



**EXPLORING THE DIVERSITY OF FAIR TRADE  
SOCIAL ENTERPRISES**

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## **ABSTRACT**

Fair trade (FT) organisations have been quite early taken as examples of social enterprises (SE) and have contributed to the shaping of the SE concept. The goal of this article is to examine more deeply, both at a conceptual and at an empirical level, to what extent FT organisations can be considered as social enterprises. First, we introduce different theoretical frameworks of SE and examine FT in the context of each of these frameworks. In a second step, we use an empirical study on fair trade social enterprises (FTSEs) across four European countries to illustrate and deepen the links between FT and SE, focusing on the goals and the governance structures of FTSEs.

It appears that all FTSEs combine in some way economic, social and sometimes also political goals. FTSEs are thus in line with the "hybrid-goal" nature of SEs. FTSEs' governance is also quite specific and often innovative in terms of organisational architecture and stakeholders' involvement. Some FTSEs are closer to the European – participatory – approach of social enterprise, while others are closer to US – individual – approaches. Finally, the governance structures of FTSEs seem to reflect quite well their goal mix.

This article provides a more solid basis for the often implicit link between FT and SE. Future researches could use our work to explore specific topics of the SE literature (e.g. stakeholders' involvement) in the context of FT. The FT example could also be used to examine further the shifting boundaries of the SE reality. The originality of this article is to apply the SE concept to a specific field and to show how, within this field, there is at the same time (1) a diversity of organisations, reflecting the diversity of SE approaches and (2) a range of specific features (especially in terms of goal mix and governance) distinguishing SEs from other types of organisations operating in the same field.

*Keywords:* Social enterprise, fair trade, multiple goals, governance, Europe

## INTRODUCTION

The fair trade (FT) "movement" or "sector" is evolving rapidly, both in terms of sales and in terms of public awareness. FT has emerged as one of the fastest growing and most commented initiatives using (and adapting) market mechanisms to pursue a social purpose, i.e. poverty alleviation for small-scale producers in the South<sup>1</sup> (Moore 2004; Nicholls and Opal 2005; Raynolds *et al.* 2007). To pursue this common purpose, fair trade social enterprises (FTSEs) have adopted very heterogeneous organisational strategies, making FT a highly diversified organisational landscape (Becchetti and Huybrechts 2008; Wilkinson 2007).

The historical evolution of the FT movement explains much of this diversity. To put it simply, the roots of the movement are to be found in pioneer non-profit<sup>2</sup> organisations and NGOs that started a commercial activity to support their (often pre-existing) social mission. Later on, businesses became increasingly interested in FT, either at the distribution level (supermarkets) or at the import or transformation level (mainstream businesses, including food multinationals). In the meantime, new businesses appeared with the specific aim of marketing FT products. Some of these businesses, such as Cafédirect or Divine Chocolate, were launched by pioneer FTSEs themselves (Doherty and Tranchell 2007). In this article, we focus on organisations (either pioneers or newcomer businesses) totally involved in FT, thus excluding supermarkets or food businesses having only a part of their products labelled as FT products.

Given their multidimensional mission, which combines economic, social and sometimes political dimensions, FT organisations have been quite early taken as examples of "social enterprises" (SEs) and have contributed to the shaping of the SE concept. It is in the United Kingdom that such links were established most explicitly, by both academics (e.g. Doherty and Tranchell 2007; Nicholls 2006) and practitioners<sup>3</sup>. Following Dart (2004), we could interpret the trend, among FT practitioners, to depict themselves (and to be depicted) as SEs as stemming from a research of legitimacy in an environment promoting values of entrepreneurship and innovation.

Nevertheless, even though FT is commonly associated with SE, there still remains to be explained carefully why this is the case, and to what extent. Is it the involvement in FT that makes the enterprises "social", or is it a set of particular organisational characteristics shared by most FTSEs, or a combination of both?<sup>4</sup> If the fact of "doing FT" is not a sufficient basis for "being a SE" – as we believe it –, then what is it in FT organisations that makes them eligible as SEs?

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<sup>1</sup> The terms "South" and "North", most often used in the literature on fair trade, correspond to a geopolitical division of the world, between respectively "developing countries" and "industrialised countries".

<sup>2</sup> We use the term "non-profit" organisations instead of "not-for-profit", "voluntary" or "charity", "non-profit" being the most commonly used in the international literature.

<sup>3</sup> Let us for instance take the example of the nomination of Penny Newman, former CEO of British FTSE Cafédirect, as "Social Enterprise Ambassador" in 2007.

<sup>4</sup> Most FTSEs have a clear opinion in this regard. For instance, Penny Newman, former CEO of Cafédirect, declared during our discussion (15<sup>th</sup> January 2008): "It is clearly not because we sell FT products that we are a SE. Otherwise, any of the companies involved in FT could be considered as SEs. No, we are a SE because we have a social mission central to the company. Producers are the main beneficiaries of our activity and they are owners of the company. This would be unthinkable for traditional businesses".

The answers to these questions are closely linked to the framework used to define SE. This is why we start by reviewing different conceptualisations of SE (in part 1). In part 2, we recall the basics of the FT concept and the historical evolution of the movement. We then present our empirical data on FTSEs in four European regions, as well as our methodology. This allows us to locate FTSEs with regard to the main features identified by various approaches of SE; this is the object of the subsequent parts. First (in part 3), we explore the three dimensions – namely the economic, the social and the political dimensions - possibly present in FTSEs' activities. Then (in part 4), we examine the governance of FTSEs, including the legal form and the relationships with – and possible involvement of – external stakeholders.

