

FairSource:

Responsible Enterprise Development through

Trade in Services

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Abstract

The impact of trade on sustainable development depends on the nature of the relations created through trade. FairSource brings the benefits of trade to local economies by fostering empowering trade relations for independent enterprises. FairSource is a system of trade based on responsible entrepreneurship, access to opportunity, and human rights. FairSource is proving that small, independent enterprises can successfully compete in the global marketplace while maintaining high standards of social and environmental responsibility. ifPeople utilizes the FairSource standard to enable viable enterprises in Latin America that deliver high quality Information Technology work and also are socially responsible. This paper presents the concept of Fair Trade and its application to services in the FairSource model. Two case studies are presented providing perspectives on the use of FairSource and related tools in Latin America by a purchaser of services, as well as on a microenterprise in Argentina that provides FairSource services.

Tirza Hollenhorst is a scientist, writer, and businesswoman. She has worked internationally on corporate social responsibility and sustainable development. As ifPeople's President, she is building a professional services firm dedicated to the success of values-driven enterprises. ifPeople provides management consulting and technology solutions to enterprises across a number of fields.

Christopher Johnson is a physicist turned entrepreneur. He combines a passion for problem solving, a systems perspective and multi-disciplinary knowledge in order to turn today's challenges to creating a more just, sustainable world into opportunities. During five years of working abroad on sustainable development, he was motivated by the need for technology serving human wellbeing. While working in Argentina for Red Puentes and Corporate Social Responsibility projects, he cofounded ifPeople to deliver management and technology solutions to values-driven enterprises. ifPeople is a catalyst for visionary leaders and organizations and has pioneered unique initiatives under his leadership. Christopher drives the development of ResponsibleIT (guidelines for socially responsible information technology companies) and FairSource (a standard for sustainable trade in services). Christopher has been awarded several research fellowships, publishes and speaks internationally, is active in educational, professional, and community organizations, and was a Thomas J. Watson Fellow (1999-2000).

Introduction

The impact of trade on sustainable development depends on the nature of the relations created through trade. While over half of the global economy is now made up of services, there has been little attention to the issue of service economy standards that can promote socially and environmentally responsible business. While an increasing number of businesses are certified under a standard of responsibility, such as SA 8000¹, few standards are relevant to service organizations that wish to improve their social responsibility. FairSource distinguishes socially responsible service firms in order to leverage the growing global trade in services to create empowering trade relations for responsible enterprises.

FairSource provides incentives for responsible enterprise in the global professional services market. FairSource is a system of trade based on responsible entrepreneurship, access to opportunity, and human rights. Thus far, FairSource is proving that small, independent enterprises can successfully compete in the global marketplace and maintain high standards of social and environmental responsibility. ifPeople, a US-based consulting and technology service firm, utilizes the FairSource standard to enable viable enterprises in Latin America that deliver high quality Information Technology work and are also responsible companies. This paper presents the concept of Fair Trade and its application to service markets using the FairSource model. Two case studies provide perspectives on the use of FairSource and related tools in Latin America by a purchaser of services, as well as on a microenterprise in Argentina that provides FairSource services. The paper concludes with a vision for the future expansion of FairSource to other regions, as well as recommendations for use of the standard by other businesses.

Standards for trade in services are virtually non-existent

The overwhelming majority of labor and trade standards focus on agricultural, manufacturing and extractive industries. Service markets have until recently been very local, which minimized global price pressures and also kept short the distance from the provider to the consumer. The relative fixity of services was due in part to the cost of transportation and transmission of data, concerns about security, and lack of infrastructure. However, dramatic increases in telecommunications bandwidth, the more than 50 percent decline in the cost of transmission of data that accompanied it, and an increase in infrastructure have resulted in a dramatic increase of trade in services.² The McKinsey Global Institute estimates that the volume of offshore outsourcing³ of services from the USA will increase by 30 to 40 percent per year for the next five years.⁴

Despite the divergent characteristics of the products of knowledge workers and farmers, trade in services today behaves with similarities to trade in agricultural commodities. Just as produce can originate from

¹ Social Accountability 8000. See <http://www.cepaa.org/>

² Dossini, 2003

³ "Offshore outsourcing" refers to the practice of hiring an external organization to perform business functions in another country. It can be contrasted with "offshoring," in which the functions are performed by a foreign division or subsidiary of the parent company and "outsourcing" whereby services are done by an external company domestically.

