label exists for the products, the organization should have it on its products. The latter suggest that FT businesses are characterized by personal relationships with the producers. These two criteria are not unambiguous. The first one leaves aside the organizations that, for financial or ideological reasons, have no labels on their products. In France, for instance, certain FT shops consider that the Fairtrade label is an insufficient ethical guarantee and prefer not to use it. In Italy, most of the products (including food) sold by the pioneer FTSEs are not labeled. Without judging the adequacy of bearing a label or not, it should be acknowledged that labeling is a highly political process, entailing normative issues which may

³⁴http://www.WFTO.com/index.php?option=com_content&task=view&id=153&Itemid=186&lang=en, viewed on September 13, 2009. This excludes the organizations and networks that are only engaged in promoting and advocating for FT from the scope of this study. These structures are viewed here as major stakeholders of FTSEs, but not as FTSEs themselves.

be a weak basis to discriminate between FTSEs. Second, while the criterion of a personal relationship with producers proposed by Reed and his colleagues is interesting, the notion of personal relationship is, again, subject to debate. Indeed, large FTSEs that have partnerships with a high number of producer groups do not always have direct and regular personal relationships with these groups, either because of time constraints, or because the FTSEs rely on intermediate structures (other FTSEs, corporations, NGOs, local networks, etc.).

It is suggested here that the “100% FT” commitment seems the most solid criterion to identify FTSEs. “Fair Trade” is considered here as involving a trading activity, at one or several steps of the FT supply chain in the North: import, transformation, wholesale, retail and/or labeling/certification. Previously mentioned definitions speak of FT organizations, which is a neutral term but may refer to actors not necessarily dealing with FT products. Reed *et al.* (2010) describe trading organizations as FT *businesses*. Davies and Crane (2003) speak of FT *companies*. Following Doherty and Tranchell (2007), this book uses the term FT *social enterprises*, precisely to highlight the hybrid nature of these organizations, as will be justified further in this chapter.

3. Fair Trade in a broader context

FT is certainly not the first concept trying to reconcile economic activity, social purpose and political involvement. FT can be seen as one of the latest of a series of ideas and experiments that stem back to the origins of humanity. It is important, thus, to place FT (and FTSEs) in a broader context, linking it to the concepts and initiatives that have inspired it. It is impossible, however, to mention all these initiatives, such as previous versions of FT known as charitable and solidarity trade (Gendron, Bisailon, and Rance 2009; Low and Davenport 2005a). Nor will

FT be compared with more general trends such as sustainable development (e.g., Bisailon, Gendron, and Turcotte 2005a; Le Velly 2009) or corporate social responsibility (CSR) (e.g., Bezençon and Blili 2009; Low and Davenport 2005b) –this lies beyond the scope of this book. The focus will be laid on notions and movements that have proposed innovative organizational models and practices to combine hybrid dimensions. Among these, four notions to which FT can be affiliated will be explored here: the cooperative movement, the social economy, the solidarity economy and social enterprise/social entrepreneurship. These are partly overlapping concepts and movements, which have influenced each other, while also influencing –and, in turn, being influenced by– the emergence and development of the FT movement.

3.1. Cooperative movement

3.1.1. Definition and principles

A cooperative is defined by the International Cooperative Alliance³⁵ as “*an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise*”. The origins of the cooperative movement date back to the 19th century, with thinkers such as Robert Owen and pioneering initiatives such as the Rochdale Society of Equitable Pioneers, founded in 1844.

From an economic standpoint, cooperatives are economic organizations owned by their “users” (e.g., Hansmann 1999; Platteau 1987; Levi 2005). For instance, consumer cooperatives differ from mainstream shops in that the consumers are also the owners. However, unlike shareholders

³⁵ <http://www.ica.coop/coop/principles.html>, viewed on April 18, 2008.

in a traditional business, members of a cooperative do not enjoy an unlimited profit distribution and have a voting power not linked to the shares they hold –most cooperatives apply the “one member, one vote” principle (ICA 1996). From a socio-political standpoint, cooperatives have joined into a social movement that has historically aimed to challenge the dominant capitalist logics (for recent analyses, see for instance Schneiberg, King, and Smith 2008; Reed and McMurtry 2009; Birchall 1997).

3.1.2. Fair Trade and cooperatives

Several principles of FT (fair price, economic democracy, suppression of intermediates, etc.) have been directly inspired by the cooperative principles (Gendron, Bisailon, and Rance 2009). The term “Fair Trade” was even used to describe the trading relationships among cooperatives since the 19th century (Develtere and Pollet 2005; Anderson 2009a). Crowell and Reed (2009) see FT as a model for international cooperation among cooperatives. Develtere and Pollet (2005) identify a number of convergences between FT and the cooperative movement, *inter alia*:

- both notions were initially conceived as alternatives to the dominant capitalist model, while at the same time being integrated in the market;
- equitable income is central in both concepts;
- in both cases, the economic activity serves –or at least coexists with– social and political purposes; both cooperatives and FTSEs try to balance ethical standards, on the one hand, and survival in a competitive market environment, on the other.

However, several differences can be observed between the FT and cooperative movements.

FTSEs necessarily operate in an international context, while cooperatives may be active at the

local and/or at the international level. Moreover, while FT mainly locates fairness at the level of the producers in the South and not necessarily within FTSEs, cooperative principles are mainly applied to the members within the organizations and not necessarily at the suppliers' level (except in producer cooperatives where the members *are* the suppliers).

