RESOURCE ADVANTAGE THEORY AND FAIR TRADE SOCIAL ENTERPRISES

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ABSTRACT

This thesis investigates the competitive position of both fair trade (FT) social enterprises Divine Chocolate Ltd (Divine) and Cafédirect in their respective UK markets, namely chocolate confectionery and hot beverages. Using Eisenhardt's (1989, 1991, and 2007) approach to building theory from multiple case studies, this four-year study identifies the resources that enable FT social enterprises to compete. This research draws on recent developments in competition theory such as resource advantage theory (general theory of competition). The thesis critically analyses if the social and ethical elements of these firm's product offerings really constitute meaningful differentiators (i.e. comparative advantage) as required by resource-advantage theory (Hunt and Morgan 1995, Hunt 2001). Hunt and Derozier (2004) argue that resource advantage theory (R-A theory) can ground theories of business and marketing strategy and therefore identifying the competitive resources of FT social enterprises will have important strategic implications.

The research findings show that both Divine and Cafédirect have established a mainstream competitive position in specific product segments and distribution channels, thus illustrating intra-industry demand to be heterogeneous. In addition, both companies have been a catalyst for change by influencing the strategies and policies of both branded manufactures and retailers such as Cooperative Food (CF).

The key theoretical contribution validates 'social resources' and its three inter-related components: *ethical and social commitments*, *connections with partners* and *consistency of behaviour* as a resource to extend R-A theory. These 'social resources' in combination with both relational resources and threshold capabilities (e.g. product quality) result in a competitive position for both case organisations. The ethical and social commitments of 'social resources' also appears to provide an ethical underpinning to Relationship Marketing theory.

The identification of 'social resources' has important wider implications for both social enterprises and those corporations, who are aiming to achieve a competitive position based on social commitments.

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ABBREVIATIONS

ANT	Actor Network Theory
ATO's	Alternative Trade Organisations
BAM	British Academy of Management
BBC	British Broadcasting Corporation
BRASS	The Centre for Business Relationships Accountability, Sustainability and Society
CA	Christian Aid
CBT	Competence Based Theory
CDM	Cadburys Dairy Milk
CF	Cooperative Food
CIC	Community Interest Company
CR	Comic Relief
CSR	Corporate Social Responsibility
DFID	Department for International Development
DTI	Department of Trade and Industry
EFTA	European Fairtrade Association
ETI	Ethical Trading Initiative
ESRC	Economic Social Research Council
FLO	Fairtrade Labelling Organisation
FT	Fair trade
FtF	Fairtrade Foundation
FTOs	Fairtrade Organisations
ICCO	International Cocoa Organisation
ICI	International Cocoa Initiative
IFAT	International Federation of International Traders
ILRF	International Labour Rights Forum
IPO	Initial Public Offering
ISRIC	International Social Research Innovation Conference
KK	Kuapa Kokoo Farmers Cooperative
LJMU	Liverpool John Moores University
NGO	Non Governmental Organisation
NGOs	Non Governmental Organisations
NIE	New Institutional Economics
PPP	Producer Partnership Programme
R-A theory	Resource Advantage Theory

RBCA	Relationship Based Competitive Advantage
RM	Relationship Marketing
SAP's	Structural Adjustment Programmes
SAT	Strategic Analysis Technique
SCA	Sustainable Competitive Advantage
SCP	Structure-conduct-performance
SE	Social Enterprise
SENW	Social Enterprise North West
SEs	Social Enterprises
SERG	Social Enterprise Research Group
SMEs	Small Medium sized enterprises
SWOT	Strengths, Weaknesses, Opportunities and Threats
TCE	Transactional Cost Economics

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CHAPTER 1 INTRODUCTION

1.1 Background to the Study

Civil society has responded to the predicament of marginalised producers by the rapid emergence of the fair trade market both within the UK and internationally (Barratt Brown, 1993; Crane and Matten, 2004; Lowe and Davenport 2005a). In 2008, UK sales of fair trade (FT) products have grown to £700m at retail value, a growth of 46% on 2007 (Fairtrade Foundation 2008a, Mesure and Bloomfield 2008). It is worth noting that UK Fairtrade sales in 1999 totalled £16m. Academic interest in FT has also grown over the past decade with researchers analysing the model from a wide range of theoretical perspectives, including: economics (Hayes, 2006, 2008, LeClair, 2003, 2003; Lindsey, 2004; Mann, 2008 and Maseland and de Vaal, 2002); social geography (Goodman, 2004); development economics (Tallontire, 2000, 2002); network theory (Nicholls and Alexander, 2006, Raynolds, 2002 and Renard, 1999, 2002); global commodity chains (Raynolds, 2002, Whatmore and Thorne, 1997); gender studies (Barrientos *et al.*, 2003; Lyon, 2008); and business ethics (Moore, 2004).

Business and management research has also produced work in a number of its sub-disciplines (for an overview, see Nicholls and Opal, 2005) including: strategy (Davis and Crane, 2003, Nicholls, 2002, Welford *et al.,* 2003) and marketing (Dolan, 2007, Golding and Peattie 2005, Hira & Ferrie 2006, Hudson and Hudson, 2003; McDonagh, 2002, Nicholls and Lee, 2006, Strong, 1997; Wright, 2004). However, despite their market impact FT organisations such as Divine and Cafédirect remain relatively under researched by academic inquiry (Golding and Peattie 2005, Hira & Ferrie 2006 and Nicholls and Opal 2005). This study aims to go some way towards rectifying this, through exploratory research investigating the two companies Cafédirect and Divine Chocolate Ltd (Divine). Rich case studies investigating both these FT companies and how they manage to compete are the main focus of this thesis.

A number of authors (Golding 2009, Golding and Peattie 2005, Lowe and Davenport 2005a and 2005b, Nicholls and Opal 2005) identify the mainstreaming[1] of FT as key to the growth of FT sales in the UK. Influential in this market expansion have been the FT companies Cafédirect and Divine (Nicholls and Opal 2005). Both companies are recognised as exemplars of FT social enterprises competing in the market place with all their products carrying the FT mark (Huybrechts and Defourny 2008, Nicholls 2006, Westall 2001). Both organisations are regarded as pioneer FT social enterprises with the aim of competing in the mainstream and therefore provide the justification for exploring their progress further. For clarification the FT mark is awarded by the independent certification body the Fairtrade Foundation (FtF) for products that meet the ethical standards of the FT supply agreement (see section 2.1.1). The FT mark was introduced in the UK in 1992 by the FtF. Commencing in the late 1980's various FT labelling initiatives sprang up all over Europe, led by the Max Havelaar Foundation in the Netherlands. Formalisation of the FT process into a label relied on the principal of independent standard setting and certification. Non- profits such as the FtF who licensed the use of the label had to guarantee that producer groups were democratically organised and transparent and the importer paid the FT price to them. These national standard setters and certification agencies became known as FT national initiatives. Other competing ethical claim certification marks have recently entered the UK market including; Rainforest Alliance[2], Utz Kapeh[3] and the coffee industry's 4C code[4].

Social enterprises (SEs) form an important and growing element of the economy in the UK (Cabinet Office 2006). They are defined as "A business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community" (DTI, 2002, p.7). They use enterprise to increase the level of social benefit they deliver to these groups (Pearce, 2003; Westall, 2001).

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[1] Mainstreaming refers to the broadening of distribution channels to compete directly with traditional business organisations and brands by placing fair trade products wherever you would expect to see the leading brand names

[2] A labelling scheme for coffee and cocoa produced without rainforest destruction (used by Kenco and The Eden Project)

[3] An almost direct competitor to Fairtrade in the coffee market guaranteeing more money will be passed back to farmers

[4] A code of conduct created by the world 4 biggest coffee roast and grinders in response to Fairtrade that promises many of the same advantages as Fairtrade, but without any auditing or requirements on which to judge compliance

Peattie and Morley (2008) argue SEs are distinguished from other organisations by the simultaneous possession of two attributes:

1. Social enterprises trade in goods and/or services in a market (so that they are an 'enterprise' and not simply a voluntary or community organisation);
2. The primacy of social aims. SEs primary purpose lies outside the commercial outcomes related to their trading of goods and/or services in a market (beyond the generation of profit or the growth of the enterprise itself). This is what makes them 'social'.

Prime examples of the SE business form are those FT companies such as Divine and Cafédirect, where all their products carry the FT mark (Huybrechts and Defourny 2008). Given their multi-dimensional missions, combining economic, social and sometimes political goals, FT organisations such as Cafédirect and Divine are regarded as examples of SEs (Huybrechts and Defourny 2008, Nicholls 2006). In fact, Divine was awarded the prize for best UK SE of the year at the Enterprise Solutions awards 2007 (Purvis 2007). Huybrechts and Defourny (2008) propose that FT's core concept is to run trade under fair conditions, which builds social and economic development for producers. This fair dimension constitutes the social mission of FT Organisations (FTO's). Divine and Cafédirect trade in the market to achieve their social mission by raising incomes for producers, both Alter (2006) and Mulgan (2006) suggest the social purpose is embedded in the activity that provides the income (selling FT products). In addition, Cafédirect and Divine are involved in both education and advocacy work. This is regarded as the political dimension with the goal of transforming international trade to be a partnership with small-scale farmers (Huybrechts and Defourny 2008). Both case study firms in this thesis are regarded as 100% FT companies as their entire product range is certified with the FT mark, which means they meet the ethical standards of the FT supply agreement established by the Fairtrade Labelling Organisation (FLO). This is in contrast to those companies who only carry the FT mark on a small percentage of their product range (Lowe and Davenport 2005a, 2005b, Nicholls and Opal 2005).

