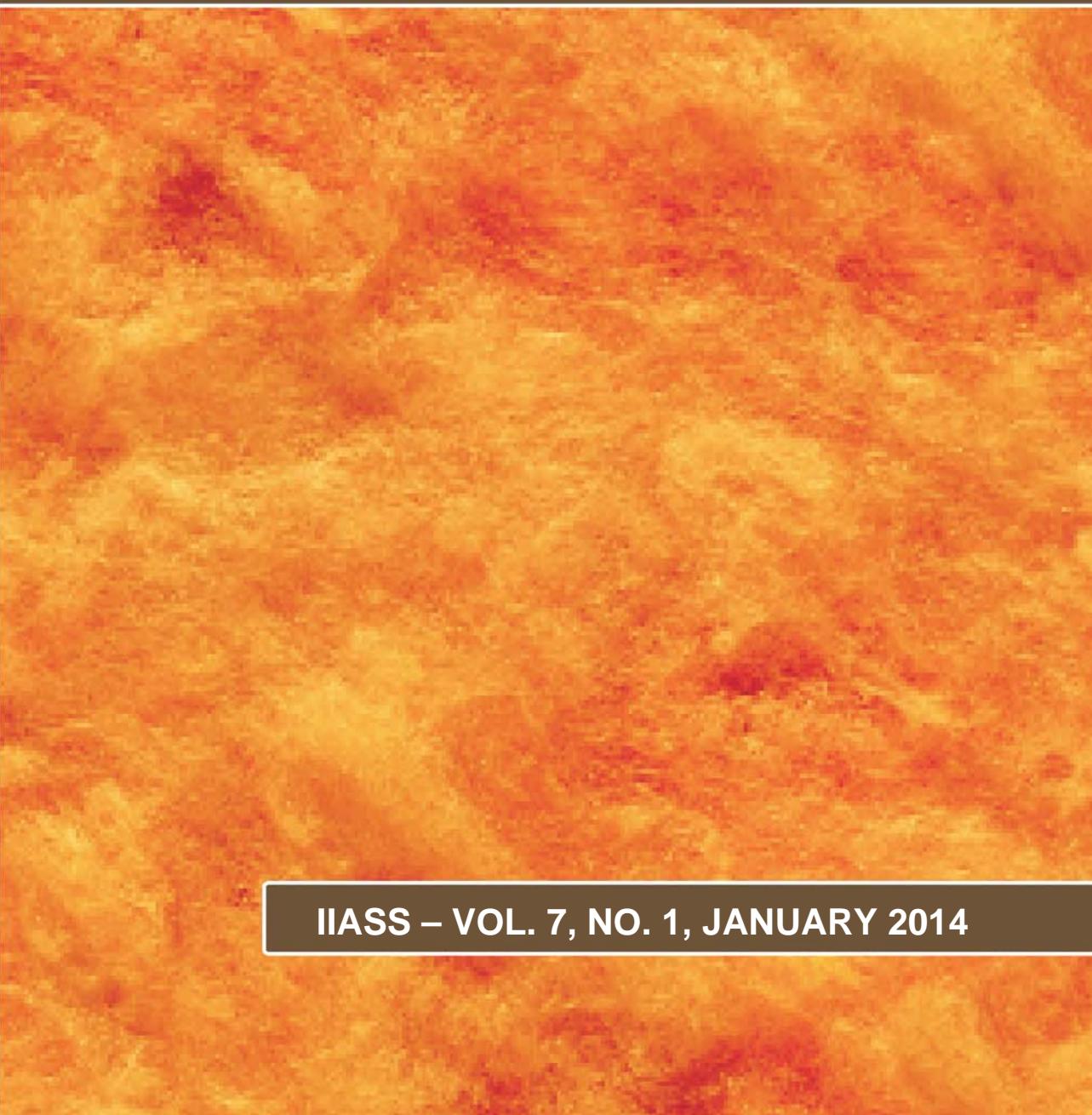


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# **SOCIAL ENTREPRENEURSHIP AND FAIR TRADE**

