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An analysis of the profit-sharing model

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Far too often, global supply chains distribute value in ways that contribute to income inequality and the uneven accumulation of wealth. Despite a surge of innovations to address this problem—such as fair trade, corporate social responsibility, and creating shared value—the issue of value distribution persists as a pressing priority for the international development and business communities. This article puts forth a first attempt at theorizing profit sharing as a potential mechanism for more equitable value distribution in global value chains. Drawing on two in-depth, multi-method case studies of companies that share profits in the coffee sector, we develop eight theoretical propositions about the applicability and efficacy of profit sharing as a tool for redistribution. Our research suggests that profit sharing can distribute value without requiring suppliers to compromise price stability, profit maximization, value creation, or alternative economic opportunities. This conclusion challenges extant theory which asserts (based on studies of fair trade certification, direct trade, and solidarity trade) that these tradeoffs are typically necessary or inevitable. We also extend the literature on profit sharing. Extant literature examines firm-level attempts to maximize productivity and minimize dissent. We contribute by theorizing profit sharing’s fitness for redistributive objectives in the context of value chains. The implication of our findings is that, in some contexts, companies may be able to increase prices and improve income stability without requiring suppliers to compromise other economic priorities.

Introduction

Private sector activities commonly contribute to the unequal distribution of income and uneven accumulation of wealth (Bapuji & Neville, 2015; DiLorenzo & Scarlata, 2018; Marens, 2018). Yet, some businesses aim to generate more equitable outcomes. One approach that companies take is distributing value more equitably, often by paying more to suppliers in the value chain. Over many decades, companies have developed and refined several mechanisms for distributing value, including solidarity trade, fair trade certification, and direct trade (Grabs, 2020b; Raynolds & Bennett, 2015). These mechanisms have been rigorously studied and theorized in the business management, social entrepreneurship, global value chain, and international development literatures. Extant theory suggests that when companies engage these mechanisms for distributing value they are likely to face difficult tradeoffs among the multiple benefits they aim to offer suppliers, especially income stability, price maximization, and value creation. Theoretically, these tradeoffs are both unavoidable and likely to generate a host of paradoxes, hypocrisies, and intractable challenges, all of which may be exacerbated if taken to scale (Borrela et al., 2015; Johannessen & Wilhite, 2010; Valkila, 2014; Valkila et al., 2010).

This study calls into question the notion that companies cannot distribute value without facing this particular constellation of tradeoffs for their suppliers. It does so by examining two cases of an alternative, emerging mechanism for value distribution: profit sharing. Profit sharing is a tool most often used by corporations to motivate employees to generate more revenue for investors. However, over the past decade, some businesses have adopted this mechanism for the purpose of more equitably distributing value in a supply chain (Gerber, 2013; LaPorte, 2013). Currently, theories of value distribution do not include research on profit sharing, and knowledge about profit sharing does not include research on its applicability to value distribution. Our work is the first to describe this novel application of profit sharing, interrogate its fitness for value distribution, and modify extant theories of value distribution mechanisms to include these insights.

Our research makes two contributions. First, we offer an initial attempt at theorizing profit sharing as a redistributive mechanism in value chains. We do so by making eight theoretical propositions. Collectively, they assert that profit sharing can effectively be used to distribute value to suppliers without compromising their economic priorities. It may, however, lend itself to the alternative trade off of excluding suppliers from sharing in company decision-making. Profit sharing is versatile in its ability to be either scaled up, reaching more suppliers, or scaled deeply, delivering more benefits to a single supplier community. We offer suggestions for refining these propositions through future research.

Second, we draw on our propositions to modify extant theorizing on the mechanisms of value distribution. We suggest that value distribution does not, necessarily, require suppliers to make tradeoffs among their economic priorities. Under some conditions, companies may be able to distribute value without disrupting value creation, destabilizing incomes, limiting profit, or constraining business opportunities. We make some suggestions about when this might be possible and identify pathways for continued research.

At a practical and policy level, this research is important because it builds understanding of whether, how, and when businesses may successfully increase the value they distribute to suppliers. By offering a comparative analysis of four mechanisms, our findings can help companies identify the most appropriate strategy for their circumstances, and aid activists in advocating for the mechanisms most likely to succeed. In this way, the article answers a call for business literature to offer more specific, actionable insight into the ways in which businesses can reorient around economic equity and social change (Marens, 2018).

The article is organized as follows: First, we review the relevant literature. We situate the study within a broader conversation about private sector activity and economic inequality. Then, we review the business management literature on how traditional capitalist companies have taken to improving value distribution, and the limitations of the resulting innovations. We next describe the mechanisms that social enterprises have generated for improving distribution—solidarity trade, fair trade certifications, and direct trade—and summarize theory about their inherent tradeoffs. Finally, we introduce the literature on profit sharing, highlighting the lack of studies of this particular application.

Second, we describe the data and methods used to conduct a comparative qualitative case analysis of Catracha Coffee Company.

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1. As a noun, profit sharing is not hyphenated; as an adjective (e.g., profit-sharing model) it is.
and Thrive Farmers International, Inc., two social enterprises aiming to distribute more value to coffee suppliers selling to the international market. Coffee suppliers, like many agricultural producers for global value chains, retain very little of the value created (Bacon, 2013; Borrella et al., 2015; Ponte, 2002). Fourth, we present our results and key illustrative evidence, organized around the theoretical research questions. Fifth, we draw on the findings to generate theoretical propositions and draw conclusions that challenge and extend extant theories about the potential of businesses to improve value distribution. Overall, this article contributes to the business management and social science literatures on value distribution, social entrepreneurship, and fair trade by identifying the conditions under which businesses can distribute value more equitably without making the tradeoffs previously theorized as necessary.²

**Literature review**

**BUSINESS, VALUE DISTRIBUTION, AND ECONOMIC INEQUALITY**

At the broadest level, this study contributes to an ongoing conversation about the ways in which business management strategies may exacerbate or mitigate societal-level economic inequalities (Westerman-Behaylo et al., 2016). The private sector is a primary source of wealth creation and a key player in income distribution (Bapuji et al., 2020). Businesses combine and exchange stakeholders’ resources to create something the market values. The value is then appropriated by minimizing the costs of production and maximizing the prices received from consumers, and distributed to those who provided the resources (Bapuji et al., 2020; Lepak et al., 2007). These claimants include investors providing capital, suppliers providing inputs and services, and society providing the environment for generating or combining these resources (Gunningham et al., 2004). Companies typically aim to maximize the value distributed to capital investors (e.g., shareholders) by minimizing the amount paid to suppliers (e.g., wages and commodity prices) and/or society (e.g., taxes). The resulting distribution of value often reflects broader socio-cultural realities, such as asymmetric bargaining power, access to information, ability to act, cost of substitutions, and perceived dependencies (Bowman & Ambrosini, 2000). In this way, the private sector can exponentially exacerbate inequalities between investors and other stakeholder groups (Bapuji, 2015; Bapuji et al., 2018).

