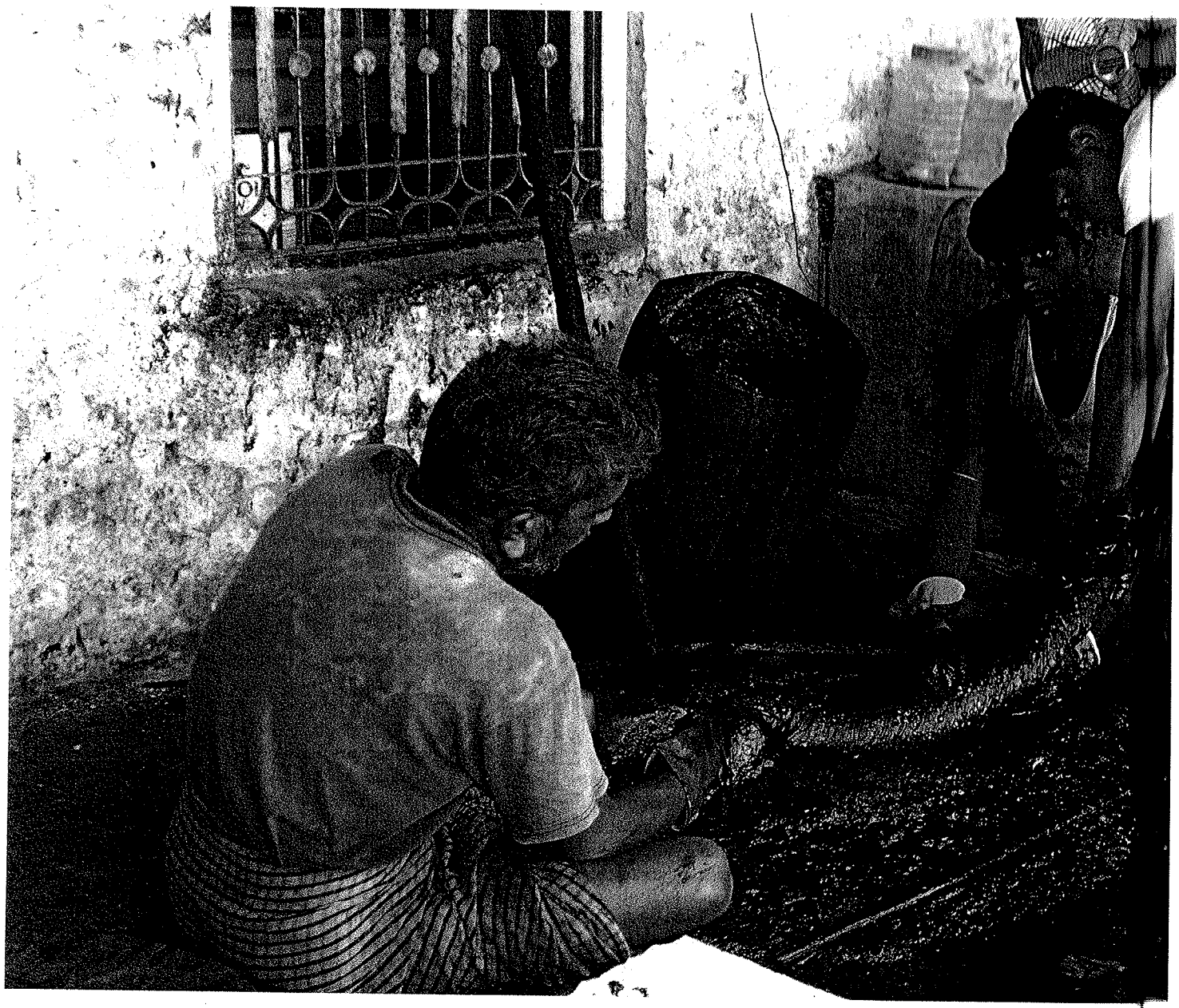
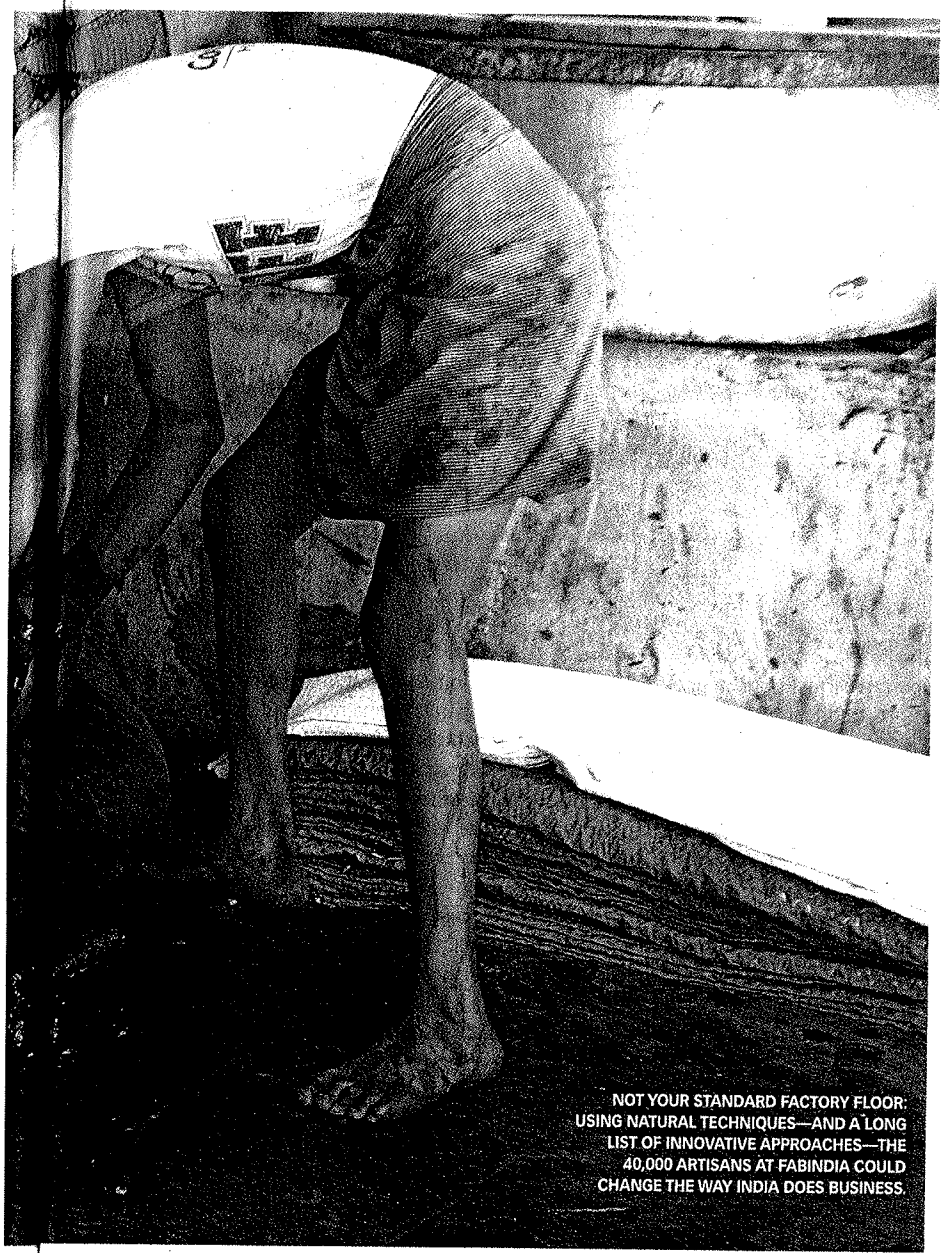