⁴ McKinsey, 2003

nearly any country and end up in a supermarket, document digitization and computer coding can be done anywhere in the world, and as long as a certain standard of quality is met, the workers are interchangeable. New professionals from Pakistan to Eastern Europe and China to Brazil are now vying for the same opportunities. Accompanying the growth of international trade in services has been the proliferation of middlemen who set up overseas operations or contract with enterprises abroad. A long supply chain removes the final consumer from the human face of the provider and makes it more difficult to monitor the social and economic situation of the provider. What is to keep this trend in professional business services from following the "race to the bottom" witnessed in other industries (such as agriculture), where increased competition drives prices ever-lower and working conditions deteriorate as suppliers compete for the lowest cost?

Trade in services opens up new opportunities for work and access to information. The opportunity exists to use this new form of trade to foster local economic development and diffuse the practices of Corporate Social Responsibility, just as the Fairtrade standard for agricultural commodities has improved the economic, labor, and social conditions of local producers through the high standards of consumers abroad.

Fair Trade as an inspiration for sustainable trade in services

Fair Trade⁵ is both a business model and a standard that emerged as a response to the effects of falling prices for agricultural commodities on small farmers. The goal of Fair Trade is to provide disadvantaged producers a chance to "increase their control over their own future, have a fair and just return for their work, continuity of income and decent working and living conditions through sustainable development."⁶ In order for commodities to be Fairtrade certified, buyers must pay producers a price that covers the costs of sustainable production and living, as well as a "social premium," which the producers cooperatively invest in development projects such as health care centers and schools. The Fairtrade standard also dictates minimum requirements for the production process, the treatment of workers, and the management of the social premium. Quality is maintained through a certification process that allows the Fairtrade label to be placed on the product package. Consumers of certified products purchase a product with a socially and environmentally responsible supply chain that promotes sustainable livelihoods and contributes to a just business model.

Producers of Fair Trade goods have greater economic and social security resulting from such benefits as advance payment, access to credit, long-term contracts, and community development.⁷ In addition, Fair Trade certifying organizations promote the implementation of more sustainable farming practices like organic farming and cultivation in co-existence with the native forest. Products are bought from co-operatives, and it is the cooperative which receives certification. In order to comply with the standard, cooperatives must establish democratic control and transparent accounting, which is demonstrated to have a positive impact on community cohesion and cooperation. Communities report increases in sharing of productive resources and investments in infrastructure. Without the Fairtrade standards local producers

⁵ Here "Fair Trade" refers to the concept whereas "Fairtrade" refers to the certification and standard as defined by the Fairtrade Labeling Organization.

⁶ Fairtrade Foundation, 2004

⁷ Murray, 2003

have poor access to market information, and without access to credit farmers cannot invest in improving the quality of their harvest.

With the “commodification” of many business services making possible sourcing from distant places, concerns about the conditions under which services are produced will continue to grow. The impact of models of trade in services on local communities will become more evident, as happened with agricultural products. Just as consumers can choose Fairtrade coffee as an ethical decision, a standard for responsible services enables the recognition and promotion of responsible professional firms and a trade model that benefits local businesses and communities. FairSource is intended as a catalyst to shape the trade process and how the outsourcing of services impacts sustainable development.

The FairSource Standard⁸

FairSource extends the principles of Fair Trade to trade in services. The FairSource Standard governs the relationship between the purchaser and provider of services (both are assumed to be enterprises).⁹ The Standard also governs the conditions under which the provider operates, ensuring adherence to international standards. In essence, it provides a code of conduct for the provider that rewards responsible business practices, while assuring the purchaser of the ethical and sustainable business practices used in providing service.