In practice, the FT movement includes numerous cooperatives (Develtere and Pollet 2005; Anderson 2009a; Crowell and Reed 2009). In the South, historically, producer ownership often implied the cooperative model for producer groups, although this requirement was gradually relaxed. The centrality of cooperatives particularly decreased since the certification of plantations –i.e., not producer-owned companies– as producing partners (Crowell and Reed 2009). In the North, the cooperative form was chosen by several FTSEs, especially in the 1980s and 1990s (Crowell and Reed 2009), as will be described further.

The promotion of the cooperative form obviously has a political content. As in the case of FT, there is the intent of scaling up the cooperative idea and having its values pervade the traditional business world. Concretely, the cooperative principles focus on educating members to the cooperative ideal and on empowering them. Nevertheless, in many countries, the evolution of cooperatives towards a stronger business focus has seemed to dilute some of the political and educational dynamics (e.g., Monaci and Caselli 2005). Certain cooperatives have become very business-like, while others have been bought over by business corporations (e.g., in the retail and banking sectors). Yet, some authors suggest that, even in these cases, the cooperative form still constitutes an alternative to the dominant capitalist model (Reed and McMurtry 2009), especially when the business is backed by a citizen movement (Vienney 1997). The commercial evolution of FT might be seen as similar to what happened for cooperatives, in that the challenges of

maintaining the original features of the concept and the debates that have opposed radical and pragmatist streams of actors, are quite similar. Such debates will also be commented upon in subsequent sections on the social and solidarity economy. In conclusion, the FT and cooperative movements have much in common, both conceptually and in practice. Nevertheless, FT is more than just a re-actualization of the cooperative idea. It integrated itself in and was inspired by other movements seeking to ally economic activity and social and/or societal goals without necessarily focusing on particular organizational forms.

3.2. The social economy

3.2.1. Definition and principles

The social economy has been partly inspired by the cooperative movement, which constitutes one of its major components (Defourny and Develtere 1999). Another major component is that of “nonprofit organizations”, around which a whole stream of literature has emerged, particularly in the US (for a literature review, see for instance Anheier 2005; Steinberg 2006). The social economy refers to a wider range of organizations, located between the public sector and the for-profit business sector. Characteristic of a social economy organization is *“to provide services to its members or to a wider community, and not serve as a tool in the service of capital investment [...] The generation of a surplus is therefore a means to providing a service, not the main driving force behind the economic activity”* (Defourny, Develtere, and Fonteneau 2000, 16). It is possible to define the social economy through a legal/institutional approach, including all the organizations with an associative, cooperative, or mutual form³⁶, and through a normative approach, emphasising the values common to these organizations (Defourny and Develtere 1999;

³⁶ A fourth legal form, gaining increasing importance, is that of foundations.

Defourny 2001). One example of a definition combining both approaches is the one co-constructed by academics, field operators and the government in the Walloon region (CWES 1990, cited in Defourny and Develtere 1999):

The social economy is composed of associations, cooperatives and mutuals whose activities are guided by the following principles:

- *placing service to its members or to the community ahead of profit;*
- *autonomous management;*
- *a democratic decision-making process;*
- *the primacy of people and work over capital in the distribution of revenues.*

The Charter of Principles of the Social Economy promoted by the European Standing Conference on Cooperatives, Mutual Societies, Associations and Foundations (CEP-CMAF) extends this definition by adding an emphasis on solidarity and sustainable development as guiding values (Chavez and Monzón Campos 2007).

There seems to be a broad consensus on the general meaning of the social economy in the countries and regions where the term is used, i.e., in Latin Europe, Scandinavia, Canada, UK and many other parts of the world (Chavez and Monzón Campos 2007; Defourny and Develtere 1999). When it comes to circumscribing the field of the social economy, however, there are diverging interpretations. We can particularly highlight the distinction between one broad and several narrower views of the social economy. In a broad perspective, the social economy is referred to as the “Third Sector” that is located between the state and the private “for-profit” world (Anheier and Seibel 1990; Defourny and Monzón Campos 1992). This third sector

encompasses a broad range of organizations, including all types of nonprofit organizations (nonprofit hospitals, schools, museums, sport clubs, NGOs, etc.), cooperatives, mutuals and foundations. Although these organizations do not necessarily recognize themselves as “social economy” organizations (but rather, for instance, as a “hospital” or a “museum”), they share the four previously mentioned criteria in common.

In a narrow sense, however, the social economy is sometimes restricted to a range of sectors in which the organizations generally do recognize themselves as belonging to the social economy. In such a context, the term “social economy” is used to designate the nonprofit, cooperative and mutual organizations engaged in a commercial, market-based activity (“economy” being restricted to the production of goods and services that can be exchanged on the market). Chavez and Monzón (2007) refer to this as the “market or business sub-sector of the social economy”. Market-oriented actors often share this narrower view and are reluctant to be included in the same category as “non-market” organizations such as NGOs and social action associations, but the narrowing may also be caused or reinforced by public authorities. It is striking to observe how the definition of the social economy differs according to the specific attributions and philosophy of the politicians who wish to support it. In Belgium, for instance, the Walloon minister of economy has long supported only social economy initiatives with a commercial content.³⁷ In Flanders, the social economy has traditionally been restricted to the integration of handicapped or low-skilled people. Such a focus on work integration also characterized the financial support brought to the social economy by the European Union, typically in the context

³⁷ “Economie sociale marchande”.