The research presented in this article focuses on the ways in which businesses distribute value (as opposed to creating or appropriating it). Value distribution is an extraordinarily “complex socio-economic process,” as some aspects are explicit and transactional, while others are intersubjective or psychological (Bapuji et al., 2018, pp. 988). Redistribution is challenging, as it necessitates altering the ways in which companies balance the benefits to some stakeholder groups against benefits to another (Westermann-Behaylo et al., 2016). Yet, more equitable distribution may also generate positive spillover effects: it may be easier to attract, retain, and motivate stakeholders to create sustained value (Bridoux & Stoelhorst, 2014); and stakeholders may also be more generous and cooperative in the value creation process (Westermann-Behaylo et al., 2016, pp. 548). Despite these benefits, value redistribution for the purpose of remediating inequality is not a mainstream business strategy. And when companies (e.g., Unilever) do assert the intention to shift value, it is unclear whether profit or equity is the intended outcome (Fortainier & Kolk, 2007). Despite value distribution’s “obvious relevance” to the relationship between business management and the equality of economic outcomes (Davies & Chambers, 2018, pp. 383), it has, with only a few exceptions (e.g., de los Reyes et al., 2017; Fortainier & Kolk, 2007), "not yet received the scrutiny it merits" (Marens, 2018, pp. 1253) and remains “less well explored in literature” than value creation or appropriation (Davies & Chambers, 2018, pp. 383).

Traditional, profit-oriented businesses have generated several innovations for improving distributional impacts. Philanthropic capitalism channels capitalists’ wealth back to the communities who created it through the creation of charitable organizations, such as the Bill and Melinda Gates Foundation (Bishop & Green, 2008). Corporate social responsibility (CSR) supports companies in limiting or mitigating the social and environmental exploitation that occurs during value creation, often by adopting voluntary codes of conduct or supporting community development projects (Carroll, 1999). Creating shared value (CSV) leverages opportunities for multiple stakeholder groups to increase profits by collectively reducing inefficiencies and resource consumption across a value chain (Porter & Kramer, 2006).

Although these capitalist approaches, under some conditions, have a positive effect on distributional outcomes, they may also obscure, dismiss, or minimize inequalities, or even reify the existing power structures that perpetuate them (Bapuji et al., 2018; Crane et al., 2014; Westermann-Behaylo et al., 2016). Social enterprises, however, have developed a broader range of more deep-reaching innovations that have greater potential to move beyond limited harm reduction or charitable “giving back” (de los Reyes & Scholz, 2019).

**SOCIAL ENTERPRISES AND VALUE DISTRIBUTION**

“Social enterprises” or “hybrid organizations” use market mechanisms to achieve a social mission (Mair et al., 2012; Santos, 2012). They may be for-profit, not-for-profit, or limited profit (Ebrahim et al., 2014). They combine institutional logics in different ways (Battilana & Lee, 2014)—some, for example, use market activities to raise money for social objectives, while others integrate them, achieving social objectives through the profit-seeking activities themselves (Alvord et al., 2004; Battilana et al., 2012). Social enterprises may be worker-owned, cooperatively organized, or controlled by individuals or groups of investors (see Batemen, 2015). Although normative theory suggests that initiatives aiming to empower beneficiary groups should prioritize participatory governance (e.g., shared decision-making power) and freedom of opportunity (e.g., to participate or exit), many do not (de los Reyes et al., 2017; see also Sen, 1999).

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² In this article, “suppliers” are the target beneficiary group providing goods or services (e.g., coffee farmers); “companies” are the hybrid organization/business purchasing goods (e.g., traders), and “buyers” are the entities purchasing from companies (e.g., coffee roasters).
Although social enterprises do not necessarily aim to or succeed in addressing economic inequalities, many do (Chell et al., 2016; Keahey & Murray, 2017; Mongelli et al., 2019). On the question of distributing value, social enterprises are theorized as always navigating tensions between the imperative of value creation and the mission to appropriate and distribute that value to suppliers, workers, or society (Battilana & Lee, 2014; Davies & Doherty, 2019; Pache & Santos, 2013). Some studies suggest social enterprises are more adept at creating value than appropriating or distributing it (Hockerts, 2015; Santos, 2012). Others argue that social enterprises can simultaneously maximize profits and distribute them to society or a target beneficiary group, but there are often tradeoffs in doing so (Agafonow, 2014, 2015; Dees & Anderson, 2003; Hladys-Rispal & Servantie, 2018; Mair & Marti, 2006).

Theory suggests these tradeoffs are likely to be exacerbated when entrepreneurs aim to increase impact by scaling up or scaling deep (André & Pache, 2016; Bloom & Chatterji, 2009; Palomares-Aguirre et al., 2018; Utting, 2015). Scaling “up” means replicating existing activities in new geographic areas while scaling “deep” means expanding services to existing participants or improving penetration among the incumbent target population (Taylor et al., 2002). Scaling deep is more common among “social bricoleurs” who focus on solutions to local problems or aim to address the challenges of a particular population. Scaling up is more typical for “social constructionists” who identify replicable solutions that can be adapted to various local conditions or aim to address a more universal problem (Smith & Stevens, 2010).

MECHANISMS OF DISTRIBUTION: SOLIDARITY TRADE, FAIR TRADE, AND DIRECT TRADE

Social entrepreneurs and civil society organizations have developed or refined several mechanisms for improving equitable value distribution, including solidarity trade, fair trade certification, and direct trade. Here we present a brief introduction to each mechanism and summarize current theorizing on the extent to which each a) distributes more economic value to suppliers; b) balances the creation, appropriation, and distribution of value; c) stabilizes supplier income; d) honors the norms of participatory governance and freedom of opportunity; e) can be scaled up and/or deep.

In the 1950s, NGOs engaged in relief and development work began helping handicraft, coffee, and tea suppliers to access markets (Anderson, 2015; Fridell, 2007; Jaffee, 2014). Volunteers and charitable organizations took on the work of conventional middlemen (e.g., traders, processors, brands, retailers) transferring a greater share of retail value to suppliers. Specialized “alternative trade organizations” expanded early practices through catalogues and specialty shops with high consumer prices and low overhead costs (Doherty et al. 2013; Raynolds, 2012; Tallontire, 2000). In 1989, the World Fair Trade Organization emerged to promote best practices and address common challenges (Bacon 2013; Taylor 2005). Today, the “buy high, sell low” model continues to thrive (Manz et al., 2013, pp. 7). Examples include Equal Exchange (US), Cafédirect (UK), and Gepa (Germany). Value distribution relies heavily on the resources of middlemen and capacity of supplier organizations (Tallontire, 2000). Solidarity traders scale “deep” by redefining the terms of trade (Manz et al., 2013). Scaling up is challenging: when supply outstrips demand, prices fall for suppliers (Bennett, 2012; Renard, 2003).