Individual profit, common good

How Indian retailer Fabindia helps create economic growth that serves the needs of local communities. BY JERRI-LYNN SCOFIELD



NOT YOUR STANDARD FACTORY FLOOR: USING NATURAL TECHNIQUES—AND A LONG LIST OF INNOVATIVE APPROACHES—THE 40,000 ARTISANS AT FABINDIA COULD CHANGE THE WAY INDIA DOES BUSINESS.

PHOTOGRAPH: JERRI-LYNN SCOFIELD

DOWN A WELL-PAVED HIGHway some 40 miles (65 kilometers) from the Indian desert city of Jodhpur, past camel carts, motorcycles, trucks and three single-file mongooses darting across the road, lies Pipar City. Goats, cows and children wander among the low buildings, some of which are built of rough-hewn red sandstone, others with smooth walls washed in a soft periwinkle blue. Here, I watched Iliyas Shahabuddin dip cloth into a vat of natural indigo dye. The cloth goes into the vat white, emerges green and then, after a few minutes of oxidation and sunlight, turns dark blue. Old water produces the deepest color, so the same vat has been used—its liquid unchanged—for 18 years.

The block-printing factory that Iliyas and his brothers Yasin and Farooq own sends 90 percent of its products to Fabindia, a retailer that markets handmade textiles and handicrafts produced in the countryside to urban consumers in India and beyond. The brothers are just a few of the more than 40,000 artisans who have helped Fabindia grow from a modest export business with a single retail outlet to an operation with 129 stores in 49 Indian cities as well as in Kathmandu, Dubai and Rome.

Fabindia has achieved these results through a collective business model that empowers artisans to become owners. The Fabindia method helps preserve traditional Indian crafts and enables artisans to make money, which enriches rural communities and nurtures a sense of entrepreneurship. Even more important, collective ownership generates sustainable economic growth, shifts the way communities think about their self-interest and helps overcome social divisions.

