

**THE ROLE OF FAIR TRADE IN THE DEVELOPMENT OF SOCIAL ENTERPRISES
(LEARNING FROM THAILAND)**

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ABSTRACT

The increasing complexity of problems in society requires the involvement of social entrepreneurs. A social entrepreneur is someone who understands social problems and uses one's entrepreneurial skills to solve the problems (social changes) through establishing a social enterprise. A social enterprise is a business that implements a combination of a social mission and a business mission. As is known, to be able to do social changes, funds are needed which can be obtained if the business activities generate profit. Globalization causes an increase in intensity of competition, which forces business organizations to find a way to reduce costs. This situation makes the various parties involved in production activities have to reduce prices, in which the victims are often small actors who have no bargaining power such as artisans, farmers, etc. Fair trade is a trading system that strives to help producers who are marginalized through a system of fair pay, decent working conditions, technical assistance (such as designs and bookkeeping), social programs, equality, transparency, mutual trust, and environmental protection. It is one of the efforts done to create a sustainable economy and new markets among developing countries, while on the other hand, to maintain the values and local traditions. By working through fair trade, efforts to reduce production costs can be avoided to a certain extent. This paper intends to examine how fair trade is involved in the management of social enterprises. It takes the cases of social enterprises in Thailand. The research issues to be examined are: (1) What are the characteristics of social entrepreneurs? (2) How does fair trade support social enterprises? (3) What are the challenges faced by social enterprises that engage in fair trade? This study is a qualitative research, based on 4 case studies in Thailand. A cross-case analysis is used.

Keywords: social entrepreneurship, social enterprises, fair trade

1.INTRODUCTION

Background

Globalization does not only increase the severity of competition but also many social problems. The increase in complexity of the problems in society needs more social entrepreneurs. A social entrepreneur is someone who understands social problems and uses one's entrepreneurship ability to find a solution or make a social change. A social enterprise is a combination of implementing a social mission and a business mission to obtain a profit. As is known, high funding is needed to be able to make social changes. In the past, many organizations that paid attention to social issues relied on the mercy of others to finance their activities.

At the same time, globalization forces business organizations to find a way to reduce costs. This situation makes the various parties involved in production activities have to reduce prices, and the victims are small actors who have no bargaining power, such as artisans, farmers, etc. Fair trade is a trading system that tries to help producers (artisans, farmers, fishermen, etc.) and those who are marginalized through a system of fair pay, creating decent working conditions, technical assistance (such as designing and bookkeeping), social programs, equality, transparency, mutual trust, and protecting the environment. It is one of the efforts done to create a sustainable economy and new markets among developing countries, while on the other hand to maintain the values and local traditions. By working through fair trade, the pressure to lower production costs to a certain extent can be avoided.

Research Questions

This paper intends to examine the impact of social enterprise involvement in fair trade. This paper will answer the following questions: (1) what are the characteristics of social entrepreneurs? (2) How does fair trade support social enterprises? (3) What are the challenges faced by social enterprises that engage in fair trade?

2.THEORETICAL REVIEW

The increase of social problems and attempts by various parties to find a solution causes the topic of social entrepreneurship to become more widely discussed. In literature, many discussions are about the definition of social entrepreneurship, but there is no agreement on what is meant by social entrepreneurship.

2.1.Social entrepreneurship and social entrepreneurship characteristics

Konda et al. (2015) define social entrepreneurship as a process, and the logic of action, which may occur in the context of different organizations: charitable organizations, commercial organizations, government organizations, community organizations, or through a new venture. It is characterized by a set of principles that are usually included in the scope as: a focus on value creation, on innovation, not a status quo, on sustainable solutions and organizations, and on the empowerment of participants in the value chain. The essence of social entrepreneurship is a simultaneous action to detect and identify social problems, as well as use entrepreneurial principles to achieve positive social change. Furthermore, social entrepreneurship is a social innovation, because it shows how successful a social enterprise combines business and social issues with environmental issues to reach an achievement.

Yunus (2009) argues that there are new and exciting opportunities to implement social enterprises, and the market is becoming increasingly attractive and competitive. Rather than focusing on generating profits, social enterprises have a good goal, and in this way act as a factor of change. They provide products, services, customers, markets, as well as inflows and outflows of products. However, the guidelines that are underlined are socially useful. Yunus provides an alternative, which directs the enterprise to maximize profits, but it is managed by the poor.