of the EQUAL program. In other cases, though, public support or recognition embraced the larger view of the social economy.³⁸

3.2.2. Fair Trade and the social economy

In both the broad and the narrow view, FT can be linked to the social economy “*through the nature and the goals of the main organizations that have launched it*” (Gendron, Palma Torres, and Bisailon 2009, 128, author's translation). Reed and his colleagues (2010) consider that organizations totally devoted to FT and engaged in advocacy are necessarily social economy organizations. FT is regularly presented as one of the social economy fields of activities, among others such as recycling, work integration, microfinance etc.³⁹ With the growing success of FT and the need to establish partnerships among movements with similar aims, social economy networks have been increasing their efforts to collaborate with FTSEs and to promote the link between the two concepts. This is especially observed, for instance, in French-speaking Belgium and Canada, through, respectively, the networks “Solidarité des Alternatives Wallonnes et Bruxelloises” (SAW-B)⁴⁰ and “Chantier de l'économie sociale”⁴¹. However, little work examines the conceptual convergences between the two concepts (attempts can be found, for instance, in Lévesque 2004; Poncelet, Defourny, and De Pelsmacker 2005). As suggested by Gendron and her colleagues (2009, 129, author's translation), “*the integration of FT actors in the movement of the social economy is more often an intuitive approximation than the result of an in-depth analysis of the respective natures of FT and the social economy*”.

³⁸ For instance, the “Chantier de l'économie sociale” in Québec (from the nineties up to now), the resolution of the European Parliament (1997), the recent Walloon legislation (2008), etc.

³⁹ Listings including FT are often observed in books and reports mapping the social economy (e.g., Defourny *et al.* 1999; Chavez & Monzón, 2007) or in public recognition schemes.

⁴⁰ After having coordinated a report on FT handicraft (2008), SAW-B initiated and hosted the “Belgian Fair Trade Federation” (BFTF) during the process of its creation.

⁴¹ The “Chantier” organizes an annual “Fair of social economy and fair trade” (Gendron *et al.*, 2009b).

The four elements of the definition of the social economy can be applied to the FTSEs in the North.⁴² Placing service to the members or the community ahead of profit was central in the initial FT project. The payment of a fair price, completed with a FT premium and prefinancing, can theoretically be seen as a transfer to the producers of the potential profit that would be realized by FTSEs if the products were bought at market prices and conditions. In some cases, however, sales of FT products may allow corporations to increase their profits by capturing ethical consumers, ready to pay a higher price, and making them loyal. In such case, the transfer of value to the producer is exclusively due to the higher prices paid by the consumers, and not to the corporations' commitment to reduce their profits to serve the community (Smith 2010). The social economy legal forms adopted by pioneer FTSEs formally prevented such opportunistic behavior (profit appropriation), although, as will be explained further, other devices than legal forms may fulfil the same safeguarding role.

The second criterion, namely the autonomy of the organizations vis-à-vis other actors, typically the state, seems valid for Northern FTSEs. While states have been increasingly interested in recognizing and promoting FT⁴³ and have been involved in the creation of certain FTSEs⁴⁴, they are not supposed to control FTSEs.

⁴² For analyses of FT producer groups as social economy organizations, see for instance, Poncelet and colleagues (2005).

⁴³ Legislation on FT has been developed in France and is in preparation in Belgium and Italy. The European Commission officially recognized FT, first in a 1999 statement, and recently through a more complete statement, issued on May 5, 2009 (http://trade.ec.europa.eu/doclib/docs/2009/may/tradoc_143089.pdf). The European parliament adopted a resolution in favor of FT in 2006. A key element in the public support to FT is the setting up of public procurement policies favoring FT. Besides the different national initiatives, EFTA initiated the "Fair Procura" project (now "Buy Fair"–www.buyfair.org) to share practices and develop legal justifications for preferences to FT in the context of public tenders. Finally, the development of FT towns and countries, initiated in the UK and later replicated in Europe through the "Fairtrade Towns in Europe" EU-funded program, is a concrete example of public involvement in FT.

⁴⁴ For example Twin and Soli'gren, patronized by, respectively, the Greater London Council (1985) and the city of Grenoble (2005).

Third, the democratic decision-making process was a central element in the initial FT project and in the organizational models of pioneer FTSEs, especially through the involvement of volunteers.⁴⁵ Again, the participation of corporations, in the context of mainstreaming, and the creation of FTSEs under forms that do not impose democratic decision-making, lessened the importance of economic democracy. While democracy is promoted at the producers' level, it is not a requirement within Northern FTSEs, which are free to integrate or not the principles of FT into their own governance (Gendron, Palma Torres, and Bisailon 2009; Davies and Crane 2003). At the movement's level, economic democracy has been a driving principle of IFAT/WFTO⁴⁶, but it has not always been a priority in FLO (now Fairtrade International), which has led to criticism (González and Doppler 2006; Hutchens 2009).⁴⁷

Finally, the primacy of people and work over capital in the distribution of revenues can be examined in the same way as for the first criterion. The fair price and the other mechanisms inherent in FT precisely aim at giving primacy to producers and to their work in the distribution of revenues. Of course, other intermediaries benefit from the revenues of FT according to the type of supply chain, and some of them are remunerating capital over work: transporters, retailers, transformation companies (for instance, for chocolate, cosmetics, garments, etc.), etc. While the FTSEs and the labelling organizations are supposed to guarantee that a significant part of the value is transferred to producers, actual practices are diverse and the interpretation of "primacy" is subjective. At the organizational level, only FTSEs with nonprofit and cooperative forms

⁴⁵ The link between democracy and voluntary work will be explored further.

