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# Using organisational theories to further our understanding of socially sustainable supply chains: the case of fair trade

## Abstract

**Purpose:** Uses organisational theories to frame research questions examining how to embed social sustainability in supply chain management (SCM) by focusing on fair trade.

**Design/methodology/approach:** Drawing on previous organisational theory review papers in SCM, institutional theory and the extended resource based view have been used as theoretical lenses to develop research questions for further studies.

**Findings:** We have developed seven research questions that enable and encourage the further examination of the factors impacting fair trade supply chains as well as identifying approaches to improve social sustainability in SCM practice.

**Social implications:** As the aim of fair trade is to rebalance inequities inherent in North-South trading relationships, further work in this area has the potential for positive economic, environmental and social impact.

**Originality/value:** The paper discusses two key themes i) whether fair trade is changing SCM practices and ii) whether fair trade is a source of competitive advantage in supply chains. Using established theory to develop research questions encourages further examination of this important topic.

**Keywords:** Fair trade, extended resource-based view, institutional theory

**Article Classification:** Research Note

With an increasing amount of research and calls for papers on sustainable supply chain management (SCM) and sourcing (both *Supply Chain Management: An International Journal* and *Journal of Purchasing and Supply Management* published special issues on the topic in 2012), it is noteworthy that specifically the social sustainability topics of labour and fair trade have received markedly less attention than other sustainability aspects. Environmental attributes of SCM have been the main focus of past research and the terms “sustainability” and “environment” have even been used interchangeably (Carter and Easton, 2011). Gimenez

and Tachizawa (2012) point out in their literature review on sustainable SCM that although the topic covers the triple bottom line (economic, environmental and social impact), most studies focus on environmental issues. They argue that socially-oriented topics are rarely studied and when so, typically only under the umbrella of general corporate social responsibility (CSR) practices. A recent study by Miemczyk *et al.* (2012) examining definitions and measures of sustainable purchasing notes that 23% of the papers they reviewed focus on the social pillar. The relative paucity of research on social sustainability is supported by two additional recent literature reviews: Ashby *et al.* (2012) find a total of 13 papers discussing fair trading practices (three using it as their focus), while Karjalainen and Moxham's (2013) systematic literature review finds only four articles that focus on fair trade within the SCM realm. That there are relatively few studies examining issues pertinent to social sustainability in SCM highlights a gap in current scholarly and practitioner discourse. With managers seeking to measure performance against economic, environmental and social indicators (Greenberg *et al.*, 2011), it is important that relevant research in developing and implementing social sustainability is conducted.

Organisational theory is seen to have clear potential to advance SCM research, however such potential is yet to be realised (Ketchen and Hult, 2007). Specifically, Sarkis *et al.* (2011) suggest that organisational theories present substantial opportunities for advancing green SCM research, yet a review by Carter and Easton (2011) finds a notable absence in the use of theoretical lenses to research sustainable SCM (although theoretical applications are increasing). Given the relatively small number of studies on social sustainability, such opportunities may be even greater here. If social sustainability is to become more mainstream in organisations, it needs to be studied with the same lenses that we use to study organisational behaviour in general, i.e. through organisational theories. Along the lines of Sarkis *et al.* (2011:2) who discussed organisational theory applications to green SCM research, we define organisational theory as “*a management insight that can help explain or describe organisational behaviours, designs, or structures*” and following their approach our discussion focuses at the inter-organisational level. We propose an examination of fair trade may be a useful example of how social sustainability can be embedded in SCM as, for the past 50 years, the fair trade movement has focused on challenging existing business models and working to integrate social sustainability in trading practices (Davies, 2009; Renard and Perez-Covas, 2007). Fair trade is defined as a particular trade channel through which food and textile products from developing countries are exported to industrialised countries

(Adriani and Becchetti, 2004). Its overarching aim is to rebalance the inequities inherent in North-South trading relationships by focusing on a long term sustainable commitment to producers, thus providing continuity to enable investment in farms and communities (Adriani and Becchetti, 2004; Davies *et al.*, 2010). A number of certification schemes are currently in operation. Of these, Fairtrade International is the worldwide standard setting organisation for fairly traded products and uses the Fairtrade Mark to denote certification.<sup>1</sup> Despite the size and scale of fair trade, it has received relatively limited research attention from the SCM field.