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## **Abstract**

In this article we will present different theoretical views and positions on social entrepreneurship, fair trade, buying consumer behaviour and ethical consumerism. The Fair Trade, which is well recognized throughout the world, is an example of good practice of social entrepreneurship. Similarly, globalization processes, the pressure of large corporations, the rapid transmission of information, more and more developed ethical consumer behaviour is clearly contributed to both, the successful development of fair trade and social entrepreneurship. In the empirical part we reviewed and confirmed three of three sets of hypotheses through the quantitative research in Slovenia on sample of 253 respondents. Through the results of our study we also recognized the existence of opportunities for the development of social entrepreneurship in Slovenia. In the discussion and conclusion of the article listed are recommendations for further exploration of ethical consumerism, the development of social entrepreneurship and rising the profile of Fair Trade in Slovenia.

**Keywords:** business ethics, social entrepreneurship, fair trade, consumer behaviour, ethical consumerism.

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## **Introduction**

The academics cannot create one single definition of social entrepreneurship. Despite their doubts, concerns and negative examples, social entrepreneurship works not only locally but also globally. It is simply impossible to describe and explore social entrepreneurship in all of its forms in one place and for that reason our

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study is focused on the case of good practice of social entrepreneurship through the system of Fair Thereinafter (referred to as FT). FT is one of the political reactions against the system of free trade, capitalism and the power of transnational corporations, which all together contribute a large share to the exploitation and exclusion of the poor and marginalized individuals and groups. FT is significantly different from other political groups in combining the political message with social entrepreneurship. This is exactly why this is an important catalyst for the development of ethics with prevailing business methods and therefore has a major impact on the development of social entrepreneurship and socially responsible and ethical consumerism.

## **Theoretical background**

### **Social entrepreneurship**

Social entrepreneurship and therefore social entrepreneurs have existed for a very long period of time in which we did not have the name for it. The whole idea of social entrepreneurship is not new because there have always been organisations or individuals dealing with many social problems, caused by the inefficiency and unresponsiveness of social sector (Dees 2005, 1). Social entrepreneurship is an innovative socially-oriented activity that occurs in profit and non-profit sectors. It is also changing social and economic theory with its innovation. It is a highly dynamic process that is managed and administered by innovative entrepreneurs who want to connect their social innovation with an entrepreneurial mind-set in order to create a new social dimension on the market, in the local as well as in the regional environment (Mair, [et al.] 2006).

Nicholls thinks about social entrepreneurship as a multidimensional and dynamic construct that is interwoven between the public, private and social sectors. Organizational mechanism of employees is important, social entrepreneurs are operating in all three sectors. This is how an organization is operating to make a profit, which is then used for non-profit purposes (Nicholls, 2006: 12). For social entrepreneurs, the social mission is explicit and of central importance. Nicholls further notes: "The primacy of social mission comes before all other organizational goals and it is the first key factor in the potential of social enterprise. The same social mission emphasizes the identification of unmet social needs and identifies opportunities to create new social values. Social mission is most clearly defined in two ways: in the frame of the enterprise and in its results and impact" (Nicholls, 2006: 13). Social entrepreneurship is the most developed in the past in certain spheres of business, where the

public sector is often too conservative, inflexible and slow (Bornstein, 2007).

In accordance with a strong emphasis on community EMES research group identified social factors of social entrepreneurship in the five main characteristics: a) *activity*, which was launched by a group of citizens, social enterprises are the result of joint dynamics, which includes people who belong to a community or group that share certain needs or objectives; They must maintain this dimension of shared goals in one form or another, b) *ruling (making decisions)* is not based on ownership, which generally means "one member, one vote" principle: the right to vote is not based on ownership. Equity ownership is important, but the right of co-decision procedure works by members of interest groups, c) *participation includes all* those involved in the activities, d) *representation and participation of the parties*, interest groups and the democratic leadership style are extremely important characteristics of social entrepreneurship. One of the goals of the social enterprise is often integration of democracy at the local level through economic activity and e) *limited distribution of profits* (Spear and Bidet, 2003).

