Facilitating Fair Trade Practices as a Development Strategy

Mr Mohd Imran Khan1*, Mr Shahbaz Khan1, Dr Abid Haleem2
1Research Scholar, Department of Mechanical Engineering, Faculty of Engineering and Technology, Jamia Millia Islamia, New Delhi-110025, India
2Professor of Mechanical Engineering, Faculty of Engineering and Technology, Jamia Millia Islamia, New Delhi-110025, India.
imrankhan@st.jmi.ac.in

Abstract: Fair Trade emerged as a response to the unjust and inequitable nature of contemporary globalisation. It aims at providing greater economic justice to the disadvantaged producers and workers by redesigning the pattern of international trade. This paper gives a brief overview of Fair Trade and critically examines the barriers to the adoption of Fair Trade practices in the conventional international business model. The identified barriers are evaluated using Decision Making Trial and Evaluation Laboratory (DEMATEL) approach. DEMATEL categorised these barriers into influential and influenced group which helps to understand their inter-relationship. The findings suggest that lack of awareness about Fair Trade and absence of well-defined criteria to decide fairness of trade practices are the most influential barrier in mainstreaming the Fair Trade practices in the business operations. This work empowers policymakers, professionals, consumers, and practitioners to design strategy for adoption of Fair Trade practices to ensure minimum decent living conditions and access to health and education to economically disadvantaged producers, especially women and indigenous people and to protect children from exploitation in the production process.

Keywords: Fair Trade; Globalisation; Poor; Consumer Awareness; Capitalist Economy; DEMATEL.

1. Introduction

Fair Trade has emerged as a global social initiative in response to unjust and inequitable nature of contemporary global system of production and trade. This movement aims at ensuring equity and justice in trade to marginalized producers associated with the production of a commodity by reshaping the patterns of international trade and the very processes of corporate expansion in the global economy that have historically undermined ecological and social conditions around the world [1]. Fair Trade has five primary constituents namely "a minimum price", "a price premium", "pre-financing to allow artisans to purchase raw materials", "training in quality control and marketing", and "use of cooperatives" [2]. Fair Trade was found with a target to achieve greater social control over the commodity with a trans-national supply chain. Fair Trade certification is used as a tool to realise this objective. Some economist views Fair Trade as an annexe of traditional trade while others interpret this as an effort to redesign the neoliberal economic policy. Despite India’s position as the third largest economy Fair Trade is not so admired in the business domain as well as by the consumers as compared to the developed countries, although the interest of academicians is increasing in this emerging area. Many academicians have shown their interest to explore Fair Trade's ability to assimilate into the traditional market, to assess consumer experience and to tackle the criticism associated with different Fair-Trade practices [3]. Barriers to mainstreaming the Fair Trade practices is rarely reported in scholarly research.

1.1  Research Objectives

The following are the primary aims of the research undertaken and communicated through this paper:

• To identify barriers to adoption of Fair Trade practices
• To evaluate the identified barriers to understand their interrelationships using DEMATEL approach
The present work seeks to identify and evaluate the causal relationship among the barriers of integrating Fair Trade practices within the conventional trade practices. The DEMATEL methodology can help to structure the complex causal relations through digraphs which depict relationships between barriers.

2. **Major Barriers to adoption of Fair Trade practices**

The adoption of Fair Trade practices depends upon various key factors. An understanding of the barriers may help management, as well as policymakers to evaluate their Fair-Trade initiatives for overall development of marginalised groups. Barriers are identified through systematic literature review and later verified with expert’s opinion are shown in Table 1.

| S. No. | Barriers                          | References |
|-------|----------------------------------|------------|
| Br1.  | Lack of awareness and promotion  | [4,5]      |
| Br2.  | Lack of consensus on definition and criteria | [2,6] |
| Br3.  | Issue for impact assessment      | [6,9]      |
| Br4.  | Lack of proper labelling         | [7,8]      |
| Br5.  | Lack of knowledge among stakeholders | [10,11,16] |
| Br6.  | Sensitivity of commercially valuable information | [12] |
| Br7.  | Lack of regulatory framework     | [13]       |
| Br8.  | Lack of attractive Fair-Trade brand | [6,12] |

3. **Research Methodology**

The objective of this work is an evaluation of Fair Trade barriers through causal relationship. Appropriate barriers are explored through an extensive literature review and further identified as barriers to Fair Trade. These barriers are finalised through experts’ opinions, and a causal relationship is developed through a DEMATEL approach.

3.1 **DEMATEL Method**

The DEMATEL technique is adopted as a solution methodology in this article. DEMATEL is a comprehensive method to provide the causal relationship among the complex factors through graphs. Some other MCDM techniques such as TOPSIS and AHP are suitable selecting and prioritising the factors rather than providing causal relationships. Therefore, we adopt the DEMATEL approach for the analysing the complex causal relationship among the barrier of adopting Fair Trade practices. The DEMATEL method is summarised step by step as follows.