⁴⁶ In which all members, from the North and the South, have equal voting rights, leading to much control by producer groups, who represent the majority of the members.

⁴⁷ Initially, only national labeling initiatives participated in FLO (now Fairtrade International). Producer groups were later associated with the definition of the labeling criteria. In December 2008, after a two-year reformation process, FLO formulated a new strategy, including a governance model that gives greater representation to producer groups, organized in three continental networks. Producers now represent one third of FLO's Board members. (http://www.fairtrade.net/how_we_are_run.html, May 27, 2009).

formally impede giving primacy to the remuneration of capital. But adopting a “business” form does not necessarily mean for FT entrepreneurs to give primacy to capital and expect high profitability, as will be examined in the third chapter.

In conclusion, although it is impossible to generalize at this stage, three out of the four principles of the social economy seem applicable to the majority of FTSEs: autonomy, service to the community ahead of profit, and primacy of people and work over capital in the distribution of revenues. These two last criteria may differentiate most FTSEs from traditional businesses. Economic democracy, however, does not seem automatic in all FTSEs, especially the newer ones. The remainder of this work will help to clarify this basic observation. While nonprofit and cooperative forms (juridical/institutional approach) tend to favor the respect of all four principles of the social economy (normative approach), these forms are (1) not an absolute guarantee that the principles are effectively implemented, and (2) not the exclusive depositories of a social economy dynamic. We thus tend to follow Reed and his colleagues (2010) when they suggest that 100% FT organizations are naturally close to the social economy.

3.3. The solidarity economy

3.3.1. Principles

The concept of solidarity economy is close to that of social economy but it adopts a slightly different perspective. Rather than considering a number of legal forms and governance principles that put people ahead of profit, the authors of this approach insist on the citizen roots of the economic initiatives and on their political role of democratization (Laville 1994; Eme and Laville 1994; Laville 2003; Evers and Laville 2004). These authors suggest that solidarity

organizations reintroduce the political dimension in the very heart of the economic activity. Through the creation of “public spaces” of citizen participation⁴⁸, decision-making in the economic domain is submitted to a political deliberation. Solidarity organizations emerge from a “co-construction” of supply and demand. The integration of beneficiaries and other stakeholders in the very design of the production of goods and services is thus particularly central in this approach.

The “embeddedness” of the economic activity in a broader socio-political project exceeding the sole market logic is borrowed from Mauss (1950) and Polanyi (1944), as well as the notion of “hybridization” of market, reciprocity and redistribution logics (Laville 1994). These are three of the economic principles distinguished by Polanyi’s economic theory (1944). The market principle “*refers to the matching of supply and demand for goods and services with a view to exchange, facilitated by a price-setting mechanism*” (Laville and Nyssens 2001, 324). Unlike the two other principles, the market principle is based on contractual relationships and is not necessarily embedded in the social system (Evers and Laville 2004). Redistribution is “*the principle on the basis of which the results of production are handed over to a central authority responsible for managing it*” (Evers and Laville 2004, 17). Such a central authority is typically the state, but it may also be non-state institutions (for instance, private foundations). Finally, reciprocity is “*an original non-contractual principle of economic action in which the social link is more important than the goods exchanged*” (Evers and Laville 2004, 18); it is a specific type of spontaneous giving and counter-giving mechanism constituting “*a complex mix of selflessness and self-interest*” (Laville and Nyssens 2001, 324).

⁴⁸ The concept of “public space” was inspired by Habermas (1974; 1992) and Giddens (1994), cited in Laville and Nyssens (2001).

Polanyi's work is based on a historical perspective. He analyses various combinations of the three logics throughout history, with the market logic, initially confined to specific spheres of economic life, progressively imposing itself upon the other spheres. In the contemporary economy, while the three logics remain present, they have been prioritized in the following way: the market principle is considered as primary, redistribution as supplementary, and reciprocity as residual (Evers and Laville 2004). Solidarity economy initiatives try to reconcile these three principles through an economic activity embedded in logics of reciprocity and redistribution, with a strong emphasis on solidarity and political involvement. For that purpose, these initiatives tend to "hybridize" different goals as well as different resources, from the market (sales), the state (subsidies) and the sphere of reciprocity (through gifts, voluntary work etc.). In this sense, the solidarity economy is not a clear-cut "sector" but rather a space for hybridizing different economic principles.

Through taking into account the reciprocity principle, rather than only the redistribution and the market principles, when characterising economic organizations with social and political goals, the solidarity economy puts forth a whole range of citizen initiatives that are not –or not properly– covered by the social economy approach. Hybridization is presented as a tool that allows organizations to resist the trends towards institutional isomorphism, i.e, the progressive attraction by and resemblance to one of the three poles, particularly the market and the state. It is through a constant combination of goals and resources that solidarity organizations manage to preserve their uniqueness (Laville and Nyssens 2001; Evers and Laville 2004). Such combination attempts, nevertheless, may involve tensions within and around these organizations (Evers 1995).