In a recent study, Karjalainen and Moxham (2013) drew on SCM theories and frameworks to propose improvements to the Fairtrade operating model. Building on this theme, we take a slightly different perspective by considering two important aspects of fair trade related to SCM. Firstly, whether fair trade is changing the rules of SCM and secondly whether fair trade could be a source of competitive advantage in supply chains. To do this we use fair trade as an example of socially sustainable SCM and discuss it within the context of mainstream organisational theories. Whilst many organisational theories could provide valid directions for this discussion, we have chosen to focus on institutional theory and the extended resource-based view (ERBV) as they permit an examination of inter-organisational issues. As Campbell (2007) asserts that more attention needs to be paid to how institutional mechanisms impact organisations' social behaviours, institutional theory provides a suitable lens. In addition, SCM studies call for more research comparing differences in sustainability outcomes across chains and how related costs and performance benefits are shared between chain members (Pullman and Dillard, 2010; Squire *et al.*, 2005). The framework of internal, external and spillover rents of the ERBV provides a fitting structure for such discussion (Lavie, 2006). As Halldórsson *et al.* (2009:92) note "*sustainability will either be a vivid part of SCM, an add-on to SCM or a complete re-definition of SCM*"; for social sustainability to become more than an add-on it needs to be integrated into SCM. By considering institutional pressures and legitimacy in combination with theories of competitive advantage, this paper offers seven research questions to further our understanding of socially sustainable SCM. We

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<sup>1</sup> Fairtrade International is overseen by the Fairtrade Foundation which was created in 1991 by charities including Oxfam, Christian Aid and the World Development Movement (Davies *et al.*, 2010). Producers are certified with the Fairtrade Mark (Fairtrade International, 2011) and are subject to audits by Fairtrade International. There are currently 827 Fairtrade Mark certified producer organisations in 58 countries representing over 1.2 million farmers and workers.

encourage the application of these questions to frame further research on this important and developing topic and where applicable, we offer suitable research methods.

## **1. Application of Institutional Theory to Fair Trade Supply Chains**

Institutional theory investigates the causes of isomorphism; what leads organisations to adopt similar structures and strategies (Deepphouse, 1996). It argues that forces within the firm and its environment encourage convergent business practices (Zsidisin *et al.*, 2005). It has been adopted in the operations and SCM literature to study the implementation of quality programmes, green SCM and IT (Barratt and Choi, 2007; Heras-Saizarbitoria *et al.*, 2011; Liu *et al.*, 2009; Nair and Prajogo, 2009). Our focus is on the more utilised social variant of the theory drawing from DiMaggio and Powell (1983) where mimicking and isomorphism are primarily motivated by attempts at legitimacy (as opposed to efficiency); legitimacy is seen as a key driving force in fair trade as well as in many CSR related SCM strategies. Within the sociological variant, three types of mechanisms towards institutional isomorphism have been identified (DiMaggio and Powell, 1983): 1) coercive isomorphism stemming from political influence and problems of legitimacy; 2) mimetic isomorphism as a response to uncertainty; and 3) normative isomorphism associated with professionalisation. In the following, research questions regarding institutional theory and fair trade supply chains are formulated.

Coercive isomorphism is due to both formal and informal pressures exerted on organisations by other organisations they depend upon, and by expectations of the society (DiMaggio and Powell, 1983). Key stakeholders can have coercive power over the firm (Simpson *et al.*, 2012); e.g. consumers play an increasingly vital role in forcing businesses to adopt environmental and social standards (Randall, 2005). In terms of fair trade, currently the main pressures stem from customers, NGOs and other interest groups. Major retailers often engage in fair trade to reassure their stakeholder communities that they are taking CSR seriously (Smith, 2010) as information about poor business practices towards the environment or people can damage profits (Randall, 2005). Major brands have been harmed by criticism of labour practices, e.g. in the sporting goods sector (Jiang *et al.*, 2009) and are thus increasingly looking to show legitimacy by adopting social and environmental standards in their supply chains.

Mimetic isomorphism arises due to uncertainty which encourages imitation of successful strategies (Zsidisin *et al.*, 2005) and is typical within industry groups to sustain legitimacy (Miemczyk, 2008). There is uncertainty involved in CSR and in maintaining ethical supply chains spanning the globe. Demonstrating product origin to consumers can also pose challenges: nothing physically distinguishes fairly or ethically traded food products, for example, from others in the same category (Becchetti and Huybrechts, 2008). Relying on (third party) certificates can give retailers and corporations the legitimacy they seek under uncertainty; fair trade offerings can provide retailers with both an effective example of CSR and a commercial opportunity in line with the emergence of mass-market ethical consumerism (Nicholls, 2002). With the growth of the fair trade market “mainstream players cannot afford *not* to be involved” (Moore *et al.*, 2006:339).