**Step 1**: The scale may be designated four levels (i.e. 0,1,2,3,4) to construct direct influence matrix (See Table 2). Each expert was asked to evaluate the direct influence between each two-factor combination through a score 0,1,2,3,4. The notation of $x_{ij}$ represents that the factor $i$ influence the factor $j$. The diagonal element (i.e. $i=j$) of the direct inflectional matrix is zero. A non-negative n×n matrix is obtained for each expert as $X^k = [x_{ij}^k]$ where $k$ is the no of experts $1 \leq k \leq H$. Thereafter obtain $X^1$, $X^2$, $X^3$,.... $X^H$ from H experts.

| Table 2: Scale and their interpretation |
|-----------------------------------------|
| Scale | 0 | 1 | 2 | 3 | 4 |
| Interpretation | No influence | Very Low influence | Medium influence | High influence | Very high influence |

**Step 2**: Establish an overall direct-relation matrix from $H$ respondents, the average matrix $A = [a_{ij}]$ can be obtained from the equation:

$$a_{ij} = \frac{\sum_{k=1}^{H} x_{ij}^k}{H} \quad (1)$$

**Step 3**: Obtain normalized initial direct-relation matrix, $D$ using Equation (2) & (3).

$$D = A.S \quad (2)$$

$$S = \frac{1}{\max_{1 \leq i \leq n} \sum_{j=1}^{n} a_{ij}} \quad (3)$$

Each element in matrix $D$ falls between zero and one.
Step 4: Calculate Total relation matrix “T” using Equation (4)
\[ T = (I - D)^{-1} \]
Where “I” is the identity matrix.

Step 5: Determine the causal parameters through Equations. (4) and (5):
\[ r_i = \sum_{j=1}^{n} t_{ij} v_j \]
\[ c_i = \sum_{j=1}^{n} t_{ij} v_i \]
Where \( r_i \) indicate the sum of rows and \( c_i \) represent the sum of columns.

Step 6: Develop a causal and effect diagram using the dataset consisting of prominence (Pi) and net effect(Ei) using expressions (6) and (7):
\[ P_i = R_i + C_j | i=j \]
\[ E_i = R_i - C_j | i=j \]
The difference \((R_i - C_j)\) shows the net effect that factor \( i \) contributes to the system. Moreover, if \((R_i - C_i)\) is positive, factor \( i \) is a net cause, while factor \( i \) is a net receiver or result if \((R_i - C_i)\) is negative.

4. Results
The barriers to mainstreaming fair-trade practices are identified through extensive literature review. These barriers are discussed with a five members expert’s group to obtaining the deeper insight of these barriers and finalised eight barriers (See Table 1). After finalising the barriers, the experts were asked to evaluate the direct influence of the barriers to mainstream the fair-trade practices on the scale of 0-4 (See Table 2). The evaluation is taken in form overall direct relation matrix is obtained through expert input and shown in table 3 using equation 1.

Table 3: Overall Direct-Relationship Matrix (Z)

| Barrier | Br1 | Br2 | Br3 | Br4 | Br5 | Br6 | Br7 | Br8 |
|---------|-----|-----|-----|-----|-----|-----|-----|-----|
| Br1     | 0   | 1   | 2   | 3   | 2.2 | 3   | 1.8 | 3   |
| Br2     | 3   | 0   | 3   | 1   | 2.8 | 0.8 | 1   | 2   |
| Br3     | 0   | 1   | 0   | 2.8 | 1.8 | 1   | 3   | 4   |
| Br4     | 0   | 1.4 | 2   | 0   | 1   | 1.2 | 0   | 2   |
| Br5     | 2   | 1   | 2   | 2   | 0   | 1   | 3   | 2.2 |
| Br6     | 1   | 1   | 3   | 3   | 1   | 0   | 2   | 2   |
| Br7     | 1   | 2   | 3   | 3.6 | 2.2 | 1   | 0   | 1   |
| Br8     | 1   | 0   | 1   | 2   | 2   | 1   | 0   | 0   |

Further, the Normalized direct-relation matrix (N) is developed using Equation (2) and (3). Thereafter, this matrix is transformed into Total-Relation Matrix (T) using Equation (4).

In matrix T, the summation of rows and column are represented by R and C respectively using equation (5) and (6) (Please see table 4). \( R_i \) represents the total effect of barrier \( i \) to the other barrier, and \( C_i \) represents net influence received by \( j \) barrier from other barriers. After the determination of \( R \) and \( C \) for every row and column, the prominence (Pi) and net effect (Ei) is calculated using equation (7) and (8).

The net cause/effect of each barrier are decided through “Ei (i.e. R-C)”. If Ei is positive, then the barrier is considered to produce the net cause and if negative then the barrier is the net effect. These cause and effect are shown in Table 4.