Like the Fairtrade standards, the FairSource standard covers issues of labor and human rights protection. FairSource is unique as a labor standard for the production of services, but it is rooted in ILO Conventions and the ISO approach to management standards and systems. The ILO conventions are taken as minimum standards for labor conditions. In addition, FairSource incorporates longterm development concerns; the standard includes both minimum requirements and progress requirements that encourage enterprises to continuously improve quality, efficiency, responsibility, and accountability. Because service industries generally employ skilled workers managing information, the standard covers issues of professional and business development, data security, and intellectual property rights.

The FairSource Standard codifies a commitment to:

- **Responsible Labor Practices:** The standard covers issues of non-discrimination, freedom of association and collective bargaining, just and dignified wages, adherence to international child labor laws, and the provision of safe and healthy working conditions. As progress standards, enterprises are expected to comply with all local labor laws, establish basic benefits, and develop a negotiated agreement that provides for employee priorities in regards to pensions and leave.
- **Quality Control and Security:** Enterprises must have in place practices that ensure quality control and the security of personal or sensitive data. These practices must be continually updated and annually evaluated to keep up with changing security risks and best practices.
- **Personal and Business Development:** The standard establishes that each individual be able to use 10% of their FairSource time of engagement to be used as paid time for professional development. The standard also establishes a FairSource premium to be paid to the business for business

⁸ FairSource has not been established as a certification to date.

⁹ ifPeople, 2005

development or social benefits, as determined democratically by all employees.

- **Environmental Responsibility:** The service industry is generally dependent on computers and other electronics that contain dozens of highly toxic materials. As a minimum standard enterprises must dispose of electronic waste responsibly and comply with all environmental regulations. Progress standards encourage enterprises to recycle materials and electronics, purchase refurbished electronics from responsible companies, and establish environmental policies.

Case Studies

FairSource has been used since January 2004 by ifPeople, a management and technology consulting firm based in the USA. These case studies outline the experience of ifPeople as a purchaser of FairSource services for (predominantly) US-based clients, and a second case of an Argentine micro-enterprise that has developed through its engagement in the FairSource process.

Case Study: ifPeople (engaging FairSource suppliers)

The co-founders of ifPeople, both US citizens, were based in Córdoba, Argentina when the enterprise was created. After witnessing the Argentine economic collapse of December 2001 and the subsequent rebuilding efforts, they looked for ways to help determined individuals overcome the barriers to entrepreneurship and responsible business in Latin America. FairSource is one such response.

The Argentine domestic economy shrunk drastically starting in late 2001, leaving many people unemployed and creating a glut in the labor market. The high supply of labor and low demand for professional services made it difficult to secure local, quality technology work at reasonable rates. This, in turn, made it difficult to access the best source of business education: experience.

The difficult local conditions are magnified by the arduous process of forming a company, as well as other bureaucratic barriers to doing business in Argentina. The process requires a minimum of 15 procedures and 68 days to create a business in Argentina, compared to 5 steps and 4 days in the USA¹⁰. Access to information for laymen is problematic, making it very difficult to fully understand legal requirements. Some steps require a legal address in the federal capital city, a prohibitive measure for the residents of the rest of the country.

Using the FairSource standard for providers, ifPeople can assist enterprises in overcoming those barriers. By investing in their business development, paying a fair wage for quality work, signing long term contracts, and enabling service providers to access the international market, FairSource service providers gain valuable technical knowledge while self-financing their growth and development.

This is possible for ifPeople because of the company's commitment to responsible business practices and promoting sustainable enterprise. Many of ifPeople's clients recognize the value in responsible business and even seek out such businesses for their outsourced services and also for partnership. FairSource sourcing complements the company's existing strategic positioning and core values.

