

# **Fair Trade in Sustainable Development The evidence from Poland**

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## **Abstract**

The paper presents some of the results of empirical research conveyed in Poland focused on the diagnosis and assessment of the development of the market for Fair Trade (FT) products. Here the focus is on answering the question if a market niche for FT product exists and how to develop this market by communication tools. The idea of Fair Trade is analysed in the broad theoretical context which shows the FT contribution to sustainable development, its relation to corporate social responsibility, as well as some economic justification for founding the supply chains of its products. The economic justification is given by transaction cost theory (TCT) but the existence of a market segment for FT product is considered as a necessary precondition of its successful development. In Poland, although it exists, it is still very small. Public policy, aimed at raising the awareness of the idea of Fair Trade, is necessary as well as marketing activities like social marketing Internet campaigns and better FT products display.

## **Key words**

Fair Trade, sustainable development, corporate social responsibility, consumer attitude

**JEL Classification:** M14

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## **Introduction**

The intense competition for scarce resources and globalization processes which started in the second part of XX century sparked a debate about side effects of these processes which include degradation of natural environment as well as growing disproportion of income between well and low developed countries. United Nations and other international institutions at the end of the century alerted world society and launched campaigns towards more sustainable development which meet the needs of current generations without compromising the ability of future generations to meet their own needs. Fair trade

contributes to sustainable development by offering better trading conditions to, and securing the rights of, marginalized producers and workers, especially in the South. The concept of FT trade is possible in the societies of the countries where consumers have freedom of choice (they are sovereign) and take responsibility for the decisions made. Its progress, as well as contribution to sustainable development, is monitored in the well developed countries but there is still lack of knowledge how the situation looks in so called transition economies like Poland.

In Poland, sustainable development is entered in the Basic Law (Article 5 of the Constitution of the Republic of Poland). This is also the subject of governmental documents; *inter alia*, *Strategia Edukacji dla Zrównoważonego Rozwoju* [*Strategy of Education for Sustainable Development*] (Ministerstwo Środowiska, 2008). This opens up the opportunity to introduce the Fair Trade concept to the programmes on sustainable development and sustainable consumption.

Fair Trade is relatively new, noble and at the same time, controversial. Adherents usually pay attention to the moral, solidarity and ethical aspect of the Fair Trade concept. Opponents try to prove harmfulness of Fair Trade to the global economy. Certainly Fair Trade is not the first concept which tries to reconcile the objective of economic and social activity.

This paper discusses the idea of Fair Trade, sustainable development and corporate social responsibility in the context of some challenges of contemporary economy which include the competitiveness of supply chains. Per analogy to CSR it is shown that in supply chains of fair-trade products the reduction of transaction costs is possible. The assumption is made that in order to be successful the market segment for FT product must exist. Its identification is the main goal of the research whose methodology and results are presented.

#### **Fair trade as an option to conventional trade**

Fair Trade (FT) is not an organization but rather a movement or general concept which could be traced until XIX century although it has been developed in the western nations for the last 40 years (Brussels Rural Development Briefings, 2014, p.4). The growing popularity over the last three decades results from increasing interaction of corporations in its networks and more specifically fair certificate bodies (Reed, 2009). FINE (the name comes from founders - four Fair Trade networking organizations - FLO, IFAT, NEWS, EFTA) has defined FT as trading partnership, based on dialogue, transparency and respect which seeks greater equity in international trade (Brussels Rural Development Briefings, 2014, p.4). FT tries to become the alternative to conventional trade in a contemporary economy characterized by the aggressive competition directed towards cost reduction. Cost reduction in global economy is often achieved by the use of lower-cost labour (Kogut, 1985) by production in or procurement from developing nations (Stafańska and Stefański, 2015, p. 89). It raises the problem of unequal income distribution which makes rich richer and poor poorer.