Lowe and Davenport (2005a) describe both Cafédirect and Divine as typical FT pioneer companies, where Southern producer groups have joint ownership in Northern companies and their brands. For example, the Kuapa Kokoo (KK) farmers co-operative in Ghana have 45% share ownership in Divine (Golding 2009, Wiggins 2007).

The aim of this research is to critically examine how FT social enterprises can compete in sectors dominated by larger rivals. This research will aim to identify the resources which enable Divine and Cafédirect to compete. This study will make a contribution to explaining the success of FT social enterprises in highly competitive UK markets such as chocolate confectionery and hot beverage sectors.

1.2 Research Aims and Objectives

The research question developed from the initial literature survey was:

How do Fair Trade social enterprises compete in sectors dominated by larger more resource rich rivals?

The aim of this research is to critically examine how FT social enterprises can compete in sectors dominated by a small number of larger more powerful rivals. This research aims to contribute to the general theory of competition, namely R-A theory developed by Shelby Hunt and Robert Morgan. This study aims to contribute and explain the progress of FT social enterprises in highly competitive UK markets such as chocolate confectionery and hot beverage sectors.

In order to support investigation of the resources and strategies deployed by FT organisations in their efforts to mainstream FT products in UK markets, the following research objectives were determined:

- To critically analyse how Fairtrade social enterprises have performed and impacted on the UK chocolate confectionery and hot beverage sectors. This investigation will focus on key downstream stakeholders such as supermarkets.
- To critically analyse the literature associated with both fair trade and competition theory, to examine how effective the literature is in explaining the success of Fairtrade social enterprises.
- To examine how effective the 'resource-advantage' theory of competition is in explaining the success of Fairtrade social enterprises.
- To evaluate which resources enable Fairtrade social enterprises to compete against larger rivals. This objective will critically analyse if the social and ethical elements of these firm's product offerings really constitute meaningful differentiators (i.e. comparative advantage) as required by 'resource-advantage' theory.
- To extend Resource Advantage theory in order to explain how the case study companies Divine and Cafédirect compete in the UK.

Both the research question and objectives provide a focus to the research which is aiming to extend R-A theory to account for the success of FT companies. Hence, this thesis will take FT and look at this through the lens of R-A theory in order to try and explain the progress of both Divine and Cafédirect. This is useful because it provides a general direction for the study to embark, without restricting the parameters of the investigation. Eisenhardt's (1989, 1991, and 2007) approach to building theory from case studies will be applied in this thesis. Two rich longitudinal case studies of both Divine and Cafédirect will be developed. Part of the study will be evidenced by research for the Department for International Development (DFID) investigating the impact of FT on the UK Food and Drinks Industry.

1.3 Thesis Outline

In order to critically evaluate the competitiveness of FT social enterprises, both the literature associated with FT and with the general theory of competition, namely, R-A theory and its intellectual foundations (Hunt and Morgan 1995, Hunt 2001) will be reviewed in chapter 2. The review centres on FT social enterprises and how they compete. In addition, the review will look at the literature associated with FT to ascertain what other authors consider to be the impact of FT social enterprises. One of the major themes in the review is the relative lack of any substantive research on what resources enable FT social enterprises to compete in highly competitive markets. Consequently, the objective of investigating how FT companies achieve competitive success is included in this study. The review highlights a number of emergent theories applicable to the competitiveness of 100% FT companies such as Divine and Cafédirect. At the forefront of these theories was R-A theory.

Chapter 3 will consider the research methodology for this study, and discuss the merits of different approaches. This chapter will provide an outline of the methods chosen and the implications for research design. Eisenhardt's (1989, 1991) eight-step procedure for theory development will be used. The author's aim is to evaluate if the social and ethical commitments of FT organisations provide a novel resource to extend R-A theory. FT is an emerging phenomenon (Golding 2009, Lowe and Davenport 2005b). The emergence of the two leading FT branded social enterprises namely, Divine (formerly called The Day Chocolate Company) and Cafédirect is viewed as a key success factor in the growth of FT in the UK (Nicholls 2009a). Both Divine and Cafédirect are 100% FT companies and therefore provide two unique case studies (Eisenhardt 1991, Eisenhardt 1989, Eisenhardt and Graebner 2007 and Yin 1994). The section on contribution to knowledge (see section 1.4) highlights the need for such a study to explain the success of FT models. Chapter 4 will present and analyse the two case studies and critically evaluate which distinctive resources help explain the competitive success of FT organisations. To this end the philosophical approach underpinning this research will be building theory from rich case studies.

Eisenhardt's (1989) eight-step procedure to building theory from case studies will be used to investigate the research question. Eisenhardt (1989) and Eisenhardt and Graebner (2007) provide a roadmap for developing theory from case studies by synthesising the approaches of authors including; Glaser and Strauss (1967), Yin (1994) and Miles and Huberman (1994). The framework is provided in table 6 (section 3.4).

Chapter 5 will discuss the findings and analysis of both case studies related to the research objectives. The concept of 'social resources' and its value to both FT social enterprises and R-A theory will be evaluated. Chapter 6 provides a set of conclusions about the study. Important consideration will be given to the development of the concept of 'social resources' and its three inter-related components. A number of areas for further research will also be discussed. A summary of the directions that each may take, together with an indication of how they could contribute to a body of knowledge will also be presented. The implications for theory and practice from this thesis and the generalisability of the findings will also be discussed.

1.4 Contributions to Knowledge

The thesis contributes to knowledge by extending R-A theory. In addition, by adding to the body of empirical evidence on FT companies this thesis will contribute to practice. The justification for this research according to Nicholls and Opal (2005) is that more research is required in looking at FT in downstream markets. Hunt and Morgan (1995) and Hunt (2001) state that their new theory of competition is at the foundation stage. They call for more conceptual and empirical work to be done to further explicate their work. Currently tangible and intangible resources such as financial, physical, legal, human, organisational, informational and relational are the foundation of R-A theory (Hunt and Morgan 1995). Prior studies (Hunt and Morgan 1995) have used R-A theory to explain organisational success in specific industries (Australian Agribusiness, Singaporean Higher Education institutions etc) but no studies have so far addressed how relatively small-scale FT organisations are able to compete successfully in highly competitive markets against larger more experienced rivals.

Critics of R-A theory (Wensley 2002, Schlegelmilch 2002) suggest there is little illustration of how companies can gain their resource advantages in the first instance and also how they can manage this resource to further this competitive advantage. However, both critics fail to acknowledge that ethical and social commitments could be one approach. According to Hunt (2001), research into these evolutionary theories of competition require units of selection that are heritable and durable over a period of time. This thesis satisfies the previous requirement via the study of two rich case studies; Divine and Cafédirect. The relationship with consumers has been the focus of most research into social and ethical offerings (Harrison *et al.* 2005, Lafferty *et al.* 2002). This research will also focus on those described by Kaplinsky (2004) as key chain governors, buyers, retailers, wholesalers and branded manufacturers. Kaplinsky (2004) argues these key downstream buyers and their practices in global cocoa and coffee chains are largely unexplored. Previous research related to Divine and Cafédirect has mainly focused on investigating both their producers and consumers. However, this research will focus on a number of key downstream stakeholders, including supermarket buyers, supermarket ethical trading managers, trading director of a UK Coffee shop chain, trading managers in other channels of distribution such as wholesalers, independents, whole food network and alternative channels such as a charity retail shop chain. In addition, key media experts, senior management representatives from industry competitors, key opinion formers in both the confectionery industry and the FT movement, including leaders of southern producer groups, will also be interviewed for this study (See tables 8 and 9 for initial exploratory first and main phase interviews). These key informants are all important decision makers in both the hot beverage and confectionery sectors and are influential in deciding product choice.

Hunt and Derozier (2004) argue that R-A theory can ground theories of business and marketing strategy. R-A theory is inherently dynamic and interdisciplinary, which incorporates the five major schools of strategy including; resource-based strategy (Barney 1991, Grant 1991, Wernerfelt 1984), competence-based strategy (Day and Nedungadi 1994, Hamel and Prahalad 1994, Teece and Pisano 1994, Sanchez and Heene, 1997) industry based strategy (Montgomery and Porter 1991, Porter, 1980, 1985, 2004), market orientation (Jaworski and Kohli 1993, Webster 1992, 1994) and the potential of using networks of relationships to create value

(Berry and Parasuraman 1991, Gronroos 2006, Gummersson 1994, Morgan and Hunt 1994). Selecting wisely from among the different schools of strategic thought requires managers to understand both the alternative theories and the competitive contexts in which each normative imperative could work well. A strategy that is highly successful in one competitive context may fail in another context. Hence, utilising theories of business and marketing strategy requires that managers understand the nature of competition. Therefore Hunt and Derozier (2004) propose that theories of business and marketing must be grounded in a theory of competition. It is interesting that recently Golding and Peattie (2005) have argued for FT companies to adopt social marketing as a strategy, therefore identifying potential 'social resources' could support this approach. Hunt & Derozier (2004) also propose that when firms have a comparative advantage in resources they will occupy market place positions of competitive advantage for some market segments. This is vital for managers of all FT social enterprises who are reviewing and deciding strategy, choosing the correct strategy requires an accurate understanding of the context of competition and the available resources from which to shape a value proposition for the target market (Hunt and Derozier 2004).