¹⁰ Djankov, 2004

ifPeople began engaging enterprises and entrepreneurs in Argentina and Chile in January 2004. Initially it was expected that enterprises would comply with the FairSource Minimum Standards before they began working with ifPeople. However, the high cost of maintaining a legal operation and pervasive corruption create culture of clandestine business in which there are few positive role models. As a result, enterprises in Argentina often lack legal status as a company and are not accustomed to addressing issues of Corporate Social Responsibility, which has only emerged as an issue in recent years and is focused on predominantly by large companies as philanthropy. ifPeople's engagement process was thus modified to incorporate a longer period before an enterprise becomes a FairSource Partner. During the engagement process the potential FairSource partner participates in discussions about social and environmental responsibility, and is encouraged to access emerging local CSR resources as well as other FairSource providers to explore the subject. ifPeople has engaged seven enterprises and twenty-two professionals (most of whom are part of an enterprise) through its FairSource sourcing process.

The Process of Engagement Used by ifPeople

ifPeople engages individuals and micro-enterprises for the development and implementation of information technologies. Building a FairSource partnership with IT firms and professionals is an extensive process, designed to ensure the selection of appropriate partners and to allow partners adequate time to comply with FairSource standards. The steps of the process include:

1. **Identify a potential partners** by evaluating skills, work experience, and potential for development of an enterprise and its members.
2. **Conduct Introductory Project(s)** to expose the partner to ifPeople production processes, technologies, and standards. Introductory Projects are conducted with a relationship similar to a typical independent contractor situation, and the projects also generate an initial evaluation of the partner's performance and development goals.
3. **Strengthen the relationship** through additional projects and business development. This stage involves preparation for a FairSource partnership agreement through a dialog about the aspirations of the partner, an introduction to the benefits and requirements of FairSource, and a letter of intent for the long-term development of the relationship.
4. **FairSource Partnership:** a Partnership Agreement is created when both parties are satisfied with the opportunities for development and the provider has achieved the FairSource Minimum Standards. This stage also involves creating a Social Premium plan, Process Standards Compliance plan, and a reporting system.

The relationship is characterized by transparency and fluid communication and accountability for commitments and responsibilities. Partners are given assistance in planning for success in professional and organizational development. ifPeople also provides no interest micro-loans repayable partially or totally with service, which have been used for the purchase of hardware, books, and office furniture.

Addressing Fairness in Cross-cultural Relationships

In order to address transparency and fairness in economic relations that cross cultures and countries, ifPeople created the Dignified Life Style Assessment (DLSA). This tool informs decisions about salaries in ifPeople's efforts to enable sustainable livelihoods and quality of life for our partners and employees. The

tool is based on the work of Manfred Max-Neef, a Chilean sociologist. Max-Neef describes¹¹ nine basic human needs that are constant across all cultures and times. These needs are: Subsistence, Protection, Affection, Understanding, Participation, Leisure, Creation, Identity, and Freedom. The needs are common for all people -- what varies is how these needs are satisfied for each person (ie the "satisfiers"). These satisfiers can be actions that involve (or not) spending money. For the purpose of the ifPeople DLSA, we focus on the economic implications of meeting basic needs, from subsistence needs to those associated with personal aspirations, the need to save money, and plan for time off. We turned the basic needs and common satisfiers into a worksheet that helps partners to assess costs on an annual basis. The resulting spreadsheet of expenses also serves to promote budgeting for partners and exposure to best practices (for example, recommended minimums for saving).

Lessons

The historical economic problems of the Southern Cone region have had a significant impact on professional development. Excellent educational resources combined with long-term unemployment problems create an over-supply of talented people in a market without adequate labor demand. People who are exceptionally talented in their trade have rudimentary professional skills because of a lack of experience and an unbalanced focus on a the single subject area in education. This has created the need to work with partners to clearly articulate expectations, to provide incentives for professionalism, and to provide educational and training resources. Our strategy is to treat each partner as an individual case requiring a uniquely designed program of engagement. ifPeople creates individual performance goals and focuses on balancing technical skills with other professional skills. Emphasizing flexibility in the process enables us to account for diverse work styles and work with the strengths and weaknesses of each individual.

