

Creating Shared Value through Fair Trade Software: Putting the principle of shared value creation into practice: “Fair Trade Software (FTS); Where Open Source meets Impact Sourcing”

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Abstract

Fair Trade Software (FTS) is an economic model that delivers high-quality and cost-effective software for corporate customers whilst simultaneously helping to grow knowledge economies in developing countries. By labelling software (such as corporate websites) produced in this manner with a fair trade label it is possible to clearly signal to end-users and consumers that societal needs are being addressed, adding value for all parties.

The concept of FTS was conceived in 2010 when Dutch IT firm Competa realised that by creating virtual teams with members in developing countries such as Kenya, it would be possible for software development services to meet Fair Trade criteria. Working in virtual teams is common in Open Source development, but by attaching a Fair Trade label a number of interesting economic possibilities open up for various parties involved.

FTS is an example of the principle of shared value creation, defined by Michael E. Porter and Mark R. Kramer as creating economic value in a way that also creates value for society. The concept of shared value recognizes that societal needs, not just conventional economic needs, define markets. (M. Porter, 2011). By paying attention to what constitutes value for various stakeholders, Competa creates value for itself.

Porter and Kramer also recognized that the transformative power of shared value is still in its genesis - this is confirmed by Competa's experiences. Competa is learning valuable lessons that contribute to making the project a success and add to the body of evidence that exists around the concept of Shared Value Creation.

This paper describes the concept of Shared Value, identifies stakeholders in FTS, and shows how value is created for each party. It also describes the challenges Competa has faced in getting the FTS project started, and why the project is currently gaining pace.

This paper has been written by Competa IT BV in cooperation with The Hague University of Applied Sciences. We invite further collaboration.

Contents

Abstract.....	3
1 Introduction	5
2 Methodology	6
3 The concept of Shared Value Creation.....	8
3.1 Creating Shared Value	8
3.2 Creating Shared Value in relation to other known concepts.....	9
4 The Competa Fair Trade Software Project.....	12
4.1 Fair Trade Software	12
4.2 Impact Sourcing or Fair Trade?	13
4.3 The Fair Trade Software Foundation	13
4.4 The Fair Trade Software Foundation Model.....	14
4.5 Impediments, setbacks, obstacles and false starts	15
4.6 Current status	17
4.7 What's next?.....	18
5 How the model creates value for each stakeholder in practice	18
5.1 Partners.....	18
5.2 Providers	19
5.3 Customers	20
5.4 Consumers	21
5.5 Academia	21
6 Conclusions	21
Appendix 1 Evolution of the FTS concept.....	25
Appendix 2 Agile software development, offshoring and FTS.....	27
Appendix 3 The 10 principles of fair trade and how Fair Trade Software complies.....	28
Appendix 4 Criticisms of Fair Trade and how FTS circumvents or resolves these.....	30
Bibliography	Error! Bookmark not defined.

1 Introduction

Stakeholder Inclusiveness, Embedded Sustainability, the Sustainability Sweet Spot, Triple P, Impact Sourcing, Bottom of the Pyramid marketing and Creating Shared Value. A growing selection of concepts that share the premise that value for companies goes beyond economic value, and is not only created for shareholders but a whole variety of other stakeholders. Shareholders are only one of a large group of stakeholders in a company; to segregate shareholders from stakeholders assumes a duality that does not necessarily exist. A company's ability to sustain itself clearly depends on its ability to generate profit and a return on investment (ROI) for its shareholders/owners. However, to focus exclusively on ROI may also jeopardize the ability of a company to sustain itself - acknowledging what constitutes value for other stakeholders is also vitally important. Taking shared value as a starting point can open doors to opportunities a company would have been blind to if it were to focus on one dimensional shareholder value.

Creating shared value (CSV) (or Shared Value Creation, SVC) can be complicated because of the diverse interests of each stakeholder. Attempts to optimize value for one stakeholder can have a negative effect for others and numerous examples of this exist, for example a retailer optimizing prices for the consumer may negatively impact employees whose wages may be limited as a result. Finding ways to create social, environmental and/or economic value for all stakeholders simultaneously is the recipe for sustained success.

This paper looks at the opportunities and challenges of CSV/SVC. It does so by describing the concept of CSV as introduced by Mark Kramer and Michael Porter in 2011, and other concepts that share the premise of shared value. We then look at the Fair Trade Software (FTS) project as an example of CSV in practice. Looking at the evolution of FTS, the challenges and how perceptions and thoughts matured, we compare practical experiences with the theoretical concepts of CSV.

This is a work in progress: the developments are ongoing and so are the opportunities and challenges that derive from it. Feedback from experts in the field is welcome and collaboration is invited.

2 Methodology

Literature survey

Secondary data was reviewed through desk research using a range of information sources including but not limited to, academic and commercial abstracts, and Internet search engines such as Google Scholar and Metacrawler. Academic and commercial abstracts included World Bank reports, the Harvard Business review and reports produced by the Rockefeller foundation on impact sourcing. The World Fair Trade Organization website was used amongst others as basis for deliberations on fair trade.

Field Research & data collection

As the number of projects involved is limited, the data analysis consists of a practical description of each stage of the Fair Trade Software project. This shows how the theory of creating shared value has developed in practice.

Descriptive Case Study

Organisations or programs are often so new that little information exists in secondary data sources regarding the workings and impact. In such situations *qualitative case studies* are a research methodology that helps gain a certain level of insight. Case studies also are popular for exploring “innovative” policies and programs designed to facilitate entrepreneurship. Yin, in *Case Study Research Design and Methods* (2003, p. 13), defines case study research as “an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident.” Yin further proposes that the phenomena (e.g. new business start-ups) and its context (e.g. the local business and community environment) may not be readily distinguishable, thus he suggests that the case study definition includes characteristics stipulating data collection and analysis requirements.

In addition to the literature research that was conducted in order to conceptualise a theoretical framework for this study, a single-case embedded case study was performed describing the evolution Dutch IT firm Competa’s service, Fair Trade Software. The main source was Andy Haxby, owner and director of Competa.

The experiences of an entrepreneur and an IT company in the context of Creating Shared Value provide insight into the mainly anecdotal experiences of the different stakeholders (i.e. partners, consumers, government, suppliers, etc.). How added value works in practice is described for the various stakeholders.

Strengths & Weaknesses

Several aspects of the research design are imperfect. The data is “real life” in the sense that a company has been chosen as the source of the data. However, the studies involve “small-n” data and therefore conventional empirical techniques cannot be used, or where they are used, they may have limited application as there may not be enough data to meet requirements for statistical significance (Yin, 2014, p. 21).