Solidarity trade is an integral part of the broader fair trade movement, which aims to “transform international trade from a vehicle of exploitation to an avenue of empowerment” by fostering higher prices and wages, stable markets and employment, better work conditions and environmental sustainability in the Global South and “bolstering more equitable trade policies, business models and consumption practices” in the Global North (Raynolds & Bennett, 2015, pp. 3). In the late 1980s, fair traders developed two new ways to scale up solidarity trade (Bennett, 2012; Renard, 2003). First, they sold solidarity products in conventional retail outlets (Barrientos & Smith, 2007; LeVelly, 2015). Second, they sold solidarity trade commodities (such as cacao) to conventional processors (such as Nestle), who would, in turn, label their branded products as “fair trade” and sell them at a higher price (LeVelly, 2015; Renard, 2003). In the 1990s, several fair trade labels emerged; in 1997, they consolidated as one Fairtrade International label; and in the 2000s several new, competing labels emerged (Bennett, 2012). Collectively, fair trade labels have profound market penetration and global reach (Grabs, 2020a). Their diverse governance structures (Bennett, 2017), standards (Ruben & Zuniga, 2011), and strategies (Howard & Jaffee, 2013) make it challenging to generalize their capacity to shift value down the supply chain (Bray & Neilson, 2017; see MSI, 2020). Our literature review focused on Fairtrade International’s label because of its historical importance, global presence, reputation for rigor, and high coffee volumes (Bacon, 2010; Bennett, 2018; Ruben & Zuniga, 2011). Fairtrade International requires coffee traders to pay a minimum price per pound to individual suppliers and a premium to their cooperative to spend on public goods (Nelson & Pound, 2009). When market prices are low, the minimum provides increased income and stability (Nelson et al., 2016). When prices are high, traders still must pay the premium (Raynolds, 2012; LeVelly, 2015).

Fair trade certification has succeeded in scaling up the solidarity trade model and offers some social benefits related to women’s empowerment, democratic governance, and child labor (Mook & Overdevest, 2017). It has also compromised value distribution (Bray & Neilson, 2017; Johannessen & Wilhite, 2010; Valkila, 2014) by making trade relationships less personal (Jaffee, 2014; Taylor, 2005), reducing enforcement of long-term contracts and pre-financing (Raynolds, 2009), excluding suppliers from decision-making (Loconto, 2017; Lyon, 2011; Renard & Loconto, 2015), charging auditing fees (Ortiz-Miranda & Moragues-Faus, 2015), depressing prices (Bacon, 2010; Grabs, 2020a), and generating oversupply resulting in only 20% of certified coffee selling under Fairtrade terms (Cole & Brown, 2014).

3 ‘Fair trade’ is the concept, movement, products, organizations, or businesses promoting the fair trade vision. ‘Fairtrade’ is the certification managed by Fairtrade International (Raynolds & Bennett, 2015, p. 5-6).

In the 2000s, social entrepreneurs working in the high-quality coffee sector began developing new ways to capture the benefits of fair trade while avoiding its shortcomings (Cole & Brown, 2014). The initiatives that emerged aimed to connect suppliers and consumers more directly, foster long-term trade relationships, and minimize value capture by middlemen. In this “direct trade” or “relationship trade” approach, companies purchase high-quality ‘microlots’ from a small number of farmers (rather than aggregated cooperatives) at a transparent price (Grabs & Ponte, 2019; MacGregor et al., 2017). Direct traders typically encourage suppliers to invest heavily in quality improvement, even though only a small share of each farmer’s coffee will sell via direct trade and the remainder remains subject to market prices (MacGregor et al., 2017; Wilson & Wilson, 2014). Direct trade coffee typically retails at a very high value, so even when farmers receive above-market prices, which is not always the case (Hernandez-Aguilera et al., 2018), the share of value they receive may not be significantly different than in the mainstream market (Borrella et al., 2015; Vicol et al., 2018).

Overall, this literature suggests that the mechanisms for redistributing value to suppliers require producers to limit value creation, forfeit opportunities for price maximization, accept income instability, make investments with potentially negative returns, and forgo supplemental economic activities. It also suggests that the mechanisms’ applicability and efficacy are limited by buyers’ conservatism in anticipating future market dynamics, contracted prices that can fall below market value, availability of charitable middlemen, and traditional asymmetries in bargaining power.

PROFIT SHARING AS A MECHANISM FOR IMPROVING CORPORATE PERFORMANCE

In the wake of the industrial revolution, companies developed profit sharing as a way to motivate employees and reduce animosity about labor-capital relations. Profit sharing in this context is “a pay system...that makes employees ‘residual claimants’ in the company by entitling them to a portion of enterprise profits” (Fakhfakh & Perotin, 2000, pp. 94; Shipper et al., 2013). Typically, shared profits are offered in addition to wages or a base salary. They may be paid in cash, invested into trusts, or issued in shares, either immediately or at a future date (Blasi et al., 2010). Profit sharing may be restricted to top managers, extend to a broader group, or include the entire workforce (Nightingale, 1982). Profit sharing is similar to ‘employee share ownership’ in that pay reflects company performance, yet distinct in that losses are not shared and employees are not necessarily entitled to participate in governance (Poole & Jenkins, 2011).

The business management literature identifies several benefits and challenges of using profit sharing to improve employee productivity and morale. On the positive side, it may enhance a company’s performance, improve distribution of wealth, improve manager-employee relations, reduce conflict, improve morale and motivation, increase loyalty, generate a sense of ownership, and foster norms of reciprocity among workers (Blasi et al., 2010; Fakhfakh & Perotin, 2000). On the negative side, it can destabilize worker incomes, be (or be perceived as) arbitrary or unfair, or increase stress because the determinants of income are external to a worker’s control (Blasi et al., 2010; Poole & Jenkins, 2011).

To our knowledge, there are no studies of profit sharing as a tool for redistributing value in supply chains. This study is the first to examine the efficacy of such use.

Methodology

This study is based on insights from a qualitative comparative case study. This is an appropriate design for generating a rich description of an unexamined phenomenon, addressing previously unanswered “how” questions, and developing theoretical propositions that elaborate on theories related to but not addressing the research questions (Eisenhardt & Graebner, 2007). Our study aims to “make sense of” novel situations (Stigliz & Ravasi, 2012), identify patterns within and across cases, and uncover underlying logical arguments (Eriksson & Kovalainen, 2015). Methodological decisions were guided by our research questions (Patton & Applebaum, 2003):

1. When social enterprises apply the profit-sharing mechanism for the purpose of addressing economic inequalities, to what extent can it:
   a) distribute more economic value to suppliers?
   b) balance the creation, appropriation, and distribution of value?
   c) stabilize supplier income?
   d) honor the norms of participatory governance and freedom of opportunity?
   e) scale up and/or deep?