In some countries social entrepreneurship involves co-operatives, so the sense of limiting profits is to avoid creating maximum profitability. Explicit goal is to help benefit the community. One of the main objectives of social enterprises is to serve the community or a specific group of people. At the same time it is a feature of social enterprises their desire to promote a sense of responsibility at the local level. Social enterprise is, by definition, a private non for profit organization that operates in accordance with its social mission and its profit is generated for primary objectives of the company. Social enterprises operate under stable economic conditions. They market (sell) products or services on the open market. Legislation that is in some countries markedly in favour of social enterprises is different from country to country. In countries that support social entrepreneurship, the social enterprises are exempt from certain taxes and employment and the operation is driven by a number of benefits.

According to Tomassini, the most common legal forms of social enterprises are: *Co-operatives*: historically, the most traditional way, as a form of entrepreneurship has been around for centuries. This is a form of group work at least three types of (*of reciprocal*) *mutual society*: mutual investment companies and mutual insurance companies are an important part of the social economy. *Associations and charitable organizations*: these organizations are based on voluntary membership and they are autonomous, open and independent. Members have the

same rights and they contribute membership fee. *Foundations*: they are run by the delegates and have a strict target (goal), which should not be changed. Foundation work is based on collecting and providing grants for a variety of national, international, charitable and research projects (Tomassini, 2005: 3-4). Social entrepreneurship has developed as a concept during the 80s and 90s as a synonym for international cooperation and assistance to developing countries. It defines the functioning of social conscious entrepreneurs, people who in their approach, innovation and energy bring new ideas to solve social problems and quandaries. Their actions have a direct impact on the society as a whole and positively changing it (Nicholls, 2006: 127-128).

### **Fair Trade**

Fair trade (FT hereafter) is a trading partnership, based on dialogue, transparency and respect, and seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions and it is securing the rights of marginalized producers and workers, especially in the South. Organizations dealing with the FT which are supported by consumers are actively engaged in supporting producers, awareness raising and organizing campaigns for changes in the rules and practice of conventional international trade (Umanotera, 2010). FT creates conditions where people and producers in developing countries can develop and manage poverty. FT acts as a cooperative that we have already discussed in the above section. This cooperative action of FT brings benefits for producers, because it is allowing them to work, fair pay and subsistence. On the other hand, allows consumers to purchase products that have a strong "ethical" touch and in this way promote and meet consumer needs for ethical consumerism. This is the definition of the North. Working Party for Solidarity and Social Economy FT offers the following definition (Audet, 2004): "FT is an alternative form of trading, which is based on voluntarily accepted norms that respect the social rights of producers and workers and is at the same time protecting the environment. On one hand, its aim is to improve the living conditions of small producers from the South through the trading system, which is based on fair prices and sincere and long-term trade relations. But on the other hand, it seeks to change the existing rules of international trade by raising awareness and consumer education and by pressing the government through campaigns and lobbying. Changing the existing rules of international trade and consumer awareness is also an important part of its operation. FT works and brings in the international environment multiple benefits. It helps marginalized groups to survive with integrity and in this way protects them against monopoly influential companies that are not willing to pay for the purchase of products "fair price". Through the transmission of information to consumers it

encourages "ethical consumerism", which is based on personal moral values of the consumer. It is often referring to "an alternative form of trading." Why alternative? In order to operate successfully, the FT tries to reduce the number of intermediaries and enables manufacturers to have the same footing and direct access to the market. It is therefore necessary to eliminate intermediaries in trade (because they collect fees for their intervention) or to reduce their number to a minimum".

As we already mentioned in the above section on social entrepreneurship, FT acts as a cooperative. International Federation of Cooperatives (ICA) has set the following definition of cooperatives: "Cooperative is an autonomous association of individuals who are voluntarily linked in order to meet common economic, social and cultural needs and aspirations within the company they have jointly owned, democratically managed and controlled" (ICA, 2003). Cooperative is an association that helps individuals achieve the objectives for which such individuals could not or would be very difficult to realise. Cooperatives like clusters allow their members greater bargaining power in the market and a number of other benefits. The basic operating principles are: voluntary and open membership, democratic member control, member economic participation, autonomy and independence, education, training and information, cooperation among co-operatives, care for confidentiality. Cooperatives work towards the sustainable development of their communities with the implementation of policies approved by the members (ICA, 2003). FT operated as a system of cooperatives, which has clearly defined rules and principles.

