





The business case for social accounts

Partner Focus at Fujitsu

Traidcraft began in a warehouse in central Newcastle with a hand-drawn catalogue featuring a small selection of jute products from Bangladesh.

Today, it has grown into the UK's leading fair trade organisation, with a turnover of more than £15 million and an international reputation for delivering practical help to small businesses across the developing world.

Traidcraft's trading company deals in hundreds of food, craft and textile products from thousands of producers in more than 30 developing countries, and lists Britain's leading supermarkets among its customers.

At the same time, its charity, Traidcraft Exchange, has won prestigious contracts from the British Government, the Community Fund and the EU to deliver vital small business development in some of the poorest countries in the world, while it is an increasingly influential voice in trade policy debates both in the UK and overseas.

With awards for its development work and social accounting, as well as its mail order business, Traidcraft is working in many areas to fulfil its mission statement - fighting poverty through trade.

Throughout, it has sought not just to grow its own fair trade business, benefiting the limited number of supplier groups from the developing world with which it can trade, but to use its own experience of

making trade work for the poor by influencing wider corporate behaviour.

"We recognise that world poverty can only be tackled if mainstream commercial enterprises change the ways in which they do business, to create sustainable opportunities for poor people to improve their livelihoods," says chief executive Paul Chandler.

"We seek to demonstrate, by running an effective and profitable enterprise, that it makes good business sense for others also to conduct their business in a fair and ethical manner."

Traidcraft's recent performance shows that it is possible to make a decent return for shareholders without exploiting people elsewhere in the supply chain, and as more and more consumers show interest in fair and more ethical trading, getting a company's social responsibility act in order will become increasingly important to gaining and sustaining customer loyalty.

"We recognised from an early stage, however, that we couldn't just encourage greater social responsibility by our own example, but needed to develop tools for measuring the non-financial impacts of business activities, which could then be adopted by other organisations," says Paul Chandler.

"Directors and managers will generally behave in ways that deliver the targets against which they are measured and for which they can be held accountable. If you cannot measure and publish progress towards social objectives (or failure to make progress) managers will not have a sufficient incentive to strike a balance with more immediately obvious financial targets and objectives."

For this reason Traidcraft became a pioneer of social accounting in the UK, and it was the first plc to produce audited social accounts in the early 1990s.

Since that time it has continued to work to embed social accounting principles in all its management processes, and has devoted resources to engaging with others active in the field and seeking to develop more robust methodologies.

Whilst lacking the resources that some major companies now devote to social accounting, it continues to gain recognition for the quality of its social accounts, winning recent ACCA/ISEA awards outright or jointly with other organisations.

In that capacity, Traidcraft consciously sets out to model and promote social accounting as a strategic activity in



Traidcraft



achieving its mission.

"Desirable though we might want it to be, we cannot expect all companies to adopt all the same social and environmental indicators and targets that Traidcraft sets itself as a fair trade organisation," Paul Chandler adds.

"Nevertheless, we believe there are valuable lessons and insights that can be drawn from our experience of fair trading and social accounting, and our engagement with wider debates in the field of corporate social responsibility."

Traidcraft's social accounts are based on a step-by-step approach:

- Define social objectives and ethical values of the organisation
- Be clear about who are the stakeholders of the organisation
- Establish indicators by which performance against the objectives and values can be measured
- Measure performance against the indicators
- Gain the views of stakeholders about how they view the performance of the organisation
- Report all of the above in as balanced a manner as possible
- Submit the report to independent audit
- Publish the report
- Gain feedback from stakeholders on the report's findings

Stakeholders are those groups or individuals who affect, or are affected by, the organisation's activities and they are defined by their relationship with Traidcraft.

Some relationships are straight forward - e.g. the central role of staff as stakeholders, relationships with UK



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suppliers. Others are more complex - for instance funders covers both donors to the charity (private individuals, statutory bodies and Trusts) and shareholders who have subscribed for capital in the trading company.

UK Customers encompasses Traidcraft's close and long-standing relationships with its Fair Trader network, but also its dealing with fair trade retailers in the UK, mail order customers, supermarkets and mainstream distributors.

Cafédirect plc, a company in which Traidcraft retains a 10% shareholding, is both a supplier of a finished product, and until recently a customer in respect of the tea sourcing services supplied by Traidcraft.

Traidcraft's relationships with its stakeholders overseas deserve special focus. Traidcraft exists to better the lives of farmers and artisans in the 'third world' by enabling them to sell (more) goods at fair trade prices. In that sense they are the "ultimate" stakeholders in the fair trade process.

However, Traidcraft does not deal 'directly' with those 'third world' farmers and craftspeople from its Tyneside headquarters. It works through identified partners and local supplier groups (co-operatives or private companies) who themselves ensure that the trade is carried out on fair trade terms.

A key challenge for Traidcraft in its social accounting methodology is to recognise the primacy of the stakeholder relationship with its overseas partners and suppliers as the organisations with whom it works to bring the benefits of fair trade to the poor.

No less critical is the importance of developing viable measures of poverty impact that reflect Traidcraft's success (or lack of it) in enabling families and individuals to achieve better livelihoods through those fair trade interventions. "Our commitment to work to continue to develop appropriate indicators of impact

is reflected in the body of our social accounts," says finance director Tim Morgan, who leads Traidcraft's social accounting processes.

"In our analysis we recognise both principal stakeholders and other stakeholders. We classify within principal stakeholders those with whom - either by number or significance of transaction or both - Traidcraft has most dealings."

Many of those principal stakeholders are surveyed in each annual cycle of the social accounts. Others (eg UK suppliers) are surveyed less frequently because the relationship has less immediate impact upon the Traidcraft mission and values which form the backbone of its social accounts structure.

Other stakeholders - e.g. faith communities and the business community - are significant in terms of Traidcraft's policy and advocacy work and their views will continue to feature in further sets of accounts.

Having published its social accounts annually in print form, Traidcraft took the decision five years ago to publish a web version as well. Now, the on-line set of accounts is the principal means of distribution, allowing a degree of interaction and interrogation of the data not possible with the hard-copy version.

"We decided to publish on the web for three reasons," says Tim Morgan.

"We were finding that the cost of designing and publishing a full-colour report annually was absorbing up to a third of our total budget for social accounts. We wanted to be able to devote more of the budget to improved methodology and data collection. Publishing on the web significantly reduces this cost."

"Then there is a always a balance to be struck as to how much information to include in the social report, how to summarise stakeholder feedback whilst not losing the differences and contrasts in

views expressed. Publishing on the web allows us to introduce each area of the report in summary, but then allows you, the reader, to drill down (if you choose) even to the level of each individual questionnaire response from each stakeholder group surveyed.

"And finally, we recognise that there are two key aspects in our social accounts - what we do and what stakeholders think of how we do it. We believe that presenting the accounts in a web format makes it much easier to navigate between these two aspects and follow links from one to the other."

"The increased attention being paid to the social and environmental impacts of business practices is a development welcomed by Traidcraft but it believes strongly there needs to be a balanced public policy approach so the benefits of trade can be shared by all involved in global supply chains."

"The growing interest in social accounting and corporate social responsibility could contribute to this area," says Paul Chandler.

"However, there are many pitfalls in the way they are being implemented and there is a real danger that if not managed properly, they will become discredited as a mere exercise in corporate window dressing."

"We will continue to work with others to improve the impact of trade on poverty by working on corporate governance, better indicators of businesses' impact on poverty and social accounting. Only in this way will the potential of trade to alleviate poverty be realised." 