Information collection for a case study, especially through personal interviews, may not accurately reflect the situation. A biased response may result from cognitive dissonance and/or a retrospective view of the case on the part of the individual interviewed argues that individuals filter information through a belief structure shaped from experiences, and “biased” interpretations may result from researchers’ pre-conceived ideas of environments and relationships (North 2005). One can reduce the likelihood of biased interpretations by increasing the number of perspectives. Another method one can use is to increase the number of individuals analysing the case study data. This research paper does not include the failures and atypical cases, or the insights these cases provide in terms of external factors and causal relationships. A multitude of cases would have reduced sample bias selectivity, but considering the unique situation and the limited timeframe this was not feasible. This exploratory and descriptive case study serves as an example of the potential benefits of a different approach, and is therefore a valuable first step into a promising field of research. The intention is that this will stimulate further research and emulation by other firms.

3 The concept of Shared Value Creation

This chapter introduces the concept of Shared Value Creation and describes how Shared Value Creation relates to other theories that are also based on the premise of shared value, but from different angles.

3.1 Creating Shared Value

Creating shared value (CSV) is a business concept first introduced in Harvard Business Review article *Strategy & Society* by Porter & Kramer in “The Link between Competitive Advantage and Corporate Social Responsibility” in 2006.

The concept was further expanded in the January 2011 follow-up piece entitled “Creating Shared Value: Redefining Capitalism and the Role of the Corporation in Society”.

Written by Michael E. Porter, a leading authority on competitive strategy and head of the Institute for Strategy and Competitiveness at Harvard Business School, and Mark R. Kramer, Kennedy School at Harvard University and co-founder of Foundation Strategy Group.

According to Porter & Kramer “business has increasingly been viewed as a major cause of social, environmental, and economic problems” (Porter & Kramer 2011 p. 4 par. 1). They also argue that almost paradoxically the more business has begun to embrace corporate (social) responsibility, the more it has been blamed for society’s failures and that ‘diminished trust causes political leaders to set policies that undermine competitiveness and sap economic growth’ (Porter & Kramer 2011 p. 4 par. 2) In other words, stakeholders are losing faith, and conventional methods to restore faith are failing. A big part of the problem lies in the fact that over the past few decades companies continued to view value creation narrowly, optimizing short-term financial performance, whilst ignoring broader (stakeholder) influences that determine their longer-term success (Porter & Kramer 2011). Societal ‘problems’ have been ceded to stakeholders such as governments and to NGOs. Paraphrasing Milton Friedman in his critique on Corporate Social Responsibility; “The business of business is doing business. It is time to reassess though what doing business actually implies.” (Friedman 1970 p.1 par. 2).

The solution according to Porter & Kramer lies in the concept of shared value, which involves creating economic value in a way that also creates value for society by addressing its needs and challenges. Value is defined as benefits relative to costs, not just benefits alone. The concept of value has long been recognized in business, where profit is revenues earned from customers minus the costs incurred. However, many businesses have treated societal issues as peripheral matters. The concept of shared values argues that societal needs not just conventional economic needs, define markets, and social harms can create internal costs for firms (Porter & Kramer 2011).

Porter & Kramer stress that CSV is not the same as Corporate Social Responsibility (CSR). CSR in many businesses is an add-on and has only limited connection to core business. As a result it is hard to maintain and often the first to go when the companies faces economic

hardship. “Corporate responsibility programs - a reaction to external pressure - have emerged largely to improve firms’ reputations and are treated as a necessary expense. CSV on the other hand is integral to a company’s profitability and competitive positioning. It leverages the unique resources and expertise of the company to create economic value by creating societal value” (Porter & Kramer 2011 p. 5 par.2).

The primary motivation for businesses to embrace the concept of CSV is the fact that once they do it acts as powerful driver for innovation. By understanding what constitutes value to others, and how your business can help build that value using its own capabilities, stakeholders that were previously seen as parties on the opposite side of the table may suddenly become potential partners. In the process of doing this synergies can be created which add value for your own business. In the FTS project described below we see how instead of viewing overseas software companies as competition, Competa collaborated creating employment for local parties in Kenya. By doing this Competa was able to innovate for customers, creating a potentially lucrative new business line. This example shows that embracing societal value as a driver for business value opens doors of innovation and business opportunities, and demonstrates that well thought out partnerships help both sides to create value. To achieve this requires a mind shift in attitude, as businesses need to stop assuming that in order to provide societal benefits companies must temper their economic success. The FTS project shows how the reverse can be true.

Porter and Kramer identify three distinct ways to create economic value by creating societal value:

1. *By reconceiving products and markets*
2. *By redefining productivity in the value chain*
3. *By building supportive industry clusters at company’s location*

Each of these is part of the virtuous circle of shared value; improving value in one area gives rise to opportunities in the others (Porter & Kramer 2011 p. 5, Section: Idea in Brief).

The ability to create shared value applies equally to advanced economies and developing countries, and although the opportunities will differ they are available to every company. The more a company is able to create value for stakeholders, the more a company is able to sustain itself.

3.2 Creating Shared Value in relation to other known concepts

Fair Trade

Fair Trade is a social movement that aims to help producers in developing countries by giving them a higher price for their produce and by selling and promoting their products and services. “Fair Trade is a trading partnership, based on dialogue, transparency and respect that seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, marginalized producers and workers – especially in developing countries. Fair Trade Organizations, backed by consumers, are engaged actively in supporting producers, awareness raising and in campaigning for changes in the rules and practice of conventional international trade” (World Fair Trade Organization, 2009). In order for a product or service to be Fair Trade it needs to

meet the 10 Fair Trade Principles established by the World Fair Trade Organization (Appendix 3).

Although fair trade certainly incorporates shared value, it is not aimed at optimizing value in general, rather it is in protecting and optimizing value for a specific stakeholder: suppliers. This model has arisen because suppliers are very often the least powerful group in a value chain, especially in the agricultural sector, and as such are dependent on the more powerful parties in the chain. This is in contrast to the CSV, “Shared value is not about “sharing” the value already created by firms –a redistribution approach. Instead it is about expanding the total pool of economic and social value” (Porter & Kramer 2011 p. 5, par 4)

The subtle differences between these two approaches does not mean that they cannot lead to similar results, in fact they may coincide as is the case with Competa, where Fair Trade has been used as a tool to create shared value. The CSV concept however is less idealistic than fair trade, and considerably more flexible due to the absence of any rules or constraints regarding how it may be conceived or implemented.

Impact sourcing

Impact Sourcing is commonly defined as employing people from poor and vulnerable communities in business process outsourcing (BPO) centres to provide information-based services and other microwork to domestic and international clients.