Fair trade organizations, backed by consumers, are engaged actively in supporting producers, raising awareness and in campaigning for changes in the rules and practice of conventional international trade” (Fairtrade International, 2013, p.7). The key players are: Fair Trade Producers which usually represent co-operative or associations in developing countries, retailers which sell FT product to the consumers and other organizations e.g. The Fairtrade Labelling Organization. So originally Fair Trade was only a movement whereas now it is institutionalized and organizations labelling the products play an important role. In a narrow sense FT means buying the product from the producers in developing countries on terms that are more favourable than free market terms and

marketing those products in developed countries at the “ethical price premium“ (De Pelsmacker, Jamssens and Mielants, 2005, p. 51, Stefańska and Nestorowicz, 2015, p. 35). The concept of sustainable development was introduced for the first time by the World Commission on Environment and Development in 1987 and it was defined as “Development which meets the needs of current generations without compromising the ability of future generations to meet their own needs” (Brundtland Report, 1987, p.11). The Commission stresses that it means not only counteracting degradation of the environment, but also attitudes towards meeting needs of the society as a whole (fight against destitution and poverty), pursuit to set up the market system based more on cooperation than competition as well as in opposing degradation of the cultural variety and tradition (Dąbrowska, et. al., 2015). So FT contributes to sustainable development by offering better trading conditions to, and securing the rights of, marginalized producers and workers – especially in the South, due to the fact that it defines the terms and rules of cooperation between producers, intermediaries and final buyers (Nicholls 2002, p. 7 ). Fair Trade has become an excellent part of the Millennium Development Goals adopted by the UN in 2000 (UN, 2000), as it contributes to a stable and sustainable development and helps to combat poverty. By choosing the Fair Trade products consumers can exert a real impact on improvement of living standards of the poorest communities.

The milestone for advancement of sustainable development and implementation of its programmes into local life is Agenda 21 which is one of the basic documents of the United Nations Conference on Environment and Development (Earth Summit) which took place in Rio de Janeiro, in 1992 (Percy and Schrock, 2014). The document, and its strategic nature, includes a set of recommendations and direction of measures to be taken for sustainable development in the perspective of the 21<sup>st</sup> Century and how to plan the social and economic development so as not to harm the natural environment. Both rich and poor countries have different problems, and their development is an outcome, *inter alia*, of the lifestyle of residents of a given region. Agenda 21 sets forth for each social group, both formal and informal, an important role in the process of sustainable development. In this sense, it concerns directly consumers, also as well as their attitude towards Fair Trade. The consumers become more and more aware of the consequences of their buying decisions so e.g. in the EU countries a product label should include full information about the product as well as the country of its origin. So, on the one hand, products’ suppliers have to seek ways to reduce costs especially in the area of purchasing and logistics whereas, on the other hand, changes in consumers’ behaviour forced them to look for new sources of competitive advantage (Stefańska and Stefański, 2015, p. 97). It means that new areas of competition have been opened which include corporate social responsibility and fair trade.

Parallel with the Fair Trade concept institutionalization, big corporations like. supermarket and hypermarket chains started to be involved in selling Fairtrade products and include these activities in their corporate social responsibility reports. The concept of CSR has also evolved, which resulted in many definitions of the term (Dahlsrud, 2008), but one of the most cited, which is also recognized by the European Commission sees CSR as “a concept whereby companies integrate social and environmental concerns in their business operations and their interactions with the stakeholders on a voluntary basis” (Commission of the European Communities, 2001, p. 8). So the concept of Fair Trade when applied by corporations fits perfectly. CSR nowadays, as pointed out by Dinu (2011, p.6), “...does not mean charity, nor study for the public relations department, but a smart investment, bringing benefits not only for the company, but also for the entire community, as it contributes towards: improving the relationship with the community (clients, suppliers, authorities); influencing the targeted audience, key leaders, press, etc.” The CSR strategy

should also contribute to company competitive advantage (Porter and Kramer, 2006, Miron, 2011). It raises the question if engagement in selling Fairtrade products could bring profits to the intermediaries.

