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Fair Trade Intermediaries and Social Accounting: The Case of Assisi Organics

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Recent work has highlighted the importance of social accounting (SA) for social economy (SE) actors in a range of sectors. Another realm of SE activity into which SA could be fruitfully extended is certified fair trade (FT) products. The adoption of SA by individual FT organizations would seem to be a relatively straight forward task, although it would probably have to involve a range of tools targeted at different stakeholder groups. FT, however, is a complex practice that is characterized more by the relationships between organizations than just the activities of single organizations. The more involved these relationships get, especially as value chains become longer, the more complicated it becomes to incorporate SA into FT, especially with relation to actors in the middle of the chains. This chapter examines the case of one such FT intermediary, Assisi Organics, a garment manufacturer in the India state of Tamil Nadu, and highlights the challenges and importance of incorporating the role of such intermediaries in the analysis of the realization of social value added in FT value chains. The chapter begins with an extended introduction to the practice of FT before going on to examine the particular problems of social accounting that arise among intermediaries in FT value chains.

An Introduction to Fair Trade

There are several types of initiatives that are commonly associated with the genesis of FT. It has become common to distinguish between early "charity trade" (which involved ad hoc importing of handicrafts made by vulnerable groups, e.g., refugees, orphans, etc.), "alternative trade" (which was based upon a critique of the dominant trade system and involved establishing alternative markets based upon solidarity which paid fairer prices), and "solidarity trade" (which had much in common with alternative trade but demonstrated a special concern with supporting governments and movements in the South that were promoting alternative forms of development, e.g., Tanzania, Nicaragua) (Low & Davenport, 2005; Hockerts, 2005; LeClair, 2002).

Out of these traditions have arisen the two contemporary branches of FT. In each of these branches, the practice of FT is defined in terms of commitment to FT principles and participation by small producers in democratically controlled organizations that are joined together in an umbrella body, the World Fair Trade Organization (WFTO). In the other branch, the practice of fair trade has become associated with the certification of (agricultural) products (not producer organizations), which have been produced under fair conditions. While this branch of FT was initiated by a small producer organization and a development NGO, the range of participants has become much more diverse over the years, including larger corporations and agricultural estates. Participation in this branch of FT is defined not by allegiance to FT principles but by conformity to minimal standards established by national labelling initiatives (LIs) and their umbrella organization, the Fair Labelling Organization International (FLO). It is this latter variant of certified FT that is the concern of this chapter (Low & Davenport, 2005).

The Origins of Fair Trade Certification

The origins of certified FT can be traced directly back to a group of Mexican coffee farmers. In 1983 members of seventeen Indigenous peasant communities in Oaxaca, Mexico, came together to form the Union of the Indigenous Communities of the Region of the Isthmus (Unión de Comunidades Indígenas de la Región del Istmo, UCIRI). While the development of this organization was a response to a variety of circumstances (including the role of local middlemen in the exporting of coffee), it is not coincidental that the movement it set in motion developed during a time when a fall in coffee prices threatened to decimate small coffee producers. This drop in coffee prices, however, was not just a normal market fluctuation due to climatic conditions. Rather, it was the result of the deregulation of the international coffee market, part of a larger trend of neo-liberal economic reforms around the globe which emphasized the need for "free trade" and the aligning of local prices to world prices. It was in this context of plunging coffee prices induced by neo-liberal reforms that UCIRI initiated a proposal to develop a certification process for fairly traded coffee. This resulted in the development of Max Havelaar Foundation in the Netherlands in 1998. Over the next decade a variety of other national certifying bodies would emerge in developed countries. In 1977, seventeen of these bodies joined together to form FLO (VanderHoff Boersma, 2009; Fridell, 2007; Waridel 2002; Roozen & VanderHoff Boersma, 2001).

Corporate Participation

Before the advent of certification, fair trade was almost exclusively comprised of small SE actors who maintained close relations in very short value chains. With the introduction of certification, however, three major changes involving the participation of conventional firms have occurred to make the practice much more complex. One of the basic purposes of establishing a certification system was to expand the distribution network for FT coffee to conventional retail outlets, especially large grocery chains (later specialty shops and other retail chains would also be targeted). Initially, retail outlets were not involved as licensees, but over time there has been a significant move in this direction. The second development was the entrance of large agro-food corporations, as well as small- and medium-sized enterprises (SMEs), into the FT market as licensees. This first occurred in a significant way among retail coffee chains and service providers, but has now spread to other products as well. The third major change has been the incorporation of estate production within the FT network. While this move was initially seen as a concession to a shortage of production by small producers in some sectors, the use of estate production has grown rapidly in recent years (Reed, 2009; Fridell, 2007; Murray & Raynolds, 2000).[1]

One way to conceptualize the nature of the changes brought about by the entrance into FT of these three types of large conventional businesses – large retail grocery chains, large agro-food processing companies, and large agricultural estates – is through the notion of value chains (see Table 3.1).[2] With the introduction of FT certification, as indicated in Table 3.1, the original alternative trade value chain involving only SE actors (1) would continue to exist as alternative trade organizations (ATOs) became certified. What changed, however, was the fact that some ATOs embraced the notion of expanding distribution through conventional distribution channels (large supermarkets) and in the process created a new variant of the FT value chain (2). With the entry of large agro-food corporations into FT, another variant of the FT value chain would emerge (3) as these corporate licensees distributed their products through grocery retailers or (as was the case with coffee retail chains) through their own distribution networks. Finally, the introduction of estate production would lead to another development in the FT value chain (4).