In summary this thesis will contribute to both knowledge and practice in a number of key areas:

- Contribute to the body of data on both the competitive context for fair trade companies in the UK and on their impact and performance.
- Seek to extend Resource Advantage theory to explain the competitive success of fair trade social enterprises.
- Contribute detailed case studies of hitherto under researched organisational forms, to establish how their management of their value networks differs and generates social resource advantage.

The justification for the study in this thesis according to Nicholls and Opal (2005) is that more research is required in looking at FT in downstream markets. A reliable study of FT at the downstream level would provide an improved view on how FT companies compete in markets such as the UK confectionery and the hot beverage sectors.

1.5 Chapter Summary

The foregoing chapter has provided an outline of the thesis. The starting point was a background for the entire study that focussed on both R-A theory of competition and FT social enterprises. Following this, the research question and objectives are stated, and a summary of the entire thesis is outlined sequentially by chapter. Finally, the contributions to knowledge that this exploratory study provides are also presented.

CHAPTER 2 LITERATURE REVIEW

Firstly, the literature review will analyse the literature associated with FT, including; the definition and structure, operational mechanism, philosophy, consumer response, emergence and the pros and cons of mainstreaming FT, this will set the context for later development of the rich case studies of Divine and Cafédirect. Secondly, the review will compare and contrast the different perspectives in the area of competition theory. These will include perfect competition (DiMaggio 1994, Etzioni 1988 and Williamson 1975), industrial organisation model of competition (Montgomery and Porter 1991, Porter, 1980, 1985, 2004), the resource based view (RBV) of the firm (Barney 1991, Grant 1991, Peteraf and Barney 2003 and Wernfelt 1984), competence based theory (Day and Nedungadi 1994, Hamel and Prahalad 1994, Hunt and Derozier 2004, Sanchez and Heene, 1997 and Teece and Pisano 1994,) and resource advantage theory (R-A Theory) including relationship based competitive advantage (Berry and Parasuraman 1991, Gronroos 2006, Gummersson 1994, Hunt 2001 and Morgan and Hunt 1995). Please note this literature review will not cover the comparative advantage theory associated with command versus market based economies. Finally, the review will identify a departure in the literature which highlights the importance of social and ethical resources (Hart and Milstein 2003, Lafferty *et al.* 2002).

The past 20 years have seen key developments in our understanding of value, value chains, resources and competitive advantage. This has been viewed by some authors as strands in a general theory of competition and a 'new dominant logic for marketing' (Hunt 2001, Hunt and Morgan 1995 and Vargo and Lusch, 2004). These developments have been significant for both strategic management and marketing. However, the literature review below identifies that these new perspectives are still grounded within the confines of a managerialist tradition, which underemphasises the interests of upstream stakeholder groups such as producers and the growing sophistication of consumers. Hence, they fail to incorporate emerging changes to the role of business in society as seen in the literatures relating to sustainable development, corporate social responsibility (CSR), business ethics and FT (Crane and Matten 2007, Golding and Peattie 2005, Hart and Milstein 2003, Lafferty *et al.* 2002, Meehan, Meehan and Richards 2006, Nicholls and Opal 2005 and Schwartz and Carroll 2003). This thesis will try and take FT and look at this through the lens of R-A theory. Prior to reviewing the literature associated with competition theory, this study will first analyse the literature associated with FT.

2.1 Fairtrade

This section of the literature review will firstly explain the definitions and structure of FT and the key theoretical debates. Secondly, it will investigate the philosophy, consumer response, emergence of FT and recent developments in the mainstreaming of FT.

2.1.1 What is Fair Trade and How it Works?

This section will look at the definition, the key theoretical debates, the structure of FT, the problem of sustainability in supply chains such as cocoa, how FT operates and some recent market developments. Many of the growers of commodities such as coffee, tea and cocoa live in poverty, and are often faced with poor working conditions, exploitation and limited health, safety and environmental protection (Barratt Brown 1993 and Page and Slater 2003). At the heart of this problem are international commodity markets, which often set prices that fail to provide growers with a sustainable livelihood (Tiffen 2002). Lowe and Davenport (2005a) propose FT as a sustainable market based solution to global trade failures in commodity markets. FT is defined as:

> *"A trading partnership based on dialogue, transparency and respect that seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of marginalised producers and workers- especially in the South."*
> (Lowe & Davenport 2005a, p: 499).

The FT "movement" or "sector" is evolving rapidly, both in terms of sales and of public awareness. FT has become increasingly institutionalized and has appeared as one of the major initiatives using (and adapting) market mechanisms to pursue a social purpose, i.e., poverty alleviation for small-scale producers in the South (Moore, 2004; Raynolds *et al.*, 2007). Nicholls and Opal (2005) propose that FT is a new approach to doing business that looks holistically at the supply chain to address market failures and their social impacts at source, but which still acknowledges the need for profitability. Worldwide consumers spent over £1.6 billion on FT marked products in 2007 (Fairtrade Labelling Organisation 2007). This is a 47% increase on 2006 and now means that today FT has a direct effect on the lives of over 7.5 million producers and their families across 58 developing countries that are medium to low on the Human Development Index (Fairtrade Labelling Organisation 2007). Mann (2008) argues this shows a stable demand in the North for fair relations between employers and employees and for fair cooperatives in Southern production. FT certification is associated with product supply chains and therefore the development of FT has involved an increase in the number of products carrying the FT Mark available to consumers. Hence to illustrate the development of FT market data will be presented in combination with the key theoretical arguments associated with the mainstreaming of FT. The market data comes mainly from the reliable market intelligence source of Mintel. This is required as there are no recent in-depth FT academic papers investigating the actual impact and market performance of FT companies. The author proposes this is a deficiency in our FT knowledge base.

FT products have now entered the retail mainstream in many developed countries and hold significant market shares in a range of categories including; bananas, roast and ground coffee, and organic cotton. Many large supermarkets sell FT products with a number now in the UK (Sainsbury, Tesco, Asda, Cooperative Food Group and WM Morrisons) even having their own-label FT products (Nicholls and Opal, 2005). Impressive sales growth can be seen across a range of product categories. In particular, sales of FT fruit juices have almost quadrupled, sugar has doubled and bananas have increased by 31% in 2008 (see table 1). Bananas are now the best performing FT product, one in four bananas sold in the UK are now FT. Much of the boost came in 2007 when both Sainsbury's and Waitrose supermarkets switched to selling only FT bananas (Mintel, 2009). Coffee, the first and one of the most established FT product categories continues to grow steadily with an increase in UK sales of 24% in 2008 to £144m, which is equivalent to 16% of total coffee sales in the grocery sector. In fact, FT products account for 20% of the roast and ground coffee sales in the UK (Mintel 2009). Tea represents a much smaller FT segment but is growing strongly (see table 1) and will be further boosted by both Sainsbury's and Cooperative Food (CF) switching their own-label teas to be FT certified. These developments are estimated to give FT tea a 10% market share of the UK tea market. FT cotton farmers have also seen demand for their produce more than double in just one year. During 2007, the sales of items made out of FT certified cotton, ranging from cotton wool to jeans and towels, surpassed 14 million individual items (Fair Trade Foundation, Press Release May 2008b). According to Barratt Brown (2007) these are small figures compared to total market values for the different commodities, however the rate of growth is significant. This is illustrated by the situation in the cocoa market where FT labeled cocoa sales only account for 0.2% of world cocoa sales. However, the average annual growth rate for FT since 1996 has been 23% in contrast to 2-3% growth in conventional cocoa markets (ICCO 2007). Interestingly, the UK is the largest with FT cocoa representing 1.02% of total cocoa sales. Table 1 shows the retail sales by value of the key FT food and drinks product categories from 2006-2008.

Table 1 UK estimated Retail Value Sales of Fairtrade Food and Drinks, 2006-2008 (source: Mintel 2009)

Product Category	2006 £m	% Growth	2007 £m	% Growth	2008 £m	% Growth	% Change 2006-07	% Change 2007-08
Bananas	66	25%	150	35%	188	31%	+ 127%	+ 25%
Coffee	93	35%	117	28%	144	24%	+ 26%	+25%
Tea	25	10%	30	7%	49	8%	+20%	+ 62%
Chocolate/cocoa	30	11%	34%	8%	42	7%	+14%	+25%
Honey products	3	1%	5	1%	6	1%	+67	+21
Other*	45	17%	88	21%	177	29%	+ 96	+ 100
Total	262	100%	424	100%	607	100%	+ 62	+ 43

*sugar, baked goods, nuts, rice, spices, dried fruits and other fruits

As the FT definition makes clear, FT has the aim to achieve sustainable development. Golding (2009) argues this objective depends on FT achieving a greater share of mainstream markets. This has created a debate between the "pragmatists", those seeking changes within the current economic model to penetrate the market and the lifestyle of consumers, and the "radicals", who seek changes to the dominant economic model and whose aim is to make FT the general rule (Beji-Becheur *et al.*, 2009, Renard 2003). For this group of radicals the FT label is merely a tool of transition. Golding (2009) proposes this debate in FT between radicals and pragmatists is a useful analogous to the debate in macromarketing between those such as Prothero and Fitchett (2000), who argue for changes within the dominant social paradigm, and those such as Kilbourne, McDonagh, and Prothero (1997), who argue that a wholly new paradigm is needed. Hudson and Hudson (2003) argue that consumers themselves exhibit an apparent predisposition to commodity fetishism (see section 2.1.2 for further discussion on consumer responses to FT) reinforced by the constituent effects of commodity markets combined with the increasing influence of retail capital (Renard 2005). According to Schaefer and Crane (2005), this makes it difficult for consumers to shift away from the dominant social paradigm of consumer society. This division in FT between radicals and pragmatists results in differing views on how FT marketing should be practised. The pragmatists argue that strong branding and effective promotional strategies are key to the market development of FT (Golding 2009). Such calls are supported by several empirical studies asserting that consumers buy for personal, not societal ones (Boulstridge and Carrigan 2000, Carrigan and Attalla 2001).

