

Leeds University Business School - Research and Innovation Podcast

Episode 40: A balancing act between sustainability and profitability

Speakers: Professor Kerrie Unsworth, University of Leeds, and John Steel, Cafédirect.

[00:00:00] **Kerrie:** Welcome to the Research and Innovation Podcast. I'm Kerrie Unsworth, a professor of Organizational Behaviour, and we're going to be talking with John Steele, CEO of Cafédirect. It's lovely to have you here today.

[00:00:19] **John:** Well, it's fantastic to be here. It's always a privilege to engage with a university like Leeds and to have a chance to talk a little bit to the future leaders of our world. So, that's fantastic.

[00:00:34] **Kerrie:** Wonderful. Thanks, John. I guess the main thing that we're going to be talking about today is - how to be sustainable, how to ensure that small companies can do good in the world. And Cafédirect is a great example of this. And I guess the first thing I wanted to ask was, well, what does sustainability mean to Cafédirect?

[00:01:03] **John:** Blimey. "Please define sustainability John." So Cafédirect, I mean, I guess, I mean, we try and do the best we can, but I think if you go back to, you know, the company was born 30 years ago and it was really a response to a crisis where farmers were not getting paid enough for their coffee. So it was very much an intervention from four companies and three coffee cooperatives to try and get a fair price to farmers. So it sort of started as, as being defined really as, as social justice was our cause. And then I think that has very much expanded out to include climate justice as well.

But from our point of view, yeah, sustainability in our most kind of purposeful definition would be about small holder farmers and their livelihoods and the landscapes they work in. Now, we would still be doing things kind of in other aspects of the business, like, you know, working out how employees are traveling to work, working out how we power the offices, how our packaging functions.

And those are all things you sort of feel like you need to do. But I think in its most meaningful sense, it's really about working directly with small holder farmers to ensure that they have a sustainable livelihood and that they can look after the environments, which are usually adjacent to rain forests, in a way that provides a sustainable planet for us all.

So is that, is that an okay answer for you, Kerrie?

[00:02:40] **Kerrie:** That's great. So there's, there's the basics, the things that you consider the everyday things almost, and then there's the special stuff that you put a lot of attention and drive into.

[00:02:58] **John:** Yeah. So I think if you, if you looked at, I mean, we became the first UK coffee company to be a B corporation in 2018. And if you looked at our score, you know, we score very highly for the way we engage with small holder farmers and the sustainability on farm and the

governance of the organization that engages small holder farmers, then its leadership and the ownership of the business.

And I would say then you'd find a scoring where we had to improve the way we run our little roastery in London or the way we package our goods. Yeah, I think, I think it's important to cover all of these points, but I think personally, you really need to understand what your business purpose is and deliver against that.

And, and so for us, it is about improving those small holder farmers lives. And I think, you know, if we focused and had, I don't know, a roastery that was net positive, but yet we were not paying small holders a fair price, and we weren't working with them directly to diversify their crops or change the role of women in the organization, or bring on young people so that they had you know, not young people leaving the farm to go and work in the cities, but working for the next generation of farming, I think we would have not delivered our mission really.

[00:04:24] **Kerrie:** Yeah. So there's a potential trade-off there, across these different types of sustainability. Do you, or have you found any situations where you've had to make a trade-off between those different aspects of sustainability?

[00:04:48] **John:** It must be the case. Let me try and think of some examples. I mean, certainly if you go back a few years ago, I think that the organization would have actually made decisions that were endangering its own financial sustainability for the, in the pursuit of social environmental goods. So, you know, we would define ourselves as a triple bottom line business.

So yeah, John Elkington defines this term where you're very much looking at social, environmental, and financial sustainability and the management of those three different forms of capital. And I think probably over many, many years, like many social enterprises, we would have focused on social and environmental goods and being quite negative about commerce and quite negative about finance, but we've got better getting that balance right.