Table 3.1: Four Variants of the Fair Trade Value Chain

Type of the Value Chain	**Level of Corporate Involvement**	**Nature of Exchange**
1) Wholly social economy	None	Solidarity-based relations
2) Social economy dominated	Retail	Solidarity-based relations

3) Corporate dominated	Retail, licensing	Socially regulated market relations
4) Wholly corporate	Retail, licensing, production	Socially regulated market relations

In terms of our concern with SA and SE actors, what should be noted at this stage is that two quite distinct groups can be differentiated among these four variants of the FT value chain. On the one hand, the first two variants continue to be (predominantly) characterized by exchange relations based upon solidarity between SE actors (except for the inclusion of corporate retailers at the end of the second chain). On the other hand, the latter two variants are based upon liberal exchange relations between conventional for-profit firms and small producer organizations (3) or merely liberal exchange relationships between conventional businesses (4) (Reed, 2009).[3]

Competition with Fair Trade

The inclusion of corporate actors into FT has a number of potential implications with respect to the governance of labelling bodies, the prospects for local development, the primacy of small producers, and so on (Mukherjee Reed & Reed, 2009). One of the most significant consequences for our purposes (and one which is closely linked to the others) is that these changes mean that SE actors (both Northern licensees and Southern producers) have to compete against large corporations and estates. In this competition, corporations and estates have distinct advantages, especially with respect to controlling costs and making profits.

In the North, this competition is primarily between SE licensees and large agro-industrial corporations. Here, corporations tend to be much larger and have greater access to resources than most SE licensees. More significantly still, perhaps, is the fact that corporations approach FT differently from SE enterprises. As profit-oriented organizations, corporations enter into FT primarily with an eye to capturing a niche market and/or for other strategic purposes (e.g., image washing, placating potential opposition, or even undermining the initiative by watering down its standards). As such, when they engage in FT, corporations at best conform to minimum standards (e.g., paying the FT minimum price and social premium) rather than to FT values. Any efforts that they undertake to build capacity among small producers – if they source from small producers – are linked to their interests (e.g., in quality control, cost reduction) rather than those of the producers (e.g., to gain information about markets, to move up the value chain into processing, developing related products, etc.). Moreover, they typically only purchase a very small proportion of their total production as certified FT goods (usually well under 5 per cent) (Reed, 2009; Renard & Pérez-Grovas, 2007).

SE licensees, by contrast, are generally motivated by their commitment to FT values. As such, there goal is not to minimize costs and maximize their own value, but to drive as much of the value as they can down to producers at the bottom of the chain. To this end, they seek to provide small producers with as much information and resources (to increase local capacity) as they can, while developing the market in the North (through education and advocacy). This means that SE actors almost inevitably have higher costs structures and work on smaller profit margins. While these practices are appreciated by small producer organizations, they can make SE licensees quite vulnerable (Fridell, 2009).

In the South, the introduction of estate production in FT has meant that small producers too increasingly have to compete against corporations and private owners of large estates. While the introduction of estate production was originally justified on the basis of a lack of sufficient small producers in some agricultural sectors (especially tea, bananas), the use of estate production has been extended to all but four fair trade sectors. This development has been strongly opposed by producer organizations, especially in Latin America (where they are particularly concerned by efforts to extend plantation production to the coffee sector). Small producer organizations not only believe that estate production goes against the original intent of FT, but are very concerned about having to compete with large estates which are likely to have significant cost advantages due to economies of scale (and the fact that they do not invest in the development of the broader local economy). Small producers fear that this may lead to their marginalization in the FT network and even to their elimination in the worst case scenario (VanderHoff Boersma, 2009; Murray & Raynolds, 2000).

Social Accounting in Short Fair Trade Value Chains

The notion of SA originally arose in the 1970s and then, after a period of dormancy, was revived in the 1990s (see chapter 1). The practice of SA seeks to expand the conventional field of financial accounting by "accounting" for the full impact – both financial and social – that firms have on a range of stakeholders (beyond investors). In analysing social impact, SA initially tended to report in non-monetarized forms, using both quantitative methods (e.g., descriptive statistics) or qualitative methods (e.g., simple narratives, ethnographic studies, etc.), or a combination of the two.[4] In addition to this form of social reporting, two other basic SA types of tools have been developed. One tool is an elaborated method to approximate the monetary worth of the social value-added (SVA) that firms produce through providing services and member/employee contributions, for example, social return on investment (SROI), SVA statements. The other seeks to provide measures that integrate both financial and social performance, for example, blended ROI, expanded value-added statements (EVAS) (see Table 3.2). In principle, the SA practices of firms should also involve independent "social auditing." In reality, however, this would not seem to be the norm. To the degree that firms engage in social auditing, it is more likely to be done through their participation in some form of independent reporting initiative (Gray, 2001; Mook et al., 2003; Quarter et al., 2009).

Table 3.2: Social Accounting Tools

Monetized Statements			Non-Monetized (Social) Statements	
Financial	**Social**	**Integrated**	**Quantitative**	**Qualitative**
• Income Statement • Balance Sheet • Value-Added Statement	• Social ROI • SVA Statement	• Blended ROI • EVA statement	• Descriptive statistics	• Simple narrative • Ethnographies

Nicholls (2009) has argued that in recent years SE actors and "social enterprises" more generally have become extremely aware of the strategic importance of engaging in both social and financial reporting. As a result, such institutions have been developing and adopting "new reporting practices that go beyond the requirements of regulation to act as strategic innovations designed to drive improved performance impact and better functioning stakeholder accountability" (2009, p. 759). A basic reality that many social enterprises confront is that they have to interact with a variety of stakeholder groups (e.g., donors, members, clients, consumers, government agencies and regulators, etc.). Communicating efficaciously with such varied actors may require a variety of reporting tools. As a result, Nicholls argues, not only have social enterprises been innovative in developing new tools, but they are increasingly employing a mix of options extending across a spectrum of financial and social reporting tools which can be used to address combinations of specific organizational goals and stakeholders. Such a practice, which Nicholls calls "blended social accounting," enables social entrepreneurs "to capture the holistic complexity of organizational outputs and impacts" (2009, p. 764) and, thereby, to develop a more comprehensive strategic approach to reporting.