2. Does this new understanding of profit sharing challenge theoretical assumptions about the tradeoffs suppliers must accept to be more equitably included in value distribution?

CASE SELECTION

A case study is a rich, empirical description of a particular instance of a phenomenon, typically based on a variety of data sources (Yin, 2017). Researchers examine the similarities and differences among multiple case studies to evaluate which characteristics are idiosyncratic or part of a broader pattern (Eisenhardt, 1991). Cases are selected strategically to allow the object of study to be investigated fully (Patton & Applebaum, 2003). When the purpose is to extend theory, not test it, the cases do not need to be representative or random. Instead, they are selected purposefully, based on fit with the phenomenon, variables, and questions of interest (Bartlett & Vavraus, 2016). We followed the “polar type” approach to purposive case selection, choosing two cases that appeared very similar in most ways but differed dramatically?

5. Microlots are high quality, small scale batches of raw coffee. They aim to provide exceptional taste experiences to consumers and recognize individual coffee growers that produce extraordinary quality, often at or above a score of 90 out of 100 possible points (Popish and Ionescu 2012).
in one dimension (Eisenhardt & Graebner, 2007; Eriksson & Kovalainen, 2015). The analysis of only two cases is the bottom limit for generalization (Yin, 2017). In this context, generalizability is determined by the strength of the description, which allows the reader to determine the level of correspondence between the cases studied and other, potentially similar, situations (Patton & Applebaum, 2003).

We selected two cases of social enterprises that have innovated a profit-sharing mechanism to distribute value to suppliers: Catracha Coffee Company and Thrive Farmers International Inc. (hereafter ‘Catracha’ and ‘Thrive,’ respectively). Both are for-profit social enterprises that aim to achieve the social mission of improving the income and wellbeing of coffee suppliers through their primary economic activity of buying coffee from suppliers in Latin America and selling it to roasters in the United States (on integrated models, see Battilana et al., 2012; Ebrahim et al., 2014; on beneficiaries as clients see Santos et al., 2015). Catracha and Thrive self-identify their mechanisms as “profit sharing” and “revenue sharing,” respectively. An initial query suggested their approaches were more similar to one another than to any of the mechanisms examined in the literature. It also revealed a key difference: one scaled up; the other scaled deep. Variation on this feature is particularly interesting because each of the three mechanisms in the literature tend toward one of the two types of scaling, not both. We triangulated our preliminary impressions by reviewing academic literature, reading industry media, and probing academics, traders, roasters, certification board members, direct coffee managers, NGO executives, business association leaders, suppliers, and others with relevant expertise. Through this research we identified several cases that shared some features but were overall less similar to each other than the cases we selected. They include: New Zealand NGO Trade Aid, which pays producers dividends from operating surplus; Progresso, which distributes profits to Oxfam UK, a community trust, and cooperatives in Honduras, Ethiopia, and Indonesia through a shareholding agreement; and Pachamama, a California-based roaster cooperatively owned by small-scale suppliers in Peru, Nicaragua, Guatemala, Mexico, and Ethiopia, who share profits among themselves (Low & Davenport, 2007; Lloyd, 2003).

DATA COLLECTION

To learn how profit sharing functions and compares to other mechanisms, we gathered data from interviews, internal records, public documents, and media coverage (see Table 1), triangulating official, public accounts with other lived, documented, and potentially conflicting accounts (Hollingsworth & Dybdah, 2007). We interviewed diverse respondents, asking questions relevant to our understanding of the mechanism, to reduce convergent strategies of impression management (Eisenhardt & Graebner, 2007). We collected both real time and retrospective data over several years in order to reduce retrospective sensemaking (Eisenhardt & Graebner, 2007), until reaching “category saturation,” the stage at which no new evidence appears (Strauss & Corbin, 1998). Because each researcher began collecting data on a case several years before collaborating on this analysis, the timeline, methods, and data are slightly distinct. Names have not been changed, on request of the entrepreneurs. Each individual who provided information was informed of the researchers’ intent and permitted to decline participation at any time without recourse. We did not collect identifying information, though the analysis draws on personal accounts sourced from the public domain.

METHODS

First, we reviewed our data and developed open codes (see Appendix A) (Strauss & Corbin, 1998). Second, we organized data into themes that reflected the literature, our research questions, and the open codes by copying and pasting data (and their sources) into an outline. Triangulating data from varied sources, each researcher developed a narrative for each case for each theme (Stiglani & Ravasi, 2012). Third, we reviewed and discussed each other’s narratives, requested and incorporated additional data from each entrepreneur into the narratives, and invited the entrepreneurs to confirm accuracy. This process generated a 2,000-word narrative for each case. Following the “Eisenhardt method,” we then organized our analysis into a table displaying concise summary points of each case that facilitates comparison (Reay, 2014). This allowed us to iteratively compare the cases across three axes: horizontal (contrasting cases with each other), vertical (tracing phenomena across scales), and transversal (tracing phenomena and cases across time), bringing the novel phenomenon of profit sharing into focus, identifying its core features, functions, and consequences (Bartlett & Vavrus, 2016). Finally, we drew on the narratives and comparative case analysis to develop theoretical propositions responding to our research questions (Eisenhardt & Graebner, 2007).

Results

OVERVIEW OF CASES

Catracha purchases high-quality coffee (around 100,000 lbs of coffee microlots scoring over 85 points in 2019) from 80 families in Santa Elena, Honduras, and sells it to specialty coffee roasters in the United States. It was established in 2010 by Mayra Orellana-Powell, who is originally from Santa Elena but lived and studied in the United States for several decades. She launched Catracha as part of her intention to return home. Catracha’s system of profit sharing emerged organically in 2012 when Mayra made US$10,000 in profit and felt the only appropriate action was to return it to the farmers as a mid-year “bonus.” Since then, Catracha has offered a conservative initial payment at harvest and a second payment once payments from roasters are received. In 2017, Catracha added a 25-cent donation to the FOB (freight on board) price of microlots to support the Community Fund, the non-profit Catracha launched to facilitate development projects for its suppliers and the community.

Thrive originated in 2011 when co-founder Kenneth Lander, a US trial lawyer retired to a Costa Rican coffee farm, established a roasting and mail-order business with his neighbors, and innovated a strategy for capturing a greater share of the value. Today, Thrive sources from eight countries and exports millions of pounds of green coffee to the United States (about 4 million pounds of coffee in mid- to high-quality ranges in 2019). Its mission remains to “empower farmers to thrive by taking them to market as partners” (Ken, interview, 2019). Thrive’s revenue-sharing model is demand-driven and guarantees farmers a long-
term, predictable price at the top of the market by connecting them to new sales outlets and sharing the gross revenue with them according to relative risk. Thrive also aims to stabilize and transform communities through ThriveWorx, the non-profit it created to deliver resources to the most marginalized communities in its network.