## **1. THEORETICAL FRAMEWORK**

### **1.1. Different terms**

The literature uses three different terms which, at first sight, might seem linked in a very simple way: "social entrepreneurship" is the dynamic process through which a specific type of individual, deserving the name of "social entrepreneur", creates and develops an organisation that may be defined as a "social enterprise" (Mair and Marti 2006). However, in the literature, the use of one or another term is often linked to a different focus and/or understanding of the phenomenon of "SE". Many authors consider that "social entrepreneurship" designates a wider range of initiatives, not necessarily taking the form of "social enterprises" (Nicholls 2006; Thompson 2008). In the present article, which focuses on the organisational level, we will use the term "social enterprise". This does not mean that we will not also include theoretical contributions linked to the two other terms; we will consider the latter as different entries allowing to study - despite some nuances - the same global reality.

### **1.2. Different approaches**

The literature on social enterprise and social entrepreneurship is recent and heterogeneous. It has evolved in different ways, with, on the one hand, contributions by North-American<sup>5</sup> authors, and on the other hand, contributions by authors from continental Europe, grouped in the EMES network. It seems that the former have rather used the perspective of social entrepreneurship, despite several exceptions<sup>6</sup>, while the latter have mainly developed an organisational analysis of social enterprises (Defourny and Nyssens 2008a; Kerlin 2006; 2008). Although the two schools have initially developed separately, bridges have recently been established, revealing more convergences than what might have been expected at first (Defourny and Nyssens 2008a).

Within the approach developed by North-American authors, a first school of thought focuses on earned income strategies developed to support the organisation's social mission. Dees and Battle

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<sup>5</sup> Scholars in regions such as the United Kingdom, Latin America and Asia seem more heterogeneous, with some closer to the North-American and others closer to the continental European approaches.

<sup>6</sup> The term social enterprise seems to be used more frequently in the UK than elsewhere, both by practitioners (e.g. Social Enterprise Coalition, Social Enterprise London, etc.), by academics and by the state (Social Enterprise Unit).

Anderson (2006) call it – although reluctantly<sup>7</sup> – the "social enterprise" school but, following Defourny and Nyssens (2008a), we prefer to refer to it as the "enterprising non-profit" school. At its origins, the focus of this school was on non-profit organisations increasingly looking for new resources from the market and seeking to adopt a more efficient and market-oriented behaviour (e.g. Emerson and Twersky 1996). Later, it was observed that "for-profit companies" were increasingly including social purposes in their basically economic missions; this second trend also fed this approach. Social enterprises are thus seen as emerging either from the social sector or from the business sector, between which the boundaries are increasingly blurred. Central to social enterprises in this approach is the idea of using the market and generating one's own incomes to achieve sustainability and thus pursue the social missions more effectively.

The second school of thought, called the "social innovation" school, is based on the theories of entrepreneurship and focuses on innovation rather than on income generation. Dees and Battle Anderson (2006:45) state this as follows: "[the] use of the term 'social entrepreneurs' to describe innovators pursuing social change helped to reinforce the idea that social entrepreneurship needs not to be framed in terms of income. It could be more about outcomes, about social change". Battle Anderson and Dees (2006) are particularly critical about the links made in the previous school of thought between market incomes and efficiency. The focus on outcomes rather than incomes seems to be embraced by various foundations supporting social entrepreneurs (this is for example the case of Ashoka).

Dees and Battle Anderson (2006) point out several convergences between the two schools. Indeed, the "enterprising non-profit" school is also concerned about innovation and outcomes, while the "social innovation" school is not opposed to incomes exclusively originating from the market: it is rather the idealisation of market resources and the linking of such resources with independence, self-sufficiency or greater impact that has been criticised (Battle Anderson and Dees 2006). Dees and Battle Anderson (2006) propose to call this intersection "enterprising social innovation", including in it all the innovative initiatives that seek to create sustainable social change by blending methods from both the business and the social sectors. This intersection is described as the most promising research area. Nicholls' book (2006) can be seen as one example of this intersection, with contributions covering both the process of social entrepreneurship and the nature of social enterprises, highlighting both the potential of market incomes and its limits, and introducing critical insights on notions such as social change.

Nicholls and Cho (2006) define social entrepreneurship as composed of three elements: sociality, innovation, and market orientation. As far as sociality is concerned, while the social nature of social entrepreneurship may seem obvious – through "a context, process and/or set of outputs that might reasonably be considered to be in the public benefit" (Nicholls, forthcoming) –, Nicholls and Cho (2006) warn about the often ill-defined and descriptive nature of social change. This may lead to ignoring the heterogeneity of interests and favouring particular social groups at the expense of others. Nicholls and Cho (2006: 106) thus call for a stronger awareness of the fact that "[visions] of the social are inextricably linked to varying sets of potentially incompatible values

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<sup>7</sup> In a footnote, Dees and Battle Anderson (2006: 41) explain that the term "social enterprise" has been chosen for this school of thought on the basis of a "convention", probably rooted in the North-American practice. They admit that such a term should ideally not be linked to one particular school of thought but that it should be left as a generic name. We fully agree with this last comment.

and normative commitments". In such a context, "talking about social entrepreneurship without acknowledging the possibility of fundamentally divergent social objectives makes little sense". The second element, innovation, is also ambiguous. Drawing on the Schumpeterian view of innovation, the emphasis is laid on new combinations of goods, services and organisational forms. Nicholls (forthcoming) distinguishes three types of social innovation: "in new product and service development (institutional innovation); in the use of existing goods and services in new – more socially productive – ways (incremental innovation); in reframing normative terms of reference to redefine social problems and suggest new solutions (disruptive innovation)". Finally, market orientation involves a greater attention to competition, performance, rational cost recovery strategies and accountability.