In principle, a blended approach strategy to SA should appeal to Northern SE firms engaged in FT. (Below, we also examine the potential importance of a blended approach to Southern actors.) Indeed, one of the examples that Nicholls provides of a social enterprise using such a blended strategy is Café Direct, the largest FT coffee company in the UK. Again, the reason such an approach should be attractive is because FT enterprises, such as Café Direct, typically have multiple audiences that they want to connect with (including consumers, NGOs, Southern producer organizations, labelling bodies, development agencies, foundations, etc.). In practice, however, it seems that most FT licensees have not been particularly innovative in this area. While many, if not most, SE actors do engage in some aspects of social reporting, this is typically limited to non-monetized forms. Apart from the prominent case of Traidcraft, the literature reveals few other examples of FT licensees engaging in monetized forms of SA. Similarly, Traidcraft offers one of the few examples of a genuine social accounting program among FT licensees (Dey, 2007; Dey, 2002; Dey et al., 1995).

For their part, while they are most commonly presented as the beneficiaries of the social value added of Northern SE licensees, Southern producer organizations are creators of social value added in their own right. Members of producer organizations donate large amounts of time to their organizations as well as to the programs that promote the development of the larger community (Waridel, 2002; Roozen & VanderHoff Boersma, 2001). They are also frequently able to procure time from volunteers and to access resources from international and local NGOs. The value added provided by producer organizations increases the individual and collective capacity of their members and also provides social and physical infrastructures and other benefits for their larger communities.

Just as for Northern SE licensees, there would seem to be potentially significant benefits for Southern producer organizations in being able to quantify the social value added that they generate and to express this in some form of blended approach to SA. Such an approach could help them to provide local and regional government, international foreign aid agencies, and other donors, as well as FT labelling bodies and FT consumers, a more accurate account of their contributions to development (and to distinguish themselves from their rivals, such as large estates participating in FT or other rival labelling bodies).

In the South, however, a couple of different factors seem to have inhibited such a development becoming widespread among small producers. The first of these is a lack of resources and knowledge around SA. By definition, most small producer organizations are composed of marginalized people, who have very limited resources. Such groups, especially primary co-operatives, are unlikely to have any familiarity with the notion of social accounting (though some of the managers of second-level co-operatives might have some awareness). Second, the dynamics around reporting in producer organizations have largely been driven from the outside (from funding agencies, development NGOs, certifying bodies, Northern buyers, etc.). These, largely Northern organizations, as institutions, are to some extent less interested in how Southern small producers are themselves generating value and communicating this to their stakeholders than they are with how small producers are recipients of their beneficence. It is these Northern organizations, which have the resources to engage in social reporting, that drive the reporting agenda. As a result, most of the social reporting that occurs derives from a "development project" perspective and is based on impact assessment frameworks established by development agencies rather than social accounting tools.[5] This is not to say that producer groups themselves are not involved (there has, indeed, been an increasing tendency to incorporate participatory components to such frameworks) and that they are not of use to small producers, but to recognize that it is the agenda of Northern organizations driving the reporting.

Social Accounting in Fair Trade Intermediaries (in Longer Fair Trade Value Chains)

The literature on FT focuses primarily on small producers and Northern licensees (and retailers). The reason for this is that originally intermediaries did not play a significant role in FT. This was by design. Small producers wanted to eliminate intermediaries in order to have more direct relationships with consumers and to capture more of the value in the chain. Two changes in FT, however, would significantly increase the role of intermediaries, especially non-

SE intermediaries. The first of these was the entrance of large agro-industrial corporations into FT. Brought into the market by a combination of factors other than a commitment to FT values (e.g., opportunities for exploiting niche markets, consumer pressure, concerns about public relations, etc.), these corporations were more inclined to incorporate their existing value chains into the FT system rather than alter them in any substantive way. These chains were composed almost exclusively of conventional companies that would continue to serve different intermediary roles (as buyers, processers, importers, etc.) within FT value chains (Bezençon, 2007). The second change that induced a greater role for intermediaries involved the introduction of new products, which required more complex and more stages of processing, such as cocoa and cotton.

It is this second phenomenon that is of interest for our concerns, for while most of the intermediaries involved in processing are conventional firms, there is potentially a significant role for SE actors (especially in less capital intensive forms of processing) to add social value. Such actors may have FT or any of a variety of other social purposes as their primary mission. Whatever their primary social purpose, however, they will probably be at a loss to fulfil their mission if they are forced to compete entirely on the basis of cost competition. Thus, they need to find ways to market themselves (most of which should also assist their SE partners in the chain). SA potentially provides an important basis for doing this. In what follows, we will examine a particular case, that of Assisi Organics, to illustrate both the potential and importance of social value creation by SE intermediaries in FT value chains and how this might be more effectively documented for different target audiences.

The Case of Assisi Organics

Assisi Organics[6] was initiated in 1994 by a group of Sisters of the Immaculate Heart of Mary, Cherthala (Kerala). As Franciscans, the sisters have a special mission to work with the poor and disadvantaged. Historically, a major thrust of their endeavours has been to work with victims of leprosy. As leprosy has been largely eradicated in recent years, the nuns have shifted their attention to working with other marginalized groups, especially the poor and the disabled. Among their various activities, the nuns operate a range of schools from the primary level up to community colleges as well as technical schools. They also have schools for disabled and disadvantaged youth, operate orphanages, and run several hospitals and old age homes.

One of the schools that the nuns operate is a boarding facility for hearing and speech impaired girls. The girls enter at the age of six and study until the 10th standard. A basic problem that these young women were facing was not finding work once they had finished school. They did not have obvious career paths and most of them were not in a position to marry. They generally had to return to their families where they were largely confined to the house and not able to integrate into society very easily. An attempted suicide by one of the girls brought home to the sisters just how serious the situation was.

This event instilled in one of the nuns, Sister Michael Francis, a deep desire to establish some sort of program to help these young women. As the sisters had a convent close to Tirupur, one of the major garment districts in India, she decided to start a garment business that could serve as a training and an employment program that would teach the women tailoring skills and provide them with work. This was a controversial decision as many members of the congregation did not see setting up a business as part of their mission. Still, despite some opposition, Sr. Michael Francis continued with her plan.