(1a) When social enterprises apply the profit-sharing mechanism for the purpose of addressing economic inequalities, to what extent can it distribute more economic value to suppliers?

Key finding: Profit sharing distributes more value to suppliers than the conventional market.

Typically, the profit-sharing mechanism distributes value to suppliers in two payments. The first is around market value and the second aims to distribute additional revenue. For Catracha, the first payment is high enough to incentivize supplier participation and low enough to mitigate risk to the company (e.g., cover operating costs). It is typically close to the local Fairtrade cooperative’s price. The bonus payment is the full sales price, minus the initial payment, operating costs, profit to the company, and a contribution to the affiliated NGO. If Catracha receives low prices, it can reduce profit or NGO contributions to increase payments to suppliers. Together, the payments are always more than what suppliers would have received on the conventional market.

Thrive’s two-payment model has two variations. In both, the first payment aims to be as high as possible, and at least on par with growers’ other options in the market. Where Thrive has fixed contracts with its own buyers and risk is low, suppliers receive a greater portion of the revenue and the second payment, occurring at the close of the crop year, brings the full price paid up to the agreed-upon revenue share. If Thrive’s transportation or insurance costs are lower than expected, the savings are passed onto suppliers in a third payment. When purchasing coffee for new markets, without a contract, risk is higher and Thrive retains a greater share of revenue. In this context, Thrive calculates a ‘margin pool’ on a yearly basis by subtracting sales cost from sales revenue. It then redistributes a share of this to producers, weighted by volume contributed, as a second payment.

Both companies track and compare their prices against the commodities (“C”) market, local Fairtrade cooperatives, and other local prices. Catracha follows the prices of other intermediaries and Thrive follows ‘plaza prices’—what farmers would receive in their micro-region according to the best available information, which are in general higher than stock market or Fairtrade prices. Catracha data show that from 2012 to 2018, suppliers received 47-79% more per pound than the local Fairtrade price. Averaged across those years, this is a 60% increase per pound (for coffee sold to Catracha). Thrive’s data show that its prices were on average 20% higher than farmers’ next best option. The differential between Thrive’s prices and plaza prices was greater for cooperatives and small farmers (<15 ha) than for medium and large-scale farms. In Costa Rica, cooperatives received prices 49% higher than the next best option. Using average estimated production costs and weighing by total sourced volumes, Thrive estimates that from 2013 to 2017, Guatemalan farmers selling to Thrive made 94% more profits than they would have at plaza prices and Costa Rican farmers increased profits by over 300%. On average, Thrive suppliers’ net profits have increased almost threefold from 2013 to 2019.

(1b) When social enterprises apply the profit-sharing mechanism for the purpose of addressing economic inequalities, to what extent can it balance the creation, appropriation, and distribution of value?

Key finding: Profit sharing increased the amount of value created. Some was appropriated by the company to cover operating costs and contribute to an NGO; some was returned to farmers through payments.

Both companies maximize value creation through four strategies. First, they support suppliers in improving quality by funding site specific research, offering training, and providing equipment. Catracha has supported wet mill upgrades, purchased washable shoes for drying patios, and collected data on solar dryer temperatures, humidity, and coffee quality. For several suppliers, these investments corresponded with quality improvements. Second, the companies channel higher quality products into higher revenue streams, as opposed to the common strategy of mixing varied qualities and selling at a lower price. While Catracha only purchases very high quality, Thrive aims to develop full-crop solutions that improve supplier profits by stratifying and improving the price of several quality tiers. Third, the companies reward suppliers with quality-commensurate payouts to incentivize value creation and separation by quality. Fourth, the entrepreneurs personally market the story of profit sharing by speaking at industry and grassroots events, meeting prospective buyers, seeking media coverage (e.g. newspapers, industry publications, documentaries), and using their website to explain the model and its benefits in simple, accessible terms. The entrepreneurs report that these direct marketing activities have improved prices, raised demand, and lowered overhead costs. Buyers report that the higher price point requires them to explain (to consumers) the value added at origin and that these marketing resources help them to do so (Mayra, fieldnotes, Honduras, 2016).

The companies also deploy several strategies to maximize the portion of value distributed to suppliers. First, they minimize operating costs. Catracha negotiates local infrastructure at relatively low costs: Mayra dry mills microlots at the Fairtrade coop, dries and stores coffee at her mother’s home, hosts the community kitchen at her home, and uses the public coffee lab to calibrate equipment, cup coffee, and host trainings. Because Mayra has outside income and personal savings, she does not pay herself a salary. Catracha keeps enough cash on hand to occasionally provide loans so that infrastructure requirements (such as a wet mill) are not a barrier to entry. Twice, Mayra has temporarily covered losses out of pocket instead of eliminating second payments to suppliers. Thrive does not rely on donated time or

6. In the absence of granular farmer-level cost of production data, Thrive uses per-unit production cost placeholders. They draw this figure from the upper end of the country range to avoid overinflating impact, so the quoted numbers should be read as the lower bound of the likely impact on profits. The effect is likely to be higher, especially for efficient farmers.
personal capital. Instead, it budgets conservatively, then passes savings in storage, shipping, insurance, or financing to suppliers in a “cost-savings” payment. Second, both companies established and donate to non-profit community development organizations that support suppliers’ wellbeing and efficient production. The Catracha Community Fund hosts youth leadership and art camps and coffee quality training workshops. ThriveWorx supports local leaders’ community development work, such as access to clean water, improved health and education infrastructure, and training in leadership and financial literacy. Finally, both companies eschew static budgets and formulas, instead adjusting the model annually to reflect market conditions.

(1c) When social enterprises apply the profit-sharing mechanism for the purpose of addressing economic inequalities, to what extent can it stabilize supplier income?

Key finding: Profit sharing improves stability of supplier incomes.

Both companies aim to reduce price volatility by compensating for variation occurring when a supplier’s coffee sells on particularly high or low value days, attracts particularly generous buyers, or is of slightly higher or lower quality than usual. Catracha’s strategy for ensuring price stability is to send samples to potential buyers at harvest so that if prices are high in the early season, Catracha can lock them into pre-orders (and if prices are low, Catracha can wait to sell). Thrive achieves price stability through two strategies. First, it only enters a new sales agreement if it offers suppliers long term, stable prices at the top of regional market peaks. This demand-driven model eliminates the risk of oversupply that could drive prices down. Second, when Thrive purchases coffee outside of a contract, it pools producers’ risks and rewards of year-to-year sales and ensures that they partake only in potential peaks, but avoid risky valleys. This creates “a model where the farmer doesn’t take any risk” with “a higher, predictable, and stable price that allows a farmer to go into business with us and plan their business based upon a long-term relationship with us” (Ken interview, 2019). As a result, Thrive prices in Costa Rica and Guatemala were not only higher than alternative options, but also showed much lower year-on-year price volatility. For example, in Guatemala the average variation was 1.5% between 2014 and 2017, while C-market prices varied by 30%, Fairtrade prices by 11%, and plaza prices by 10%. In addition to these core strategies, both companies aim to smooth prices over time by altering the portion of value distributed to suppliers (compared to overhead or NGO contributions) when disbursing the second payment.