Meanwhile, Kostetska and Berezyak (2014) view that a social entrepreneurship is an innovative form of business, which manages to combine social objectives and commercial practice. Social entrepreneurship has emerged as a response to chronic social problems such as unemployment, poverty, fragmentation of society, and others. Social entrepreneurship works where the government cannot work (due to a lack of funds), and the business is not doing well (due to low profitability). Private funds and the international public are devoted to the development and maintenance of social entrepreneurship. The Schwab Foundation for Social Entrepreneurship (Switzerland), the Skoll Foundation (USA), and the Ashoka Foundation (India) define social entrepreneurs as a business activity that is innovative for the development of society and the restoration of social justice (Spreckley, 2011).

From the various definitions that exist, there are two important aspects to be emphasized on social entrepreneurship, in that it is a social mission on the one hand and a business mission on the other. According to Destianto (2013), in Indonesia social entrepreneurship has an important role as a solution of unemployment and poverty. But if it is seen as a variety of social problems that occur, social entrepreneurship has an important role to find solutions to social problems that arise in the community not limited to unemployment but in many social issues such as environmental issues, health issues, etc.

Social entrepreneurship, though essentially an entrepreneurship, has a different basis. Some authors identify the core characteristics of social entrepreneurs as follows (Saifan, 2012):

- Mission leaders and persistent (Bomstein, 1998)
- Emotionally charged and social value creators (Thomson et al., 2000)
- Change agents, highly accountable, dedicated, socially aware (Dees, 1998)
- Opinion leaders (Brincherhoff, 2009)
- Managers and leaders (Leadbeater, 1997)
- Innovators and initiative takers (Zahra et al., 2008)

Furthermore, Saifan said that the unique characteristics of social entrepreneurs are: mission leaders; emotionally charged; agents of change; opinion leaders; social value creators; socially aware; managers; visionaries; and highly accountable.

Fair trade and social entrepreneurship

Fair trade is a social movement that aims to help producers in developing countries enjoy better trading and encouraging environmental sustainability. This movement supports the payment of higher prices to exporters and

improved standards of a social environment. Producers assist as artisans, farmers, fishermen, etc., through a system of fair pay, decent working conditions, technical assistance (such as designing and bookkeeping), social programs, equality, transparency, mutual trust, and protecting the environment. It is one of the efforts to create a sustainable economy and new markets among developing countries, while on the other hand to maintain the values and local traditions.

Trading through fair trade attempts to correct the conventional trading where the relationship between the seller and the buyer is based solely on economic relations. This causes those who have strong capital, such as large multinational companies, and those who have stronger bargaining power to benefit. Meanwhile, sellers who come from developing countries, which are generally small, do not have strong capital to finance production because their bargaining power is weak and they are unable to ask for a higher price. The pressure to produce at a low cost leads manufacturers to be unable to provide safe working conditions, employ children with very low wages, and treat women improperly.

In order to help the creation of fair trade, an organization was formed named the World Fair Trade Organization, abbreviated as WFTO. WFTO formulated 10 principles to be followed by the application of the Fair Trade Organization on day-to-day activities. The ten principles are described as follows: (1) create opportunities for small producers; (2) be characteristically transparent and accountable; (3) practice trades that do not solely pursue profit, and prioritize social welfare, economics, and the environment for small producers; (4) be fair in payments; (5) do not exploit child labor and other laborers; (6) make a commitment not to discriminate, prioritize gender equality, and promote freedom of association; (7) ensure decent working conditions; (8) provide opportunities to increase the capacity; (9) actively promote fair trade; and (10) respect the environment (www.wfto.com).

Below is the implementation of business operations.

Principle 1: Create Opportunities for Small Manufacturers

WFTO set a goal of poverty reduction through trade. They support marginalized small producers, whether in the form of independent family businesses, or groups in an association or cooperative. It allows them to change life uncertainties over incomes and poverty for a sufficient economy.

Principle 2: Use Transparency and Accountability

WFTO has a transparent management and commercial relations. All stakeholders calculate in a transparent manner and respect the sensitivity and confidentiality of the information provided, by involving employees, members, and producers in the decision-making process. This ensures that relevant information is always available to trading partners.

Principle 3: Conduct Trade Practices

WFTO trade practices focus on social, economic, and environmental welfare of marginalized small producers and do not solely pursue profit. Fair trade recognizes, promotes, and protects the cultural identity and traditional skills of small producers as a reflection of the design of their crafts, food products, and other related services.