In Western Europe, the dominant approach to social enterprise is based on the work developed by the EMES Network since the second half of the 1990s (Defourny 2001; Nyssens 2006). EMES defines social enterprises as "not-for-profit private organisations providing goods and services directly related to their explicit aim to benefit the community. They rely on a collective dynamics involving various types of stakeholders in their governing bodies, they place a high value on their autonomy and they bear economic risks linked to their activity" (Defourny and Nyssens 2008b:5). But more than a definition, the EMES approach aims to provide an "ideal type", i.e. an abstract construction, or a "compass" that "can help anyone to locate the position of the observed entities relative to one another and [...] to establish the boundaries of the set of organisations that he or she will consider as that of social enterprises" (Defourny and Nyssens 2008b:5).

The EMES approach sheds light on some features of social enterprises that seem underestimated or ignored by the North-American approaches (Defourny and Nyssens 2008a). First of all, based on extensive empirical research carried out across EU countries, EMES authors suggest that most social enterprises do actually belong to the social economy or "third sector". In other words, they are generally non-profit or cooperative organisations in which profit distribution is limited. This does not mean that traditional business forms are automatically excluded from the social enterprise area, but rather that the primacy of social goals is guaranteed not only by the ethics of managers or owners but also by legal provisions. Such legal provisions include limitations on profit distribution as well as specific governance models aimed at securing the social mission, through a strong orientation toward a participatory management process and a democratic decision-making process. In this sense, the EMES approach does not entirely subscribe to the idea of increasingly "blurred frontiers" among organisational forms, as suggested by much of the North-American literature.

In line with the participatory and democratic nature of social enterprises' governance, the authors of the EMES network observe an increasing involvement of various stakeholders in the decision-making processes, leading to a "multi-stakeholder" configuration. Such a configuration can be seen as a cause and/or a consequence of the variety of goals pursued by social enterprises – economic, social and political goals – and of resources raised (Campi *et al.* 2006; Defourny and Nyssens 2006; Petrella 2003). The insistence on the possibility of combining various types of resources – rather than on their sole market origin – contrasts with the "enterprising non-profit" school of thought, which focuses on the market as the main or even exclusive source of resources. Finally, the EMES approach converges with the "social innovation" school in that they share a Schumpeterian view of innovation, although EMES authors have mainly described such innovation at the theoretical level, with little empirical input (Defourny 2001).

Although the various approaches strongly differ in some regards – a fact that can be accounted for by their distinct research traditions (Peattie and Morley 2008) –, they all emphasise the combination between the social mission and the economic activity. In the context of an increasing dialogue between the different approaches (Defourny and Nyssens 2008a; Kerlin 2006, 2008), we believe that each of them is useful to shed a particular light on the very different types of organisations involved in FT.

## 2. FAIR TRADE AND FTSEs

Let us now examine the particular field which constitutes the subject of this article. We first briefly introduce the history of the FT movement. Then, we identify the different dimensions inherent in the FT concept. And thirdly, we present our sample of FTSEs in four European regions.

### 2.1. The FT movement

Most authors locate the origins of the FT movement just after the Second World War, with experimental import and distribution initiatives carried by NGOs such as Oxfam and SERV (Diaz Pedregal 2007; Moore 2004; Nicholls and Opal 2005; Raynolds *et al.* 2007). Then, in the 1960s and 1970s, organisations emerged with the specific aim of establishing regular FT partnerships with producers in the South. The products (coffee, tea, handicraft, etc.) were typically sold through "worldshops" and citizen networks. These organisations were called "alternative trading organisations" (ATOs), "a name stemming from the early days of Fair Trade where 'fair' seemed too weak a description of the vision that these companies had" (Moore 2004). In Europe, the biggest FT pioneers (CTM in Italy, Gepa in Germany, Oxfam in the UK and in Belgium,...) joined together in the EFTA<sup>8</sup> network in 1987. Two years later, IFAT<sup>9</sup> was launched at a worldwide level; it gathers producer organisations and importers and represents the first institutionalisation of the FT movement.

A second strong institutionalisation process emerged in the same period with the development of labelling schemes. Starting in the late 1980s with the "Max Havelaar" label in the Netherlands, different labelling initiatives appeared in each country and joined together in FLO<sup>10</sup> in 1997. The emergence of labelling brought a fundamental change in the evolution of FT. Indeed, the possibility of having products recognised as meeting the FT standards by an external certifying body and not by the importer (or distributor) itself – as it was the case previously with so-called "ATOs" – opened the door of the FT sector to any company. Mainstream businesses, including supermarkets and food multinationals, started selling FT products, which resulted in a huge increase in the volume of FT sales (Moore *et al.* 2006).

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<sup>8</sup> European Fair Trade Association.

<sup>9</sup> The letters IFAT originally stood for "International Federation for Alternative Trade"; the name was later changed into "International Fair Trade Association" and recently into "World Fair Trade Organization" (WFTO).

<sup>10</sup> Fairtrade Labelling Organisations International.



Such evolution has divided FT into two main wings (Moore 2004; Nicholls and Opal 2005; Renard 2003): on the one hand, an "integrated" system of ATOs and worldshops, selling to sensitised consumers and represented by the IFAT-WFTO network; on the other hand, a "labelled" system, including mainstream businesses, selling products certified by FLO. The first wing has been carried mainly by craft producers and importers and is often associated with a political or "idealistic" vision of FT, based on personalised producer support in the South and advocacy and education in the North. The second wing mainly deals with food products and is associated with a more commercial or "pragmatic" vision of FT, focusing on the growth of the market as the main strategy to improve the producers' livelihoods.