(1d) When social enterprises apply the profit-sharing mechanism for the purpose of addressing economic inequalities, to what extent can it honor the norms of participatory governance and the freedom of opportunity?

Key finding: Profit sharing does not systematically or formally include suppliers in company decision-making but does increase suppliers’ choices.

Both entrepreneurs retain authority over all company decisions. Although suppliers and other stakeholders are not included in the business governance structures, they do take on leadership roles and participate in strategic decision-making for the affiliated NGOs. The entrepreneurs point out that this allows them to change plans quickly. Both provided examples of how altering payment schedules, first to second payment ratios, and relationships with buyers allowed them to improve prices and stability for suppliers and mitigate risks to the company. Both founders expressed that they feel accountable to the suppliers because they are permanent residents of the beneficiary communities. As Ken explains, “we don’t visit once a year and have a handshake and a photo with producers. Most of our producers say that they have never had a customer that is so involved in their lives. We do life together with our producers. We go to weddings, travel together, eat together, and visit each other not for business” (Ken interview, 2019). Mayra’s business/life partner offers a similar assessment, “I feel like our security depends on staying on mission. If we are perceived as taking advantage of the community our ability to live here could meet resistance…. The minute we don’t do what we say we are going to do, we are done” (LP, 2019, email). Catracha aims to mitigate the trade-offs of retaining power in two ways. First, it is working to improve transparency by developing an online system for producers to self-report the prices they receive. Second, they have been actively seeking a trained researcher to provide a pro bono assessment of their impact on suppliers. In interviews, suppliers also asserted that they feel a sense of shared fate that facilitates trust, communication, honesty, and accountability. Thrive’s founders have aimed to mitigate the possibility of mission drift by institutionalizing the principles that guide their pricing decisions in their internal document “Farmer Payment Methodology, Process, and Policy.”

Both businesses expand farmers’ choices instead of locking them into long-term contracts. They encourage producers to diversify sales channels and pursue the most advantageous opportunities each year. Catracha expects suppliers to act “for themselves” and assumes they will “always follow the money” (Mayra, fieldnotes, Honduras, 2016). Suppliers confirmed that they “go where the money is” (supplier, fieldnotes, Honduras, 2016). Many sell their lower-quality coffee to the Fairtrade cooperative or other intermediaries. Catracha identifies its suppliers as “members” and requires them to attend 8-10 quality training meetings per year to continue selling to Catracha. Similarly, Thrive offers contracts annually, around the same time producers would be selling to intermediaries. Its multi-year relationships with suppliers are thus based on trust and prices, rather than contract lock-ins: “Our price is so much higher than anybody else in the market for this type of coffee for a volume price that we are taking, these farmers just trust us that we will come back to them each year. And they have adjusted with us when demand has gone up or down based on the client. [...] So the relationship really is built on trust and showing that you are meeting expectations continually in order to build and expand that trust” (Ken, interview, 2019).

(1e) When social enterprises apply the profit-sharing mechanism for the purpose of addressing economic inequalities, to what extent can it scale up and/or deep?

Key finding: Companies that engage in profit sharing can scale up or deep. They do so when they feel confident that the new quantities will sell at a price high enough to cover increases in overhead costs, sustain existing prices to incumbent suppliers, and offer above-market prices to any new suppliers or communities.
The decision of how to scale (up versus deep) relates to each company’s mission statement. For Catracha, “scaling” is about buying greater volumes and increasing prices for farmers in Santa Elena. In 2010, it began buying from a few suppliers. Today, it works with 80 farmers. Mayra hesitates to purchase more coffee from existing suppliers or any coffee from new suppliers unless previous volumes were sold at high prices. She asserts that the greatest challenges to selling more coffee are improving quality and developing consistent relationships with roasters. Lower quality coffee (around 85) is about a third of Catracha’s volume and it is challenging to sell. Higher quality coffee (87 or higher) is also about a third of the volume, and those are the lots that seem to attract new roasters. Thus, improving quality is paramount. Since Catracha has helped producers to adopt best practices for processing, quality scores have increased and plateaued. Mayra has not identified ways in which additional capital would improve quality and thus does not identify access to capital as a limit to scale.

For Thrive, “scaling” is about extending the model to more communities, including large estates, additional countries, and producers of varied quality. These decisions are a “balance of our overall network, and finding the places of need, balanced with the quality and the supply chain that is realistically able to be built” (MM, interview, 2019). Thrive’s commitment to disrupting specialty coffee at a larger scale, leads it to work with both small-scale and larger farmers, and to diversify risk and spread impact by working in multiple countries. This strategy allows Thrive to offer a high, reliable volume of coffee of diverse quality. This strategy requires greater capital for pre-financing, making partnerships with the venture capital community necessary, even though their returns on investment may reduce payments to producers.

The scaling strategy impacts other aspects of the model. For example, Catracha conducts scientific research aimed at helping Santa Elena’s suppliers to generate exceptional quality. Thrive’s research, on the other hand, focuses on identifying coffee-producing communities with a large farmer network and high-functioning processing infrastructure capable of consistently generating large volumes of good quality coffee. Likewise, Catracha aims to convince roasters to purchase from specific farmers each year whereas Thrive develops multi-year contracts with large buyers.

(2) Does this new understanding of profit sharing challenge theoretical assumptions about the tradeoffs suppliers must accept to be more equitably included in value distribution?

Key finding: Profit sharing addresses several of the shortcomings that extant literature has identified in other mechanisms for redistributing value to suppliers (see Table 2). Compared to solidarity trade, it is less reliant on charitable donations, better able to stabilize incomes, and provides the option to scale up. Compared to fair trade certification, it offers support in low price years, captures the value of high-quality products, and does not require financial investments that may not be recovered. And compared to direct trade, it provides more opportunity to pursue the best prices year-to-year and does not rely on individual bargaining power. These benefits do not come without tradeoffs. Neither company has a formal mechanism for including suppliers in high-level decision making (e.g., board membership) or holding leaders accountable to their social missions. Instead, both entrepreneurs rely on their intrinsic desire to collaborate with suppliers and feel welcomed and respected within their home communities.

Discussion: Theoretical Propositions

The objective of our study was to call into question the theory that mechanisms of value distribution necessarily compromise suppliers’ value creation, income stability, profit maximization, and business opportunities. We do so by bringing new evidence to bear. In this section, we draw on insights from two case studies of profit sharing, a mechanism to this point has not been examined as a tool of value distribution or incorporated into the value distribution literature. We follow Reay (2014) and Patton & Applebaum’s (2003) approach to theory building by offering theoretical propositions (“TP’s”), placing them in conversation with extant literature, suggesting revisions to extant theorizing, and offering suggestions for continued research.