In 1994 a younger colleague of Sister. Michael Francis, Sister Vineetha Francis, came to Tirupur with ten graduates of the school to set up a firm. Although they did not have any real knowledge of the garment industry, their goal was to establish a facility in which the young women could learn tailoring skills and gain employment. While the original plan was to work only with hearing and speech impaired young women, it soon became apparent that they would need to expand their vision. There was a large pool of poor women in the area who needed employment, so the decision was made to expand the original mandate to include poor and other marginalized women in the scheme.

It took two years before Sister Vineetha and her colleagues established Assisi Organics as a business. In the first few years, it was a very small operation. Over time, however, it grew significantly and today employs approximately 120 young women as well as a more skilled, local labour force of about sixty, which includes men and women.

Mission

The mission of Assisi Organics is essentially twofold. The original purpose of the company, as noted above, was to provide training and employment for young girls who were hearing and speech impaired. This mission was soon extended to include economically disadvantaged women. In this regard, Assisi Organics can be understood as a social purpose business, that is, a business that was set up with a specific social goal in mind: training workers and generating employment.

When the sisters established Assisi Organics the original understanding was that the young women could come and work for a period of four to five years. During this time they would not only learn skills and have an income, but Assisi would provide them with a yearly bonus (to be paid upon leaving). The latter was intended to help them "get settled," that is, arrange for marriage. It was generally assumed that most women would probably not continue on in the formal workforce after marriage (though they were not prohibited from doing so). While this was the trend in the early years, today more of the women are interested in continuing to work after marriage. This has led Assisi to rethink its policies, both in terms of training and retention of workers. At this stage, however, no solid proposals have been developed.

At Assisi a second purpose – in addition to employment and training – has emerged as a result of its financial success. Because Assisi has become a profitable venture, the nuns have been able to finance a number of other social programs in which they are involved. Among these are a cancer hospital, an old age home, and several schools. In this sense, Assisi functions as a particular type of social enterprise – a business that provides a surplus which is used for the primary mission of the owners (in this case, a range of charitable activities).

Ownership and Legal Structure

Assisi Organics is incorporated under the Indian Companies Act (1956) as a partnership. There are six partners, all of whom are sisters of the order of the Immaculate Heart of Mary, Cherthala. The reason that the business was established as a partnership rather than a not-for-profit business relates back to the reservations from some members of the congregation as to whether the order should be involved in setting up a business. Given the disagreements over this matter, setting up Assisi as a partnership was the most expeditious option. Assisi Organics is owned entirely by the sisters, with Sister Vineetha serving as the managing partner.

More recently, the sisters have been thinking of incorporating the company as a not-for-profit business. This would provide them with some tax benefits. They have not yet taken this step, however. Another possible benefit of such a move could be greater transparency in that the business would have to provide more information about the use of their surplus. While the nuns use the surplus for social purposes, there has not been any regular reporting of exactly where the profits go (but see below).

Business Strategy

As its name implies, Assisi Organics competes exclusively in the organic cotton market. All of the garments it produces are certified organic. Aware of the tremendous negative impact that BT and traditional cotton farming has had on cotton farmers, the sisters see their commitment to 100 per cent organic production as an issue of social justice and not just a business strategy. Indeed, there are hidden costs within the business strategy: many of the knitwear goods that Assisi provides are typically offered as cotton-synthetic blends. The decision to offer only 100 per cent organic cotton products thereby significantly limits the markets in which it can compete. Similarly, Assisi's move into the FT market is based not merely on expediency and the desire to exploit a niche market; it also reflects the company's strong commitment to social justice. In short, while Assisi demonstrates that competing in ethical markets, such as the organic and FT cotton market, can be profitable, its decision to compete in these markets reflects its commitment to social justice more than a strategic direction.

There is still room, however, for strategic considerations in ethical markets. Assisi's twofold mission clearly provides it with a unique selling point among Indian garment manufacturers. Similarly, its Catholic identity provides it with another unique selling point that should facilitate sales in such areas as sales of uniforms and spirit wear (e.g., branded t-shirts, sweatshirts) in Catholic educational institutions. This is an aspect that Assisi has yet to actively exploit, but is open to examining. Currently, it provides uniforms for only one school in the UK.

The recent opening up of the U.S. market (with its large number of Catholic schools and universities) would seem to provide even more potential.

Assisi's strategy has enabled it to consistently increase its sales from its inception (see Table 3.3). As noted above, Assisi originally started in organic garments and these still provide the largest component of its total sales. It was in 2005–6 that Assisi started to produce for the FT organic market. Here, too, there has been consistent growth in its sales over the past three years. While Assisi does produce a small amount of garments for domestic consumption, its primary focus has been on the export market. A recent development has seen Assisi provide yarn and cloth to domestic producers. This was responsible for a large bump in sales during the past year.

Table 3.3: Total Sales Turn-over (Rs millions)

Year	**Export**		**Domestic**	**Total**
	Organic	**Fair Trade Organic**		
2005–6	54.7		1.1	55.8
2006–7	37.8	27	2.7	67.5
2007–8	48.3	39.9	8.0	96.2
2008–9	80.3	47.5	61.5	189.3