Sitting in a light-filled room in his New Delhi home, which is decorated with bold Fabindia fabrics, Managing Director William Bissell describes the company's business model as one answer to a fundamental question: "How do you get the smartest, brightest, wisest, sharpest and most entrepreneurial people to serve an interest wider than their own?" Bissell leans back in his chair. "I didn't have the luxury or the resources to do this on a huge scale. But what Fabindia *could* do is put its money where its mouth is and actually do this as a company in its own small sphere."

In 2007, the company pledged to create 100,000 sustainable production jobs by 2013 and to convert its supply chain—from producers to warehouses to logistics and transport firms—into community-owned companies (COCs) that include all artisans as shareholders. "The COCs put the proper incentives in place to promote innovation and entrepreneurship that serve the needs of the local community," says Bissell. Fabindia's COC structure is "a very good blueprint for how the model can be rolled out for other companies and other situations. The concept of participating in developing your own community is as important in the U.S. as it is in India."

So far, 16 COCs are up and running, all of them for-profit, public limited but unlisted companies with a common corporate structure. Each is professionally managed and partly owned by artisan shareholders and steered by boards that include at least one and usually two artisan directors. Financing is based on a co-investment principle: Artisan shareholders have stakes starting at 26 percent, while Artisans Micro Finance Pvt. Ltd. (AMFPL), a Fabindia subsidiary, initially invests 49 percent in each COC. The rest of the shares are reserved for key COC managerial staff and outside investors. "As we sense that [the artisans'] comfort levels with this arrangement are increasing, we're gradually winding down our stake and, I might say, very profitably," notes Bissell. »»

Throughout its 50-year history, Fabindia has built corporate social responsibility into its business model. Its mission: to sell quality handcrafted products and "to maintain a fair, equitable and helpful relationship with our producers," in the words of founder John Bissell, William's father. But Fabindia has always achieved this on a for-profit basis. Indeed, Fabindia regards making a profit as the most effective means of creating jobs and fostering sustainable economic growth. "Profit is just an indicator of the health of the company," says William Bissell. "These companies would be a much better investment than sticking the money in the stock market."

So far, Bissell's optimism is well founded. Twelve of the 16 COCs have been consistently profitable, and the remaining four are expected to be profitable shortly, according to Smita Mankad, managing director of AMFPL. The two most profitable COCs, in the textile and handicrafts centers of Jaipur and Jodhpur, have paid dividends of at least 20 percent for each of the past three years.

Those are encouraging results, especially at a time when most Western economies are mired in sluggish growth and continuing fears of a double-dip recession. In addition to the return on investment, though, Bissell believes giving local artisans a stake in their own economic futures changes the way they think about themselves and their relationship to the company. "We have established among our entire artisan community the concept of shareholding," he says, "the concept that you can collectively own something and that you can collectively benefit." COCs empower people who have traditionally been powerless, allowing "large numbers of people to participate not as people receiving aid but as people investing in their communities, which is a different feeling." In fact, Bissell argues, investing their hard-earned money shifts the workers' attitudes about the company. "If you get it for free, you're never going to have respect for what you're getting."

BISSELL'S BELIEF IN THE ECONOMIC and entrepreneurial benefits of collective ownership stems from an earlier, failed attempt to create a collective model with a small leatherworking cooperative in Rajasthan. After graduating from Wesleyan University in Connecticut in 1988, he spent three years trying to make that cooperative work. Those were three frustrating years, he admits now, but he learned a lot. One important lesson: There are good reasons why some cooperatives just don't work. "Cooperatives are a collective, just like the COCs, but without a defined ownership," he says, "which means that you have a piece of an amorphous whole and no accountability. You can't pull your share out of a cooperative [because] you don't have a concrete, divisible share."

Like cooperatives, COCs emphasize local control. Shareholders, boards, artisans and management all live and work in the same place, in contrast to typical modern business structures where "the effect of [a company's] actions can be in a different part of the world" and never seen by management or shareholders. "The people who run the COCs can see the effect of their actions on the local community," Bissell says. This awareness, he believes, fosters decisions that reflect the collective self-interest. COCs also allow ownership shares to be transferred. Every COC is audited twice annually. After each audit, AMFPL declares a valuation for each COC share and informs each shareholder of the share trading price in writing and by text message. And after each valuation, COC shareholders have a month to buy or sell shares.

Fabindia products are all made according to strict ethical and ecological guidelines, too. Every product must be natural. Garments and soft home furnishings are made of cotton, wool, silk or blends of natural fibers; furniture is made from wood or metal rather than composites or plastic; food products are naturally produced. Part of each product must be handcrafted using traditional Indian techniques, and all products must be affordable for middle-class Indian consumers. Finally, Fabindia must know the provenance of all its products—who made it, where it came from and how it was produced. By following these principles, "Fabindia has created a greater appreciation and awareness of Indian craft," says Charu Sharma, the chief operating officer, who is in charge of product selection.