(TP1) When companies distribute value to suppliers through profit sharing, they are likely to distribute more value to suppliers. This contributes to management literature by challenging CSR and CSV as preeminent business strategies for addressing economic inequalities. CSR may mitigate some negative consequences, but does not transform business into a tool for economic equity (Bapuji et al., 2018). CSV may improve value creation and appropriation for suppliers, but its application is limited to contexts in which companies will also benefit, limiting its impact on distributional inequalities (Crane et al, 2014; Westermann- Behaylo et al., 2016). We suggest that by issuing suppliers a second payment, reflective of actual (not anticipated) profits, companies may contribute to a more even accumulation of wealth. Additionally, by allocating a portion of profits to a community development NGO, this approach may generate the benefits described by advocates of stakeholder capability enhancement (Westermann- Behaylo et al., 2016). Longitudinal, community-level quantitative research would be useful to evaluate how profit sharing, over time, may alter the distribution of wealth in supplier communities.

(TP2) Companies that implement the profit-sharing mechanism by investing in quality, separating product by quality, rewarding quality, and marketing value distribution are also likely to create more value. This challenges extant research on value distribution in integrated social enterprises, which has generally suggested a tradeoff between value creation and value distribution (Battilana & Lee, 2014; Davies & Doherty, 2019; Pache & Santos, 2013). Our research further suggests that (TP3) when companies engaged in profit sharing maintain low operating costs, invest in the community, and adopt a flexible business model, they are more likely to distribute a greater share of the value created to suppliers. This finding is supported by research on solidarity trade, which suggests that volunteer labor can minimize overhead costs and improve value distribution (Huybrechts 2010), and stakeholder capability enhancement, which shows how public goods can improve private incomes (Westermann- Behaylo et al., 2016). Further quantitative analysis, perhaps employing methods developed by Valkila et al. (2010) and Borrella et al. (2015), could generate more nuanced understanding of when, how, and to what extent distribution improvements are realized.
When companies use the profit-sharing mechanism, suppliers are more likely to receive stable prices over time. This qualifies theory on profit sharing which, in other contexts, has been found to destabilize prices (Poole & Jenkins, 2011; Blasi et al., 2010). This may be because suppliers are permitted to change their level of engagement annually, while employees may be locked into employment contracts or have other barriers to exit and entrance. Our finding also challenges the literature on direct trade, which identifies long term contracts as a strategy for price stabilization (Borella et al., 2015). Although our research did not suggest that suppliers perceived their earnings as arbitrary or were stressed by determinants of income external to their control—two of the shortcomings reported by employees paid through profit-sharing schemes, anonymized survey research could better evaluate whether these challenges extend to the supplier context.

Companies engaged in profit sharing are more likely to expand supplier choices, which challenges findings of research on extant models showing how upfront fees (Mook & Overdevest, 2019), long-term contracts (Hernandez-Aguilera et al., 2018), and developing goods for specific buyers or markets (Borella et al., 2015) can limit suppliers’ economic opportunities. We also found Profit-sharing companies are not likely to include suppliers in formal decision-making processes. Similar to CSR, CSV, sustainability certifications, and other mechanisms of value distribution systems (Bennett, 2017; Westermann-Behaylo et al., 2016), profit-sharing entrepreneurs retain exclusive decision-making power because they believe it allows them to react more quickly to market forces, maintain a flexible business model, and quietly navigate the conflicts that emerge from competing institutional logics (Davies & Doherty, 2019; Davila & Molina, 2017; Poole & Jenkins, 2011).

While we are not arguing that companies should exclude the target beneficiary group from high level decision-making processes (Bennett, 2017), our findings do offer some support for the theory that the downsides of exclusive governance may be mitigated, to some extent, by leaders’ embeddedness in beneficiary groups. The shortcomings of not including stakeholders in governance include diminished legitimacy (de Bakker et al., 2019), mission drift (Defourny & Nyssens, 2006), potential for free riding (Blasi et al., 2010), and diminished performance (Blasi et al., 2010). Yet, when entrepreneurs are morally committed to hearing stakeholders’ perspectives and meeting their needs, it is possible that they will hold themselves accountable to those stakeholders to a greater extent than they are legally required (Davila & Molina, 2017). This is because the negative impacts of greed (for the gains from exploitation) and fear (of the costs of cooperation) dissipate when the individuals involved are socially embedded with one another, as cooperative behavior diffuses through social learning (Kitts et al., 2016). Further research should examine the extent to which an entrepreneur’s embeddedness and shared future substitute for formal mechanisms of participatory governance and accountability. How do suppliers perceive entrepreneurs’ embeddedness and experience informal accountability? Can embeddedness address mission drift? Could new “open value exchange” innovations such as open bookkeeping and blockchain (Oskam et al., 2020) improve transparency in ways that mitigate the potential consequences of exclusive governance?

Profit-sharing companies are more likely to scale when they anticipate being able to maintain prices to existing suppliers, and the decision to scale up versus deep reflects the entrepreneur’s orientation and company’s mission. This supports extant theory that the decision to scale up versus deep is largely a product of the social entrepreneur’s orientation (bricoleur versus constructionist) and mission (local needs versus universal problems) (Smith & Stevens, 2010). Our research suggests that the efficacy of the profit-sharing model can be preserved while scaling up or deep. Additional research would be required to better understand how scaling up might challenge the entrepreneur’s embeddedness and the benefits of embeddedness for preventing mission drift (Smith & Stevens, 2010) or challenging commitment to value distribution (Howard & Jaffee, 2013). Future research should aim to better understand how scaling up alters embeddedness, and how this in turn alters efficacy. Such research might examine how Thrive’s expansion changes its efficacy, compared to Catracha’s. It may also compare the experiences of Thrive’s suppliers in Costa Rica, where the entrepreneur lives, with suppliers in other locations.

Profit sharing is a distinct mechanism for distributing value to producers that is likely to resolve some, but not all, of the tradeoffs characteristic of other mechanisms for value distribution. Most notably, profit sharing is likely to simultaneously create value, distribute that value to suppliers, increase suppliers’ options, improve incomes, smooth income (over the year), stabilize prices (year to year), improve quality, offer technical training, and provide public goods, whereas other mechanisms make trade-offs among these benefits (see Table 1) (Hernandez-Aguilera et al., 2018; MacGregor et al., 2017; Mook & Overdevest, 2017). Furthermore, the model seems to maintain its efficacy when scaled up or deep.