3.3.2. Fair Trade and the solidarity economy

FTSEs offer an interesting example of “co-construction” of the supply by diverse “demand-side” stakeholders. We can indeed consider most of FTSE’s founders and workers as people who were themselves interested in the provision of FT in its different dimensions: economic (as consumers of FT products), and socio-political (as citizens desiring a fairer trading system). The hybridization of goals and the re-embedding of the economic activity in a wider socio-political project lied at the heart of the initial FT concept (see, for instance, Bisailon, Gendron, and Turcotte 2005b; Auroi and Yopez del Castillo 2006). The combination of economic, social and political dimensions is borrowed from the same intuition of re-embedding of the economic activity in a socio-political context.

Nevertheless, the three dimensions identified in this book are slightly different from the three types of economic principles. Indeed, the social dimension of FT, although it relies on certain logics of redistribution, is specific to each partnership and is thus not centralized (only the basic principles are common to all FTSEs). This is thus quite different from the redistributing role of a central authority such as the state, as emphasized in the solidarity economy. Moreover, while certain FTSEs aim to establish a direct relationship of reciprocity between producers and consumers, the FT principles and practices have often tended to describe producers as the beneficiaries of FT, thereby distancing themselves from the principle of reciprocity and from the idea of co-construction of supply and demand. Indeed, despite the close partnerships established between certain FTSEs and producer groups, the FT standards have been designed and monitored in the North, and it is only recently that producers have been associated to a certain

extent to the definition and implementation of these standards (Gendron, Palma Torres, and Bisailon 2009; González and Doppler 2006).⁴⁹

The goal of “political transformation” through public spaces of citizen participation (Laville 2003) is close to the definition of the political dimension of FT. In FT, these public spaces are concretely visible, for instance, through worldshops in which the purchase of FT products takes place within a social relationship between the volunteers and the customers, and within a broader political project. This project partly relies on reciprocity resources, such as voluntary work and donations. The focus on the political role advocated by the supporters of a solidarity approach sounds very appealing to the FTSEs with a strong political involvement, especially in France and in Italy as we will further.

Finally, the economic dimension of FT is linked to the market principle. But with the mainstreaming of FT and the increasing importance of market resources for FTSEs, several authors consider that the market principle is gaining dominance over the other principles. Certain of these authors view this as a welcome extension that situates FT “*along a continuum from corporate social responsibility to [...] the solidarity economy*” (Wilkinson 2007, 220). Others consider that the logic of “re-embedding” of the economic exchange in a socio-political project, as introduced by the initial advocates of FT, is jeopardized by the increasing emphasis on the market as the dominant logic. This translates into giving priority to volume, control and quality of the products at the expense of economic democracy, personal relationships and political objectives (Bisailon, Gendron, and Turcotte 2005b; Charlier et al. 2007; Gendron, Palma Torres, and Bisailon 2009). This view is shared by some politically involved FTSEs, which find in the concept of the solidarity economy a way to distinguish themselves from market-oriented FTSEs

⁴⁹ For about a decade in WFTO, and much more recently in the case of FLO.

and mainstream companies, all of which are seen as contributing to the “disembedding” of FT from its political and social background (Minga 2005).

3.4. Social enterprise, social entrepreneurship, and social innovation

Recently and increasingly associated with FT is a set of interrelated notions that still lack solid ground: social enterprise (Huybrechts and Defourny 2008; Doherty and Tranchell 2007), social entrepreneurship (Nicholls 2006; Hervieux 2008) and social innovation (Phills, Deiglmeier, and Miller 2008; Mulgan et al. 2007). These different terms are often mixed in the literature. At first sight, they might simply refer to different levels of analysis: individuals (social entrepreneurs), organizations (social enterprises), processes (social entrepreneurship) and outcomes (social innovation). Put simply, “social entrepreneurship” would be the dynamic process through which specific type of individuals deserving the name of “social entrepreneurs” create and develop organizations that may be defined as “social enterprises” in order to produce a set of outcomes defined as “social innovation” (Mair and Marti 2006; Defourny and Nyssens 2008b). However, the use of one term or the other is often linked to a different focus and/or understanding of the phenomenon. As the most encompassing notion, social innovation can be found in any sector (public, private for profit, non-profit,...) and may refer both to outcomes and processes (Phills, Deiglmeier, and Miller 2008; Mulgan et al. 2007). Social entrepreneurship then restricts social innovation to those initiatives undertaken in an entrepreneurial, market-oriented way. These initiatives include but are not limited to social enterprises (Nicholls 2006; Thompson 2008), as social entrepreneurs can also be found in “for-profit” businesses (Austin and Reficco 2005).

This book does not have the ambition to clarify all the debates around these terms and the definitions they encompass. The idea is to use the notions that seem most useful in this context.

As this book is about the *organizations* involved in FT, the term social enterprise will be used in priority, as well as the literature relating to the organizational level. But as the organizations are means rather than ends, and as the idea here is to look at how the different FTSEs innovate in their practice of FT, social innovation will also have a central place, in terms of both process and outcomes.

The literature relating to these notions is recent and heterogeneous. It has evolved in different ways, with, on the one hand, a first stream mainly based in North-America⁵⁰, and on the other hand, a stream based in continental Europe and represented by the EMES network (Kerlin 2006; Defourny and Nyssens 2008a; Kerlin 2008). It seems that the former have rather used the perspective of *social entrepreneurship*, despite several exceptions⁵¹, while the latter have mainly developed an organizational analysis of *social enterprises*. Although the two schools have initially developed separately, bridges have recently been established, revealing more convergences than what might have been expected (Defourny and Nyssens 2008a).