However, the radicals warn that the continued mainstreaming of FT could see the absorption of the concepts more convenient elements and the demise of its more radical edges (Jaffee 2007, Moore 2004, Mutersbaugh *et al.* 2005, Renard 2003, and Wilkinson 2007). For example Raynolds *et al.* (2007), debates the potential subversion of FT by mainstream companies seeking to refashion the FT movement into a niche orientated marketing scheme rather than a concept to transform international trade. Jaffee (2007) argues that mainstreaming is changing the FT offer, from a product with an ethical core to a product concept where ethics is just a product augmentation. This is argued by a number of authors to represent 'clean wash' of FT (Lowe and Davenport 2005a, Seyfang 2004). The author of this thesis suggests that the mainstreaming of FT is more complex than a debate purely between the radicals and the pragmatist's.

Huybrechts and Defourny (2008) argue that some pioneer FT social enterprises maintain the transformative of message of FT whilst competing in the mainstream via their political advocacy work. Lowe and Davenport (2005b) also propose that some FT companies competing in the mainstream provide an alternative approach to the market, where southern producer organisations are shareholders in these northern FT companies. Lowe and Davenport (2005b) describe these companies as examples of 'radical mainstreaming' projects (see also section 2.1.5 for further discussion on mainstreaming). Also the notion that FT could also survive in pockets of alternative distribution such as FT shops, the whole food channel and 'good will' selling spaces (church halls) and deliver the extent of change necessary to assist producers out of poverty is questioned by Tallontire (2000). However, Lowe and Davenport (2005b) propose the concept of the 'alternative high street' (see section 2.1.6), where social action and ethical based consumption are combined together and can exist in a virtual or physical space such as FT towns and universities plus Oxfam retail shops. They argue the 'alternative high street' is a way to protect the integrity of FT whilst developing sales. Watson (2006) also argues that being in the mainstream whilst trying to maintain the transformative message of FT requires FT companies to engage with the cultural frameworks of consumption, while also striving to socialise individuals into active engagement with reciprocal and redistributive economic relations. Golding (2009) argues this emphasises the need for more robust theories of marketing communication such as sustainable communication (McDonagh 2002) to illustrate how a change towards sustainable consumption might be achieved. Golding (2009) also proposes that FT's reliance on the consumer choice mechanism dictates the need for marketing strategies which operate within the dominant social paradigm, whilst also looking outside this paradigm. Interestingly, Golding (2009) also suggests five approaches for the FT movement, which could insulate itself against absorption and dilution by mainstream actors:

- Preservation of its links to social movements
- Producer equity
- Public regulation for FT
- Preservation and extension of the cooperative structure for FT producers
- Strengthening the political campaign and advocacy elements

This debate regarding the need for FT marketing to be within or outside the dominant social paradigm illustrates the need for further research to investigate further the complexity of this area. Nicholls (2009a) identifies that FT growth in the UK compared to other international case studies is unique due to the development of original FT pioneer brands (Cafedirect and Divine) from the ATO movement that decided to compete in the mainstream. However, despite this dimension of pioneer brands empirical research is yet to be carried out to understand their specific progress. It is worth here reflecting on the importance of branding for FT companies.

A brand can be defined as "a *name, term, symbol, design or combination of all*" (Aaker 1997, Keller 1998). It is agreed by many marketing academics that a brand serves two functions: identification and differentiation. It is also acknowledged that a brand can be differentiated on a tangible (product quality) or intangible level (e.g. relationships). Some brand experts also offer a consumer orientated definition of a brand;

> "*Brands are not found in the factory or the studio, the sales channels or the supermarket shelves- not even on the television screen. You only find them in the minds of consumers*" (Franzen and Bouwman, 2001, p: 127)

Chiagouris (2005) describes two key brand elements that consumers need to see from social enterprise brands, which include a unique selling proposition, which is what the brand will do for others and the reason to believe, this builds the case for high credibility of such social brands. According to Keller (1998) brands are important because they offer easier identification and allow the consumer to lower their own search costs and perceived risk. However, more important for FT is that brand's can take on personal meanings, giving the consumer the ability to express something about themselves. A brand therefore has the potential to enrich the life of a consumer (Keller 1998). The value of a brand, known as brand equity can be thought of in different ways:

1. The financial point of view (impact on the balance sheet)
2. Strength of the consumers attachment to the brand
3. A description of the associations and beliefs a consumer has about the brand (brand image) or even organisational associations

Keller (1993) defines brand image *"the perceptions about a brand as reflected by the associations held in the consumer memory"* (Keller, 1993, p: 3). Keller divides brand associations into three categories: attributes, benefits and attitudes. Attributes can be described as the descriptive features, which characterise a brand. These features can include price information, quality, packaging, user imagery and usage. Benefits can be classified into three groups. The first being the functional benefits, which tend to correspond with product such as taste, the second symbolic benefits are the more extrinsic advantages and often relate to non product attributes, this could be important for FT. Thirdly, experiential benefits are what it feels like to use a brand. Attitudes, the highest level of brand associations are defined as the overall evaluations of a brand. Keller argues that attitudes form the basis of actions and behaviour, which consumers take with the brand. Aaker (2001) adds to this debate and proposes that brand associations represent what the brand stands for and also adds that brand loyalty is a key factor in consumer behaviour towards brands.

Rio, Vazquez and Ingleas (2001) further develop the dimensions of brand image by identifying four key brand functions:

- **Guarantee,** which refers to whether a brand meets certain expectations
- **Personal identification**, which considers how well consumers can identify themselves with the brand
- **Social identification**, which is based on the brand's ability to act as a communication instrument, allowing the consumer to associate or dissociate themselves with certain groups. These could include ethical dimensions
- **Status Function,** which relates to the fact the consumer may experience feelings of admiration and prestige from using the brand

Rio, Vazquez and Ingleas (2001) propose the above functions would increase consumer willingness to pay a price premium for brands, accept a brand extension and also recommend the product to others. Hoeffler and Keller (2002) assert that ethical marketing programmes can build brand equity via building brand awareness, establishing brand credibility, evoking brand feelings, enhancing brand image and creating a sense of brand community. A limitation in the FT literature identified by the author is a lack of research on FT branding. This is particularly surprising bearing in mind the developments in the brand literature stressing the importance of morality and ethics (Clifton 2001).

According to Moore *et al.* (2006) the aim of FT is to offer the most disadvantaged producers in developing countries the chance to move out of poverty through creating market access to consumers (mainly in industrialised economies) under beneficial rather than exploitative terms. FT therefore creates a producer-consumer relationship that reconnects production and consumption via an innovative supply chain model, which distributes its economic benefits more fairly between all stakeholders. FT has three interlinked aims (see below), which are achieved via a market driven commercial model, rather than a charity or developmental aid mechanism (Nicholls and Opal 2005).

1. To alleviate extreme poverty
2. To empower smallholder farmers and farm workers to use trade relationships as a means of enhancing their social capital
3. Support a wider campaign for global trade reform and trade justice to counteract exploitative modes of production which prioritise downstream actors

According to Hart (1995) the majority of businesses do not internalise the costs of their social, environmental impacts. However, by contrast the FT movement proposes that in order for trade to be sustainable and not to distort markets, then full social, environmental and economic cost of goods and services must be taken into account. The Fairtrade Labelling Organisation (FLO) argue that making the direct human link between producer and consumer is one of the most important things we can do (FLO 2007). Nicholls (2009a) argues that FT embeds collectivist narratives of social justice in market exchange transactions. Therefore according to Moore (2006), FT operates in stark contrast to the conventional international supplier-buyer transactional relationship that aims to maximise return to the institutional buyer through the establishment of a power imbalance in favour of the purchaser (though not always the end-consumer). However, this proposal by Moore does fail to take into account the shift in buyer/seller literature which demonstrates that partnerships and collaborative dialogues are now well established in practice (Eagan 2004, Gronroos 2006, Harker and Eagan 2006). Eagan (2004) discusses motivational investments in relationships and describes the development of buyer-maintained relationships with retail supermarkets working closely with their suppliers giving them access to 'point of sale' data to facilitate distribution. Harker and Eagan (2006) argue this is a significant change in attitude from past decades when such information was regarded as commercially confidential and was used to maintain an element of power and control over suppliers.

Alexander and Nicholls (2006) propose that it is necessary to consider the connectivity between consumers and suppliers and how to embed authentic information flows within marketing messages to enable a better understanding of the means and extent of understanding that can be achieved by consumers of FT products. According to Barrientos and Asenso-Okyere (2008) both European and North American consumers are demanding rising social and environmental standards in labour relations ensuring fairer participation in value chains such as cocoa and coffee.