The principal drawback is that profit-sharing companies may be likely to exclude suppliers from decision-making and formal governance structures because they prioritize flexible business models that require rapid decision-making in response to changing market conditions. To some extent, this may be mitigated by informal structures of reciprocity and accountability when the entrepreneur is embedded in and shares a common future with the supplier community. However, consolidated control opens up the potential for this mechanism to be leveraged by companies presenting as equitable while in reality failing to distribute significant value to suppliers. Greater transparency in decision making about the profit-sharing ratio could safeguard against this undesirable outcome. Additionally, there are some challenges that profit sharing does not resolve at all, such as the limited demand for ethically sourced coffee and the potential for over-adoption, resulting in over-supply and a decline in returns (Grabs, 2020b).
Conclusions and Implications

This article puts forth a first attempt at theorizing profit sharing as a mechanism for value distribution. Articulated in eight distinct propositions, we argue that profit sharing may be capable of redistributing value and improving the impact of business on economic inequality. Our research suggests that profit sharing may resolve several of the tradeoffs characteristic of solidarity trade, fair trade certification, and direct trade. Importantly, it does not compromise price stability, profit maximization, value creation, or alternative economic opportunities, and can be scaled up or deep. This research challenges extant theories of value distribution, which assert that these tradeoffs are largely unavoidable. It also fills a gap in the literature about profit sharing by examining a novel application of a conventional tool.

This research may have significant implications, in that it highlights the efficacy of an alternative approach to addressing the pressing and intractable problem of value chains contributing to economic inequalities. Although our analysis is based on two cases within the context of coffee supply chains, we did not identify any sector-specific features that are likely to limit profit sharing’s applicability to other commodities or sectors. We speculate that profit sharing may have the greatest efficacy in other sectors where captured value is highly concentrated and thus available for redistribution, such as global apparel supply chains (Barnes & Greenwood, 2006). We also acknowledge that broad adoption of a profit-sharing model would require companies to break away from the dominant approaches of corporate social responsibility, creating shared value, and alternative trade (Low & Davenport, 2007).

To continue with this research, we suggest testing our eight theoretical propositions against evidence from other profit-sharing cases such as Progresso, Trade Aid, or Pachamama. We also suggest examining potential positive externalities, including greater reciprocity among suppliers (Westermann-Behaylo et al., 2016), enhanced cooperation across the value chain (Kitts et al., 2016), and increased creativity around value generation (Blasi et al., 2010). This article is only the first step in understanding profit sharing’s potential as a novel, efficacious mechanism for more equitable value distribution.
References


Appendix A. Codes and Themes

**OPEN CODES:** philosophy, empowerment and pride, governance, value chain, financial aspects, approach to quality, profit sharing, training and quality improvement, material resources, community-based research, collaborative relationships, relationship to fair trade, marketing, impact, theory of change, outcomes, quality, farmer reinvestment, diversification, community development, scalability, tradeoffs of scaling, changes in scaling, evolution of size, evolution of participating roaster, and evolution of priorities.

**THEMES:** origin, development, business model, profit sharing, community investment, impact, and scale.

Table 1. Data Sources

<table>
<thead>
<tr>
<th>Archives</th>
<th>Catracha</th>
<th>Thrive</th>
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| Internal documents | • Process map (2019)  
• Memos on developing a transparency tool (2019) | • Farmer payment methodology, process, policy document (2016) |
| Business records | • Price summary spreadsheet (2010-19)  
• Annual data (2012-18): payments to each supplier and reference prices | • Annual price data for Costa Rica and Guatemala (2013-17) |
| Public Materials | | |
| Marketing / Reporting | • Website  
• Documentary film (Gerber 2013) and fundraising website | • Website  
• Chick-Fil-A website |
| Media | • Blogs: Royal Coffee (4 articles), SCAA, Metric Coffee, Patch/Alameda neighborhood, MarketAble Trade and Development | • New York Times article (LaPorte 2013) |
| Academic publications | | • Case study (Wilson et al. 2013) |

Observations

<table>
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<tr>
<th>Meetings / site visits</th>
<th>Catracha</th>
<th>Thrive</th>
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| • Meeting of affiliated NGO (2015, California) – 3 pages handwritten fieldnotes  
• Tour of farms, supplier homes, community, Fairtrade cooperative mill, government quality lab, storage facility, conference site, community center (6 days, Honduras, 2016) – 42pgs handwritten fieldnotes | | • Tour of community and mill (Costa Rica, 2015) |
| Specialty Coffee Association Meeting | • Observed entrepreneur and NGO director interacting with stakeholders and explaining the model to new professional contacts (2012-15) | • Observed and interacted with entrepreneur (2017, 2019) |
| Interviews/Emails | | |
| Entrepreneur | • Informal exchanges (SCA 2012-15)  
• Interviews each night (2016) – fieldnotes  
• Emails (2019)- 15 pages | • Informal exchanges (SCA 2017, 2019)  
• 4 interviews with the entrepreneur by phone (two in 2015, two in 2019) – recorded/transcribed |
| Stakeholders | • In US: NGO board director (2016) and 3 members: anthropologist (2017), applied agricultural economist (2015), coffee scientist (2016); documentary filmmaker (2012, 2013); trader (2015); roaster/retailer (2017) - 3 pages typed fieldnotes  
• In Honduras (2016): 3 suppliers (each a married couple); Government quality lab manager; Fairtrade cooperative mill manager; Storage/processing director; Supplier community mayor (2016) – fieldnotes | • 4 phone interviews with affiliated NGO director (2015 and 2019) – recorded/transcribed |
<table>
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<tr>
<th>Table 2. Mechanisms for distributing economic value to suppliers</th>
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<tbody>
<tr>
<td><strong>Solidarity Trade</strong></td>
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<tr>
<td>Conventional middlemen and retailers are replaced with volunteers, non-profits.</td>
</tr>
<tr>
<td><strong>Source: secondary literature</strong></td>
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<tr>
<td><strong>Ability to:</strong></td>
</tr>
<tr>
<td><strong>Stabilize supplier incomes</strong></td>
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</tbody>
</table>
| **Include suppliers in** | Suppliers are typically only marginally included in certifications, with exceptions (e.g., SPP, Fairtrade International). | Suppliers directly negotiate with traders. Extraordinary quality positions some to challenge traditional power asymmetries. | No formal mechanisms for supplier governance participation.^
| **Allow suppliers to exit** | Supplier contracts vary. Suppliers may lack alternative market access. | Suppliers decide annually whether to pay certification fees. They decide without knowing market prices or whether they will find a buyer. | Each year, suppliers may choose to sell some, all, or none of their product to the trader.+ |
| **Scale up or deep** | Scaling up is prioritized but benefits at scale are limited by the availability of buyers. | Scaling deep is prioritized but limited by buyers’ anticipation of consumer willingness to pay. | Can scale up or deep.+ |
| Scaling deep is prioritized but limited by availability of discounted middlemen. | Scaling up is prioritized but benefits at scale are limited by the availability of buyers. | Scaling deep is prioritized but limited by buyers’ anticipation of consumer willingness to pay. | Scaling up is limited by anticipated shortage of buyers. Scaling deep is limited by overhead and buyers’ anticipation of consumer willingness to pay.^

+ strength

^ shortcoming