3.4.1. North-American literature

Within the North-American literature, Dees & Battle Anderson (2006) propose to distinguish two schools of thought. The first one focuses on earned income strategies developed to support the organization's social mission. Dees & Battle Anderson call it –although reluctantly⁵²– the

⁵⁰ It has to be noted, though, that while UK scholars seem to have been historically more connected with American authors and approaches, Peattie and Morley (2008) suggest that, in terms of content, they are closer to continental European approaches.

⁵¹ The term social enterprise seems to be used more frequently in the UK than elsewhere, both by practitioners (e.g., Social Enterprise Coalition, Social Enterprise London, etc.), by academics and by the state (Social Enterprise Unit).

⁵² In a footnote (41), Dees and Battle Anderson explain that the term “Social Enterprise” has been chosen for this school of thought on the basis of a “convention”, probably rooted in the American practice. They admit that such a term should ideally not be linked to one particular school of thought but that it should be left as a generic name. This work follows Defourny & Nyssens (2008a) who propose to call this school of thought the “Enterprising Nonprofit” school.

“Social Enterprise” school. At its origins, the focus was on nonprofit organizations increasingly looking for new resources from the market and seeking to adopt more efficient and market-oriented behavior (Skloot 1987; Emerson and Twersky 1996). Later, as for-profit companies were increasingly including social purposes in their basically economic missions, they were also integrated in this approach. Social enterprises are thus seen as emerging either from the social or from the business sectors. The boundaries between these sectors are described as increasingly blurring. Central to social enterprises in this approach is the idea of using the market and generating one’s own incomes to achieve sustainability and thus pursue the social mission more effectively.

The second school of thought, called the “Social Innovation” school, is based on the theories of entrepreneurship (mainly Schumpeter, but also Drucker) and focuses on innovation rather than on income generation. Dees & Battle Anderson (2006, 45) state this as follows: “*[t]he use of the term ‘social entrepreneurs’ to describe innovators pursuing social change helped to reinforce the idea that social entrepreneurship needs not to be framed in terms of income. It could be more about outcomes, about social change*”. Battle Anderson and Dees (2006) are particularly critical about the links made in the previous school of thought between market incomes and efficiency. The focus on outcomes rather than incomes seems to be embraced by various foundations supporting social entrepreneurs (e.g., Ashoka).

Dees & Battle Anderson (2006) point out the convergences between the two schools. Indeed, the first approach they identify is also concerned about innovation and outcomes, while the second is not opposed to incomes exclusively originating from the market: it is rather the idealization of market resources and the idea that such resources necessarily imply independence, self-

sufficiency or greater impact that has been criticized (Battle Anderson and Dees 2006). Dees & Battle Anderson (2006) propose to call this intersection “Enterprising Social Innovation”, including all the innovative initiatives that seek to create sustainable social change by blending methods from both the business and the social sectors. This intersection is described as the most promising research area. Several contributions can be seen as one example of this intersection, covering both the process of social entrepreneurship and the nature of social enterprises, highlighting both the potential of market incomes and its limits (e.g., Nicholls 2006).

Nicholls and Cho (2006) define social entrepreneurship as composed of three elements: sociality, innovation, and market orientation. The social nature of social entrepreneurship may seem obvious, through “*a context, process and/or set of outputs that might reasonably be considered to be in the public benefit*” (Nicholls 2010). Nicholls and Cho (2006), however, warn about the often ill-defined and descriptive nature of social change, which may lead to ignoring the heterogeneity of interests and favoring particular social groups at the expense of others. The second element is innovation. Drawing on the Schumpeterian view of innovation, the emphasis is laid on of new combinations of goods, services, and organizational forms. Three types of social innovation can be distinguished (Nicholls 2010, 247; Gardner, Acharya, and Yach 2007): “*in new product and service development (institutional innovation); in the use of existing goods and services in new –more socially productive– ways (incremental innovation); in reframing normative terms of reference to redefine social problems and suggest new solutions (disruptive innovation)*”. Finally, market orientation involves a stronger emphasis on competition, performance, rational cost recovery strategies and accountability. Despite a stronger market orientation, certain authors, nevertheless, suggest that social entrepreneurship re-embeds the

economic exchange in its social context, vesting it with “ideas of reciprocity and the public good” (Nicholls 2010), hereby converging partly with the view of the solidarity economy.

3.4.2. EMES approach

In Western Europe, the dominant approach to social enterprise is based on the work developed by the EMES Network since the second half of the 1990s (Defourny 2001; Nyssens 2006).

EMES defines social enterprises as “*not-for-profit private organizations providing goods and services directly related to their explicit aim to benefit the community. They rely on a collective dynamics involving various types of stakeholders in their governing bodies, they place a high value on their autonomy and they bear economic risks linked to their activity*” (Defourny and Nyssens 2008b, 5). But more than a definition, the EMES approach aims to provide an “ideal type”, i.e., an abstract construction, or a “compass”, that “*can help anyone to locate the position of the observed entities relative to one another and [...] to establish the boundaries of the set of organizations that he or she will consider as that of social enterprises*” (Defourny and Nyssens 2008b, 5).