But if you were to look over the company's financial record over say 20 years, you'd find many years where we'd provided record donations and, support to farmers, but lost significant amounts of money. I think now, in 2021, we would make sure we still, you know, act within our financial constraints much more responsibly.

I think it's, it is a balance. And you know, in the 10 years I've been running the company, I've very much wanted to make sure that we are financially sustainable rather than, you know, pursuing environmental and social sustainability without managing our books. I mean, if you do that, you'll go bust and then you will not have set an example to anybody and you'll cease to have the impact that you're designed to have.

So I think there's always been that tension. I can remember a few years back at being in a meeting where some of the people in the meeting were not prepared to market some of the impact work we were doing in Costa Rica because they wanted the money to go to the impact work. And yet the other people in the room were going well, if we, if we communicate the great work we're doing in

Costa Rica, it sets an example to others and it gives us more fame that will lead to more volume, which will lead to more impact.

And I think, you know, it's almost like you have to remember you are a business, even though you're doing lots of social environment good.

[00:07:08] **Kerrie:** Yeah. Yeah. It seems to be such a difficult tension to manage.

[00:07:14] **John:** It's much more interesting than just trying to make money for the few, but it does create this tension. Yeah. And, but that's, but that's a really interesting way of working. I mean, it's ultimate analysis. It's much more rewarding, but it's certainly, it makes competing with commercial businesses more challenging and it makes you think about harder, but ultimately the end result I think is more meaningful.

[00:07:39] **Kerrie:** Yeah, well I mean, the research that we've been doing with small companies who are trying to, again "do the right thing", even if they're not B corps or social enterprises, they're still trying to be environmentally friendly or work towards climate change. And every single one of them has had this trade-off and has realized that there needs to be an awareness of both the financial and the social, it's just that the way that they attack that problem is slightly different.

So some of them have kind of forgotten about the financial and focus just on the social and can get burnt out or run themselves into the ground. Others focus on the financial and in doing the financial, they get the social benefits coming through. And then there's a whole range in the middle as well. It sounds like you're trying to, or you're still kind of working out somewhere in the middle?

[00:08:53] **John:** Well, I think, yeah, so it's a really interesting thing to think about, especially over a long period of time for a company and, you know, especially if you're founded in a certain way and then your founders move on and the kind of culture of the organization changes. I think, I think utopia is to be able to deliver your mission from a sustainability perspective and bring it to life with consumers, citizens, however you want to name your target audience in a way that provides a really distinct kind of brand and a business, but ultimately helps people to think and see in a more sustainable way. So I think there's always this tension where, you know, when you're competing with other delicious coffee brands, a lot of those will just shout certain kinds of messages about the benefit to consumers in terms of taste and quality. And you know, sometimes you get tempted to say "I must play that game", but you need to engage in what matters to the consumer in a way that's distinct and meaningful that's true to your sort of proposition, I guess. I think if you can get that nailed properly, which is very difficult to do, then you're in a very powerful position. I think we've done better at that over time, but I think we can still keep improving.

[00:10:09] **Kerrie:** Yeah. So that's a really good tip then for up-and-coming, companies, either B corps or social enterprises or, more traditional companies, that find, find your own utopia. I guess if you can articulate your utopia, you're halfway there.

[00:10:33] **John:** Yeah. And I think, I mean different organizations are orientated in different ways, aren't they, and some of them are very product orientated and they're very much selling a product. I

think we would be very much kind of mission-orientated. So we would be very much looking back at our farmers and their lives and their environments.

And then we still need to be able to be more market orientated. Otherwise you end up, I mean, I would have thought many smaller kind of socially different businesses ended up quite frustrated because they know they've got something really good and they're determined for it to be meaningful, but they're too internally-focused in a way. You do need to connect with the market because that's how business works. Isn't it. And, but you know, it's a great tension, But, very easy to get a bit lost in it as well. I think very easy to, you know, be very, I mean, I've, over the years, talked to lots of different entrepreneurs who were starting social enterprises and so on and so forth, and you listen to their story and their meaning and it's absolutely fabulous. But then some of them are better at connecting that with the consumer and others are just so, driven by the meaning that almost a, they miss the opportunity to scale the business, but, yeah, serious stuff.