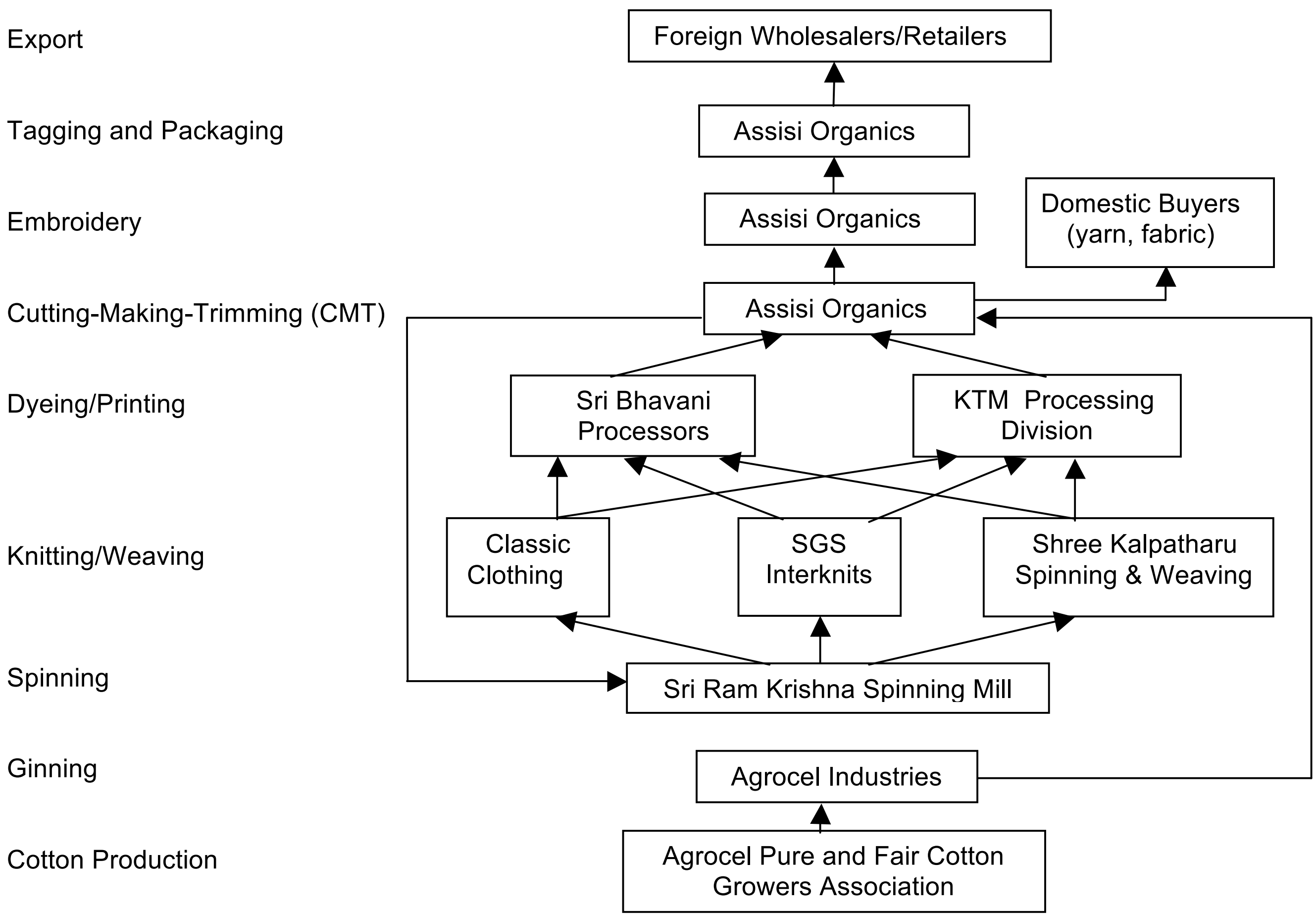
Organizational Structure

While Assisi organics is owned by a group of nuns, it is run by a professional management team. Although Sister Vineetha is recognized as the managing partner, she is more inclined to work on the sewing lines with the women than to oversee business operations. This task of oversight primarily falls to the general manager, who has been with the firm from the start. Like most start-ups, Assisi has had to begin small and develop over time. In terms of its organizational structure, this has meant that early on the general manager had to assume a variety of different tasks. Gradually, Assisi has been able to establish separate departments for merchandising, human resources, production, and so on.

In order to attract managerial talent, Assisi is forced to pay competitive salaries. What really seems to draw managers to Assisi, however, are the less tangible benefits. Primary among these are job satisfaction and a more relaxed work environment, which includes less pressure and shorter working hours because of its work culture that tries to limit overtime.

The development of professional management is an ongoing task. This is especially the case in human resources. Historically, the nuns have tended to solve issues on a personal basis, taking into account their knowledge of the individual workers and their circumstances. This extends to such issues as allowing time off and paying bonuses towards a marriage dowry. The issue of marriage payments is a particularly delicate and tricky issue. Officially, the payment of dowry is illegal in India, but in practice it is very widespread. For large sections of the population, arranging a marriage without a dowry is not a realistic possibility. For their part, the sisters at Assisi have addressed this issue with an informal system of providing each single woman with a bonus of approximately 10,000Rs for every year worked. While the human resources department appreciates the compassion behind this approach (which is at the basis of the organization), it has been trying to develop a more systematic policy for dealing with such circumstances. It is concerned that this practice might be associated with opportunistic schemes employed by other firms,[7] and is focused on finding more efficacious ways of addressing the deeper cultural values and inequitable social relations that such practices tend to reinforce.

Table 3.1: Four Variants of the Fair Trade Value Chain



Capacity

As a cutting, making, and trimming (CMT) unit, Assisi undertakes several key activities in a much longer value chain (see Figure 3.1). First, Assisi purchases ginned cotton and sends it to be spun, knitted/woven, and dyed/printed. It then produces the garments and exports them. Most of Assisi's subcontractors are in the Tirupur region of Tamil Nadu, while its cotton is primarily procured from Agrocel Industries, which is headquartered in Gujarat.

While Assisi is not a large operation, it can undertake a complete range of CMT activities. It has a full array of standard machinery, which enables it to produce a fairly wide variety of goods. With the recent addition of new Singer sewing machines in 2012, Assisi's capacity has reached 9,000 pieces per day (with a workforce close to 330). Assisi's current product range includes T-shirts, polo shirts, sweatshirts and hoodies, men's dress shirts, women's blouses, various sports jerseys, and pants. Assisi does not have its own design section, but rather works with designs provided by its buyers. While Assisi's product range is not as extensive as some of its large competitors, the management of Assisi is confident that it can produce all standard forms of apparel that buyers might want. As noted above, one limitation that Assisi faces as an exclusively organic producer is that it cannot offer the same range of fabric (i.e., synthetic fabrics) that its larger competitors offer.