The EMES approach sheds light on some features of social enterprises that seem underestimated or ignored by the North-American approaches (Defourny and Nyssens 2008a). First of all, based on extensive empirical research carried out across EU countries, EMES authors suggest that most social enterprises do actually belong to the social economy or “third sector”. In other words, they are generally nonprofit or cooperative organizations in which profit distribution is limited. This does not mean that traditional business forms are automatically excluded from the social enterprise area, but rather that the primacy of social goals is better guaranteed by legal provisions than by the sole appraisal of managers or owners. Such legal provisions include not only

limitations on profit distribution, but also specific governance models. These models aim to secure the pursuit of the social mission, through a strong orientation towards a participatory management process as well as a democratic decision-making. In this sense, the EMES approach does not entirely subscribe to the idea of increasingly “blurred frontiers” among organizational forms, as suggested by much of the North-American literature.

In line with the participatory and democratic nature of social enterprises’ governance, the authors of the EMES network observe an increasing involvement of various stakeholders in the decision-making processes, leading to “multi-stakeholder” configuration. Such a configuration is associated with the variety of goals pursued by social enterprises –economic, social, and political– and the variety of resources raised (Campi, Defourny, and Grégoire 2006; Defourny and Nyssens 2006; Petrella 2003). The insistence on the possibility of combining various types of resources –rather than on their sole market origin– contrasts with part of the previously mentioned approaches that focus on the market as the main or even exclusive source of resources. Finally, the EMES approach converges with the “Social Innovation” school through its shared Schumpeterian view of innovation, although EMES authors have mainly described such innovation at the theoretical level (Defourny 2001).

3.4.3. Fair Trade and social enterprise

FT has not only been cited as an example of a successful social innovation (Phills, Deiglmeier, and Miller 2008; Mulgan et al. 2007); the socially innovative processes and outcomes have also been central in several in-depth analyses of the FT concept (e.g., Hervieux 2007). At the organizational level, FT businesses have been used from the start as examples of social enterprises and have contributed to the shaping of the social enterprise concept. Such a link has

been made in a particularly explicit way in the UK, by both academics (e.g., Nicholls 2006; Doherty and Tranchell 2007) and practitioners⁵³. It is worth noting that the “Social Enterprise Unit”, part of the former “Office of the Third Sector” of the British government (now “Office for Civil Society”), proposed a definition that situates social enterprises in the social economy⁵⁴, similarly to what is suggested by the EMES approach.

In her taxonomy of social enterprises’ “mission and money” models, Alter (2006) describes FTSEs as mission-centric and embedded: the social enterprise is not just a device to raise resources to achieve a distinct social mission, but “*the enterprise activities are 'embedded' within the organization's operations and social programmes*” (212). FT is described as a typical example enabling the simultaneous pursuit of economic and social benefits. The political dimension of FT, however, finds fewer echoes in the social enterprise approaches.⁵⁵ One link, however, may be made with the idea of “systemic change”: social enterprises try to scale up their model and influence their broader environment in a sense that fosters global social change (e.g., Grenier 2006; Nicholls & Cho 2006).

A more encompassing analysis is found in Nicholls (2010), who extends Dees and Battle Anderson’s (2006) distinction of social entrepreneurship conceptions (“social enterprise” versus

⁵³ Examples include numerous collaborations between FTSEs and social enterprise networks (for instance, Social Enterprise London) or the exemplification of FTSEs’ leaders as social entrepreneurs (for instance, Penny Newman, former CEO of British FTSE Cafédirect, designated as “Social Enterprise Ambassador” in 2007).

⁵⁴ “*Social enterprises are part of the growing ‘social economy’. The social economy is a thriving and growing collection of organizations that exist between the traditional private sector on the one hand, and the public sector on the other. Sometimes referred to as the “third sector”, it includes voluntary and community organizations, foundations and associations of many types. A social enterprise is a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or the community, rather than being driven by the need to maximise profit for shareholders and owners.*” (Social Enterprise: A Strategy for Success, http://www.cabinetoffice.gov.uk/upload/assets/third_sector/se_strategy_2002.pdf, viewed on June 16, 2009)

⁵⁵ Notable exceptions include the work of several authors of the EMES network that link social enterprise with the intuitions of the solidarity economy (e.g., Laville & Nyssens, 2001).

“social innovation”) to describe FT. He suggests that the first type of social entrepreneurship is useful to characterize FTSEs and corporations that focus on market mechanisms as the main vehicle to develop FT. On the other hand, FTSEs that rather focus on education and advocacy to influence the conventional market are closer to the vision of “social innovation”. As others, Nicholls (2010) sees a high potential in the combination of these two types of social entrepreneurship, which might enable “*both current exploitation of extant [market] institutions and future reframing of their meaning and functions*” (247).

Following Nicholls’ analysis and translating it to the organizational level, the diversity of FTSEs, and, more broadly, FT visions, echoes the rich diversity of practices and conceptualizations of social enterprise. Indeed, FTSEs with a nonprofit or cooperative form, a collective dynamic, democratic decision-making and a hybridized resource mix are probably closer to the EMES ideal type, as well as to the “social innovation” school in the North-American literature. Conversely, other FTSEs, which rely exclusively on market resources and strategies to achieve social change, might be better described by the North-American “social enterprise” approach. In certain cases of small, entrepreneurial FTSEs, a characterization of the distinctive features of the social entrepreneur may be the most useful perspective. It seems clear that each conception may shed light on a particular dimension of FT, from the more market-based approaches to those that emphasize the socio-political role of social enterprise, from the broad, “blurred boundaries” vision to the more narrow situation of social enterprise in the social economy, and from the entrepreneur-centred conceptualization to those that emphasize the collective, citizen-based and democratic dynamics.