FT represents an approach to the buyer-seller transaction that emphasises equality of exchange and recognising the power discrepancy between the developed and developing worlds (Nicholls, 2002). Central to this is the representation of a new model of supplier-consumer relations, centered not on economic capital alone, but also social and human capital.

'The fair trade movement destabalises neo-liberal knowledge claims regarding the normalcy of commercial conventions through reconsideration of the meaning 'fairness' in commodity prices, market exchanges and North-South relations.'

Raynolds (2002, p: 409-10)

However, these alturistic arguments of FT being driven purely by consumer's interest in social justice are also challenged by those who propose other perspectives. Varul (2008) argues for the existence of an alternative hedonism with respect to FT consumerism called 'moral selving', which is a concept proposing FT purchasing as an expression of self-identity (see section 2.1.2). These arguments demonstrate the complexity of the consumer response to FT already identified in the literature. In addition, the positioning of conventional buyer-seller relationships as non-reciprocal, power-based exchanges is not necessarily in line with current buyer-seller literature (non-FT), where the value of partnerships and collaboration have been identified (Eagan 2004, Gronroos 2006).

From looking at the supply chain structure of the first FT labeled product sold in the North, and the fact that coffee continues to be the highest volume and highest value product for some national FT markets, it can be seen how these FT supply channels differ to traditional value chains (see figure one). Traditionally small coffee farmers were isolated from markets and therefore had no choice but to sell their produce to middlemen, know in Latin America as coyotes (Raynolds 2002). The coyotes then consolidate small farmers productions and sell either directly to independent or transnational mills to process the coffee cherries and sell them on to transnational brokers and exporters (Mendoza and Bastiaensen 2003).

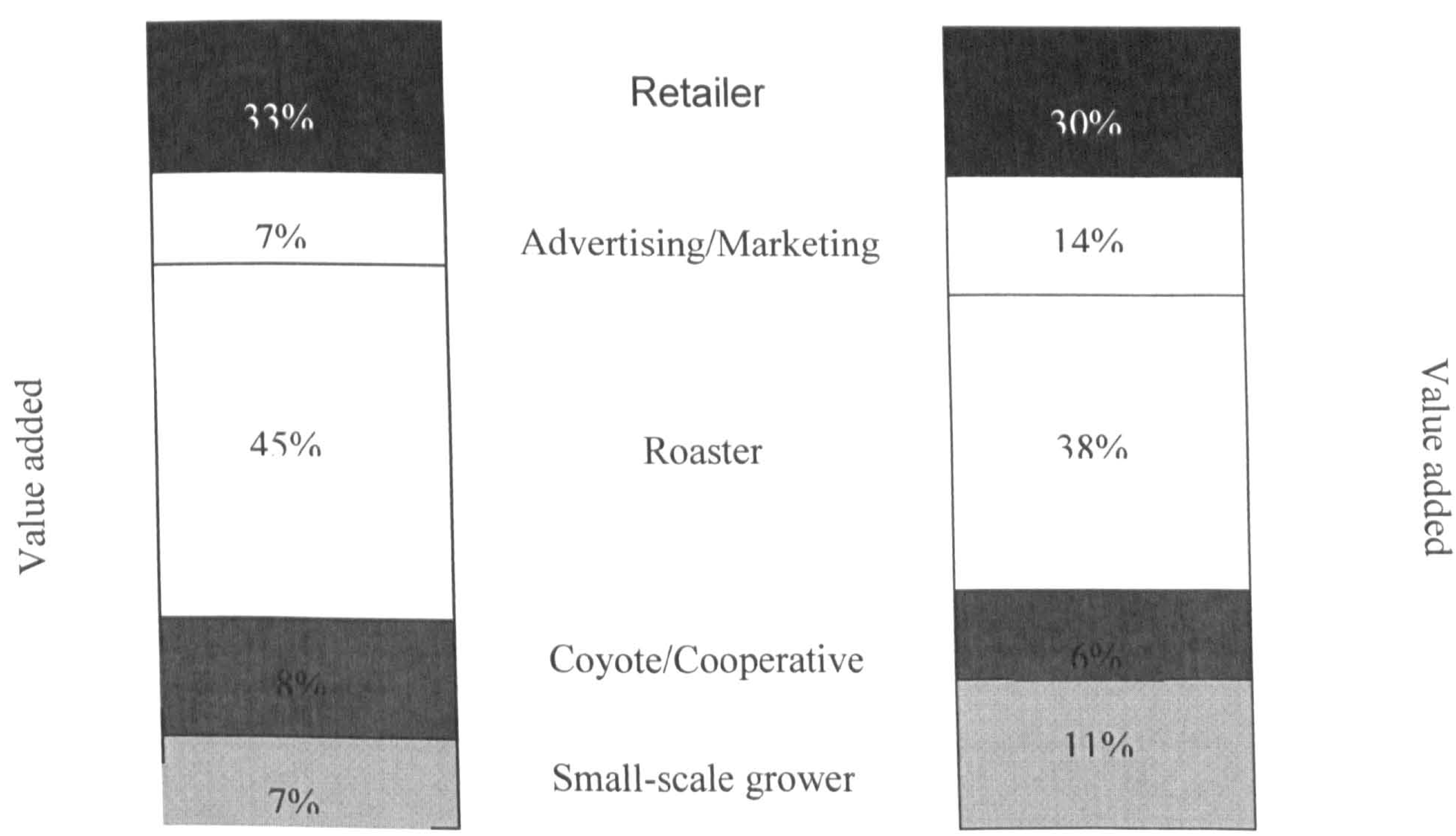
Figure 1 Coffee Value Chain

Traditional coffee value chain

% captured by each link

Fair-Trade coffee value chain

% captured by each link



(Source: Adapted from Mendoza and Bastiaensen, 2003, p: 39)

The FT coffee movement grew out of a desire of Northern coffee consumers to guarantee a decent price for coffee producers and provide producers access to market information they were missing, allowing them to capture more of the value in the supply chain and reduce their isolation. Coffee producer cooperatives perform the coyote function by consolidating production, however as the coyote is normally owned by the farmer members most of the profit is retained by the producers themselves, rather than the coyote (Raynolds 2002). Producers and cooperatives are considered to be equal commercial partners in this exchange and treat each other with mutual respect and support (Waridel, 2002). The FT system also requires the cooperatives to own or at least control the coffee milling processes to be able to export directly and further increasing farmer power.

A number of authors have also identified imbalance in the cocoa value chain (Barrientos and Asenso-Okyere 2008, Gilbert 2007 and Kaplinsky 2004). The indicative cocoa farmer's share of the cost of a bar of milk chocolate is 4%, with other ingredients accounting for 6%, compared to the manufacturers/processes share of 51%, advertising 6.5% with the retailer share of 28%, with the transport and shipping costs accounting for the difference (Gilbert 2007). Barrientos and Asenso-Okyere (2008) show that cocoa farmers surveyed in Ghana earn on average US $0.42 per day from cocoa farming, this is below the poverty line of $1US per day. These low incomes coupled with other exposures, such as the existence of child labour in the cocoa supply chain in West Africa reported by Hawksley (2001) at the BBC (British Broadcasting Corporation), have led to a number of responses. Firstly, the US government under the Harkin-Engel protocol asked US chocolate companies to improve ethical standards in the cocoa supply chain, if they did not the US government threatened to introduce labelling on product to certify for child labour free credentials (Gilbert 2007). Under pressure from the UK Foreign Office, the International Cocoa Initiative (ICI) was formed to provide cooperation between key chocolate industry stakeholders, concerned international politicians, the labour movement and key civil society actors in the fight against child labour in West Africa (Barrientos and Asenso-Okyere 2008).

A number of companies have introduced CSR measures in response to adverse media pressure. Cadbury's under its own CSR programme launched in 2003 its partnership with the charity Water Aid to build water wells in Ghana (Cadbury

Schweppes 2006) and then in 2008 launched its own Cadbury cocoa partnership (Barrientos and Asenso-Okyere 2008). This cocoa initiative by Cadbury is a ten year £30m investment programme for Ghana, to create conditions to enable Ghanaian cocoa farmers to improve productivity and to improve the standard of living in cocoa farming communities. According to Barrientos and Dolan (2006), Cadbury source all its cocoa for the UK market from Ghana and in fact buy 15% of Ghana's total cocoa exports. In recent years Cadbury have been concerned with the sustainability of cocoa farmers and their communities fuelled by both statistics showing increased rural-urban migration (SGER 2006) and research in cocoa communities showing the poor perception of cocoa farming by young people (Barrientos and Asenso-Okyere 2008). Recently, Cadbury announced (see section 2.1.5) their intention to move both their UK sales of Cadbury's Dairy Milk (CDM) brand and chocolate drinks to be certified as FT from June 2009 (Wiggins 2009).

In response to the imbalance in value chains FT aims to be 'in and against' the market and therefore correct market failures in the free market system, such as information asymmetry in the supply chain, to ensure that all stakeholders benefit equally and in proper measure from exchange relationships (Alexander and Nicholls, 2006). An example of this is the partnerships between cooperatives and producers, where they are seen to share information freely and help in each other in pursuit of their goals (Waridel, 2002). This is known as networking, often considered to be one of the major business buzzwords of the 1990s, referring to a collection of individuals who have organisational affiliations and can use the benefits derived from networking for the good of their individual companies or themselves and has been widely employed with varying degrees of sophistication (Eagan 2004).