Principle 4: Make Payments Eligible / Be Fair in Payments

Fair payment is one aspect to be mutually agreed upon. Payments eligible provide acceptable social rewards (in the local context) considered by the manufacturer to be feasible and ensure payments are calculated on equality between male and female workers. Importers give producers the necessary support for capacity building to enable them to set up a viable payment system.

Principle 5: Ensure there is No Child Labor or Forced Labor

WFTO obeys the rules of the United Nations in terms of legal rights of the child and the local / national regulations concerning child labor, ensuring there is no forced labor in their work environment.

Principle 6: Make a Commitment to Be Indiscriminate, Focus on Gender Equality, and Encourage Freedom of Association

WFTO should not differentiate in treatment in hiring, remuneration, access to training, promotion, period of retirement based on race, caste, national origin, religion, disability, gender, or sexual orientation, membership of organizations, political involvement, HIV status, or age.

Principle 7: Ensure Decent Working Conditions

Organizations provide a work environment that is healthy and safe for employees or members. This is in accordance with the legal minimum standards of local / national and ILO conventions on health and safety.

Principle 8: Increase Capacity

Organizations see the importance of improving the development of impact on small producers through fair trade.

Principle 9: Promote / Socialize Fair Trade

Organizations raise awareness about fair trade objectives and the need for justice in world trade through fair trade. This is done in accordance with the advocacy skills of each member organization.

Principle 10: Respect for Environmental Sustainability

Organizations that produce fair trade products maximize the use of raw materials from sustainable sources and manage them in a sustainable manner with local products as much as possible. The production technology used is low energy consumption, which can be renewed to minimize greenhouse gas emissions. It also reduces the impact of waste on the environment, using organic fertilizers or pesticides to a minimum.

Regarding fair trade, there are at least three organizations involved in the development of fair trade, which include WFTO (World Fair Trade Organization) and the International Fairtrade FLO-CERT. The development of fair trade was initially very slow, but after introducing a certification mechanism, known as a Fairtrade label, then the involvement of the marginalized was increased. Nicholls (2000) says that the label Fairtrade has benefited farmers through access to wider markets, information on market prices and the quality of the commodities, a source of credit especially of exporting companies, obtaining workers' rights in accordance with regulations established by the International Labor Organization, and even access to the financial markets. Over time, the fair trade movement began to gain entrance to companies, one of them through the certification mechanism, or as it is known by consumers as the Fairtrade label. Introduction of the certification mechanism is a very significant development in the fair trade network (Reed, 2009). However, there is also the opinion that it is a setback because ultimately that benefited large corporations, which are not those who are marginalized.

3. RESEARCH METHODS

This study is a qualitative research, based on a study of 4 cases of Thailand social enterprises. Data was collected through interviews conducted among respondents from August 22-24, 2016, a collection of information through the Web, and other publications. A cross-case analysis was used.

4. ANALYSIS AND DISCUSSION

4.1. Results

There are four social enterprises were examined: Weave Fair Trade Social Enterprise, Thai Tribal Fair Trade, Lanna Cafe, and Akha Ama Cafe.

Weave Fair Trade Social Enterprise is a business established to market various products of handicrafts produced by the women of the Keren tribe who live in the refugee camps on the Thai border with Burma and marginalized women. The main objective of this project is to provide a safe working opportunity for women, which can allow them to use traditional skills in making handicrafts for generating revenue. Some of the various products sold are the weaving handicraft products, home decorating products, etc., both to domestic and export markets. The idea aroused from a missionary's initiative. Currently, the management is done by a social worker from the Philippines. To market the products, they set up a showroom in Chiang Mai, while the marketing is done directly or with online via Face Book, email, and the web. The production process is done by the women, are referring to the 10 principles set by Fair Trade. The product design is determined by customers, and quality training is coaching by this organization. In addition, some customers also conducted training and quality control directly. Besides development of this organization, volunteers from the fair trade network also helps in training coaching the artisans. One of the challenges of this organization is relatively higher product prices.