The difference between traditional outsourcing and Impact Sourcing is that the process of outsourcing is done in a socially responsible way, which implies actively thinking about societal impact when selecting outsourcing partners. Outsourcing has the potential to transform the lives of disadvantaged people around the world by providing employment where it is needed, whilst simultaneously benefiting international corporations and governments with cost-effective products and services. Studies show that incomes for young people in Africa can increase between 40% and 200% because of impact sourcing opportunities— further amplified by the social and economic benefits for their families and communities. Buyers of impact sourcing services can spend 40% less than the average established urban BPO centers because of five key elements: low cost, reliable delivery, access to alternate talent, stable workforce, and social benefits. (Rockefeller Foundation & William Davidson Institute, 2013).

Impact Sourcing can suffer from problems common to all forms of outsourcing, such as communication difficulties due to physical distance and cultural differences. This can be an issue in software development when “agile” techniques are used. Agile software development and the problems encountered using agile methods in outsourcing are described in Appendix 2.

Impact Sourcing can also suffer from some of the same perception problems as CSR. In many businesses it is optional, or an add-on with limited connection to the core business. As a result it can be hard to maintain and is susceptible to cut-backs when companies face economic hardship or change strategic direction. Unless it is clear that the business motive is not solely driven by economic cost reasons, and that there are genuine intentions towards

societal benefits, “greenwash” criticism can be hard to avoid. Socially responsible intentions must be substantiated, showing how investment is made in the communities performing the outsourced work, and how outsourcing is a primary driver to reduce extreme levels of poverty.

The difference between Impact Sourcing and SVC as implemented by Competa with FTS, is that societal impact is embedded into the FTS business model. The relationship between Competa and partners in developing countries is one of *symbiosis* and *mutual dependence*. Competa is not just benefiting from cheap labour and doing the socially right thing by reducing poverty, rather continued involvement in growing the IT sector in developing countries forms core business. In this way, Competa is able to escape greenwash criticism.

4 The Competa Fair Trade Software Project

Competa IT BV is a Dutch software and IT services firm currently employing around 45 staff. The company was founded in 1997 to design, build and maintain IT infrastructure for large corporations in the Netherlands. Customers include well-known oil companies, banks and telcos. Since 2006 the company has been involved in software development, with specific expertise in Front End web development. In September 2014 the company split into two separate divisions for IT infrastructure and software development, and Competa Group was formed. Competa has a track record of business innovation, examples include pioneering use of Linux based desktop computing in Generally Embargoed Countries, and the development of automated trading for financial markets.

In 2010 it was clear that the economy was entering recession. Competa was looking for ways to create unique selling points (USPs) and open new markets as a defence against falling demand and fierce competition. Recognising the need to innovate for customers, Competa initially conceived the FTS concept as a way of providing customers with a low-cost CSR solution, thereby creating a new market for Competa's software development services.

4.1 Fair Trade Software

The Internet and Open Source software development practices make it possible for virtual teams to collaboratively develop software, regardless of geographical location. Android and Linux operating systems, and the Mozilla web browser are examples of high-quality software products that have been developed in such a way.

Competa realised that if programmers located in developing countries were integrated in Competa's own teams, employment would be created in the developing country, knowledge and skills transferred, and the sector could be seeded or grown. Working in this way can meet the criteria for Fair Trade, and so the resulting products could bear a "Fair Trade" label. Appendix 3 shows how 10 Fair Trade Principles established by the World Fair Trade Organization can be applied to software development.

If Competa's customers, mainly large corporations, were to use this model to develop products such as websites, their own customers would see a recognisable Fair Trade label which they may identify positively with. In this way the customer's reputation would be enhanced, and so they would benefit from a CSR or marketing solution in addition to the software. There would be a genuine benefit for the customer, Competa, and importantly people employed in IT in developing countries. This is an example of "the virtuous circle of shared value" (Porter, & Kramer, 2011 p. 6 par.3) - if end consumers did not care about social issues it would not be possible to create the opportunities in developing countries.

Although simple in concept there have been many obstacles and it has been a challenge to turn FTS from a concept into reality. Appendix 1 describes how FTS developed from an

interesting idea to differentiate Competa from its competitors, to a holistic approach that creates multiple value for a wide range of stakeholders.

4.2 Impact Sourcing or Fair Trade?

Whereas offshored projects are placed entirely in the hands of the overseas supplier, FTS is international collaboration - people located in different countries joined together in virtual teams. Whilst FTS is emphatically not offshore outsourcing, it is still a form of Impact Sourcing. Impact Sourcing is defined as “employing socioeconomically disadvantaged people in Business Process Outsourcing” (Rockerfeller Foundation, 2013 p. 7 par. 3). In the FTS model, an end customer in the OECD outsources a software development project to an IT company also located in the OECD. Because the IT company collaborates with partners in socioeconomically disadvantaged regions, the criteria for Impact Sourcing is met.

However, the concept of Impact Sourcing is not widely known by the general public, whereas Fair Trade is. By using a Fair Trade label on software products such as corporate websites, companies are able to demonstrate their sustainability commitment to their own customers, in a way that is easily recognised and understood. This adds value and creates an economic driver for businesses to use the FTS model which otherwise would not exist. Whilst FTS is a form of Impact Sourcing, the use of the Fair Trade “brand” is the key to unlocking shared-value for companies who wish to use FTS, and therefore for the other parties involved.

Use of the FTS brand is optional, products created using the FTS model are not obliged to use the FTS brand or carry the logo. It is possible to utilise the same business model but derive added value in other ways, such as by building reputation in developing economies, or by finding some other means to capitalise on the social value created.

4.3 The Fair Trade Software Foundation

Fair Trade is a movement, not a registered trademark or brand, although in order for a product or service to be generally accepted as Fair Trade it needs to meet the 10 Fair Trade Principles established by the World Fair Trade Organization (Appendix 3). The term “Fair Trade” is not owned by any one organisation, so Competa was able to simply “invent” Fair Trade Software. Feasibility studies with existing customers revealed that in order for Fair Trade Software to be credible there would need to be more than one party involved, and the process would need to be defined and governed by a recognised body, as with other Fair Trade Labelling organisations. Without this any attempt by Competa to sell Fair Trade Software services on it’s own would be regarded as a sales gimmick.

Existing Fair Trade labelling bodies such as the Fair Trade Labelling Organization and the World Fair Trade Organization were contacted to see if they would be able to approve Competa’s use of the term Fair Trade through some form of recognised certification. This proved problematical, as most certification schemes certify specific products rather than the

company that produces the products. Furthermore, there was little experience of Fair Trade services, and no experience with, or understanding of, software development in the Fair Trade context.