The potential of networking to prove understanding of business to consumer marketing of high involvement products such as FT can be demonstrated by geographical and sociological studies emanating from the development of alternative food networks (Hughes, 2005). The complex webs of interdependence seen in these networks are significant as when information knowledge flows are considered in a trade network that includes producers, retailers and consumers, this destabilizes notions of supply chain information being entirely generated by retailers (Alexander and Nicholls, 2006). The potential for these partnerships between different stakeholders is very promising for FT companies (Alexander and Nicholls 2006). According to Golding (2006) FT aims to re-connect producers and consumers and therefore unveils producer origins of commodities. This unveiling process is designed to educate consumers to move them beyond their own self-interest in making purchasing choices (Murray and Raynolds, 2000) and provides a potential platform for the creation of new 'social bonds' between the hitherto divided groups. It is interesting to note that Michael Barratt Brown (former Chair of TWIN Trading) proposed that creating networks is key for FT organisations:

> *"A network, as I understand it, is a flexible, continuous set of human relationships which can grow in all directions. Networks are based on cooperation rather than competition, and have the advantage that they allow for the independence of all the various units gathered together in the network. But they don't happen spontaneously. There have to be networkers and Fair trade organisations should be networkers." (Barratt Brown, M. (1988), 'Who Cares About Fair Trade? conference report, p: 3)*

In operational terms, FT is specifically defined by several key practices (Nicholls and Opal 2005): Firstly, to meet the internationally recognised FT standards an agreed FT **minimum price** must be paid to producers, which covers the cost of sustainable production and living. The FT price is set by taking into account of local economic conditions and is calculated by the FLO. This guaranteed price is termed the FT minimum floor price, which covers the cost of production and provision for family members and farm improvements is structured using the following formula:

Fairtrade Floor Price= Cost of production + Cost of living and cost of complying with Fairtrade standards

Due to the volatility of world commodity markets the gap between the conventional world market price and the FT floor price can be significant. If the world market price for a particular commodity (for example cocoa or coffee) falls below this price, FT importers pay the floor price, or otherwise the world market price. This guaranteed price above is calculated to cover the cost of production and allows producers to plan ahead and invest in the future of their businesses. In the case of cocoa the guaranteed commodity price set by the FLO is $1600 per tonne (ICCO 2005).

Secondly, a focus on development and technical assistance by payment to suppliers of an additional **social premium** (often 10 per cent or more of the cost price of goods). This social premium is paid to producers on top of the FT minimum price for their goods. This allows producers to invest in community infrastructure development projects such as sinking water wells to provide clean water supplies, building schools and providing new health programmes. In the case of cocoa, the social premium for example is $150 per tonne (ICCO 2005). The social premium is often paid into the producer's cooperative trust, how to allocate the funds are then decided democratically. In the case of KK, who are joint owners in Divine, the KK Farmers Trust decides how to spend the funds accrued from the social premium payments (see Figure 11 in chapter 4).

Direct Purchasing from producers is another key feature of FT. This reduces the influence of brokers and middlemen in the global supply chain, with the aim of ensuring more of the final price of goods can be returned to the producers
Long-term supply contracts that allow for planning and sustainable production practices (Crane and Matten 2004). This is designed to ensure producers do not suffer from the effects of buyer's short term bias.
Co-operative, not competitive dealings to develop buyer-producer relationships built on trust and mutual respect. Mann (2008) proposes this is a more efficient way of delivering value to the consumer as it should lead to higher quality product and consistency of supply. It is also an important component of the ethical positioning associated with FT.
Provision of credit when requested, this commitment to make partial advance payments at key periods is because importers generally have better access to credit than producers. Sometimes importers are required to pre-finance up to 60 per cent of the total purchase of seasonal crops. This means producers can receive advance ayments for their crop before it is exported.
Provision of market information to producers. The relationship created by FT ensures the exchange of information regarding the nature of both consumer markets and other components of the supply chain.
Producers should be organised democratically and small-scale producers must belong to a cooperative that is democratically organised and which practices one-farmer, one-vote systems.

Sustainable production must be practised and the cooperatives must have resource management plans in place to investigate more sustainable farming practices.

Hayes (2006, p: 462) studying the efficiency of FT provides an economic analysis and suggests a number of benefits to the producer including:

- creates and maintains the ability of the producer to compete in the market,
- reduces the producer organisations production costs via helping it reach minimum efficient scale and overcome lumpiness in production methods
- Reduces the risk and provides finance for investment and the opportunity to learn by doing
- Support of consumers willing to absorb some of the risks and costs in order to achieve their own social goals through participating in FT

Mann (2008) argues that FT actually increases the options and choices available to consumers and makes the free trade system work by the mechanisms mentioned above which include; providing farmers with access to credit and information and therefore correcting some market imperfections. McDonagh (2002) explains; organisations who promote FT aim to benefit producers and do not have a primary aim to maximise profit for shareholders. Secondly, they work with producer co-operatives that practice democratic principles e.g. Kuapa Kokoo in Ghana. Thirdly, they encourage producer organisations to re-invest the social premium to build capacity in their own communities. FT organisations also frequently cooperate to forward the transformative message of FT in campaigns such as '*Trade Justice*' (Moore 2004). According to Raynolds (2000), FT represents a new approach to the buyer-supplier transaction, which aims at equality of exchange within a partnership approach, underpinned by a developmental, rather than confrontational agenda. A firm focus on the producer has been central to FT (Barratt Brown 2007). It is a specific objective of both case study companies in this thesis to purchase all their respective coffee and cocoa in compliance with the internationally recognised FT standards. This focus in the FT relationship on trust, equity and respect appears to provide Murphy *et al.* (2007) with a potential example of a marketing relationship with a firm ethical basis (see section 2.2.8 and figure 8).

This FT supply agreement is both accredited and monitored in the UK by the FtF. This process includes monitoring of supply chains via site visits and inspection of company accounts and documentation. If a national foundation is convinced that a companies product/products can be validated to meet the ethical standards of the FT agreement then they are allowed to display the FT logo (mark) on their products (McDonagh 2002). This provides consumers with the accredited guarantee that third-world farmers (southern producers) are part of the FT system. All products supplied by both Cafédirect and Divine carry the FT mark and both are regarded as 100% FT companies. The FLO is the global umbrella organisation for the 19 national FT certification initiatives based in 19 different geographic territories (Nicholls and Opal 2005). In the UK, the national initiative is called the Fairtrade Foundation (FtF). FLO's main objectives include:

- To guarantee the integrity of the FT mark and certification process
- To facilitate the business of FT by helping to match supply and demand
- To offer producer support and development to build business capacity

It is important to note that FLO inspects producer groups to certify them for compliance with the FT standards outlined above. FLO and its members then license companies to use FLO's Fairtrade mark to signify that for a given product the FT standards have been met (Renard 2002). FLO is a not-for-profit multi-stakeholder association; its membership is open to both FT labeling initiatives and producer networks. This assurance of FT is argued by a number of authors to be a fundamental challenge to our liberal trading order (Enders 1997, Howse and Trebilock, 1996). Booth and Whetstone (2007) argue that FT should both avoid putting themselves on an elevated moral platform and should try to enforce their commercial principles via Government regulation. However, Nicholls and Opal (2005) disagree and propose that FT is a unique solution to market failures in the global trading system as it is a consumer choice movement outside the scope of government regulation and therefore cannot be criticized as an interventionist trade policy. Lindsey (2004) suggest that FT is an aberration as its price structure fails to obey the rules of a 'free market', setting price controls that are influenced by humanitarian issues as opposed to the free interaction of supply and demand. Lindsey (2004) also accuses FT of encouraging both uncompetitive production and irrational ethical consumer behaviour, which does not aim to maximize the financial utility of the purchaser.

FT products often sell at a premium price compared to their competitors and therefore does not conform to conventional market mechanisms. Jones (2004) argues that FT is in fact, a neo-liberal solution to problems with trade, which works within an efficient capitalist system rather than abandoning the liberal trade model entirely. Mann (2008) proposes that FT is unprecedented based on its ability to command a premium price, without delivering extra physical product quality. Renard (2003) suggests that economic thinking of supply and demand has to be left behind when entering the sphere of FT. However, Mann (2008) tends to disagree and argues that FT is accessible to economic analysis as it involves economic transactions and that every economic transaction is accessible to some form of economic analysis.

Booth and Whetstone (2007) propose that FT companies add to, rather than detract from the institutional variety of a market economy. They also argue that FT companies enhance the process of competition in markets dominated by large players. It appears networks are important in FT, however Mann (2008) also adds that FT relies as much on market forces as conventional trading but the items demanded by consumers make the difference. There appears to be an increasing sense of connectivity between consumers and producers as the human effects of global trade are better understood and more widely discussed. Such a shift in public perception of global relationships is also supported by survey work carried out by the Department for International Development (DFID, 2002), that reports 73% of British consumers are concerned about poverty in the developing world and that 69% agree that such poverty is a moral issue for them.