Table 4: Cause and Effect of barriers

| Barriers | R   | C   | R+C  | R-C  | Cause/Effect |
|----------|-----|-----|------|------|--------------|
| Br1      | 3.43985 | 1.665882 | 5.105732 | 1.773968 | Cause        |
| Br2      | 3.27989 | 1.612547 | 4.892437 | 1.667343 | Cause        |
| Br3      | 2.89017 | 3.42421 | 6.31438 | -0.53404 | Effect       |
| Br4      | 1.562412 | 3.97542 | 5.537832 | -2.41301 | Effect       |
| Br5      | 2.95502 | 2.88148 | 5.8365 | 0.07354 | Cause        |
| Br6      | 2.83358 | 1.99677 | 4.83035 | 0.83681 | Cause        |
| Br7      | 3.07738 | 2.42844 | 5.50582 | 0.64894 | Cause        |
| Br8      | 1.574907 | 3.62846 | 5.203367 | -2.05355 | Effect       |

The R+C and R-C are plotted in Figure 1, which shows the causal relationship among the barriers of mainstreaming Fair-Trade practices. These results are discussed with the experts for further insights.

5. Discussion of the Results
The importance order of the identified barriers based upon the R + C dataset is given as Br3-Br5-Br4-Br7-Br8-Br1-Br2-Br6. Based on influential score (R-C dataset), the barriers are arranged in decreasing order of their influence on the other barriers is represented as Br1, Br2, Br6, Br5, Br3, Br8, Br4. Also, based on R-C dataset values, five barriers, namely Br1, Br2, Br6, Br7, Br5, have been categorised as cause group barriers. Three barriers, namely Br3, Br8, Br4 have been categorised into the effect group barriers by using their respective R-C score. The research findings were discussed with the experts to understand the contemporary barriers of Fair Trade practices better; the details are given as follows:

5.1 Influencing Barriers
Fair Trade movement aims at protecting human rights by promoting social justice, sound environmental practices, and economic security. It encourages trading that are not principally or entirely profit-driven. The findings of this study reflect that lack of consumer awareness is hampering the Fair Trade campaign. Business players are sceptical that whether there is fundamentally any sizable market of Fair Trade exists. Consumers unwillingness to pay a premium is impeded the mainstreaming of Fair Trade practices. The second most influential barrier is the lack of consensus on definition and criteria of deciding what is fair in a trade and has contributed to confusion among the major stakeholders in assessing the fairness of their trade. This variable is the most influential among all the barriers with (R-C value). This movement will gain momentum only when a Fair-Trade organisation will agree upon a broad-based definition considering all aspects of modern trade policies [14]. Also, consensus definition will help in tackling misleading claim about Fair Trade. Sharing of sensitive commercial information in another significant barrier in the assimilation of Fair Trade practices. Even though organisations are willing to work together, they are reluctant to share strategic information about Fair Trade practices. The absence of a framework for enforcing fair practices in trade is also and discouragement to the people involved in Fair Trade movement [15]. Due to lack of consensus about the boundaries of Fair Trade in scholarly literature, executives of mainstream companies are unaware of Fair Trade [2]. Mitigating these barriers may help in maintaining and advancing the Fair-Trade movement.

5.2 Influenced Barriers
Barriers in the effect group make a significant contribution to the system. Among them, Issue for impact assessment is highly influenced barrier. Statements about the benefits of Fair Trade are often made without a rigorous assessment of its impact. Moreover, it is also difficult to demonstrate how outcome of Fair Trade practices is related to the premium paid for that. The other influenced barriers, following the sequence of the priority list, include ‘Lack of attractive Fair-Trade brand’ and ‘Lack of proper Labelling’. A well-established brand of Fair Trade may help in propagating Fair Trade practices to larger masses. Further lack of proper labelling confuses the customers while making a purchasing decision.

6. Managerial Implication
This paper empowers policymakers, professionals, consumers, and practitioners to identify and evaluate barriers related to mainstreaming the Fair-Trade practices. This work may help the policy planners to design strategy by the modern economic challenges. Through the causal relationship (shown in figure 1) the barriers to embracing Fair Trade practices by industry players can be evaluated, which will ultimately help in raising the living standards of marginalised sections. Fair Trade practices with well-defined boundary may help stakeholders in making an informed decision.

7. Conclusion and Future Scope
The barriers to adoption of Fair Trade practices are identified, and their causal relationships are evaluated using DEMATEL approach. The research conducted opens up direction in conducting data-driven research to measure the impact of Fair Trade practices on modern business style and assessing the condition of marginalised sections in a capitalist economy after adopting Fair Trade practices. The identified barriers can further be evaluated using tools like ANP and DEMATEL under fuzzy environment. A case-based validation will further improve the study. We hope, once these barriers are ironed out, Fair Trade principles will become a minimal standard in international production and not just a niche market.

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