At the meantime, it is useful to highlight a number of features of FT and FTSEs that seem to fit into most of these conceptions:

- The FT concept corresponds well to the general idea of using (and adapting) market mechanisms to pursue a social purpose in an innovative way.
- The apparent diversity of FTSEs' organizational models seems embraced to a certain extent in all the conceptualizations of social enterprise, even the EMES one, insofar as they are less explicitly limited to one or a few legal forms than, for instance, the cooperative and social economy approaches.
- Most FTSEs seem to rely heavily on market resources, either as the exclusive or as the main source of incomes, and are not averse to risk-taking.
- The development and growth of FT, particularly through labeling and mainstreaming, constitute an illustration of the idea of “scaling up” social innovation to achieve more global social change (e.g., Dees 2001).

4. Conclusion

In this chapter, FT was analyzed as a hybrid concept entailing an economic, a social and a political dimension. FT and the organizational avenues to practice it were characterized as socially innovative, in terms of both processes and outcomes. FTSEs were then defined as organizations totally focused on FT in their trading activity.

To introduce the study of FTSEs, four concepts and movements were chosen to highlight the existence of specific, “alternative” *organizational models*. Indeed, whereas several authors examining recent trends in social entrepreneurship stress the importance not to focus too

narrowly on specific organizational forms, it is suggested here is that the pursuit of multiple –and sometimes conflicting– dimensions should not be examined regardless of the organizational vehicle used.

Different organizational models are put forth by the different concepts. The cooperative movement is centred on one specific legal form: the cooperative. Two radically distinct features characterize this form. First, the cooperative form gives the ownership to categories of stakeholders other than the shareholders. Second, the formal power (voting right) is distributed equally among the owners (economic democracy). This induces specific challenges in terms of governance, with one or several particular stakeholder categories (customers, producers, employees, etc.) taking part in governance structures such as the General Assembly and the Board of Directors (Cornforth 2004).

The social economy stresses the common features of four “alternative” (non-capitalist) legal forms: nonprofits, cooperatives, mutuels and foundations. The ideal of economic democracy is also implemented through the “one member, one vote” principle. This raises a number of governance challenges be it in cooperative or in nonprofit organizations (Cornforth and Edwards 1999; Miller-Millesen 2003; Ostrower and Stone 2006).

The authors adopting the solidarity economy approach do not explicitly mention particular legal forms. However, their focus on the citizen roots of solidarity organizations and on the hybrid nature of these organizations’ goals and resources lead to favoring “alternative” legal forms with participatory governance models and leaves little room for comparison with the traditional model of mainstream profit-seeking companies (Laville 1994).

The organizational model of social enterprises can be interpreted differently according to the approach chosen. While EMES authors see most social enterprises at the interface between nonprofits and cooperatives (Defourny 2001), others argue that social entrepreneurship may be found in all types of private and public organizations (Austin, Stevenson, and Wei-Skillern 2006; Mair and Noboa 2003). Some suggest, however, that even these authors mainly take nonprofit and cooperative initiatives when giving examples of social enterprises (Weerawardena and Mort 2006; Dart 2004). It is worth noting that the development of the notion of social enterprise has given birth to specific legal forms across Europe, such as the “Community Interest Company” in the UK, the “Social Cooperative” in Italy or the “Social Purpose Company” in Belgium (see for instance Defourny and Nyssens 2008b for other European examples such as France, Denmark, Portugal, etc.). These legal forms hybridize to various extents the legal features of nonprofit, cooperative and business companies. Still regarding the social enterprise approach, many authors studying these organizations put a strong emphasis on governance features such as multi-stakeholdership and participation (Campi, Defourny, and Grégoire 2006; Malo and Vézina 2004).

The four concepts show some complementarities to describe FT and FTSEs. The width of the largest approaches, such as social enterprise and the social economy, is completed by the depth of narrower ones, such as the solidarity economy and the cooperative movement. The latter bring a historical perspective allowing the idea and mechanisms of FT to older to be linked to older quests for fairness in and social embeddedness of the economic activity. The social economy approach brings a perspective that emphasizes the role of economic democracy and limited profit distribution in securing the social mission. The solidarity economy approach brings a focus on the political and citizen dimensions of FT and explicitly describes the combination of logics and

the possible tensions within organizations. And the social enterprise approach, as the most recent concept, enables to better understand the increasing market orientation that seems to characterize FTSEs, although such an orientation seems to translate into diverse organizational practices and models.

The social enterprise approach is the one that most broadly embraces the spectrum of organizational models observed in FT. This approach also pays particular attention to the “hybrid” organizational models that cannot be understood properly through extant classifications (Nicholls 2006, 11). To summarize, while the roots of FT may be found in the cooperative, social economy and solidarity-based economy movements, and while certain FTSEs still identify themselves with one or several of them, the current, diversified landscape of FTSEs seems best described by the social enterprise approach, which has precisely been fed by the practice of FTSEs. In any case, the study of the affiliation of FT to other concepts and movements shows that FT should not be studied as a separate and new initiative. It must be understood as a recent and successful illustration of a much larger and older quest aiming to reconcile the economic activity with social purposes and political involvement. All four concepts contributed to shed light on specific features of organizational models that express such combination and that contrast, although to various extents, with the traditional model of the “for-profit” corporation.

In brief, this book seeks to explore the way in which the diversity of FTSEs’ organizational models may entail different practices of FT, i.e., different articulations of its hybrid dimensions. In this context, the next chapter will more concretely present FTSEs in a comparative international perspective.