Whilst FT companies do offer a tangible product, what they are crucially trying to achieve is the concept that consumers in prosperous countries should factor in global social justice into their buying decisions (Levi and Linton 2003). A large set of social/environmental standards also demonstrates there is more to FT than just paying a higher price. In fact, according to Mann (2008) the higher price is mirrored by higher requirements. Also consumers in FT markets do not always benefit physically from community infrastructure projects or the improvement in labour standards. Consumers in the FT market therefore purchase not only the physical product, but also jointly a certain quality of relations, which do not involve themselves. According to Mann (2008), we can characterise these relations as "moral goods", a concept which goes back to Ross (1930). Some also argue that

FT demonstrates the importance of external preferences in a society's decision making process. Mann (2008) proposes that overall utility can be increased if one includes external preferences.

Taylor *et al.* (2005) suggest the new corporate interest in FT is an indication that FT has succeeded in demonstrating that the market should reward socially just and environmentally sound coffee and cocoa production. According to Moore (2004), FT has arisen out of the perceived failure of liberalised international trade to bring benefits to the most marginalised of producers in developing countries. Also, Nicholls and Opal (2005) suggest that FT is fast becoming the consumer standard for social responsibility in the sourcing of agricultural commodity products.

2.1.2 The Philosophy of Fair Trade and Fair Trade Consumerism

This section will analyse the key theoretical debates underpinning the growth of FT consumption. According to Nicholls and Opal (2005), FT embeds collectivist narratives of social justice in market exchange transactions and therefore a discussion regarding the ethics of FT is relevant. The philosophy of ethics relating to consumerism may be broadly defined into two different schools of thought; consequentialism and deontology (Moore 2004). The former privileging the *good,* the properties or outcomes that our actions should endeavor to bring about and the latter privileging the *right,* what people and organisations ought to do in responding to ethical imperatives (Harrison *et al.* 2005). This dichotomy of thought can be seen in the criticisms of supply chain management that has led to the development of FT.

Virtue ethics are those related to deontology, representing the 'means' not 'ends' that can generate a 'good' life for an individual person. Thus, unethical means can never be justified by ethical outcomes and a virtuous action cannot be so described, if it has been carried out with unethical intentions (Fisher and Lovell, 2003). This philosophy is often broadly grouped under the heading of non-consequentialist and is mostly associated with Aristotle (384-322BC), although the notion of what comprises virtuous behaviour has frequently changed over time.

Even though a virtue ethics analysis of FT may prove to be ambivalent, as what is appropriate of individual behaviours is somewhat temporally specific, virtuous individuals have always been identifiable in its development. Virtue ethics may help to explain the actions of many pioneers' and leaders in a range of social movements from peaceful protests to civil reform (Levi and Linton, 2003). Moore (2002) argues that virtuous behaviour such as trustworthiness, self-control; sympathy and fairness are ultimately rewarded by the market. Nicholls (2009a) argues this could be correct but only in markets which values such behaviours and enacts them in reciprocal structures.

Teleological ethics lie in consequentialist theories that require an institutional context to both achieve and define their ethical outcomes. One of the main teleological theories is Utilitarianism, stressing the importance of outcomes for the greater good (Crane and Matten 2007). According to this approach, determining the ethical value of an action is its overall utility and how far it can ensure the maximum good or happiness for the maximum number of people (Crane and Matten 2004). It can be thought that the ethical concern in modern supply chains is entirely consequentialist as it rests on outcomes as experienced by producers or factory workers and other key stakeholders. There is no denying that a utilitarian approach could have a value in assessing supply chain relationships, as a teleological analysis of a contractual agreement would not only measure outcome happiness by final profit but would also consider stakeholders, providing an ethical measure of its worth (Sassatelli, 2006).

Consequentialist approaches are employed in other areas also, such as in animal welfare by the important advocate and contemporary philosopher Peter Singer (2002). Singer states that a deontological approach to moral philosophy defines ethics too narrowly in terms of a system of rules and is not as practical and realistic. Although Singer's arguments are very complex in nature, they do provide one useful template for explaining the link between ethics and consumption in FT relationships. Particularly, his argument that there is no good reason to restrict the scope of concern to our nearest and dearest, and in fact being one link in a much wider chain of relationships with strangers in distant locations is often made the basis of appeals to influence one's consumer behaviour, in order to bring about more ethical outcomes (Varul, 2008b).

In line with this view, it is not surprising that many ethical consumption campaigns, such as FT, appear to rely on consequentialist assumptions and appeals. In the FtF vision statement, '*to contribute to sustainable development for marginalized producers, workers and their communities*' could be argued to follow a utilitarianism approach (Nicholls 2009a). Many of these campaigns tend to be based on assumptions that ethical decision making works through the rational calculation of ethical obligations for which knowledge, information and advice are essential prerequisites (Harrison *et al.* 2005).

However, for many activists themselves, the argument is largely a deontological one, based around *a priori* and absolute sense of social justice and fairness in trade (Nicholls and Opal, 2005). Again, this can be seen within FT as the FtF claims that by facilitating trading partnerships based on equity and transparency, the FT movement empowers citizens to campaign for an international trade system based on justice and fairness, therefore focusing on the actions of this organisation in response to ethical imperatives (Fairtrade Foundation, 2008a).

Central to an understanding of the deontological world-view is the work of Immanuel Kant (1724-1804), with his philosophy that all genuinely ethical behaviours must be driven, *a priori*, by a set of universal principles that have been established by deductive reasoning and that the outcomes of such behaviours are largely irrelevant to how they must be judged. Philosophers have contested as to whether or not synthetical judgments made *a priori* are possible, such as David Hume addressing this issue, although not in its universality, insisting that propositions *a priori* are impossible.

Both deontological and consequentialist approaches are open to criticisms relevant to ethical business. Deontological approaches seem to present an implausible view of people, rationally judging to the degree to which each of their actions conforms to what is a very abstract principle of universalisation. While Utilitarian considerations seem rather unrealistic as complete models of personal choice, and teleological theories imply that it may be justifiable to exploit some people and limit their rights in pursuit of a general benefit (Harrison *et al.* 2005).

It seems that as both approaches have their limitations, it may be better to consider them in less all-or-nothing-ways, in an attempt to combine deontological and consequentialist reasoning. Sen (1987) suggests that it is possible to develop 'consequence-sensitive deontological' arguments, which provide a more appropriate way to combine understanding of the good with the right, in a distinctive way, as rights are not only valued intrinsically, but also because of the goals they allow people to pursue (Pettit, 1991).

Other examples of theories of justice being further explored include Nozick's (1974) adopted libertarian position, developing a theory of 'entitlement' establishing the ethical context of legal ownership as central to notions of justice in society. Here, equality of opportunity is irrelevant in the development of the individual well-being as it is the responsibility of everyone to create and pursue their own happiness within the law. The law in turn, is charged with protecting what individuals have achieved for themselves (Nicholls and Opal, 2005).

Rawl's (1971, cited in Nozick, 1991) theory of distributive justice demonstrates a rational approach to justice and fairness that can be based ultimately on self interest, but refutes Nozick, as it does not allow one person to prosper at the expense of another. The theory offers a reference point in what is described as the 'original position' against social, political and economic systems. This position requires envisaging a situation in which we have no knowledge of who we are, having no knowledge of any natural or societal advantages or disadvantages we may possess. Therefore according to Rawls, we are placed behind a 'veil of ignorance' and from this position when asked questions and offered a choice of society that an individual would like to live in, they would ultimately choose that which offers the best conditions to ensure they benefit from such a system.

A principle suggested by Herbert Hart (Nozick, 1991), termed 'the principle of fairness' challenges Rawls theory, as it states that when a number of people engage in a just, mutually advantageous, cooperative venture and restrain their liberty in ways necessary to yield advantages for all, those who have submitted to these restrictions have a right to similar acquiescence on the part of those who have benefited from their submission.

The asymmetry in power and information that exists between North and South, strengthens the Kantian argument of a normative categorical imperative, that establishes the need to treat others fairly and to avoid exploitation. Applying Rawl's theory of justice would also support an ethical interpretation of FT as no one if given the choice would choose to be exploited or to starve (Varul, 2005).

The earliest ATO campaigns were driven by this clear sense of injustice of trading between the North and South and also human rights established by Natural Law. The philosophical contribution of Natural Law has been highly influential in the development of the FT movement through establishing ethics of social justice and human rights (Nicholls 2009a).

The consumer response to FT is also contested. In section 2.1.1 the author discussed the social justice viewpoint of Nicholls and Opal (2005). Other schools of thought in FT consumerism propose that it is more appropriate to discuss a new form of alternative hedonism (Soper 2007), which could incorporate consumer motives like the search for a 'warm glow' (Leclair 2002) and finding joy and confirming our own humanity (Gould 2003) or a 'feel-good factor' and a positive identity (Zadek *et al.* 1998). More recent research has identified the importance of another aspect of ethical consumption as an integral part of moral selfhood termed 'moral selving' (Barnett *et al.* 2005). This aspect of self-identity in FT consumption was also identified by Shaw and Shiu (2001). These findings indicate that practices around FT consumption have an expression of self-identity with a moral dimension; the essential aspect appears to be self-reassurance about being a morally acceptable person. Varul (2008a, 2008b) proposes the notion of ethical selving to help explain FT consumption. Varul's work shows the importance of FT consumers referring to a particular area of their behaviour that has been identified as morally relevant (shopping, consumption); the consumers also refer to a set of standards against which that field can be measured (fairness, equity) and are provided with the means to switch their behaviour (alternative supplies of consumer goods). In addition, Varul's study shows the importance of a fourth element, which involves being good in terms of working towards an ideal self and the use of the power of one's own purse was regarded as a moral test. Also important was the expressions of a good character, in short the right thing needed to be done for the right reasons. Consumers in Varul's study (2008a) also commented on their own shortcomings and actively communicated the extent to which they have to move further towards their ideal to remain credible ethical consumers. Varul (2008) argues this could help to explain the attitude behaviour gap identified in FT consumption (Nicholls 2002, Nicholls and Lee 2006 and Strong 1997).