Wages and Working Conditions

As noted above, there are two basic categories of workers at Assisi. On the one hand, Assisi's core mandate has been to train and provide employment for differently abled and economically marginalized women. These women typically enter as unskilled workers, although some have had training in tailoring. They are generally between eighteen and twenty-four years old and they stay in the hostel located on the factory grounds. On the other hand, Assisi hires skilled workers from the local area. These include both men and women, and they tend to be older and are usually married.

Wage rates in Tirupur are governed by an agreement between the Tirupur Exporters Association and six of the seven major unions in India (Kizhisseri & John, 2006). These wage rates vary according to skill level, with cutters and tailors being the more skilled occupations. While there are wage rates set for the skilled positions, most of these employees work on a piece-rate basis. This is their preferred option as it provides them more flexibility and a higher income. These skilled positions are in relatively high demand. Assisi has to follow the pattern of paying skilled workers on a piece-rate basis in order to secure their services.

Unskilled workers typically work on an hourly wage rate as set by the Tirupur wage agreement. Assisi tends to pay a slightly higher wage rate and pays double time for overtime work (as is required by the agreement). The work week is forty-eight hours long (six days a week). On average the lowest paid workers earn approximately 2500 Rs per month, not including overtime. Overtime typically does not exceed four hours per week (Kizhisseri & John, 2006).

The regulation of working conditions in Tirupur is based upon Government of India standards. At Assisi all of the basic health and safety standards appear to be met. The workplace is clean, with adequate toilet facilities. There does not appear to be any forced overtime. Moreover, most of the workers were effusive in stating their satisfaction with the working conditions.[8]

There is a workers' association in place. This association, however, does not really function as a union. Primarily, it makes suggestions to the nuns about relatively minor issues. It is not clear how many of the skilled workers actually belong to a union. Unions in India are associated with political parties and workers at a given plant are free to join whichever union they want. This fact, along with the reticence of workers to disclose their affiliation, makes it difficult to be certain how many workers belong to unions.

Retention

When the sisters established Assisi Organics the original plan was that young, disabled women could come and work for a period of four to five years. During this time they would not only learn skills and have an income, but Assisi would provide them with a yearly bonus (to be paid upon leaving). The latter was intended to help them "to get settled," that is, arrange for marriage. It was generally assumed that most women would probably not continue on in the formal workforce after marriage. This is still the dominant trend among the younger differently abled and economically marginalized women, despite the fact that all of the women speak very highly of their employers and are appreciative of the opportunity that they have been offered. Among the skilled workers, the pattern is different. These workers, too, are generally content with their situation, but have remained (or plan to remain) on the job longer than five years.

Training and Advancement

While the majority of the younger women still leave after about five years with Assisi, more of them are expressing an interest in staying in the workforce after marriage, either in the garment industry or in some other sector. A small, but growing number of them are staying on at Assisi, while a few have taken positions in other factories in Tirupur when they return to the workforce after their marriage (some of whom reportedly want to return to Assisi).

At Assisi, the unskilled women workers receive on-the-job training and may advance from being helpers to becoming tailors or supervisors (of packing, inspection, etc.). Some of them would prefer to have more formal courses as well as on-the-job training. A number of the young women are also very keen to get more training in other areas, especially in computers. Assisi is currently looking into setting up a small computer training facility for them.

Accounting for the Contributions of FT Intermediaries

As noted above, Assisi operates as an intermediary in a complex value chain. In this chain, Assisi creates not only economic but also significant social value. It does so in a number of roles and a variety of ways that affect and/or appeal to a number of (potential) stakeholders. Assisi, however, has been slow to develop any forms of social reporting, much less a conscious blended approach combining a range of forms tailored for different stakeholder groups. In what follows, we provide an overview of the different ways in which Assisi generates value added and how it might report on these to relevant stakeholder groups.

Assisi as a Conventional Intermediary

Like any other firm in the middle of a chain, Assisi adds economic value in the conventional ways. These include paying wages and taxes, accumulating capital, and making profits. These value added forms can be expressed in standard accounting approaches or what Mook et al. (2003) refer to as "restricted value-added statements." They can also be expressed more graphically (though not as precisely perhaps) in the breakdown of the cost structure of an individual product, such as a T-shirt (see Table 3.4).

Table 3.4: Cost Structure of a Fair Trade, Organic T-shirt

(Men's large, dark colour, 280grams, 200gsm)

Process	Rs/kg	Rs/unit
Yarn	215	60.2
Knitting	10	2.8
Dyeing	100	28
Compacting	6.5	1.82
Subtotal	331.5	92.82
Losses (7%)	23.21	6.5
Fabric Cost	354.71	99.32
CMT		12
Trims		8
Printing		6
Subtotal		124.32
Rejection (2%)		2.49
Manufacturing Cost		126.81
Margin (15%)		19.02
Subtotal		145.83
Fixed Costs/extras		25
Total Costs*		170.83

*Exclusive of final transportation and shipping costs

In Table 3.4, the fabric costs represent the purchase of external goods and services. The manufacturing costs represent the value-added flowing to employees, while the margins reflect the value added going to investors (partners). Included in the fixed costs are taxes (the value added that flows to government) and the costs of capital (amortization).

Assisi as a Social Purpose Firm

Assisi is not just a conventional intermediary, however. It has a social purpose. This affects both the economic and the social value added that it generates. In terms of the former, Assisi's commitment to marginalized women means, as noted above, that it not only meets basic minimum wage rates (including overtime rates) but also exceeds these rates.

In terms of social value added, Assisi makes contributions in a couple of key areas. First, there is the training, education, and counselling that the women receive from the nuns. While such services would not show up on a standard value sheet, costs could be calculated for these services and they could be incorporated into social value added statements. Another major source of value added comes in the form of savings that arise when differently abled women are brought into the paid labour force. Economic independence means that these women are not an economic burden on state coffers (or their families), but rather contribute to state revenue as taxpayers.