The World Fair Trade Organisation (WFTO) has a fair trade certification scheme and mark which identifies registered Fair Trade Organizations, (as opposed to products in the case of FLO International and “Fairtrade” mark), and so, being an organisation involved in Fair Trade, Competa was able to join the WFTO. A separate body had to be created to define standards for FTS, and how the production of FTS would be audited and regulated. To this end a Dutch registered non profit organisation, the Fair Trade Software Foundation (FTSF), was formed in March 2012 to apply the internationally recognized Fair Trade model to the IT industry. Director of Competa Andy Haxby and Dr. Neil Carmichael currently form the Board, applications for other members are invited. Two staff members were hired, a lawyer to assist in translating the framework for existing Fair Trade initiatives into a form workable in the software industry, and a media professional to help develop communications and write content for websites and other media.

4.4 The Fair Trade Software Foundation Model

Sale of fair trade products is almost exclusively a business-to-consumer (B2C) transaction. In contrast, software firms operate in a B2B environment rather than B2C which imposes constraints. In order to be viable it is important that the FTS model does not rely on charity, idealism or philanthropy - there has to be a value proposition that addresses the needs of each stakeholder or the concept will not work. A chain of four key stakeholders were defined, each with one or more perceived requirements which would have to be satisfied by FTS:

- Consumers are members of the public who show a purchasing preference for companies with demonstrably good social responsibility. They need ways to differentiate between companies in order to select where they will spend money.
- Customers are mid- and large-sized corporations who need to find innovative ways to demonstrate CSR in order to build reputation, attract and retain customers. It is important that activities related to sustainability are risk-free and do not add cost or reduce quality, and it is desirable to find ways of adding real value.
- Providers are mid-sized IT companies located in the OECD, supplying software development services to the mid- and large-sized corporations in their own market. They operate in a highly competitive market and are under threat from larger organisations or cheaper offshore competitors. These companies need to find creative new ways to drive sales and open new markets.
- Partners are small IT companies located in developing countries who wish to collaborate in projects to produce software using the FTS model. Lack of opportunity to improve skills means that these companies are frequently disadvantaged. They often struggle to grow and are barred from participation in larger projects in their own

economy due to perceptions that local companies lack capability. (World Bank 2012). These companies need training, knowledge transfer opportunities and a proven track-record of participation in projects at an international quality standard in order to demonstrate capability and win business in their own market.

The FTS model is designed to satisfy the needs of each stakeholder by using the Provider as a bridge between Customer and Partner. Because the Provider is in the same region as the customer, it is possible to work closely with the business and use agile methods (Appendix 3, Agile software development and offshoring). The Provider handles all customer-facing aspects of the project and is responsible for all management, design, quality and implementation elements. The customer has no need for contact with remote Partners unless they desire to, but is assured that social benefit results from the project. From the customer's perspective the software delivered is identical in price and function to something produced entirely locally but with the added value that the customer is able to advertise their involvement to creating social benefit to their own customers or consumers. There is no additional risk or cost associated with working in this way compared to employing conventional, local software development firms, and over time there may even be some cost benefits.

In order to encourage adoption of the FTS model, low barrier to entry was a key requirement. The FTS framework has been designed in such a way that it is very easy and low cost for companies to become Providers or Partners. In particular the framework does not require any up-front investment by Providers. Providers can be registered for the duration of individual projects, after contracts for software projects with end customers have been agreed.

Fair trade product rules define how much of the contribution to the final product has to come from partners in developing countries in order to be able call the product Fair Trade. This rule proved difficult to translate into the software industry. The fair trade content cannot be measured in terms of lines of code or number of components delivered, and has to be more about degree of involvement, knowledge transfer and capacity building. Details can be found on the Fair Trade Software Foundation website, <http://www.ftsf.eu>.

The FTS model has also been designed to address the common criticisms of fair trade. Appendix 4 lists common criticisms, and how the FTS model circumvents or resolves the problems.

The FTS Foundation website itself was the first pilot project undertaken with partners in Kenya to test the model. Conditions for accreditation, software process standards, application forms and other documents can be found on the Foundation website, <http://www.ftsf.eu>

4.5 Impediments, setbacks, obstacles and false starts

"If you are going through hell, keep going" - Winston Churchill

The combination of a number of problems meant that progress with the project between 2011 and 2013 was frustratingly slow, causing concern that partners may lose interest due to lack of tangible progress.

Forced restructuring

Between January 2011 and November 2012 ABN AMRO bank placed Competa in forced financial restructuring, despite financial good health. This appears to have been an attempt by the bank to achieve their own internal balance sheet restructuring in a similar manner to the widely publicised UK “Tomlinson Report” (Tomlinson, 2013). During the period spent in “restructuring” Competa was instructed by the bank to cease investment in the FTS project, nonetheless work continued although significantly disrupted. A personal appeal was made to the board of ABN AMRO. The appeal made reference to the bank’s own statements regarding CSR and showed ways in which the FTS project may be able to create shared value for the bank. No response was received.

Considerable tenacity was required to survive this period, but ironically the experience provided considerable motivation for FTS. Despite public claims to be sustainable, the bank’s actions are an example of how some large corporations “view value creation narrowly, optimizing short-term financial performance, whilst ignoring broader (stakeholder) influences that determine their longer-term success” (Porter, & Kramer, 2011 p. 4 par. 2). The financial industry was already subject to considerable criticism, and it seemed likely that further public criticism regarding the treatment of businesses would be inevitable. Public opinion has the ability to change the behaviour of corporations, and the increasingly negative reputation of large enterprises such as banks strengthened the conviction that there would be an increase in the number of organisations wanting to act in demonstrably sustainable ways, and hence a growing market for FTS existed.

The forced restructuring is currently (October 2014) being investigated by the Dutch Financial Ombudsman. The Netherlands Authority for Financial Markets is conducting a wider investigation into the activities of restructuring groups in Dutch banks, confirming that “the concept of shared values argues that societal needs not just conventional economic needs, define markets, and social harms can create internal costs for firms” (Porter, & Kramer, 2011 p.5 par.1)

Lack of kickstart finding

The basic framework for FTS had been developed in 2011 and the first half of 2012 at relatively low cost. Financial constraints imposed by forced restructuring meant that external funding seemed necessary to maintain and further develop the initiative. Once credibility could be built to the level where customers would be willing to commit to paid projects, the FTS Foundation would become self-sustaining through fees levied on use of the logo.