In order to avoid misuse of FT and its goodwill and purpose, the umbrella organization IFAT set 10 standards to be followed by all organizations of FT. IFAT closely monitors the implementation of these standards in practice and verifies that they are strictly observed. Enforcement and compliance with these standards is a prerequisite for the functioning of the system FT. We are talking about ten standards of FT: creating market opportunities for economically disadvantaged producers, transparency and accountability, capacity building, promotion of FT, paying a fair price (fair price payment), gender-equality, better working conditions, regulated child labour, the care for environment, creating trade ties. When the FT principle was clearly set and standardized by the IFAT, the alternative trade organizations and product providers realize that it would be more recognizable if they formed a certification mark, which would be used on FT products and in this way ensure any products produced or grown by the principles of FT (Nicholls and Opal, 2005: 127). To formalize a system of certification of FT products, it was necessary to develop a certification system that

would be controlled by an independent certification agency, who received the title of "national labelling initiatives FT." That is why certification has become an important element of the FT movement. Today certificates are provided worldwide as a product of FT by one of 19 organizations for certification, operating under the auspices of the FLO CERT (Nicholls and Opal, 2005: 128).

The first FT in Slovenia opened in Ljubljana, on December 10<sup>th</sup>, 2004. Other FT named »3 Muhe« was open on May 7th, 2010 in Maribor (3 Muhe, 2010). Most products are imported through the Austrian and Italian EZA intermediary broker "CTM altromercato". The market is also directly connected through the Humanitas with the organization "Kafuli" in Burkina Faso. Some of the products are imported directly from Africa and Nepal (Krier, 2007: 95). In 2007, they started to import the FT products into the large commercial organizations in Slovenia like Mercator, Spar, Petrol, Leclerc and Hofer. Everybody saw in selling FT products an option to spread strategy of social responsibility. Mercator is importing products in collaboration with cooperative »Od Juga«, other major retailers import through other intermediaries.

### **Ethical consumerism**

Study of so-called *ethical consumerism* has shown that the *moral consumers* are motivated by desire to be better people and this should be their personal integrity. On the other hand, there is a danger that with this ethics of virtue, the main problem of consumerism, would be recognized in hedonism and desire for selfish pleasure of unethical consumers. Such a definition would disqualify consumers with whom ethical companies want to communicate the most (Barnett, Cafaro and Newholm, 2005).

Moral consumerism is reflected in various forms of consumer behaviour and it has become particularly visible in the last 15 years. This has developed in real movement that includes various forms of purchase behaviour and the various activities of "moral consumers, including the boycott of certain companies, buying products that are not tested on animals, avoiding to buy products that are manufactured by children or purchases products FT and organic food, re-use and recycling of products (Crane and Matten, 2007). Ethical consumerism is about freedom of choice. Jelovac believes "*that ever since the emergence of a market economy freedom was conceived as a precondition of the existence and development of well-being. Freedom is seen as a choice, continuity of operations*" (Jelovac, 2010: 88). Moral consumer is free to decide who to support or boycott with his or her purchase. It is all a

matter of voluntary choice. Shopping cart is in a figurative sense a symbol for "right to vote".

Brinkmann (2004) considers that there are four types of ethical consumerism: 1) *a positive shopping*, favouring ethical products (PT, purchase organic food products or animal-friendly), 2) *a negative buy*, which means avoiding the products, with which we do not agree (eggs from caged hens, or cars with high CO2 emissions), and 3) *shopping based on corporate policy as a whole* (boycotts of "Nestle" and buying "Body Shop" products), 4) the fourth transparent approach is a *combination of the previous three* and means that the consumer is looking for companies and products together and evaluate what is the most ethical brand.

Throughout review of the literature we can see various models of moral purchase behaviour. In the core of the models there is mostly logic of "deliberate action" or "planned behaviour". So it is about knowledge or belief that is leading to the establishment of positions that affect intention and behaviour (De Pelsmacker and Janssens, 2007). With its clearly defined set of business rules, which are based on respect for human rights and the promotion of development work and not "charity", FT satisfied the needs of even the most demanding ethical consumer. In fact, it guarantees with its certificate that the purchase decision is morally correct. This is why we also see a great success of FT development not only in Slovenia, but also in the whole Europe and the U.S.