The major stakeholder groups with whom Assisi potentially needs to communicate regarding these issues include (1) charities and foundations (that might be interested is supporting Assisi through grants); (2) labour activists and unions that have expressed skepticism about the labour conditions under which FT and organic cotton is transformed into garments; (3) SE importers and distributors (and their investors), along with public purchasing policy managers who want to promote and patronize Assisi as a more ethical form of production (especially with regard to labour rights and environmental practices); (4) ethical consumers (who might have concerns about labour rights, marginalized groups, etc.); and (5) "disability" activists and organizations (who might want to promote and support Assisi but only if labour and other standards are acceptable). Assisi will probably want to communicate with these different groups in various, overlapping ways. Labour activists, for example, will probably be very keen to see financial statements (with value added by labour) as well as descriptive statistics on labour conditions. Charities and foundations, as well as disability activists and organizations, could want to see descriptive statistics and might want more information about the number of women affected. As well, they could want to see some statement of the social value being added by Assisi itself (as a further assurance of the commitment of Assisi to the differently abled vis-à-vis its role as an income generator). For their part, while consumers might be more interested in hearing stories about how individual women's lives have been transformed by the experience of working at Assisi, they could be reassured by descriptive statistics.

Assisi as a Social Enterprise

While Assisi is formally a for-profit partnership, in practice it is run as a particular type of social enterprise in which the (after-tax) profits of the company are used to fund social causes. The social causes that Assisi funds are closely related to the mission of the sisters' order and the institutions that they run. These include teaching, health and social welfare programs, and community development projects (see Table 3.5). While the profits that Assisi makes would show up (in a monetized form) as value added on a restricted value added statement (as profits), the actual social nature of the value added does not. One way to break down the nature of these social impacts is between the benefits directly provided in the form of services to clients (e.g., students, patients) and the knock-on effects. The former value can be captured quite easily in a social valued added sheet by signifying the profits generated by Assisi as a contribution to the community. The knock-on impacts from the provision of services to clients are quite varied, potentially involving cost savings for the broader community (e.g., in the form of a reduction of social problems), income impacts (e.g., in enabling people to be more productive), and a variety of quality-of-life improvements. Many of these knock-on effects of the provision of social services are more resistant to quantification than the services themselves.

Table 3.5: Assisi's Support to Charitable Organizations (Rs)

	Year		
Organization	**2006**	**2007**	**2008**
Old Age Home	100,000	100,000	100,000
Orphanage	300,000	450,000	400,000
Nursery Schools for Poor	200,000	175,000	230,000
Financial Help For Education for Poor	300,000	600,000	250,000
Cancer Hospital	1,250,000	3,700,000	12,550,000
Other Hospitals	425,000	600,000	735,000
Leprosy-Rehabilitation	250,000	425,000	475,000
Community Development	375,000	350,000	400,500
Women's Marriage	611,500	892,000	440,000
TOTAL	3,811,500	7,292,000	15,580,500

Again, Assisi could potentially benefit from better communicating the value added it provides as a social economy enterprise to different stakeholders in different ways. Perhaps the most prominent group of stakeholders that Assisi needs to communicate with are charity and development organizations concerned with the provision of services to marginalized groups (especially Catholic organizations). Such organizations will probably want to see descriptive statistics (to understand the extent of the impact of Assisi contributions) as well as ethnographies (to understand more clearly the manner in which Assisi impacts clients and other stakeholders). An EVA analysis could be important, however, to demonstrate the efficacy of supporting a social enterprise as a means to contributing to social welfare provision. A second key groups of stakeholders to which Assisi could report are social enterprise foundations. Such organizations might be willing to provide funds for the development of Assisi on the basis of a combination of its social value added as an employment generator for marginalized women and its contributions to the provision of social welfare programs as a social enterprise. Such organizations will probably want to see monetized accounts of the impact of Assisi, such as in the form of SROI SVA reports. (Both of these major groups of stakeholders will also be interested in the generation of simple narratives, which they can use in their own fundraising and publicity campaigns.)

Assisi as an Organic and Fair Trade Intermediary

Finally, Assisi is an intermediary in the organic and FT value chains. As such, Assisi workers do not benefit directly from the enterprise's participation in the chain (as small producers and agricultural workers do in the FT value chain through the payment of minimum prices and a social premium). Workers, however, do share in the benefits that accrue to Assisi as a company through its participation in FT. The primary way Assisi can benefit is through its ability to exploit a niche market, in this case an ethical market, which it is able to do in large part because of its values, which make it a highly valued intermediary.

It is because of its values that Assisi, as an FT intermediary, can actively participate in the realization of social value added in the FT and organic cotton chains. Intermediaries in FT and organic chains can contribute in either of two basic ways towards the realization of social value. On the one hand, they can act in a manner analogous to enzymes in a chemical reaction. That is to say, they are necessary agents in the process of the realization and distribution of social value, but they themselves do not add to the creation of social value themselves and are unchanged by the process. This is arguably the case with many conventional intermediaries involved in the FT and organic cotton value chains. It is for them a purely financial proposition, a niche market which they are happy to exploit if it is profitable. On the other hand, intermediaries can play a much more active role in the realization of social value. One of the key roles intermediaries such as Assisi can play is in the marketing of FT and organic goods, especially in assuaging concerns that consumers and buyers have about the integrity of the chain. A particularly worrisome aspect of the FT cotton chain has been the labour standards under which FT cotton may be transformed into garments.[9] FT labelling bodies are themselves aware of this problem and their inability to adequately ensure appropriate working conditions in the textile- and garment-making processes. For this reason these labelling bodies only allow merchandisers to claim that the garments they sell contain FT cotton rather than claim that they are selling 100 per cent FT garments. What Assisi provides to SE importers and distributors (and consumers) concerned about these issues is greater assurance that values consistent with FT principles have been respected all through the chain, all the way from the planting of the cotton up to the export of finished garments. While Assisi itself does not pay its own workers any FT premium, it allows for the realization of the payment of such premiums (and the transmission of other forms of social value added in the chain) through ensuring the integrity of the chain. In addition, firms like Assisi actively engage with buyers to encourage them to convert (more of) their product lines to FT and organic cotton.