Coercive and mimetic pressures can lead to adaptation of practices, as is often the case with fair trade, however institutional theorists also suggest that the pressure to conform does not always lead to efficiencies (Miemczyk, 2008). Organisations driven by external motives often adopt a minimalist approach to implementation (Prajogo, 2011); the same is likely to apply within fair trade. Major retailers, for example, are unlikely to pay sufficient attention to adapting their purchasing practices to match fair trade channel characteristics given that these products represent a small amount of their SKUs. Corporate agrifood players are also accused of attempting to rewrite the rules of that game in their own favour (Jaffee and Howard, 2010). Moore *et al.* (2006) suggest at signs of supermarkets challenging the Fairtrade Mark standards or not applying them as rigorously as the fair trade organisations themselves. Starbucks and other corporate giants such as Nestlé and Kraft are claiming to fully meet Fairtrade requirements in some product lines, without the actual certification (Hira and Ferrie, 2006). Jaffee and Howard (2010) suggest that the corporatisation of fair trade began with the campaigns targeting and criticising Starbucks for its lack of certified coffee, as subsequently many companies have joined the scheme and the regulatory function has clashed with an economic interest in increasing demand. Particularly in the US, the current context of fair trade is characterised as experiencing substantial pressure from new corporate participants to lower the bar and weaken the standards (Jaffee, 2010). The terms cooptation (Jaffee and Howard, 2010) and appropriation (Low and Davenport, 2006) are used to refer to this weakening of standards (by e.g. lowered entry requirements and proposals to eliminate minimum prices in some categories) and to the use of the fair trade message to corporations’ own advantage. It would therefore seem that the potentially well-meaning coercive pressures

and the ensuing mimetic pressures to adopt fair trade standards may actually lead to undesirable consequences (at least from the viewpoints of the standards' original promoters). More research into this phenomenon is required, and thus we present our first two research questions (RQs):

*RQ 1: To what extent are coercive and mimetic pressures increasing the adoption of fair trade products in the selections of large retailers and consumption goods manufacturers?*

*RQ 2: Are the coerced and mimicked adoptions of fair trade standards leading to the dilution of fair trade standards?*

Studies on the impact of pressures will always require careful consideration on the methods to elicit truthful responses – many may wish not to admit to coercion or mimicking in decision making but rather emphasise their own free will to prove the legitimacy (ironically) of said decisions. The potential approaches for addressing the first RQ centre around case studies, interviews and surveys with traditional SCM actors and, importantly, with non-traditional actors including NGOs, world shops and certification bodies. The second RQ may be best studied by secondary data on increases in fair trade certifications and updates on the standards and requirements.

Regarding normative pressures, previous literature (Jaffee and Howard, 2010) suggests that the governance of fair trade shows signs of institutional isomorphism. The increasingly corporate-friendly stance of the labelling organisations, including Fairtrade International, has led to greater “professionalisation,” whereby these bodies come to resemble the organisations they are regulating. We, however, focus on a different approach, discussing whether a shift in the direction of normative pressures can be used to counteract the dilution of the standards.

Normative pressures stem from professionalisation; members of an occupation attempt to define the conditions and methods of their work to establish greater legitimacy (Gopal and Gao, 2009). DiMaggio and Powell (1983) present two main channels: formal education and legitimation in a cognitive base produced by universities and professional networks that diffuse new models across organisations. Normative pressures emerge from the professional standards and norms held in common by professional employees (Combs *et al.*, 2009).

Employee involvement with professional and trade organisations generates these pressures for organisations (Ugrin, 2009). Currently, the adoption of fair trade cannot be seen as widespread business practice (Low and Davenport, 2006). It is possible, however, that national and international fair trade umbrella organisations (e.g. Fairtrade International) have the potential to change this by taking an active role in getting involved with industry and trade associations (e.g. CAPS, NAPM, The British Retail Consortium) and attempting to spread the fair trade values as norms in SCM. Rather than allowing business practices to become norms in fair trade, an active attempt could be made to create normative pressures directed at getting fair trade associated with SCM best practices. Increased cooperation by Fairtrade International and the national fair trade institutions with universities and colleges could also assist in ensuring fair trade is mentioned in standard SCM curricula and thus becomes normalised for new graduates entering business. Following from this, we propose a further research direction in RQ 3.