Taking the view of Christopher (1992) that nowadays competition among individual companies is less important than among the supply chains, managers have to strive to achieve the effective and efficient supply chains which are able to create the competitive advantage (Christopher and Peck, 2004). J.M. Cruz (2009) noticed that companies are more and more interested in including CSR practices in supply chain management; therefore CSR in SCM could be considered as the next stage for SCM development (Śmigielska, 2013). Growing interest in FT and the problems of supply chain management encourage K. Karjalainen and C. Moxham (2013) to investigate the possibilities of integrating Fair Trade and Supply Chain Management Research. They provide the structure of FT supply chain in which alternative trading organizations (ATOs) play an important role. It differs from the global supply chains. *inter alia* the distance from the producer to the consumer is shortened. It reduces the transaction costs which could be also reduced due to good reputation, reduction of uncertainty and improvement of the information about the partners in transaction (Vuta, et.al., 2007).

But what is really crucial for the success of FT products is consumer attitude. Consumer preferences and attitudes have fostered the FT movement. Consumers finally “vote” for its further development by their buying decision. So the strategies of supply chains delivering the Fairtrade products are rather pull than push. Knowing their preferences and promoting sustainable consumption plays an important role in addressing global problems. Key in changing consumption behaviours towards sustainable ones is increasing our knowledge about the current state of consumption behaviour (Percy and Schrock, 2014).

## **Market for Fair Trade product in Poland – results of the research**

### **Research objective and methodology**

Implementation of the project “*Rynek produktów Sprawiedliwego Handlu w Polsce*” [Market for Fair Trade Products in Poland], financed by resources of the National Science Centre, No. 2011/03/B/HS4/03727, carried out at the Instytut Badań Rynku, Konsumpcji i Koniunktur (Institute for Market, Consumption and Business Cycles Research), was the first attempt of a complex diagnosis and assessment of the Fair Trade market in this country.

The main objective of the research was the diagnosis and assessment of the development of the market for Fair Trade products in Poland. Findings of the empirical research (qualitative and quantitative) carried out within the project in summer 2013 allowed for acquisition of new knowledge on consumers, particularly on their purchasing behaviour towards products with the Fairtrade logo and the level of consumer awareness.

The research outcomes provided an answer, *inter alia*, to the questions: Who is the consumer of Fair Trade products ?

Within the framework of qualitative research focused on recognition of the Fair Trade products awareness by Polish consumers, there were conducted:

- 4 focus-group interviews (FGI) with consumers of Fair Trade products.
- 10 undisguised participant observations with consumers of Fair Trade products.
- 11 interviews with experts.

In turn, within the framework of quantitative research, the following four separate surveys were carried out:

- the preliminary study, the omnibus *Poles on Fair Trade*, on the national representative sample (N=1002 at the age of 15-74 years);
- two surveys, the omnibuses *Big cities inhabitants on Fair Trade* were carried out in towns inhabited by more than 100 000 residents (N=295);
- the survey, *Consumers of Fair Trade products*, the standardised questionnaire-based interview (face-to-face interviews) with 400 consumers choosing those products at POS of Fair Trade products in five cities: Kielce, Poznan, Warsaw, Wroclaw, and the Tricity (Gdansk, Gdynia and Sopot).

### Demographic and economic profile of consumers of Fair Trade products

The Fair Trade idea – as the idea connected with the guarantee of fair remuneration for the work being performed, and the reduction of the distance between the producer and the consumer – does not arouse any great interest in Polish consumers. The interest in it was declared by a slightly more than 1/3 of the respondents (35%), of which 30% are rather interested; the others (65%) are not interested. It should be stressed that 21% of the respondents are definitely not interested.

The individuals interested in Fair Trade are primarily women, most often buying foods for households, therefore have more opportunities to learn about the Fair Trade products. The biggest accessibility (the biggest number of POS) of those products is in big cities (with more than 500 000 inhabitants), what certainly affects consumers' awareness of the FT idea.

The consumer interested in the Fair Trade idea is at the age of 50-59 years, resides in an agglomeration above 500 000 inhabitants. He/she is a married person, well-educated (with higher education) and working, free of financial troubles (their household's monthly income exceeds 1 200 EURO, and the consumer's net monthly income is above 600 EURO) – Table 1.