The Dutch Government Ministry of Economic Affairs ran a Private Sector Investment (PSI) program (now discontinued) to provide funding for businesses investing in developing countries, including Kenya. The PSI scheme was not available for non-profit organisations, or EU based entities, so Competa applied for PSI funding to start a Kenyan subsidiary as a joint venture with partners DewCIS and BTI Millman. Marketing and promotional activities could then have been run from the Kenyan company instead of the FTS Foundation. The

PSI application was incredibly time consuming and expensive, as consultants had to be employed to prepare the application. Moreover the PSI scheme was designed for providing capital for equipment purchase for agricultural and manufacturing projects, making application for an IT project difficult. A PSI application submitted in 2012 was rejected on the grounds that “there was no market for IT services in Kenya”. The application was rewritten and resubmitted in 2013. The second submission was also rejected, on the grounds that the proposed activities “would distort the local market”.

Sales

Finding customers for FTS projects proved more challenging than initially expected. The point of entry into customer organisations for Providers such as Competa is usually management within the IT department. Field research with existing customers showed that whilst IT managers were generally very enthusiastic about the concept, procurement systems are designed to evaluate service providers against a narrow range of requirements which do not take into account the benefits of the FTS concept. To find someone within a customer organisation able to award contracts based on the merits of FTS requires going higher in the management structure, at or near Board level in most corporations. Companies like Competa do not generally have access to contacts at this level, making direct sales difficult or impossible. For this reason sales effort was suspended pending development of a workable sales strategy.

4.6 Current status

Several factors combined to allow FTS activities to restart early in 2014, and progress has accelerated since.

Over the course of 2013 Competa adopted agile methods internally to manage the company itself, treating Competa as a “Product”. Competa is one of the first firms to adapt agile methods for business management, and it has been very successful. Working in this way has allowed seemingly colossal projects to be broken into smaller parts that can be productively worked upon by members of staff without requiring a large investment of time to understand the project as a whole. This freed time for Competa staff to work on FTS and opened up the possibility for using University placement students to move FTS forwards. In February 2014 two interns from the Hague University of Applied Sciences began work on a number of projects including FTS. A partnership has grown with the University which is proving very fruitful, giving Competa access to skills and experience not present in the company whilst providing the University with opportunities for study and placements.

Cambodian software company Web Essentials Asia had been considering a similar business model to FTS. Following discussions they joined as a Partner in February 2014 and now are actively involved in the project.

Due to WFTO rules regarding the proportion of fair trade related business activity within a company and use of the WFTO logo a UK-based startup company, FairSource Ltd, has been appointed as sales agent for Competa’s FTS services. FairSource will be fully operational in Q1/2 2015.

The first commercial FTS project is under construction and due to be delivered in November 2014. Although a relatively small project, it is expected to receive media attention and will act as a showcase for FTS capabilities. The project is described below.

A draft sales strategy is in place; a sales drive will begin in 2015.

4.7 What's next?

The medium-term goal is to find a corporate customer for FTS. This will prove the concept, generate funds to progress the initiative further, and provide a reference case study making it easier to find subsequent customers. The FTS model lends itself well to medium-size projects with budgets in the region of €200,000 - €1,000,000, for example development of web software products such as e-commerce solutions, marketing tools, product catalogues, social engagement tools, customer support portals, events management, ticketing and booking systems etc.

In order to achieve that goal further work is required to build the credibility of the FTS model, including academic critique. A number of questions remain, including whether the model proposed should continue to be called FTS, or whether there is a better term that highlights SVC in a way that appeals to both corporate customers and consumers. It is recognised that large corporations may not feel comfortable with associating with fair trade, or may perceive that it is expensive or lower quality. Further research is required to understand this better - academic or other interest is welcome.

5 How the model creates value for each stakeholder in practice

This section compares real world experience with theory. The FTS is a work in progress and it has not yet been possible to test that the theory works as intended for all stakeholders. The first commercial project is only just being completed and the opportunity to work on larger projects for corporate customers has not yet presented itself. Nonetheless, the results so far are surprising, as additional value has been created in ways that were not anticipated.

5.1 Partners

To date, three Partners have registered with the FTSEF, two in Kenya (BTI Millman and DewCIS) and one in Cambodia (Web Essentials Asia). Interest has been shown from other organisations in Ghana, Nepal and Bolivia.

The assumption of the FTS model is that it will provide Partners with access to markets otherwise denied, and the opportunity to learn global industry best practice by collaborating in projects with more experienced staff from Providers. It was anticipated that Partners would benefit from training, and gain experience in project management techniques, building

capabilities that would enable them to participate in larger and more complex projects in their own location. This has been demonstrated in practice.

Collaborative teams from Competa and BTI Millman worked on a number of small pilot projects. The first challenge was to set quality expectations and acceptance standards. Once this was done, the Kenyan developers learnt new software techniques extremely quickly. The Kenyan developers were not used to working in larger teams, so the experience of how to manage a collaborative project was valuable. The fact that BTI Millman took a lot away from the few small pilot projects is self-evident from the quality of their own website, <http://www.btimillman.com>.

Even though the projects have been small in value, collaborating in international projects with more experienced developers has allowed BTI Millman to develop the skills necessary to engage in their own market at a higher level. Involvement in international projects has improved credibility, helping recruitment and retention, and is leading to stronger sales in the Kenyan market. This has happened much more quickly than was expected.

Dunstan Machoka, Director of BTI Millman, has expressed his appreciation of the partnership and credits involvement in FTS for playing a major role in winning the African Business Awards 2012, held in London.

5.2 Providers

Competa IT BV in the Netherlands is currently the only active FTS Provider. FairSource is a UK startup that will join as a partner in 2015. Web Essentials Asia has business associates in nine countries including Switzerland, Germany and the Netherlands. Some of these will act as Providers on a per-project basis.

The assumption of the FTS model is that it would furnish Providers with a USP to attract business from corporate customers. As no sales effort has been made to attract corporate customers yet, this assumption has not been tested. However, other significant benefits are evident.

A number of small pilot projects have been run in collaboration with BTI Millman. Competa funded these projects so no direct financial gain has been derived. Nonetheless Competa has benefitted unexpectedly in a number of ways that have significantly affected company performance. The last few years have been difficult for many Dutch IT companies, but despite setbacks Competa has significantly out-performed sector rivals, with profits increasing against a general backdrop of reduced profitability. Part of the reason for this seems to be that it is far more satisfying to pursue commercial goals when there is clear social benefit as well. The FTS project has given the company a sense of purpose which competitors may lack - motivating staff, improving recruitment and retention, and enhancing the company's reputation.

For the Provider, there is an overhead as a result of working with remote staff and it was uncertain the extent to which this would add costs or be a burden. The inconvenience of

working with staff at different locations was found to be minimal, as the Open Source community have developed tools and working practices which make this possible - indeed many software developers routinely work from home. The most significant overhead has come from ensuring that staff at the Partners are able to deliver code of an acceptable standard and contribute to the project in a meaningful way. This requires considerable investment in ongoing training and project management. It was found that the additional overhead costs are mitigated by considerable cost savings as a result of employing staff in lower-cost economies making the net result cost-neutral. It seems likely that as Providers and Partners work together on multiple projects working relationships will be built that overcome initial differences, eventually leading to a cost benefit.