## **Method of research**

Based on our previously stated theoretical framework of social entrepreneurship, fair trade and ethical consumerism, we derived the following hypothesis for our empirical study in the case of Slovenia.

## **Hypothesis**

*H<sub>1</sub>: In Slovenia, the ultimate consumers do not have enough information on the concept of fair trade.*

The amount of information is very important for establishing the concept of fair trade. Information on the concept of fair trade is too little and not enough accessible. Like the amount of information, it is also important the quality of them to design the concept of fair trade. Information show lack of credibility and are unverifiable. This has a negative impact on the attitude towards the concept of fair trade.

*H<sub>2</sub>: In Slovenia, Fair Trade products have limited availability on the market.*

There are only a few suppliers of Fair Trade products in the market. Final consumers do not know where they can get specific products. It definitely has a negative impact on the success of the concept of fair trade.

*H<sub>3</sub>: In Slovenia, there are many opportunities for the promotion of old crafts and activities through fair trade.*

Attitude of respondents to the integration of old crafts and activities of the FT concept of fair trade will be positive. They will recognize the opportunity to improve conditions for business and for individuals, who are operators through participation in fair trade concept.

## **Measures**

In processing the data of our empirical research, there were used factor analysis, analysis of the reliability and validity of scales, descriptive statistics and analysis of variance statistics and statistics on structural equations. Data was collected through a survey questionnaire. The questionnaire was composed of two parts. The first part was consisted of questions based on the aforementioned research related to all the main constructs: visibility of information about FT, position to FT and to FT products was consisted of 7 questions. In the second part of the questionnaire, we investigated the potential for including the FT products of Slovenian origin. For rating, we used the 5-step Likert scale.

## **Sample**

Sample for our study we obtained with the so called principle of snowball. The sample was consisted of 258 units of which 253 were useful. The limit of usefulness was at least 90% of responses. Reliability of the measurement instrument was tested by using Cronbach alpha, which was in the case of our study higher than the standardized value 0.700.

## Results

Validation of our first hypothesis can be divided into two parts. We will try to find the answer on research questions: (i) whether the information are quantitatively sufficient or not, and (ii) do they have sufficiently good quality.

Table 1: The amount of information about FT

	N	Min.	Max.	Average	Deviation rate	Mode
There is not a lot of information about FT products and about activities of the companies that sell them.	253	1	5	4,07	0,83	4
There is not a lot of information about FT.	254	1	5	3,98	0,82	4
There could be more information available on whether the company is »moral« or »socially-oriented«.	253	1	5	4,23	0,65	4

The first three questions are as focused as a hypothesis. Modus is in the classroom where they agree with the argument: for question 1 is 45.8%, with 53.1% for question 2 and for question 3 is 50.6%.

Table 2: Results of analysis of variance amounts of information on FT

Test value= 3,75	t	Degrees of freedom	Characteristic rate	Average differences	95% confidence level for the arithmetic mean	
					Lower limit	Upper limit
There is not a lot of information about companies that sell FT products.	-6,157	252	,000	- ,32229	-,4254	-,2192
There are not a lot of information about FT.	-4,532	252	,000	- ,23400	-,3357	-,1323
There could be more information available on whether the company is »morally« or socially-oriented».	-11,841	252	,000	- ,50301	-,5867	-,4193

As we can see from the results, we can with a 95% level of confidence claim that the arithmetic mean across all issues is significantly higher than 3.75.

Table 3: Quality of information about FT

	N	Min.	Max.	Average	Deviation rate	Mode
The origin of products often cannot be detected.	251	1	5	3,37	0,87	3
FT is not clearly defined concept.	253	1	5	3,19	0,94	3
The concept of FT should have been consistently and clearly explained.	254	1	5	4,03	0,73	4
Information's about FT that are available have low quality.	251	1	5	2,96	0,95	3

The quality of the information available in the majority of respondents assessed comparatively worse. The reported data are not sufficiently clear, too complicated or inadequate to improve the knowledge about FT. On questions about the clarity of the concept FT respondents partly agree and partly disagree. This confirms with the reply that the concept of FT should be consistently and clearly explained. Most consumers (54, 3%) agree with that.

Table 4 shows that with a 95% level of confidence the arithmetic mean across all issues do not differ statistically from the value of 3 in the last question "Is there available only poor quality information about Fair Trade?