Thai Tribal Crafts (TTC) is a social enterprise which was established in order to market a variety of craft products produced by marginalized women from some tribes in northern Thailand. The main objective of TTC is to provide opportunities for improving the quality of life of this group. The organization's mission is to be a non-profit marketing agency for handicrafts, both in domestic and overseas markets. As being a fair trade organization, the objectives are to treat manufacturers and customers in a fair way that helped lift the economic level of the tribal people of Thailand; Practicing fair trade and showing fairness so that both customers and producers are satisfied; helping indigenous peoples to preserve their traditional crafts and art; as well as encourage and promote the activities of the church appropriately. TTC is an organization which advocates and promotes fair trade to improve the livelihoods of indigenous peoples in northern Thailand. As a member of the International Federation for Alternative Trade (IFAT), the organization strives to train and implement the principles of fair trade. Design and product development put greater emphasis on efforts to control product quality and attention to environmental effects. In training and coaching, the organization also performs the control over raw materials like yarn for weaving, fabric coating of the finished product, etc. The challenges of this organization are relatively higher product prices.

Lanna Café is a social enterprise in the coffee production, where the café does as downstream activities. Its main activity is coffee trade. The coffee beans are bought from farmers, processed, and sold to consumers in both in the export and domestic markets. Lanna Cafe is a non-governmental organization, which buys coffee (according to fair

trade standards) of hill tribe farmers in Northern Thailand (Lanna) since 1997. The aim is to introduce the high quality Thai Highland coffee to more people, not only in Thailand, but around the world, and to help the coffee producers of Thai tribes that do not have direct access to the market. All coffee is purchased directly from farmers groups (Thai Tribal Highland Arabica Coffee Production and Marketing Cooperative), and certified by FLO (Fairtrade Labeling Organizations International). Lanna Thai Cafe is a member of the Tribal Highland Arabica Coffee Production and Marketing Cooperative to build Lanna Cafe. Cooperatives are facilitated through the Integrated Tribal Development Programme (ITDP); a Thai-based NGO working with Thailand Tribal groups and is a member of the Fairtrade Labeling Organizations International (FLO). Strict quality control measures are undertaken by the cooperative. All processes are monitored to keep the quality high. The main challenge of this organization is relatively higher product prices.

Akha Ama Café is a business engaged in the trade in coffee and a café. The Cafe started as being very simple in May 2010, and Lee Ayu Chuepa is the founder. Lee was born in Mae Chan Tai in Chiang Rai, and grew up in an Akha village. Being the first of the 210 villagers who graduated from a university, Mr. Lee said the 26-year success initially made him feel guilty when returning home. To help people in his village, he worked to improve the methods of cultivating and expanding their retail presence. The previous population produced coffee beans, but they were often exploited by middlemen. In 2010, Akha Ama Coffee also sold coffee beans produced by Akha indigenous groups. In 2010, when "the Akha Ama Coffee" decided to process and market the coffee, they ensured better prices for the product, changed the system to a sustainable organic multi-cropping systems for their coffee mix, as well as reduced the use of chemical fertilizers, herbicides, and or pesticides. The coffee plants that grew to a height of about an adult human, now growing among the fruit trees with are larger assorted vegetables. This system is useful for helping the soil ecology, producing humus, stabilizing hillsides against erosion, and retaining moisture in the dry season. Akha Ama Ccoffee quality is recognized internationally: it had been from 2,500 participants in 2010 and 2011 for the World Cup Tasters Championship with Specialty Coffee Association of Europe.

A brief overview of the four social enterprises is as follows:

Table 1: Description of the . **Description of the** social enterprises

	WEAVE Foundation in Chiang Mai	Thai Tribal Fair Trade	Lanna Coffee	Akha Ama Coffee
Year of establishment	2012	2006	1990	2010
Initiator	Missionary initiator followed by a social worker from the Philippines.	Missionary followed by the local people who have worked in international organizations	Missionary	A local person that have had worked in international organizations
Mission	Improving the welfare of the Keren tribe (especially those in refugee camps)	Improving the welfare of the tribe	Improving welfare (especially among coffee growers)	Improving the welfare of Akha tribe (especially coffee growers)
Product	Handicraft	Handicraft	Coffee	Coffee
Market	Domestic and export	Domestic and export (50%)	Domestic and export	Domestic and export
Export destination countries	Australia America, Germany, etc.	Japan , Hong Kong, etc.	USA, etc.	UK , Netherlands, Australia, etc.

Source: primary data 2016

Social issues faced by social enterprises are very complicated and burdensome, heavy although it boils down to one goal, namely an increase in public welfare objectives (economic, education, health). Of the four cases of social enterprises from Thailand, the characteristics of the social entrepreneur can be grouped into 3 major groups namely mindset, managerial skills, and operational skills. With regard to the mindset, it demands a demanded visionary social entrepreneur, innovator, and change agent. Having managerial skills about managerial is related to how the organization is managed based on the needs and abilities of business management. Meanwhile, with regard to skills, including communication skills such as the ability to speak English, the ability to establish relationships (networking skills), as well as technical skills, such as the ability to understand a quality product and a good process.