Involvement in the FTS project has brought Competa into contact with other organisations, notably the University of Applied Sciences in the The Hague. The company has benefited from access to interns who have helped develop Competa's communications department and it is felt this will aid the long-term growth of the company.

A further unexpected opportunity has also presented itself in Kenya and East Africa where possibilities exist for joint ventures with Partners in mid-sized projects.

5.3 Customers

No attempt has yet been made to attract corporate customers. However, pilot studies have demonstrated that significant shared value can be created, an example is the Urbanisator project.

Competa's offices are in the Plaspoelpolder, an industrial area of The Hague that is suffering from a poor image and a large number of vacant office spaces. As part of an initiative by the local council and businesses to stimulate a revival of the area (the "Urbanisator"), an online application is being built to allow entrepreneurs and startups to pitch business ideas to property owners with empty premises. Property owners can then decide to provide office space at reduced rates for an initial start-up period, with an agreement to enter into longer term rental contracts if the business succeeds. There was insufficient budget to build the Urbanisator application at normal commercial rates, so Competa agreed to develop the application at low cost to provide on-the-job training for junior staff and as a further pilot of the FTS model. The Urbanisator application is an example of SVC in itself, as:

- Entrepreneurs and startups have an opportunity to grow their businesses in good facilities at affordable prices and with flexible rental terms, improving their chances of success.
- Property owners receive income without committing to long contracts at unfavourable prices which would damage the capital value of property.
- Both the image and prosperity of the Plaspoelpolder improve as properties are filled, stimulating the recovery of the area. New businesses stimulate further growth, contributing to the local economy.

The project has been designed and architected by junior staff at Competa who gained hands-on training and experience of running a software project. BTI Millman has participated in building software components, and will be responsible for long-term maintenance and development of the application. The website is due to go live in November 2014 and will be the first commercial application to have been developed using FTS. We are expecting significant media exposure as a result of the project.

5.4 Consumers

Consumers care about the sustainability credentials of a business and it can be a consideration when making purchasing choices. Ethical issues are entering the mainstream, consumers increasingly wish to shop ethically and require clearer navigation of the ethical categories (Martinez and Poole 2009).

In the FTS model the expectation is that customers will gain a favourable impression of companies or products that use Fair Trade Software labelled websites, and that this will influence purchasing behaviour. It has not yet been possible to test the impact a website bearing the FTS label has on consumers and end users. A survey is planned to measure public reaction to the Urbanisator website after it goes live in November.

Anecdotal evidence suggests that public reaction to FTS will be favourable.

5.5 Academia

An unexpected stakeholder that has emerged from the FTS project is academia. The project came to the attention of The Hague University of Applied Sciences. Competa as a company and its approach to CSV will be the subject of a research project that will lead to the first Competa sustainability report. This project will increase Competa's own transparency and act as a communication tool to promote FTS and the Foundation. Collaboration with Universities gives access to a large resource pool of talent that can progress the work of the Foundation through internships. A number of activities are in progress to generate the funds required to support this, such as online merchandising and sale of FTS T-shirts.

6 Conclusions

FTS implements a model for software development that stimulates growth of knowledge economies in developing countries, whilst avoiding problems sometimes experienced with offshore outsourcing related to physical and cultural differences. From a customer's perspective the software delivered is identical in price and function to something produced entirely locally but with the added value that the customer is able to advertise their involvement in creating social benefit to their own customers or consumers. There is no

additional risk or cost associated with working in this way compared to employing conventional, local software development firms.

The concept of Shared Value Creation is definitely achievable in practice, and the Competa FTS project demonstrates this. The value that is created does not have to be financial, there are other forms of currency such as training opportunities, reputation building, or removing impediments to organisational growth - SVC initiatives can produce unexpected results.

It should be noted that whereas Impact Sourcing and fair trade are concepts and frameworks, SVC is something different - an approach to problem solving that requires a degree of lateral thinking in order to spot opportunities. The eventual solution may combine ideas from other concepts or frameworks as is the case with FTS.

The FTS model clearly creates shared value for participants, and has SVC at its core. However, the original intention was not to create shared value - the project was born out of the need to differentiate Competa from competitors, create USPs and find compelling reasons why customers would buy IT services. SVC was seen as the way to achieve this - leveraging social impact to engineer a way to drive customers to Competa's door. This confirms Porter & Kramer's statement that *"Creating shared value is not philanthropy but self-interested behavior to create economic value by creating societal value."* (Porter & Kramer p. 17 par. 5)

Porter and Kramer also state

"Ironically, many of the shared value pioneers have been those with more-limited resources—social entrepreneurs and companies in developing countries. These outsiders have been able to see the opportunities more clearly."(Porter & Kramer p. 15 par.8)

This is *not* ironic, as it is not contrary to what is expected. Shared value pioneers are often entrepreneurs because the ability to create shared value is a key factor in entrepreneurial success. In the book "How To Get Rich" entrepreneur Felix Dennis gives an example of how one might create a successful brewery business. The fictitious business plan is based on using bottle caps to run a lottery with the proceeds funding education and orphanages. Shared value creation comes as second nature to successful entrepreneurs, but it is not viewed as such. Entrepreneurs see SVC as creating markets (Dennis 2006).

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Appendix 1 Evolution of the FTS concept

The inspiration for Fair Trade Software came in 2010 after reading about the economics of Fair Trade coffee in *The Undercover Economist* (Harper, 2005). At the time, Competa was involved in a project with students from Hogeschool Zeeland, where Competa designed and lead a project whilst the students did most of the coding. University staff (the customer) worked closely with Competa development staff, but there was no need to meet the students as everything was done electronically. It was not much of a leap of imagination to realise that the students could have been located in a developing country, and if so it could meet the criteria to be called Fair Trade.

Competa was looking for ways to generate business, not ways to create social benefit per se. Experience gained innovating for customers in Financial and Oil industries had taught that it is much easier to win business by solving customers' problems than it is providing routine services. How could Competa innovate for customers, and help them to help their own customers?

At the time large corporations were increasingly concerned with CSR. It was felt that since Fair Trade products are popular with consumers, companies deploying Fair Trade labelled software would make a favorable sustainability impression on consumers. This would be an easy way for companies to implement CSR solutions, and as a result it would be easier to sell Competa's software development services and avoid price competition. If customers were to buy software services from Competa instead of a competitor, they would get a "free" CSR solution as well as the software. Working in this way would also create a real social benefit, by helping developing, predominantly agricultural, economies grow a modern knowledge economy.