Table 4: Results of analysis of variance in the quality of information on Fair Trade

Test value = 3,00	t	Degrees of freedom	Characteristic rate	Average differences	95% confidence level for the arithmetic mean	
					Lower limit	Upper limit
There are low quality information about FT.	,747	252	,456	,04453	-,0729	,1619

Table 5: Availability of products FT

	N	Min.	Max.	Average	Deviation rate	Mode
Buying FT products demands special effort.	253	1	5	3,27	0,99	4
Knowledge about FT market Slovenia.	253	1	5	3,29	0,86	4

In analysing the responses class rating 3 (partly agree and partly disagree) with 82 responses and Class 4 (agree) with 85 responses, we see that they are about the same. When asked "Does buying products FT demand special effort" the answers show that the number of outlets with products FT should be higher.

Table 6: Results of the test for the variable in relation to the availability of products PT

Test value = 3	t	Degrees of freedom	Characteristic rate	Average differences	95 % confidence level for the arithmetic mean	
					Lower limit	Upper limit
Buying FT products demands special effort.	-4,266	252	0	-0,26446	-0,3866	-0,1424

Determined arithmetic mean is statistically not different from the hypothetical arithmetic mean.

Table 7: Suitability of products of Slovenian origin to qualify for FT products

	N	Min.	Max.	Average	Deviation rate	Mode
Lace of Idrija	255	1	5	3,77	1,16	4
Pottery	255	1	5	3,71	1,04	4
Woodenware products	255	1	5	3,80	1,01	4
Handmade jewellery	255	1	5	3,31	1,21	4
Pumpkin seed oil	255	1	5	3,82	1,08	4
Apple Cider Vinegar	255	1	5	3,62	1,09	4
Dried fruits	255	1	5	3,72	1,04	4
Products of Disability organisations	224	1	5	3,82	1,07	4

Table 8: Frequency distribution for Slovenian products that would be included in the FT (in %)

	1– strongly disagree	2– disagree	3–partially agree, partially disagree	4– agree	5– strongl y agree
Lace of Idrija	4,8	8,0	13,6	<b>46,0</b>	27,6
Pottery	2,8	6,8	20,1	<b>50,6</b>	19,7
Woodenware products	2,4	4,4	20,1	<b>50,6</b>	22,5
Handmade jewellery	5,3	15,1	26,5	<b>38,4</b>	14,7
Pumpkin seen oil	4,0	5,6	17,2	<b>46,4</b>	26,8
Apple Cider Vinegar	4,0	8,8	24,0	<b>42,4</b>	20,8
Dried fruits	2,8	8,8	20,8	<b>46,0</b>	21,6
Products of Disability organisations	5,4	5,4	19,8	<b>41,4</b>	27,9

Table 9: Results of the test for the variable of the products from Slovenian origin for qualifying them as FT products

Test value = 3	t	Degrees of freedom	Characteristic rate	Average differences	95 % confidence level for the arithmetic mean	
					Lower limit	Upper limit
Lace of Idrija	10,619	254	0	,77255	,6293	,9158
Pottery	10,971	254	0	,71373	,5856	,8418
Woodenware products	12,579	254	0	,79608	,6715	,9207
Handmade jewelry	4,074	254	0	,30980	,1601	,4596
Pumpkin seed oil	11,988	254	0	,81176	,6784	,9451
Apple Cider Vinegar	9,103	254	0	,62353	,4886	,7584
Dried fruits	11,063	254	0	,71654	,5890	,8441
Products of Disability organisations	11,423	223	0	,81696	,6760	,9579

In addition, we did the test of arithmetic mean to check if identified arithmetic mean statistically differs from the hypothetical average (3). Test confirms the findings.

## Discussion

Results of our study confirmed the hypothesis  $H_1$  according to which there is insufficient information about FT in Slovenia. This applies to both, quality and quantity of information. The study also confirmed that there are only a few providers of FT products on the market. Final consumers do not know where they can get specific products. This definitely has a negative impact on the performance of the concept of FT. Compared to the total number of outlets and answers to both questions can be concluded that buying products of FT represents unique effort. Therefore, the  $H_2$  is also confirmed.