But while this "two-wing picture" is certainly still useful, it has probably become insufficient to capture the whole diversity and complexity of the current FT landscape, especially when looking at national contexts. Indeed, a certain number of FTSEs are linked both to the "integrated" and to the "labelled" systems (Raynolds and Long 2007). For instance, Traidcraft in the UK or Oxfam Fair Trade in Belgium sell their products – some of which labelled, others not – both through specialised channels (worldshops, catalogues, etc.) and through supermarkets. In the same way, some businesses launched by pioneer FTSEs themselves, such as Agrofair, Cafédirect or Divine Chocolate, have a strong mainstream positioning while at the same time being IFAT members and being partially owned by FT pioneers. Such combination of mainstream and socio-political identity is referred to as "radical mainstreaming" (Doherty and Tranchell 2007; Low and Davenport 2005).

Moreover, there is an increasing number of small companies selling FT products through a variety of channels, some of which can be "mainstream" (B2B<sup>11</sup> sales, for instance) and others more "alternative". In recent years, many small businesses have emerged in the FT sector without belonging to one of the traditional FT systems: they constitute what some start calling a "third FT wave" – the first wave being the pioneers' and the second being FT labelling and mainstreaming (Poos 2008). Thus, even when excluding mainstream businesses that have only a part of their products labelled as FT products – as is the intent in this article –, we still find a very heterogeneous landscape of organisations positioning themselves differently towards FT.

## **2.2. The FT concept**

The most consensual definition, which is the most widely used by both practitioners and academics (Moore 2004) is the FINE<sup>12</sup> (2001) definition:

*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 marginalised producers and workers - especially in the South. Fair Trade organisations (backed by consumers) are engaged actively in supporting producers, awareness raising and campaigning for changes in the rules and practice of conventional international trade.*

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<sup>11</sup> "Business to business".

<sup>12</sup> FINE is an informal network gathering the four main fair trade umbrella organisations: EFTA, NEWS! (Network of European Worldshops), FLO and IFAT.

It appears from this definition that FT is a highly multidimensional concept. From a theoretical point of view, FT combines elements that could be grouped under three categories, and these categories can easily be linked to the three types of dimensions identified throughout the different approaches of SE.

**Fairness:** FT organizations wish to trade under "fair" conditions. These conditions constitute the core of the FT concept: fair price, social premium, pre-financing, provision of market access, long-term relationship, etc. (Moore 2004; Nicholls and Opal 2005; Raynolds and Wilkinson 2007) Such tools are supposed to orient the trading relationship towards an effective socio-economic development for the producers in the South. However, the concrete application of these tools may vary across FTSEs, even when a label tries to homogenise practices.<sup>13</sup>

The ambition of fairness in FT partnerships can be considered in our view as a social dimension. By "social", we mean that FT aims to serve a specific category of people considered as "disadvantaged"<sup>14</sup>. In other words, at least one of the goals of FTOs is to provide benefits to people who would normally not – or only to a very limited extent – enjoy the fruits of their economic activity. The idea of improving the livelihoods of certain producers in the South is central to FT, and FTSEs' practices and decisions are often motivated by this central goal (Davies and Crane 2003). It is mainly through their social mission that FTSEs distinguish themselves from traditional businesses. But the importance of producer support does not mean that this is the only social dimension of FT. FTSEs may also seek to give employment to low-skilled people or to provide ethical products to poor consumers in the North. Still, producers in the South are generally the primary declared beneficiaries of FTSEs' activities. Specific to FT, as compared to most development aid projects, is the idea of pursuing the social aim through an economic partnership with these producers.<sup>15</sup>

**Trade:** FT is also about trade; this includes the economic functions (import, transformation, distribution,...) linked to any trading initiative. FTSEs rely on market mechanisms to pursue their social goals (Nicholls and Opal 2005). The positioning of trade in the strategy of FTSEs, however, can vary, according to the organisation considered, from "trade as a mean" to "trade as a goal" (Gendron 2004).

Trade can easily be linked to the economic dimension which is central to SEs. In the different schools of thought, however, trade can take different meanings. For the "enterprising non-profit" school, for example, trade is necessary to raise incomes in order to devote them to the social mission; the economic and social dimensions can thus be separated. On the contrary, for the

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<sup>13</sup> The main fair trade label is managed by FLO and applies to most food products (coffee, bananas, etc.). Such label guarantees the respect of a range of social and environmental standards, beyond which FTSEs are free to provide additional producer-oriented benefits. The "Gold Standards" of the British Fair Trade coffee brand "Cafédirect" are an example of such benefits. In the craft sector, where no product-related label exists but where IFAT proposes a certification system for FTSEs, producer support practices are also heterogeneous among FTSEs.

<sup>14</sup> The FT practice and literature also use the notions of "marginalised" or "small" (see Lemay 2007 for a discussion of these notions).