*RQ 3: Can Fairtrade International and national fair trade institutions bring fair trade into the norms of supply chain management by taking an active role in engaging with industry, trade associations and academia?*

This research question is perhaps most suited to action research to document the impact of change as it occurs and longitudinal case studies to capture development over a significant time period.

## **2. Application of the Extended Resource-Based View to Fair Trade Supply Chains**

We propose the ERBV as a theoretical lens through which to examine the competitive attributes of fair trade by focusing on the alliance networks within which it operates (Lavie, 2006) and the resources and capabilities that are often held beyond the boundary of the individual firm (Lewis, 2000; Squire *et al.*, 2009). Whilst it is argued that the notion of ‘fairness’ is seen as valuable by producers and consumers (Becchetti and Huybrechts, 2008), there is a lack of clarity as to how to operationalise fair trade (Balineau and Dufeu, 2010). Fairness has been described as a specific and powerful attribute of fair trade products; however it is also perceived as invisible (Nicholls and Opal, 2005). Scholars have observed that it is not the product itself that is fair as “*nothing distinguishes physically a fair trade banana from a conventional one*” (Becchetti and Huybrechts, 2008:734), but rather the conditions under which the good has been produced and traded (Adriani and Becchetti,



2004). Furthermore, despite increasing consumer interest in fair trade (Andorfer and Liebe, 2012), scholars have noted the difficulties in securing regular profits (Huybrechts, 2010; Randall, 2005) and have questioned how fair trade manages to survive at all given its history of substandard products, amateur marketing and relatively high prices (Moore, 2004). An examination of potential sources of competitive advantage therefore appears timely and may highlight useful examples of how to improve social sustainability practices in SCM by considering i) internal rent, ii) appropriated relational rent, iii) inbound spillover rent and iv) outbound spillover rent (Lavie, 2006).

### Internal Rent

Internal rents are privately derived from the focal firm's own resources and are retained exclusively by the focal firm (Lavie, 2006). Interconnected firms can leverage the value of their own resources by accessing the complementary resources of alliance partners (Arya and Lin, 2007). For example if we consider a fair trade coffee grower as the focal firm, it will possess bounded resources including expertise in coffee growing, distinct climatic characteristics and coffee authenticity. Accessing complementary resources beyond the boundary of the firm may allow the coffee grower to leverage its non-shared resources (Lewis *et al.*, 2010). As research shows that customers are prepared to pay more for products that have been fairly traded (Balineau and Dufeu, 2010; Hira and Ferrie, 2006) the coffee grower may choose to partner with an international fair trade distributor (e.g. Cafédirect) or a global supermarket chain (e.g. Walmart) to access fair trade customers. There would appear to be further scope for fair trade firms leveraging their internal resources in this way and research on this topic is limited, which leads to the fourth RQ:

*RQ 4: How can a fair trade organisation access the complementary resources of its alliance partners to leverage the value of its internal rent?*

### Appropriated Relational Rent

Relational rent is defined as a common benefit that accrues to alliance partners through combination, exchange and co-development of idiosyncratic resources (Dyer and Singh, 1998). In this context, the idiosyncratic resources are those that culminate in the fair trade product. Relational rents are extracted by the alliance partners in the chain and findings suggest that organisational centrality enhances access to rents (Arya and Lin, 2007).

Research points to a number of differing fair trade supply chain configurations, which have been discussed as value chains, and range from fair trade organisations dealing exclusively with other fair trade organisations (e.g. Altromercato) to multi-national corporations converting major brands to fair trade (e.g. Cadbury) (Doherty *et al.*, 2013). The specific assets, knowledge sharing routines and complementary resources of these chain configurations have thus far not been made explicit and it is argued that this incomplete information benefits downstream alliance partners (Valkila *et al.*, 2010). For example, research on coffee value chains from Nicaragua to Finland has shown that although fair trade provides premiums to producers, a larger share of the retail price remains in the consuming country relative to conventional coffee trade (Valkila *et al.*, 2010). Yet particular configurations may permit a higher level of relational rents appropriated to the Southern focal firm thus safeguarding continued investment in farms and communities. Currently it is unclear how the selection of alliance partners impacts on relational rents in fair trade. For example, chains supplying supermarkets with fair trade products may have a greater relative scale and scope of resources because of the larger resource set of the retailer. Conversely, it has been found that long term contracts associated with fair trade principles are often ignored by major retailers and in practice contracts exist for one growing season only (Reed, 2009). It may therefore benefit Southern producers to supply directly to 100% fair trade world shops. Strong relationships may be built and higher absorptive capacity developed, resulting in continued learning, improved performance and thus higher rents for the chain. Further investigation could identify the types of alliance partners that enable the appropriation of a high proportion of relational rent to the Southern focal firm, thus ensuring the sustainability of fair trade producers. A greater understanding of alliance formation in fair trade chains may improve the social sustainability of supply chains more widely; not just those associated with fair trade. We therefore pose a fifth RQ:

*RQ 5: To what extent does the selection of alliance partners in fair trade supply chains have an effect on the proportion of relational rents appropriated to the Southern producer?*

### Inbound Spillover Rent

A further form of private rent is inbound spillover rent, characterised by any unintended gains from the shared and non-shared resources of alliance partners (Lavie, 2006). Studies cite reputational gains and knowledge as forms of spillover rent (Arya and Lin, 2007; Lewis *et*

*al.*, 2010), which may also apply to the fair trade context. For example, experiences of trading in global supply chains may expose Southern farmers to more efficient production processes, relevant technology or quality assurance practices that may offer opportunities for process improvement and for trading with additional strategic partners. Further examination of spillover rent in fair trade supply chains would develop our understanding of the operating model, therefore:

*RQ6: What opportunities exist for the appropriation of spillover rent for Southern producers in fair trade supply chains?*

### Outbound Spillover Rent

Outbound spillover rent is defined as unintended leakage from the focal firm that benefits alliance partners (Lavie, 2006). For fair trade outbound spillover rent is likely to be appropriated by downstream alliance partners able to leverage the commercial benefits associated with fair trading. This can be seen in practice by multi-national retailers offering a limited number of fair trade products yet trading on their 'ethical value-added' credentials (Valkila *et al.*, 2010). Fair trade products have been categorised as credence goods; possessing product attributes which consumers cannot evaluate even after having consumed the good (Balineau and Dufeu, 2010). This category of products includes consumer goods with particular process attributes, such as organic food, child-labour free clothing and dolphin safe tuna (Balineau and Dufeu, 2010). Although fair trade products may not be imitated exactly, outbound spillover rent may be appropriated by alliance partners implementing the same strategies (e.g. developing supermarket own label fair trade products) or using different internal resources as strategic substitutes (e.g. alternative credence goods).

The proliferation of substitutable products clearly poses a risk and vulnerability for Southern producers that warrants a strategic response. It is argued that goods will not sell based on fair trade status alone (Randall, 2005) and require differentiation and improved product quality (Moore, 2004). A fruitful area for further research to mitigate outbound spillover rent is therefore the application of SCM tools to fair trade supply chains. SCM tools can increase coordination between firms at successive stages of production (Crook and Combs, 2007) thus decreasing costs through reduced inventory and shorter lead times, improved quality through design-for-manufacturability and enhanced innovation as part of the design process (Handfield, 1994; Hult *et al.*, 2002; Tan, 2002). For small scale producers in particular,

better co-ordination between supply chain partners reduces transaction costs and risks by enabling adjustment of production systems to changing customer preferences and market configurations (Ruben and Zuniga, 2011). A focus on improving and increasing downstream distribution channels offers the opportunity to communicate the fair trade attributes to customers (e.g. through information held in retail outlets) thus enabling customers to feel more connected with the primary producer, allowing them to make an informed purchasing decision and reducing their propensity to select a substitute credence good. To examine the threat of outbound spillover rent the following RQ is proposed:

*RQ 7: Are there particular SCM practices that will provide a strategic response to the proliferation of substitute products that pose a threat to the sustained competitive advantage of fair trade products through outbound spillover rent?*

To address the RQs posed in this section, empirical research that maps the structures and practices of fair trade supply chains is recommended. As it is noted that objective and intense research with producers of fair trade is very limited (Doherty *et al.*, 2013), case studies and longitudinal studies that capture all members of a fair trade supply chain seem most appropriate.

## **Concluding Remarks**

To ensure that social sustainability is a vivid part of SCM rather than an add-on we propose seven research questions to further our examination of the topic. The paper makes a timely contribution as there is increasing interest from scholars and practitioners as to how to operationalise social sustainability in SCM. We use two organisational theories to discuss and question i) whether organisations are changing the rules of fair trade to suit their operating models or whether the requirements of fair trade certification are changing the rules of SCM and ii) whether fair trade could be a source of competitive advantage in supply chains. In examining social sustainability through the same lenses that we use to study organisational behaviour, we propose directions for further research focused on strengthening the explanatory value of current socially sustainable SCM practices, particularly as the theoretical development of sustainability research is perceived to be in its infancy.

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