Competa had no experience of conducting business in developing countries and so the idea was not progressed until a chance conversation with former Shell executive, Dr. Neil Carmichael in December 2010. Dr. Carmichael had recently retired from Shell after many years of experience growing business in countries such as Bangladesh and Turkmenistan, and was keen to assist in developing the FTS initiative.

Kenya was selected as an obvious choice to run a feasibility study as the country is relatively stable, has a good education system and is considered a leader for IT within Africa (World Bank, 2012). The potential of digital employment for youth and other marginalised groups in Kenya is recognised. (Wausi, A., Mgendi, R., and Ngwenyi, 2013). Kenya also benefits from use of English language and a time zone only one hour away from the Netherlands. Dr. Carmichael, assisted by the Kenyan Embassy in The Hague and the British Embassy in Kenya, arranged a number of meetings with interested parties in Nairobi early in 2011.

From the outset Kenyan government officials were helpful and enthusiastic, and helped make contact with local entrepreneurs. Discussions were held with a number of companies and individuals at the Nairobi iHub. It was clear that many young Kenyan software developers had the right level of education and IT experience to participate in international

teams, but would need training with technical best practices and project management. Meeting the Kenyan developers was inspiring - they were motivated, cooperative and keen to be involved in any way possible.

Most local Kenyan companies were unable to spot the opportunity offered by FTS. They did not appreciate the size of potential projects, nor did they understand why customers in the EU would want to develop software in this way (Fair Trade products are produced in Kenya but not usually sold there). Preoccupation with the daily struggle to keep themselves in business prevented them from seeing wider horizons. Fortunately two companies had both the vision and the time to participate, and partnerships were agreed with DewCIS and BTI Millman.

Visiting Kenya made apparent the challenges faced by the country's growing IT sector. Low perception of quality and trust, and limited exposure to foreign innovations and markets have been identified as "key roadblocks to Kenya's success" in IT (World Bank, 2012). It was clear that FTS could help remove these roadblocks. Currently most large Kenyan IT projects, for example government projects, are outsourced to firms mostly in the US and India as there is limited local capability. By helping to build local capability FTS makes small steps towards helping developing economies reduce trade deficit.

Appendix 2 Agile software development, offshoring and FTS

In the past software projects were managed using “waterfall” techniques, a sequential design process in which progress is seen as flowing steadily downwards through a series of phases from conception through to implementation and maintenance. This lends itself well to offshoring as a clean break can be made between the activities conducted in one country and the other, separated by a legal contract. However waterfall software development has fallen from favour because it does not cope well with changing business requirements. Businesses wanting to develop software products such as corporate websites or internal business systems are increasingly using modern “Agile” project management techniques such as Scrum. Agile techniques have grown in popularity in recent years as they integrate software development teams closely within a business, and allow rapid reaction to changing business requirements. Generally, the use of Agile techniques is perceived to result in high quality software that is more fit for purpose, and a lower rate of failed projects. (Moksony, R. 2013), (Adell, L. 2013).

Use of agile techniques requires extremely close collaboration between certain members of the software development team (such as Scrum Masters and Designers) and those responsible for the product in development. When using external suppliers, this means that key members of the software development team work closely with customer teams, often based on-site with the customer for long periods of time. This creates a practical requirement that team are located physically close to the customer and understand local business culture - ideally from a local firm. Internally within the development team the use of Open Source development tools and practices means that individual team members may be located in a geographically different region, provided key members are physically close to the customer. In this way distributed or virtual teams are still able to work Agile and produce very high quality products.

Offshore firms may use agile methods internally but the most important part of the process, the customer/developer interface, will not be agile unless staff from the offshoring company are sent to work on-site with the customer for long periods of time. This is increasingly common, but adds cost and travel overhead, and cultural difference problems may exist. Furthermore, the need for short feedback cycles between teams and the customer’s business increases the pain of differences in time zone.

The FTS model is a collaboration between local firms (Providers) for customer-facing tasks and remote firms (Partners) for internal development team functions. In this way FTS implements a model for software development that stimulates growth of knowledge economies in developing countries, whilst removing problems experienced with offshore outsourcing related to physical and cultural differences. From a customer’s perspective the software delivered is identical in price and function to something produced entirely locally but with the added value that the customer is able to advertise their involvement to creating social benefit to their own customers or consumers. There is no additional risk or cost associated with working in this way compared to employing conventional, local software development firms.

Appendix 3 The 10 principles of fair trade and how Fair Trade Software complies

1. Employment creation

FTS Providers must be committed to partnering to boost the creation of IT employment opportunities in developing countries, and are audited to ensure commitment. Providers collaborate with Partners to deliver software solutions for international clients which creates career opportunities for graduates in disadvantaged communities, provides access to new markets, stimulates development of a knowledge economy and increases the Partner's ability to compete in local markets.

2. Transparency and accountability

In comparison with other Fair Trade products and services, the FTS model has an extremely short supply chain. FTS projects are carried out according to open book accounting principles, and using a completely electronic process ensures traceability from project proposal through to payment. This makes auditing easier, and reduces the requirement for many aspects of auditing as the potential for corruption is significantly reduced.

3. Fair trading practices

Direct and close working relationships between the Provider and the Partner remove the imbalance of power often created by powerful middlemen. Shortest possible supply chain maximizes opportunity for profit whilst training and knowledge transfer is built into the process.

4. Payment of a fair price

FTS Foundation members sign up to openly published Schedules of Rates. Rates are set in the upper-quartile of the normal rates for the market and there is no middle-man.

5. Ensuring no child labour or forced labour

The IT industry requires skilled, educated workers. By stimulating growth in a sector that does not rely on forced labour and vulnerable groups we hope to act as a catalyst for change in the countries where our partners operate. FTS does not impose unreasonable working hours on Partners or their staff, and encourages implementation of flexi-time systems and working policy based on employee location and personal time management.

6. Commitment to non-discrimination, gender equality and women's economic empowerment and freedom of association

FTS Foundation members commit to treating all employees and stakeholders with respect, regardless of race, gender, religious or political beliefs, disability or age.

7. Ensuring good working conditions

FTS Partners offer clean office environments in safe buildings. Small-scale operations eliminate the problems associated with sweatshops and cramming which are common in

other industries. The software development process does not involve the use of dangerous equipment or substances.