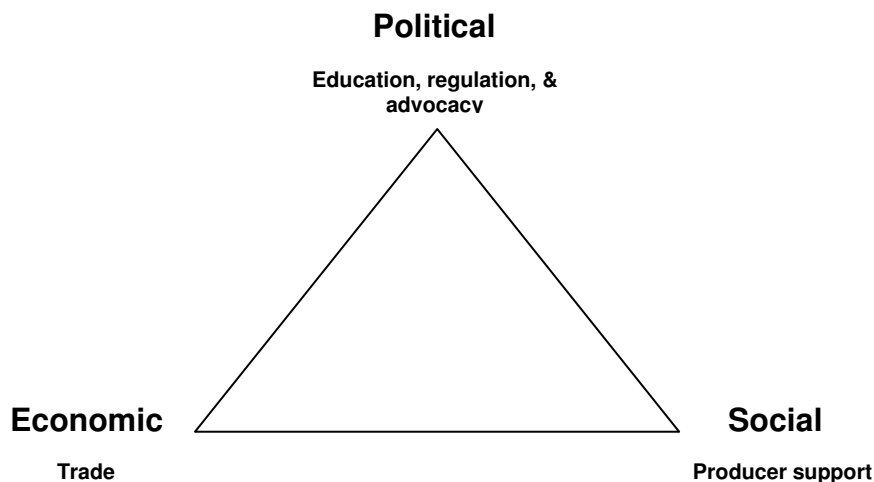
<sup>15</sup> To differentiate FT from ethical labels in which part of the sales are donated to social projects involving producer organisations, FT operators and networks often underline the fact that in FT, the social mission is rooted in the economic partnership itself, through the payment of a fair price and a long-term relationship.

EMES approach, the economic activity is very often closely linked to the social mission. Sometimes, the way in which trade is run is in itself part of the social mission. We will see below how FTSEs behave in this regard.

**Education, regulation and advocacy:** At the origins of FT lies the intent of creating a new regulation framework for commercial exchanges. For that purpose, FTOs, networks and support structures are active in advocacy, through lobbying public authorities and denouncing unethical trading practices. International FT networks such as WFTO, FLO or EFTA also play such an advocacy role. Some FTOs, mainly the pioneer ones, also run education campaigns directed to the consumers. These campaigns are intended to promote FT and to educate citizens toward consumption habits that are more respectful of the environment and the people in the South.

In our view, education, regulation and advocacy have mainly a political focus: the purpose here is to act not only on particular producer communities but, more widely, on the whole economic system. It is in fact the translation of the "fairness" dimension at the macro-level, with the goal of transforming the context of international trade by scaling up the FT principles. Although the political dimension is rarely explicit in the SE literature, it is crucial for understanding and discriminating between different types of social enterprises (Nyssens 2006). As a result, while many authors propose to describe SE with the help of a continuum between "economic" and "social" foci (e.g., Austin *et al.* 2006; Nicholls 2006), we propose to add the "political" focus to apprehend the reality of FTSEs, thus obtaining the following triangle:

Figure 1 - The FTSE triangle



In the practice of FTSEs, these three dimensions are often interrelated and sometimes undistinguishable (Wilkinson 2007). Most FTSEs combine the three dimensions in some way. In such sense, they seem close to the conceptualisations of SE, particularly those emphasising the "hybrid" character of SEs in terms of goals, resources, stakeholders, etc. (Nyssens 2006; Peattie and Morley 2008).

However, the priorities may vary very much among FTSEs. Such priorities probably depend partly on the economic role of the FTSE. Indeed, an importing FTSE that is in direct contact with producers is likely to give greater importance to producer support in its goal mix than a distributor that has no such direct relationship. Conversely, a network of worldshops that is in direct contact with consumers is more likely to engage in education activities than an FTSE whose only activities are import and wholesale.

Certain authors consider that there is a tendency, among FTSEs, to specialise on one particular dimension (Wilkinson 2007). In the context of FT mainstreaming, a growing number of FTSEs focus on developing new distribution channels in order to reach new, less concerned consumers (Moore *et al.* 2006). This may lead to focusing more on the economic dimension, especially when an external label such as FLO guarantees the "fair" nature of the products. On the other side, some pioneer FTSEs, such as Oxfam UK, end up leaving the trading dimension to others and specialising in education and advocacy (Wilkinson 2007).

Such a specialisation may result from the fact that it is difficult to combine economic, social and political dimensions in one single organisation. One way of finding new combinations of these three elements lies in the creation of specific governance structures (Defourny and Nyssens 2008a). Following the EMES approach, we will thus pay specific attention to the governance structure as a possible device to examine FTSEs' priorities.

### **2.3. Sample of FTSEs**

In order to examine more closely the links between FT and SE, we have led interviews in 57 FTSEs in four European regions: 14 enterprises in Belgium, 23 in France (Rhône-Alpes region), 11 in the United Kingdom (England) and 9 in Italy (Rome). In the four regions, lists of "100% FT" importers or distributors have been obtained through formal and informal FT networks or support organisations.<sup>16</sup> Most organisations listed by these structures<sup>17</sup> have been contacted and many have replied positively. The diversity of FTSEs in our sample and the number of organisations in proportion with regard to the whole population of FTSEs in their respective areas<sup>18</sup> allow considering our results as being - if not totally representative - at least indicative of the current trends in the sector.

After having analysed different documents for each FTSE (website, annual reports, etc.), we interviewed the directors or entrepreneurs, using a semi-directed questionnaire. We thus obtained both quantitative results (e.g. resources, age or size) and rich qualitative insights (in terms of entrepreneurial dynamics, goals, governance structures, etc.). We first analyse how the three dimensions presented above are concretised into FTSEs' practices. Then, we examine the governance structure of FTSEs and explore to what extent it might reflect FTSEs' positioning with regard to the three dimensions.

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<sup>16</sup> The "Fair Trade Centre" in Belgium, the "Equisol" support association in Rhône-Alpes, the "British Association for Fair Trade Shops" in the UK and the "Roma Equa" network in Rome.

<sup>17</sup> Organisations listed on their website or on their mailing list and claiming to be fair trade organisations.