The FairSource provider benefits from greater economic security, investments in their personal, professional and business development, as well as the opportunity to perform meaningful work. Individuals on track to become FairSource partners generally realize gains in the efficiency and professionalism of their work. Those providers who have become partners report improvements in their self-esteem and sense of purpose. FairSource has enabled young professionals, still reeling from the collapse of their economy and the emigration of their colleagues ("brain-drain"), to have a sense of purpose and future in their home country. They appreciate the opportunity to work on projects that contribute to a better world. Because ifPeople works primarily on Free Software, the partners are able to apply their expertise directly to project for the local market.

ifPeople's mission is to make initiatives addressing responsible and sustainable issues of society more successful. Through FairSource, ifPeople is able to provide enterprises with the efficiency and effectiveness gains from high-quality technology at a very reasonable cost. ifPeople's clients are enthusiastic about FairSource. They tolerate grammatical errors in communication in exchange for the excellent service FairSource Partners provide and the opportunity to contribute to economic development in Latin America.

¹¹ Max-Neef, 1989

Case Study: Except (providing FairSource services)

Except is a company founded by three information technology professionals in Cordoba, Argentina. The founders decided to form Except in early 2004, as a result of their dissatisfaction with the quality standards and commitment of local technology companies. Unable to find an employer that would allow them to set high standards for their work, they decided to form their own company. In the startup process, the founders faced challenges created by the political and economic context, as well as their own lack of business experience.

In early 2004, John Lenton began working regularly with ifPeople to provide IT and programming services. In addition to having access to a market for their services, the work also emphasized the quality that Except valued. Toward the end of 2004, Except began sharing space in the ifPeople office in Cordoba. Through work with ifPeople, Except improved their business management skills and realized significant productivity gains. Strategic planning and a long term contract from ifPeople, enabled Except to establish their own office space in March 2005.

Except has actively engaged the FairSource process. They use the Standard as a framework for learning about corporate social responsibility and have conscientiously applied the Standard to their hiring process. Except has developed a plan to use their FairSource premium to provide internet connectivity to local school that currently lack access. They have utilized the professional development allowances to train three additional developers, including a female programmer (a rarity in Argentina). This has freed the founders to focus on higher-value services and business development. Furthermore, their work has created knowledge and skills on specific technologies and services that can be replicated, assisting them in developing a niche in the local market.

The Expansion of FairSource

Application to other businesses and sectors

A company seeking to apply the FairSource standard to their operations should be sure that they are already holding themselves to high standards of responsible business and that they can convey the opportunity for responsible markets to generate enthusiasm from their suppliers. The process of applying FairSource to operations requires management commitment and enthusiasm for change, transparency, and the triple-bottom line benefits of the relationship. It is recommended that companies take a measured, gradual process to introduce new requirements for suppliers and provide adequate resources for questions arising through the process. Overwhelming suppliers with new information and requirements can undermine the process, even with the promise of better wages and premiums.

Companies planning to use FairSource to promote entrepreneurship should be confident that their business model is robust enough to secure long-term contracts for service providers and that they have the internal capacity to manage a complex supply chain. Careful attention must be paid to the selection and development of new businesses. Replicating a single business model amongst service providers that compete in a common market may not promote their longterm economic sustainability; developing differentiated skills of each business can minimize the risk of generating competition between providers.

Governance

The FairSource standard is applied to a variety of services and sectors and can be utilized within the context of domestic or international trade. ifPeople is working to refine the standard and supporting documentation and build an independent authority to oversee the standard as well as its international use and adaptation. As consumers (both business and individual) become more conscious of the supply chain for their professional services, FairSource will be a mark of quality and responsibility for the service industry, increasing the benefit to socially responsible service firms and their communities.

Comments on the standard and participation in FairSource are welcome. Please see www.ifpeople.net/fairsource for additional information or to contact the authors.

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