8. Providing capacity building

FTS projects focus on developing the knowledge, skills and performance of Partners by providing:

- Access to international markets
- Mentoring by senior professionals
- Training and experience in the latest technologies
- Training and experience in the latest project management techniques
- The chance to build a demonstrable track record working on large scale projects

9. Promoting Fair Trade

Through use of the FTS logo and symbol on software and corporate communication materials the FTS Foundation and its members promote Fair Trade to customers and their stakeholders. Through partnerships with Universities, the FTS Foundation promotes the concept of Fair Trade among the future generation of business professionals. By applying Fair Trade principles to the IT industry, the FTS demonstrates that every sector has the potential to contribute to this movement. FTS extends Fair Trade into new markets.

10. Respect for the environment

FTS is produced by virtual teams. Products require no transportation, no raw materials and teams are not required to travel for each project. Projects therefore have no environmental impact.

Appendix 4 Criticisms of Fair Trade and how FTS circumvents or resolves these

Fair Trade is widely criticised on a number of fronts. When designing the model for FTS, care was taken to ensure that problems with existing Fair Trade initiatives would be avoided.

“A good example of this difference in perspective is the fair trade movement in purchasing. Fair trade aims to increase the proportion of revenue that goes to poor farmers by paying them higher prices for the same crops. Though this may be a noble sentiment, fair trade is mostly about redistribution rather than expanding the overall amount of value created. A shared value perspective, instead, focuses on improving growing techniques and strengthening the local cluster of supporting suppliers and other institutions in order to increase farmers’ efficiency, yields, product quality, and sustainability. Fair trade can increase farmers’ incomes by 10% to 20%, shared value investments can raise their incomes by more than 300%.” (Porter and Kramer, 2011)

Premiums don’t reach producers (Griffiths, P. 2011)

Existing Fair Trade initiatives rely on the concept of a “Fair Trade Premium”, an additional cost or payment designed to ensure good rates for producers. This requires that end customers pay more for products, essentially a charitable donation or “tax” on purchases. Furthermore it implies that producers are not able to compete on a level playing-field and raises questions about whether some of the premium is siphoned off. In FTS, the additional costs and overheads associated with training and managing a team partly located in a developing country is compensated by the significantly lower wages of Partner staff. This means that FTS can be delivered at exactly the same cost as locally developed software and there is no Fair Trade Premium.

Fair Trade creates dependency

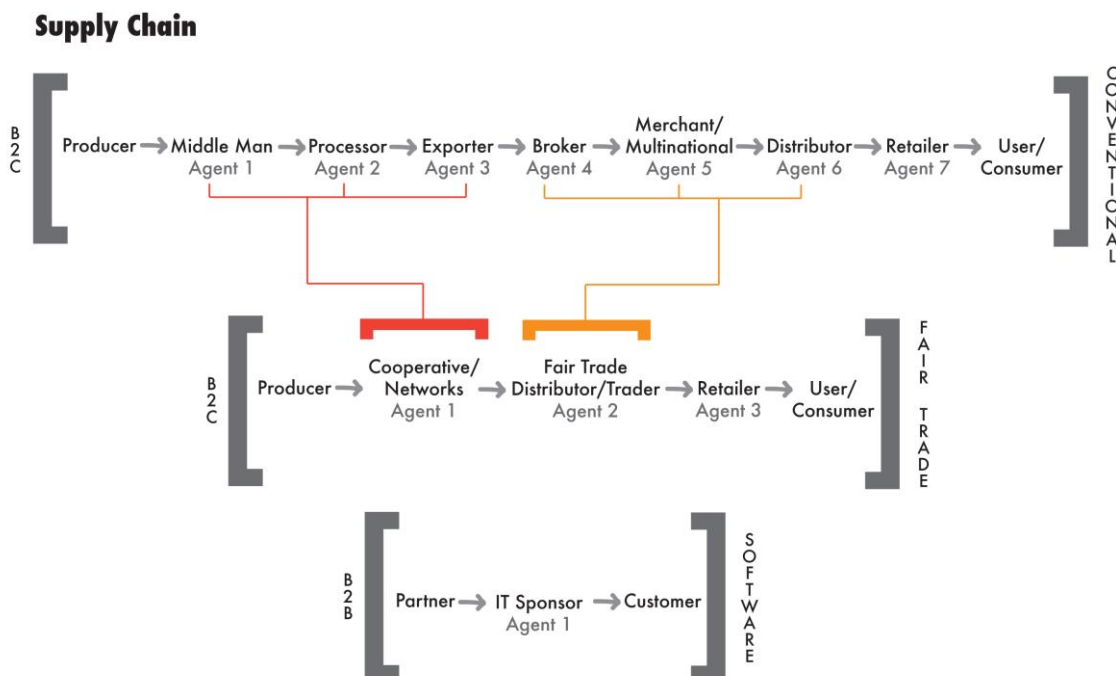
Related to Fair Trade Premiums is the issue of dependency. FTS does not over-pay Providers and so they cannot become dependent on FTS projects. Furthermore, a core concept in the FTS model is that Partners should be trained not only in software development, but most importantly in modern project management techniques. This enables them to grow the capability to undertake larger projects in their own market. FTS actually removes dependency rather than creating it.

Fair Trade harms non-Fair Trade (University of Edinburg 2014), (Griffiths, P. 2011)

Also related to the Fair Trade Premium is the criticism that Fair Trade harms non-Fair Trade producers by distorting markets and blocking access to those who do not have the capability to participate in Fair Trade. FTS does not distort local markets because there is no Premium. The barrier to entry to participate in FTS is very low, allowing all to participate if they wish. By contributing to the growth in local capability FTS contributes to stimulating an already growing sector further, assisting all regardless of participation in FTS.

Price fixing, middlemen and supply chain monopolisation (Haight, C. 2011).

FTS Partners are paid upper quartile of rates in their local market. This is transparent to all parties, including the end customer. The supply chain is as short as possible, far shorter than existing Fair Trade models, and products are delivered electronically removing the possibility for exploitation or corruption. There are no middle-men other than the Provider themselves.



Buy local/carbon footprint

Products are delivered electronically and there is minimal requirement for travel. FTS has almost no carbon footprint.

Enforcement of standards, costly and complex certification

Existing Fair Trade schemes may impose certification criteria which are difficult to comply with, whilst at the same time audit and control processes may fall short of standards applied in other industries. The FTS Foundation implements an extremely low-cost and easy to use audit system. With digital products and no need to travel, it is very easy to ensure compliance.

Imposition of political views (Griffiths, P. 2011)

FTS is single purpose, purely focused on building knowledge economies in developing countries, whilst simultaneously delivering sound commercial products. The FTS movement is completely apolitical and a-religious, and does not impose any other ethical, or other requirements, whatsoever.

Quality

FTS is designed delivered and project managed according to international standards for software development. Control by OECD-based Providers ensures that FTS products and services are identical in quality to conventionally developed software.