Table no. 1. Profile of consumers interested and not interested in the idea of Fair Trade

Consumers		
Interested in FT		Not interested in FT
Woman	Sex	Man
50-59 years old	Age	Up to 39, 60+ years old
Cities above 500 000*	Residence	Cities 100-500 000.*
Married	Marital status	Divorced/in separation
Higher	Education	Primary
Working*	Vocational status	Out of work*
Above 600 EURO*	Respondent's net monthly income	Up to 365 EURO*
Above 1 200 EURO*	Respondent's household net monthly income	486-714 EURO

\*Statistically significant dependence

Source: author's own research "*Polacy o Sprawiedliwym Handlu*" [Poles on Fair Trade] (N=1002)

### **Perception of the idea of Fair Trade. Sources of information**

The term Fair Trade in its Polish version (*Sprawiedliwy Handel*) is poorly recognisable. Poles are more familiar with the term in English, Fair Trade. The term Fair Trade is often associated with a whole spectrum of topics related to conscious consumption, *inter alia*, with the struggle for fair working conditions at industrial enterprises, with buying products directly from producers, or with less frequent shopping in the commercial chains known for unethical attitudes towards employees and the natural environment.

The key was presentation of FT as an aid system – here the impact of FT on individual farmers was primarily emphasised. FT was then narrowed to Fairtrade certified products and it was mainly perceived as a way of subsidising farmers from poor countries of Asia, Africa and South America. The aid role of FT was primarily emphasised by the individuals who searched for Fair Trade products occasionally, and they were interested in the issues of working conditions in the countries of Global South exclusively on the occasion of reports on accidents related to failure to observe the safety standards (as in the case of disaster at the clothing factory in Bangladesh in 2013).

The basic source of information on the Fair Trade idea indicated by consumers was the Internet. For consumers buying Fair Trade products the main source of information on the Fair Trade idea, besides Internet (32%), were also friends (29%). Other sources of information, such as newspapers/journals, shops, radio and TV as well as labels/packaging, are of minor importance.

### **Discussion**

The results of the research show that there is a market niche for the FT products. The FT products consumer, aged 50-59 years, often women, reside in an agglomeration above 500 000 inhabitants. He/she is a married person, well-educated (with higher education) and working, free of financial troubles (their household's monthly income exceeds 1200 EURO, and the consumer's net monthly income is above 600 EURO)

It is generally consistent with the J. Memery, P. Megicks and J. Williams (2005) findings being the result of studying a quite wide spectrum of research conveyed to segment the consumers according to their specific ethical and social responsibility concerns. They reported that most of the literature has identified ethical and socially responsible consumers as being younger, well-educated, idle and upper class (Kinnear et.al., 1974, Arbutnot, 1977, Van Liere and Dunlap, 1980), and predominantly female. Besides these characteristics life style is also important as far as environmental issues are concerned (Webster, 1975, Anderson and Cunningham, 1972). The only discrepancy concerns age, which is the result of the fact that generally young people could not afford to take the other criteria that quality for money in their buying decisions. The characteristics of the lifestyle in the research conveyed in Poland have not been taken into account.

Referring to the communication process the results of Percy and Schrock (2014) have been supported which means that social media which combine Internet and friends could play a crucial role in raising awareness and knowledge about FairTrade. Further research on big international chains operating in Poland as well as government involvement in the FT promotion could be undertaken to contribute to general knowledge about “state- of-the -art” of this phenomenon.

### **Conclusion**

Fair Trade movement contributes to sustainable development. This concept draws more and more consumers' and intermediaries' attention in well developed countries. It turns out that, as in the case of CSR, selling the Fair Trade product could raise the competitiveness of a

supply chain due to the reduction of transaction costs and targeting the consumers from the market segment which is growing. These consumers are prepared to pay the premium price to contribute to sustainable development.

As far as Poland is concerned the growth of demand for FT products will depend on overcoming the barriers which include: the lack of consumer knowledge, low purchasing power as well as changes in the conviction of the need to resolve the priority, national social and ecological problems. Fairtrade certified products should also be better displayed. Educational activities targeting all age groups, and focusing on the youngest consumers, whose buying behaviour is being shaped, should not be neglected. In the opinion of buyers of FT products, what should mostly encourage Poles to buy the products complying with the Fair Trade concept are social marketing campaigns on the Internet and in magazines as well as better displays of Fairtrade products in the shops.

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