In Pipar City, the brothers Shahabuddin and their 25 employees produce naturally dyed block-printed textiles. Indigo doesn't wash away easily, and when Yasin Shahabuddin met William Bissell in 1988, Yasin's hands were stained dark blue. He has supplied Fabindia with textiles ever since, and the stains on his hands are long gone. (Dyers now wear thick rubber gloves.) He now serves as one of the artisan directors for Desert Artisans Handicrafts Jodhpur, the local COC, Like many of the handicraft traditions Fabindia is working to preserve, block-printing is an arduous, labor-intensive process. Printers stamp textiles with hand-carved wooden blocks to create elaborate multicolored patterns. Each color is applied separately, and each finished bolt of cloth requires hundreds or even thousands of stamps to complete the design. The most highly skilled printers at the Pipar City operation finish about twenty 16-foot-long

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A CRAFTSPERSON OF PIPAR CITY USES INDIGO DYES SOAKED IN THE SAME VATS FOR NEARLY TWO DECADES TO MAKE EYE-CATCHING FABRICS SOLD TO TRENDSETTING CONSUMERS IN INDIA AND ELSEWHERE.

PHOTOGRAPH: JERRI-LYNN SCOFIELD

(five-meter-long) pieces each day, and the operation generates an average of 540 yards (500 meters) of printed cloth daily. Indigo is only one of several natural dyestuffs used in the operation. Dyeing is always a messy process, but natural dyes are less toxic to workers and the environment than their chemical counterparts. And urban consumers increasingly demand naturally dyed fabrics, not only because they're chemical free but because people are drawn to their vivid colors. For example, alizarin, made from boiling dried *dhawdi* flowers, produces a striking oxblood fabric, while dyeing first with turmeric and then with indigo creates a dense, lush green.

The block-printing operation has made the brothers affluent by Pipar City standards, and they have built—side by side—three of the largest local houses. They gross $11,000 a month, and there is not much difference between the salaries of the lowest and highest paid workers. Semi-skilled workers earn about $100 per month, the most skilled earn about $135. Each brother receives a $225 monthly salary as well as a share of the factory's profits. Each worker also owns shares in the COC. In communities in which most jobs are agricultural, seasonal or occasional, these jobs continue year-round and pay a regular wage. Employees live and work locally, spending their money in the community. "Lives have changed for the workers," says Mona Jaisinghani, the other artisan director of the Jodhpur COC. "Their children go to school." The brothers, too, remain deeply rooted in their community, and this sense of place carries over to the next generation. Yasin's son, Nosad, has an MBA and will soon spend a few years working for Fabindia. One day, he expects to return home to help carry the family business into its fourth generation.

The earnings from Fabindia have helped transform social relations in some villages. Jaisinghani designs and manufactures handcrafted garments, and many of the artisans who work with her are women who do embroidery and other hand-finishing processes. These women now "generally all have bank accounts and have control over their own money, so it's not taken away by their husbands to drink," she says. Earning their own wages "increases the standard of living of their families and also raises their status in the family itself."

The COC structure is not a panacea, though, and there have been some setbacks in making the new structures work. Although most COCs have two artisan directors, many of whom were elected, the elections themselves "were a painful experience. And they were a polarizing experience," says Bissell. So painful and polarizing, in fact, that further elections have been temporarily suspended. The COCs stimulate an entrepreneurial attitude but they also tap into tensions just below the surface of Indian society. Each COC generally comprises five or six types of artisans, who often practice different religions or belong to different castes; elections can magnify these social differences rather than highlight the collective interest. Bissell is confident this problem, too, can be resolved, possibly by increasing the number of artisan directors on each board. "The reward system when you become a shareholder favors aligning with the group interest," Bissell says, "because if the valuation of the company increases, your sliver of the pie grows." So the COCs not only bring employment and economic opportunity; they can also create a sense of common good that trumps social, religious, class and caste divisions.

In the long run, Bissell believes the COC concept has even more to offer. "Public assets can be owned by the people and managed by professionals," he says. "You can work out ways to value the contributions of management and reward them, but at the same time ensure that communities have a greater and greater say in the way their regions are developed. Fabindia has shown people that it can be done." Fabindia has brought economic growth, sustainable jobs and greater entrepreneurship to the Indian countryside. And when something works, it's good business sense to stick with it. The Shahabuddin brothers in Pipar City won't be changing the water in their indigo tank anytime soon. ■

JERRI-LYNN SCOFIELD *is working on a book about the strategies India's artisanal textile producers are using to maintain and preserve their rich heritage.*