<sup>18</sup> Approximately 45% in England, 60% in Rhône-Alpes, 65% in Rome and 70% in Belgium.

### 3. ANALYSIS OF THE THREE DIMENSIONS IN FTSES

#### 3.1. Economic dimension

The economic dimension, i.e. the trading activity of "enterprises", allows distinguishing FTSEs from traditional development non-profits and NGOs.

##### *Market activity*

First, SEs are characterised by the fact that they operate as enterprises on the market, albeit with social purposes. According to the EMES approach (Defourny 2001), this necessarily involves at least a continuous activity of production of goods and/or of selling of services. A second conception of economic activity, going a bit further, is reflected through the expression of "creating value" (Dees 2001). FTSEs are, by definition, particularly attentive to creating value for producers; but if we consider value creation for other stakeholders, such as employees and shareholders, then we witness much heterogeneity. For instance, in our sample, only the larger FTSEs manage to pay market-level wages to their employees; smaller FTSEs often pay lower wages, and some of FTSEs' entrepreneurs are clearly underpaid.

The term "enterprise" also implies the existence of a significant level of economic risk (Defourny 2001; Nicholls and Cho 2006). Unlike traditional social programs, SEs take risks and are not shielded from the possibility of bankruptcy. In recent years, a certain number of FTSEs have gone bankrupt, particularly small businesses in the handicraft sector, where product constraints are heavier.<sup>19</sup> Other FTSEs – in fact the majority of them – are struggling to balance their accounts. Very few of them manage to make regular profits (in our sample, only one out of ten). When it is the case, profit is generally low and often reinvested in the project. When there is an explicit distribution of profits (as e.g. in the case of Traidcraft or Oxfam Fair Trade), it is occasional (once every three or four years), it is limited (up to 3%) and it goes back, to a certain extent, to the FT project.<sup>20</sup>

##### *Market resources*

Part of the US literature considers that SEs are characterised by their ability to be "self-financed", i.e. they generate their own incomes through sales on the market (Dees and Anderson 2006). Other authors, however, have a more subtle view of the notion of self-sufficiency: they consider that self-sufficiency can be achieved through a diversified income mix, including sales but also possibly non-commercial resources, such as donations, subsidies and voluntary work (Austin *et al.* 2006; Defourny 2001; Gardin 2006).

FTSEs in our sample derive a significant part of their resources (94% on average) from their trade activity. The share of commercial resources in FTSEs' total resources is particularly

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<sup>19</sup> In our Belgian sample, for instance, one importer (Citizen Dream) and one distributor (Emile) of FT craft went bankrupt during the study. See the report (in French) coordinated by Van Cauter *et al.* (2008) at the request of the Walloon Minister of Economy ([http://www.saw-b.be/media/d\\_RapportFinalInteractif\\_72406.pdf](http://www.saw-b.be/media/d_RapportFinalInteractif_72406.pdf)).

<sup>20</sup> For instance, in Oxfam Fair Trade, 70% of the shares are held by the non-profit sister organisation Oxfam-Wereldwinkels and by the individual worldshops. In the case of Traidcraft, according to CEO Paul Chandler (met on 17<sup>th</sup> January 2008), 60% of the shareholders give back their dividends to the FTSE.

important for the most recent FTSEs: nearly all the FTSEs created after 2000 are 100% sales-financed. These "commercial" FTSEs, relying only on sales, put a great emphasis on cost recovery and efficient deployment of resources (Nicholls and Cho 2006). FT pioneers are also increasingly relying on commercial resources, with a proportion of around 90% of FTSEs created before 2000 being totally financed by their sales. The share of non-commercial resources - like private gifts (mainly observed in the UK) and public subsidies (mainly observed in Belgium) - in the resource mix of FTSEs is thus decreasing; it is concentrated in few FTSEs and remains limited. For instance, it is only in worldshops or community-based channels (e.g. Church initiatives) that voluntary work still contributes significantly to FTSEs' activity. As a conclusion, FTSEs have become increasingly reliant on market resources.

### **3.2. Social dimension**

Central to SE is the importance of the social dimension, which distinguishes SEs from traditional businesses. The social mission is about "aiming to benefit the community" (Defourny 2001) or, in other words, "creating social value for the public good" (Austin *et al.* 2006, p. 3). In the case of FT, as we have seen, such social aim is inherent in the conditions that make FT a "better deal" for producers in the South. Indeed, FT is not only about providing a better income for producers (which corresponds to "creating value"), but also about empowering them and leveraging development opportunities for their wider communities.

While all FTSEs in our sample claim to have producer support as their primary aim, concrete practices are very heterogeneous. Certain FTSEs insist on raising the producers' income, whatever the distribution of this income. Others foster the empowerment of the producers and the democratic control they should exert on their organisation. Some FTSEs require well-developed export capacities from the producers and thus work with medium-size and large organisations, while others focus on smaller and more marginalised ones. The first vision is close to FLO's discourse, while the second vision is rather carried by WFTO. These diverging interpretations of producer support illustrate the normative content of the notion of social mission, as highlighted by Nicholls and Cho (2006).

The social value of FT does not lie only in the organisations' aim to benefit producers' communities. The specificity of FT is that the social value is embedded in the product itself. FTSEs thus constitute a striking example of what Mulgan (2006) and Alter (2006) call "embedded SEs". In other words, FT is not only about generating an income to serve a social purpose, without any consideration for how this income is earned. Rather, the social purpose is embedded into the activity that provides the income (selling fairly traded products). As FT products include a "bundle of social and economic characteristics" (Becchetti and Rosati 2005), the trading of FT products can be seen as a form of "blended value creation", as developed by some authors (Emerson 2006). The EMES approach encompasses such "embeddedness" and sees it as the most specific form of innovation for SEs (Defourny 2001; Defourny and Nyssens 2008a).