The key factors which contribute for successful social enterprise are networking and international experience. International experience is an important factor. English language skills of the initiator or the main organizer of a social enterprise is the key for enabling communication with various parties. Meanwhile, all social enterprises studied are fair trade members. The challenge of fair trade is a competition in prices and the obligation to pay taxes is as a pure business venture.

Discussion

Social enterprises from the cases of Thailand were established to achieve the social mission. It began from concerns of the initiator related to the social problems faced by certain tribes or in which the initiator originated. For example, the Weave social enterprise is established due to the concern to the conditions of the Keren tribe in refugee shelters. Another concern was the condition of coffee farmers where Mr. Lee comes from. To be able to realize the mission above, it required long-term funding. However, to obtain sustainable funding, they started a business. Some respondents said that the charity would not last to be able to fund their social activities. Therefore, they had to seek sources of funding that could be expected in the long- term through a social enterprise.

The success of a social enterprise is due to their social entrepreneurs who never stop launching new ideas to create social change. Although the main goal is economic welfare, but various aspects of life worked together such as health and education. The ability to speak English is a ticket to communicate with various partners when conveying his idea. It would also requires networks that enable social entrepreneurs to make their ideas a reality.

Given the prices of the products sold are not cheap; a social enterprise needs to target specific market segments in both the domestic (i.e. premium group) and international markets. Fairtrade plays a very important role in convincing the consumers that the money paid is commensurate with the value of the goods obtained.

Some of the benefits derived from being a member of Fairtrade are:

1. **Guidance.** By becoming a member of fair trade such as WFTO, members will obtain a WFTO logo which guarantees the quality of the production of goods. It is necessary to maintain a coaching for the quality of goods as foreseen by WFTO. Not only is the quality of the product as the output, but also the process as an important consideration in completion of the product. As is known, there are 10 standards are expected to be applied by the acting members of Fairtrade. The 10 above principles are expected to be a reference for craftsmen or farmers to produce products for the company.
2. **Facilitation.** Because the target market is the most WFTO members from overseas markets, they generally use information technology that enables its products to be viewed by prospective buyers. WFTO is also facilitated by conveying information to potential buyers of the companies that have joined as fair trade members.
3. **Promotion.** As a member of fair trade, directly or indirectly, a fair trade member organization is promoted through fair trade organizations that guarantees of the product and the correct processes in producing the product. By becoming a fair trade member, a social enterprise must make the principles established by the Fair Trade to be a reference in production. However, this process makes the product price becomes higher.

5.CONCLUSION AND SUGGESTIONS

Conclusion

1. The characteristics of social entrepreneurs from Thailand can be classified into three major groups, namely having a visionary mindset, being managerial, and being skilled. With regard to the mindset, they are demanded to be visionary social entrepreneurs, innovators, and change agents. Having managerial skills in business management is important. Meanwhile, with regard to skills, including communication skills, such as the ability to speak English, the ability to establish relationships (networking skills), as well as technical skills is the ability to understand a quality product and a good process.
2. Fair trade works to help a social enterprise in quality control and promotion. Quality control is done through the establishment of standards for a product as well as through a process with the establishment of prinsip2 10 principles that must be met in the production process).
3. By joining the Fair Trade, a social enterprise faces opportunities to access larger international markets through a network owned by Fair Trade. However, they are faced with the challenges of a social enterprise in maintaining a for good production process due to high costs, so that the prices are set too high. Meanwhile, the pressure of world markets offers goods at a cheaper prices.
4. Awareness about the importance of a good production process cannot be done by a social enterprise alone. Therefore, cooperation between a social enterprise and fair trade organization should be maintained. On one side of the social enterprise, must maintain customer confidence on the quality of products and production processes as being are feasible.

Suggestions

1. Social entrepreneurship is an instrument in solving many social problems; therefore, the emergence of more social entrepreneurs needs to be encouraged.
2. The public as consumers needs to be educated of the importance of fair trade. Moreover, it is expected that the public will be are willing to pay more for than the products as they purchase not only as a function of the goods, but also because of the value attached to the products. Education also needs to be done through the curriculum as well as the government bureaucracy that can also provide insight to the public about the importance of fair trade.

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