While it is often difficult for intermediaries like Assisi to tease out the exact quantity of the social value added that they provide, it is clear that they can make significant contributions to FT and organic chains (even if these cannot be effectively disaggregated).

In order to capitalize on its contributions as an SE intermediary – including developing its potential to establish its own FT and organic brand – Assisi needs to communicate with a range of stakeholders. These include FT licensees (especially SE licensees) and their investors, buyers (especially affinity buyers in Catholic universities and schools, alternative fashion houses), and consumers and donors (especially those interested in promoting more sustainable production). Again, these different groups may need to be communicated with in different ways and through different means. Importers and their investors will likely be keener to see not only conventional financial performance indicators for value added but also monetarized indicators of social value added. For their part, affinity buyers and consumers may be more interested in descriptive statistics about the impact of FT and organic production as well as in narratives that highlight particular cases. Assisi (and other licensees) will also be very interested in providing FLO and the LIs with indicators of their performance (especially around labour standards and social value added in this area) in an effort to support the development of more stringent labour standards that will help them compete more effectively on a cost basis with conventional intermediaries. Finally, to the degree that Assisi's business is dependent upon its ability to source FT and organic cotton, it needs to clearly communicate to producer organizations those values and concerns they share and to emphasize Assisi's long-term commitment to working with them. This might be done through descriptive statistics (of the impact of their social welfare programs and their employment of marginalized women) as well as through engaging narratives.

Conclusion

Since fair trade started as a social economy initiative to help marginalized producers, it has developed in a way that threatens the continued participation of its founding organizations, small producers and ATOs. Inherent compromises in the regulation of FT to promote growth in sales – including the shift from FT principles to minimum standards – have led to a situation in which SE actors have to compete with certified FT corporate retailers, agro-industrial firms, and large agricultural estates. The lack of commitment of the latter to FT principles (along with their size) means that SE actors are typically operating at a significant cost disadvantage. In order to compete, they have to market their commitment to FT principles and their generation of social value added. While many Northern SE licensees loudly proclaim their allegiance to FT principles, few have gone very far in systematically documenting the social value added that they supply through the use of SA and other reporting methods. Similarly, small producer organizations in the South have also not yet been able to develop their own blended SA approaches to reporting. Instead, they have had to (at best) rely on social impact assessments carried out by Northern NGOs and development agencies to document their practices.

As FT continues to evolve (and corporate actors deepen their involvement), the need of SE enterprises for more sophisticated SA approaches to documenting their value added will only increase. This has become particularly apparent with the development of longer FT value chains involving commodities such as cocoa and cotton. In these chains, it is becoming essential for SE producers and licensees to find SE intermediaries (who can actively contribute to the realization of social value added) in order to guarantee the integrity of the value chains. Without such intermediaries, the competitive advantages of SE enterprises at the bottom and the top of the chain (that is, through adherence to FT principles and social value added) are undermined. While such FT intermediaries may not have FT as their primary mandate, they can be effective contributors to FT value chains while pursuing their own social purposes. In order to do this, however, they will need to develop blended SA approaches that allow them to communicate effectively with various stakeholder groups. In this chapter, we have investigated a particular example of an FT intermediary that does not have FT as its primary mission but that contributes to the realization of value added in FT value chains while pursuing its own social purposes. We have also indicated how Assisi might more effectively accomplish these tasks through adopting a variety of SA tools that target its different stakeholders.

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NOTES

[1] In many countries such as Canada, small- and medium-sized enterprises actually constitute the largest number of licensees (Reed et al., 2010). They do not have the same influence, however, as large corporations.

[2] FT practice is more complex than this model suggests, especially with the more aggressive role that large grocery retailers have adopted in controlling value chains and the addition of new products with longer value chains (e.g., cotton). These complexities do not alter the basic point about the existence of different types of exchange (and production) relationships within FT, which result in products of different ethical value.

[3] FT practice is more complex than this Table 3.1 suggests, especially with the more aggressive role that large grocery retailers have adopted in controlling value chains and the addition of new products with longer value chains (e.g., cotton). As chains get more complex (as in the case of cotton), a wider range of practices, including mixed forms of value chains, can emerge (Tallontire, 2009). While the basic interests and strategies of the actors involved remain the same in these mixed chains, the more complex set of circumstances can lead to different forms of compromise.

[4] It should be noted here that the use of these non-monetized forms of reporting by firms are sometimes referred to as social ethical or social audits, even though they do not conform to the standard requirement that audits be undertaken by third parties. See, for example, Richmond et al. (2003).

[5] For an example of such reports see IIED (2000). Academics, as well, often draw upon the models of development agencies to development frameworks for evaluations. See, for example, Paul (2005) and Utting (2009).

[6] This case is based upon two site visits to Assisi Organics (as well as visits to other firms, NGOs, and meetings with labour leaders in the Tirupur region). In addition to interviewing the leadings executives of Assisi, twenty-nine semi-structured interviews (involving questionnaires) were conducted with Assisi employees. Fifteen of these interviews were with disabled or economically disadvantaged unskilled young women. All interviews were conducted confidentially in the interviewees' native languages (Tamil or Malayalam).

[7] Many companies in the Tirupur region have taken advantage of the vulnerability of economically deprived young women through what is known as the Shumangali scheme. Under this arrangement, young women contract to work with a company (typically for three years) and at the end of the contract they get an additional lump sum payment which they can use for a dowry. It is reported that many firms abuse this practice, often taking the money out of the women's wages rather than giving them a bonus or refusing to pay the bonus when they want to leave. In addition, under this system young women are often treated as bonded labour, frequently being forced to live in hostels, required to work long overtime hours and not having freedom to leave the premises (A. Aloyious, personal communication, February, 8, 2009).

[8] This situation contrasts significantly with the general situation of the Tirupur region (A. Chandra, personal communication, February 9, 2009).

[9] While there has been an increasing tendency for large supermarket chains, especially in the UK, to develop their own FT brands, Tesco which has its own line of clothing made from FT cotton has come under particular criticism. See, for example, Verdier-Stott (2009).