[00:11:48] **Kerrie:** Yeah. So looking forwards then, if we time travelled and all of these other companies that we're talking about, were now following the United Nations Sustainable Development goals; everybody's doing wonderful things; all of the UK coffee producers are sustainable; those delicious coffee makers aren't necessarily just selling on taste, what would you do? What would Cafédirect do? What's the next steps? If everybody else is, is up in that sort of "doing the good things".

[00:12:32] **John:** Um, well, yeah, so, I mean, I suppose firstly playing that back a bit, I mean, I think if everybody was paying, you know, a good living income kind of price, and then they were also reinvesting in capacity with farmers, so helping them to improve the way they do business and the way they run their livelihoods, that would be great wouldn't it?

I think the next thing would be then to look, to move more value to the farm. So, you know, we are still sitting here in developed countries, talking about developing countries, in a sort of, you know, here we are in London or Leeds or whatever, talking about people farming in a far away place. I think we should, rather than coffee be for example, you know, being shipped in its raw format to a roastery in Germany or the UK, I mean, you'd want to add value, at origin effectively. So you'd like to move the farmers up the scale a little bit, up the chain so that, you know. Wouldn't it be wonderful if wherever you are in the world, you buy a finished good from the place of origin originated rather than, you know, most companies trying to pay as little as they can for farm materials and then adding value themselves by putting packaging around it and the marketing and, you know, processing it and so on. Wouldn't it be wonderful if that was done where all the blood, sweat and tears originally started on for those that are working 18-20 hours a day on a mountain altitude picking coffee.

Wouldn't it be great if they were then roasting and packing it themselves and then having more, I guess, more power, isn't it really, getting more balance and fairness in the whole system. So I think that's the thing we need to focus on next. I think that's quite an interesting collaboration and technically it's quite complicated because you start moving different things around the world rather than just green beans as they do.

[00:14:45] **Kerrie:** Yeah. So it's really, it's keeping that focus on social justice. So keeping your main goal, your main purpose, and really just driving that mission further, going deeper into, into your main goal.

[00:15:01] **John:** Yeah. Cause it's, I mean, I can't remember who was saying it about what the other day so it doesn't make any sense, but a lot of these issues start from the wrong place. Don't they? I mean, you know, I think somebody was saying to me, you know, whoever made the clothing industry think it was okay to destroy the lives of nine year old girls in Bangladesh so that you could buy three T t-shirts for whatever price people are buying t-shirts for.

I mean, whatever made us think that was right. But then the change process starts from that position now doesn't it. And you know, when, when people say "Oh, we're now paying the farmer a bit more money". You started from a position that's so far below the cost of production or the cost of life that it's quite, it needs sort of recalibrating completely, otherwise, you know, your starting point is always, it's like, a multi-billionaire saying "I'm going to give a hundred million pounds to something". I mean, you've got to this position where you've created such an inequality that your starting position is quite remarkably mad. Really? Sorry. I'm started to rant now. Yeah.

[00:16:05] **Kerrie:** Well, I think a rant is a good place to end for today's topic because otherwise you'll get me started as well. And then there'll be no stopping us.

[00:16:14] **John:** Oh, we could just keep moving up. We could just keep ranting up.

[00:16:19] **Kerrie:** Okay, well, thanks very much for, for joining us today, John. It's been great to talk with you and to hear the fantastic things that you're doing at Cafédirect. And I hope that others that are listening to this can get some tips, and be able to use some of this information so that we can share some of this good.

[00:16:42] **John:** Well, it's lovely to talk to you, Kerrie. It's just, I think it's just good for us all to listen to each other and keep trying to consciously move forward isn't it. And adjust the things we do and try to improve. So it's fantastic to get the chance to talk to you. Thank you very much.

[00:16:56] **Kerrie:** Thank you.