Economic development in the past, industrialization and globalization trends have led to the point where individual areas in Slovenia and

individual groups of people found themselves on the periphery. We will explore the possibility in including some items specific to Slovenia, like Woodenware products and *Idrija lace*, or products of less developed regions of Slovenia (pumpkin seed oil, slices, pottery, apple cider vinegar), products of individual groups (disabled people's organizations) and other (handmade jewellery). Based on the above results, we can conclude that the products of Slovenian origin are eligible to be included in the sale under the brand name FT. Of course, current concept of FT is directed into third world countries and in the context of existing FT, Slovenia as a country of the EU, cannot join. But there is not any obstacle for connecting artisans and producers in the frame co-operatives in particular "Slovenian FT", which combines the above. We wanted to know what consumers think about this. Would they buy Slovenian products? Their response was more than excellent. Therefore, we believe that we need a serious consideration about integration of small producers, which would allow them primarily easier breakthrough on the market and better bargaining position. According to the obtained results of our research,  $H_3$  is confirmed.

## Conclusion

In the last twenty years we have witnessed social, economic and cultural changes in Slovenia; from the so called planned economy and restricted goods to transition and post-transitional excessive consumerism. All of these changes have influenced through cultural, social, personal and psychological factors on consumer's behaviour. In the last decade consumers became more susceptible to moral consumerism through a variety of sources of information. Since 2004, Slovenia has the first FT, which has undoubtedly a positive impact on the development of this form of ethical consumerism in Slovenia. Our empirical study showed that in Slovenia there is a lot of consumer's interest in purchasing Slovenian "ethical" products and in the establishment of the Slovenian FT in the form of social enterprise. This form of internal FT already exists in Italy, where local cooperatives sell wine, oil, soap, vegetables and fruits, mostly from the South. It is possible that adoption of the law on the promotion of so-called social entrepreneurship in Slovenia at the beginning of the year 2012 and current not only economic but actually widespread social crisis, are the key factors for the further successful development of start-up social enterprise.

With entering FT in Slovenia, a form of ethical consumerism has developed, which we call *positive shopping*. In the future, it is necessary to devote additional efforts to inform consumers. Information, in addition to other factors in the social environment, will be critical for the development of other forms of ethical consumerism. Survey results

certainly give its contribution to the theory of ethical consumerism. But at the same time, in post-socialist transition countries like Slovenia it seems to be necessary to pay more attention to the ethical development not only of consumers but also of entrepreneurs and managers as well, in order to achieve a level of business morality similar to their colleagues in the developed western countries. It is hard to believe that the managers would voluntarily engage in Corporate Social Responsibility initiatives and implement good practice if they do not show a lot of *moral responsibility* in their own system of values<sup>1</sup> and patterns of business conduct. Therefore, we consider the urgent need for further research in this field, which is obviously neglected, and relates to the impact of the moral responsibility of individuals (entrepreneurs, managers, etc.) on a company's social responsibility" (Jelovac, 2012: 32).

Finally, we need to explore in the future research different forms and ways of ethical consumerism in Slovenia, because only at the basis of such studies we can discover what the actual state of affairs at this field look like. In this context, it will be also necessary to explore the development of social entrepreneurship in Slovenia in the near future.

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<sup>1</sup> For example, the results of the recent survey, carried out by Dejan Jelovac, van der Wal and Ana Jelovac (Jelovac et al., 2011) clearly showed "that a manager in Slovenian business is less likely to behave responsibly on the basis of their moral motives than their Dutch colleagues" (Jelovac, 2012: 32). This empirical study "examined private and public sector organisational values on a sample of 400 managers, indicate that the moral value of "responsibility i.e. accountability" was ranked in 12th place by both sectors (out of 20 organizational values set) [Jelovac et al., 2011: 137]. In the Netherlands, representing an "old" EU member, a similar study was previously carried out with the same methodology on a sample of 382 managers from both sectors which indicated that the same value (i.e. accountability) was ranked at the 2nd place in the public and 6th place in the private sector. The organisational value of "sustainability" fared even worse with Slovenian manager, in the private sector it is ranked to 14th place and in the public sector it reaches 16th place [Jelovac et al., 2011: 137] (Jelovac, 2012: 32).

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