### **3.3. Political dimension**

Finally, the political dimension is an attribute of some SEs that distinguishes them even more sharply from traditional businesses (Nyssens 2006).

Political goals are present when there is an intent of acting on the wider system in order to change the context in which SEs operate (Martin and Osberg 2007). As Austin *et al.* (2006: 9) state, "an adverse context may often lead the social entrepreneur to change the context itself, as often the social problem is deeply embedded in contextual factors". In the case of FT, changing the context is at the very heart of the project, as we have seen in the FINE definition. Indeed, FT has emerged precisely because international trade was considered as "unfair" by FT's pioneers (Roozen and van der Hoff 2001). Seeking a structural change in international trade can also be seen as a way of scaling up the social innovation (Dees 2001).

The softest way of conducting political action is through sensitising consumers in order to change their consuming habits (and sometimes also their voting habits). This is shared by many FTSEs, especially the pioneer ones that conduct wide-scale campaigns. However, some new businesses are also involved in educating consumers, although to a lesser extent than pioneers and through different forms.<sup>21</sup>

A second type of political action, concerning mainly the pioneer FTSEs, consists of lobbying the government to make trade rules fairer and mainstream businesses (typically multinationals) to change their unfair practices. Whereas initial lobbying campaigns of FTSEs were very hard, our interviews suggest that they have now become less aggressive, as certain multinationals are now partners of FTSEs in the trading of FT products.

The content and the outlines of advocacy campaigns depend much on the national context of FT actors. While British and Belgian FTSEs all agree on FT products being sold in supermarkets, it is far from being the case in France and in Italy. In these countries, a number of FTSEs are explicitly hostile towards supermarkets and mainstream businesses in general<sup>22</sup>, and political action is much more central to these FTSEs' missions.

## **4. GOVERNANCE STRUCTURE**

Part of the literature on SE focuses on the governance model as a specific feature of SEs, which can be seen as a logical consequence of their specific social mission (Austin *et al.* 2006). We go a step further and consider the governance structure as a possible tool for FTSEs to balance their multiple – and sometimes conflicting – goals. First, we examine the different legal forms chosen by FTSEs and what differences in this regard might reveal. Secondly, we focus on the Board of Directors as one of the places where FTSEs can involve the different stakeholders concerned by their activity.

### **4.1. Legal forms**

Most academic works during the 1990s located SE within the non-profit sector. Similarly, the extensive literature review by Weerawardena and Mort (2006) tends to observe that most authors speak (or think) of non-profit organisations when describing or theorising SE. However, broader

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<sup>21</sup> For example through participating in a FT network, such as BAFTS in the UK or Agices in Italy.

<sup>22</sup> This is for instance the case of most Roman worldshops or the French FTSEs belonging to the "Minga" network.

views of SE – shared by an increasing number of authors – mention the "blurring boundaries" among sectors and do not link SE to a particular legal form. According to them, SEs can be either non-profit, "for-profit" or public organisations (see e.g. (Nicholls 2006; Peredo and McLean 2006), or even hybrid organisational models (Austin *et al.* 2006).

The FT field seems consistent with the idea of "blurring boundaries". Indeed, it appears in our sample that the FT activity can be unfolded through nearly all organisational forms: non-profit organisations (29% of our sample), co-operatives (10%), commercial companies<sup>23</sup> (29%) and individual ventures (7%). Among newly-created FTSEs, we can observe a clear trend towards the adoption of business-like forms. Pioneer FTSEs have commonly evolved from non-profit to cooperative forms (especially in Italy, where nearly all FTSEs are now "social cooperatives") or to group structures consisting of two entities: either a non-profit and a co-operative (non-profit/co-operative groups – such as Oxfam-Wereldwinkels and Miel Maya in Belgium or Soligren in Rhône-Alpes - represent 10% of our sample), or a non-profit and a traditional business form (6% of our sample - e.g. Traidcraft and Twin in the UK).

Broadly speaking, even though examples exist of very business-like non-profits (e.g. the "Fair Trade Organisatie" in Belgium) and of very politically committed commercial companies (e.g. the members of the "Minga" network in France), we observe that, in general, non-profit organisations tend to be more active on socio-political issues, while businesses or individual ventures are more focused on business. The former rarely have a marketing department and often lack business skills and capital. The latter are more often restricted by their economic imperatives and are thus less involved in the social and political dimensions of FT.

An interesting case is that of group structures. If we remember the triangle presented in Figure 1, we can analyse the emergence of groups as a strategy used to "spread" the organisation more widely over the three different dimensions, when a sufficient size is achieved. Indeed, group structures result from FTSEs' desire to be efficient at the same time on the economic, social and political issues, but not in one single entity. The different entities are often linked together through a common director (e.g. Traidcraft), a common Board (e.g. Oxfam-Wereldwinkels) or exclusive collaboration rules (e.g. Miel Maya). Such groups can be seen as excellent examples of the "innovative organisational architectures" built by SEs (Defourny 2001).

## 4.2. Stakeholder involvement

Because of stakeholders' diversity and complexity<sup>24</sup>, some authors consider that SEs are more likely than commercial businesses and traditional non-profits to be "multi-stakeholder" organisations, i.e. to involve their various stakeholders in their decision-making processes (Campi *et al.* 2006; Defourny and Nyssens 2006). One way of doing so is to include stakeholders'

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<sup>23</sup> The term "commercial companies" has been chosen as the "least problematic". Indeed, the term "for-profit", often used in the economic literature, assumes that the main goal of the organisation is to make profit, which is incorrect in the case of FTSEs and, more widely, SEs. "Business" is also problematic (co-operatives are also businesses), as is "corporation" (most commercial FTSEs are very small and far from the corporate model).

<sup>24</sup> Austin *et al.* (2006) consider that "the various financial and nonfinancial stakeholders to which a social entrepreneurial organisation is readily accountable to are greater in number and more varied, resulting in greater complexity in managing these relationships". They add that SEs' stakeholders are probably more heterogeneous and more willing to influence the organisation than traditional businesses' stakeholders.



"representatives" in the decision-making structures, such as the General Assembly and the Board of Directors.<sup>25</sup> Involving external stakeholders allows to gain their expertise and to integrate their preoccupations in the decision-making process (Spear 2004). We can thus interpret stakeholders' involvement on the Board as one of the tools used to integrate one or several particular dimensions.

This link finds a clear illustration in the case of producers' involvement. Even though the geographical distance makes it difficult for FTSEs to have producers' representatives on their Board, there seems to be an emerging trend to do so, especially in the UK (as illustrated by Cafédirect and Twin in our sample). Such an involvement allows these FTSEs to claim to be particularly close to the producers' views and expectations, besides giving producers a participation in the FTSE's profits and an insight on the commercialisation issues in the North. Many FTSEs' directors have showed a strong interest in this system, indicating a possible trend for the future.

On the political side, we have observed that FTSEs involving volunteers on their Board and advocacy NGOs are those organisations that pay the strongest attention to education and advocacy. Pioneer FTSEs, particularly those having developed networks of "worldshops", generally have a strong democratic representation of volunteers on their Board (Artisans du Monde, Oxfam, etc.). They see democracy as part of their political mission, aiming to influence business practices, even in terms of governance.

Representation of shareholders, private or public funding institutions or even managers can be viewed as a strategy for FTSEs to gain commercial expertise as well as resources. Indeed, following Pfeffer and Salancik (1978), the inclusion of market actors on the Board can be particularly useful for FTSEs depending mainly on market resources.

Finally, it has to be noted that in smaller FTSEs, the Board often only consists of the founder-manager, sometimes accompanied by relatives who have brought some money to the venture but do not concretely participate in the decision-making. These "individual FTSEs" are closer to the American models of SE, which put a strong emphasis on the entrepreneur. By contrast, FTSEs including producers, consumers or volunteers might be seen as closer to the European model of SE, where the emphasis rather lies on the collective dynamics and the participatory and democratic nature of the decision-making process (Defourny and Nyssens 2008b).

## CONCLUSION

With the help of examples of FTSEs in Belgium, France, Italy and the UK, we have examined some of the main SE features in the context of FT. It has appeared that the "SE nature" of FTSEs relies on an organizational commitment to both social and economic value creation, which takes place in the context of a broader social movement. As the social mission is at the heart of their

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<sup>25</sup> Other involvement strategies may be more informal; this is e.g. the case of spontaneous dialogue with stakeholders. For instance, Traidcraft has developed a very ambitious program of annual stakeholders' consultation. The comments and the advices given by the various stakeholders are taken very seriously into account in Traidcraft's strategy. Reports of Traidcraft's stakeholder dialogue can be downloaded on [www.traidcraft.co.uk](http://www.traidcraft.co.uk).

activities and does not rely on the sole compliance to the criteria of the FT label, FTSEs strongly differ from businesses for which FT is only part of their activities. From more NGO-like to more market-oriented organisations, the FTSEs in our sample share various characteristics: the primacy of their social mission, the limitation (or absence) of profit distribution, the focus on innovation and – at least some degree of – self-financing.

Nevertheless, beyond these common characteristics, FTSEs diverge in the ways they combine the different types of goals and design their governance structure. While all FTSEs seem to combine, at least, economic and social dimensions – although to varying degrees and forms –, the political dimension is not present in the same way in all FTSEs. Pioneer FTSEs generally run education and advocacy activities in a more developed and explicit way than newcomer FTSEs, which have heterogeneous profiles in terms of political involvement, depending on the entrepreneurs' choices.

In terms of governance – and as regards more specifically the legal form and stakeholders' involvement in the decision-making structures –, practices are diverse and often innovative (Peattie and Morley 2008). Many new FTSEs are quasi-individual ventures and seem closer to some North-American approaches of SE, focusing on the entrepreneur as the main level of analysis. Other FTSEs are much more multi-stakeholder and fit better in the EMES conceptualisation of SE. Finally, we have seen that the governance structure seems to reflect to a certain extent the positioning of FTSEs' towards the different dimensions of FT. FTSEs led by activists and with volunteers or partner NGOs on their Board seem to have a stronger focus on non-economic (social and political) goals than FTSEs run by managers with a business background and governed by investors.

As a conclusion, this article has tried to critically examine the implicit link that has been established, by both academics and practitioners, between FT and SE. Of course, there are many limitations to our work. The way in which we have reviewed and used the different approaches of SE is far from being exhaustive, and our empirical study has not allowed in-depth case studies. Interested readers may find such case studies and in-depth analyses of key issues raised in this article in the PhD thesis on which this paper draws (Huybrechts 2010). In terms of research on SE, this article should be considered as a first step in establishing a framework on the basis of which FT could be used both (1) as an illustration of SE and (2) as a laboratory able to feed the debates and the theoretical construction of the SE concept (in terms of distinctive features, historical construction, boundaries, etc.).

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