In the previous section 2.1.1, the author identified the increase in FT products in mainstream distribution channels. Sassatelli (2006) points out that mainstreaming creates the need for core FT followers to differentiate themselves from what appears to be a mass consumer endorsement. Varul's (2008a) results concur with this and show that on the one hand mainstreaming is welcomed as providing income for disadvantaged small-holder framers in the South; however the same FT activists still criticise the mainstream shopper for having the wrong motives and buying themselves a good conscience without further reflecting on their roles as consumers. Varul (2008a) proposes some FT consumers generate psychological benefits for themselves by practicing tokenistic ethical consumption in order to prevent them from facing the unsustainable and unfair nature of the majority of their consumption activity. This is perhaps further evidence of the proposed division of pragmatists versus the radicals argued by Golding (2009) in section 2.1.1. This review of the philosophical underpinnings to FT illustrates the complexity of the consumer response to FT and the different schools of thought, which illustrate that FT is a contested area. This aspect will be further illustrated in the sections on both the FT market and the mainstreaming of FT (see sections 2.1.4 and 2.1.5). The emergence of FT will now be summarised.

2.1.3 The Emergence of Fairtrade

FT up until 1991, had been a small, subversive movement in charity and religious institutions (Moore 2004). Most authors locate the origins of the FT movement just after the Second World War, with experimental import and distribution initiatives carried by NGOs such as Oxfam and SERVV (Diaz Pedregal, 2007; Moore, 2004; Raynolds *et al.*, 2007). Then, in the 1960s and 1970s, organisations emerged specifically to establish regular FT partnerships with producers in the South and to distribute their products in a more organised manner, through a network of "worldshops". These organisations were called "alternative trading organisations" (ATOs), "*a name stemming from the early days of Fair Trade where 'fair' seemed too weak a description of the vision that these companies had*" (Moore, 2004).

A second strong institutionalisation process emerged in the same period with the development of FT labelling schemes. Starting in the 1980s with "Max Havelaar" in the Netherlands, different labelling initiatives appeared in each country and joined together into "FLO" in 1997. The term FT emerged in 1985 from a conference on trade and technology organised by the Greater London Council (Barratt Brown 2007). The aim of the conference, attended by members of the alternative trade movement was to establish a system of direct exchanges of trade and technology to challenge the international trade system, which the conference agreed was an unfair system. The low prices received by developing countries for their commodities they exported and the high prices of the technology they had to import from the developed economies, were the main subjects of discussion. At this conference a list of principles of FT were drawn up and Twin Trading (TWIN) was set-up to organise future conferences and to start a system of trade and technology exchange on FT principles (TWIN, 1985). First of all, TWIN decided to try and expand its coffee business and started importing from Mexican coffee cooperative producers and selling through organisations such as Oxfam, Traidcraft, Equal Exchange and other specialised outlets (Barratt Brown, 2004). Then together with Oxfam, Traidcraft and Equal Exchange, TWIN set-up the FT coffee brand Cafédirect in 1991.

The emergence of FT labelling brought a fundamental change in the evolution of FT. Indeed, the possibility of having products recognised as meeting the FT standards by an external certifying body and not by the importer (or distributor) itself, as it was the case previously with so-called "ATOs", opened the door of the FT sector to any company. Mainstream businesses, including supermarkets and food multinationals, started selling FT products, which resulted in a huge increase in the volume of the FT sales (Moore *et al.*, 2006). Larger corporate companies such as Proctor and Gamble and Starbucks have entered the market also, in April 2000 Starbucks announced they would start serving FT coffee in all their company owned cafes in the USA (Raynolds *et al.*, 2007). An increasing number of supermarket retailers to improve their public image are also offering own-label FT goods, which although is regarded by some as progress for the FT movement it has also raised some problems among FT radicals, who describe standards as being debased in what is only a token gesture (Barratt Brown 2007). ATO's have also launched more mainstream product categories and have developed brands such as Divine and Cafédirect (Moore 2004). Also notable in recent times has been the international growth of FT sales. According to Nicholls and Opal (2005), the influences in this international growth can be grouped under four main headings including: political, academic, cultural and informational. Each factor has interacted together to create a general shift in opinion towards an understanding of the value of FT. Nicholls (2002) argues that cultural and informational changes have led to the growth of ethical consumerism, which is highly significant in FT growth.

Davies (2009) proposes that the FT movement has been inventive in promoting its message of social justice via its supporter networks. Initiatives such as the UK's campaign Fairtrade Fortnight and the international movement of FT towns are examples of how the FT movement has worked to raise FT awareness. Some FT companies, mainly the pioneer ones, also run education campaigns directed at consumers. These campaigns are intended to promote FT and to educate citizens towards consumption habits that are more respectful for the environment and the people in the South. According to Huybrechts and Defourny (2008), education, regulation and advocacy can be seen as the political dimension of FT. In conjunction with the rise in FT consumer interest has been a growing interest from the academic community. This interest in FT shows an awareness of the social context of the production process and the importance of trade justice. According to Crane and Matten (2007), FT combines a discussion of global responsibility with business ethics in a framework centred on the workers experience.

With regard to cultural and informational aspects the growth of ethical consumerism over the past thirty years is one of the key factors in FT growth (Shaw *et al.* 2006, Shaw and Shui 2001, Shaw and Clarke 1999, Strong 1996, 1997). This shift has been influenced by a rise in the volume of media information regarding social issues in production and supply chain issues (Nicholls and Opal 2005). Whysall (2000) agrees and suggests the combination of the media attention coupled with the increasing use of the internet has resulted in a consumer focus on production and supply chain issues.

Criticisms of FT include the claim that only a small part of the final product price is returned to the producers. However, rather than a fault with the FT model it reflects the typical supermarket value chain, where the initial commodity price represents only a small part of the total value of the final product (Nicholls and Opal 2005). It is important to note that producers are paid the FT minimum price direct at source. What is also important to understand is that the $ 1.26 (£0.71) paid to FT coffee growers will typically be double what they would have received on the conventional market (Moore 2004). This can be significant particularly when it makes the difference between a sustainable and unsustainable livelihood.

2.1.4 The Fairtrade Market

Today over 4,500 FT products (Fairtrade Foundation 2009a) are now available in the UK mainstream market. It is also estimated that 70% of the UK population recognise the FT Mark, up from 57% in 2007 (TNS CAPI Omnibus 2008). Market penetration of FT has also increased dramatically over time, with 70% of UK households having bought a certified product at least once. Another indication of growing consumer engagement with FT has been the emergence of certified community groups supporting the FT model (Davies 2009). Since the first FT town certification in 2000, three hundred and forty FT towns have been certified across the UK, alongside four thousand FT faith groups and two thousand FT schools (Lamb, 2008). These certified community groups are also recognised by Mintel (2009), who suggest that due to FT towns there is a strong local/regional appeal for FT products. One of the requirements of being awarded the status of a FT town is that the city/town council is required to make a policy commitment to procure FT products in its sites and venues (Fairtrade Town guide, The Five Goals, 2009b). This is one of the key reasons for increasing sales of FT products through those wholesalers supplying the public sector (Mintel 2009). Also, FT has a growing youth appeal, particularly with respect to FT chocolate. According to Mintel (2009) this trend is supported by the very strong FT movement in schools and universities (some 60 universities have FT status). The traditional FT consumer has come from socio-demographic groups, ABC1, broadsheet readers, professional, better educated and tend to be more aware of the issues surrounding FT. However, there is evidence with regard to younger people that this is changing (Mintel 2009). It is important to highlight here the limited empirical work carried thus far by academics on both the FT certified community concept and young people's attitudes and behaviours towards FT. Hence the use of Mintel data in this section.

The average FT sales increase for the past ten years has been 46.3% and this increased to an average of 51.2% in the last five years (Mintel 2009). FT sales have multiplied 30 fold since 1998 (Fairtrade Foundation 2009a). Recent evidence also suggests that, despite worsening global economic conditions, the growth in FT sales is currently continuing unabated. The FtF has set out ambitious plans for the immediate future in terms of market development, including: £2 billion of sales per year by 2012 (Fairtrade Foundation, 2008b). FT products now hold significant market shares in several product categories, including a quarter of all UK bananas sold and 20% of roast and ground coffee (5% of the total coffee market). There are 380 companies licensed to sell FT products in the UK, engaging with 384 producer groups in the South (Lamb, 2008). It would appear the message of FT is making progress (Fairtrade Foundation 2008b). According to Golding and Peattie (2005), coffee is central to the development of FT partly because until the recent growth of FT bananas, FT coffee was the largest FT product category in the UK market (Nicholls and Opal 2005). The author explains that FT products have entered the UK mainstream market via a number of entry routes including (Doherty and Tranchell 2005):

- Branded FT products from 100% FT companies such as Divine and Cafédirect. All products from these companies carry the FT mark.
- Branded FT products from manufacturers where part of their product portfolio is FT marked products e.g. Clipper Teas, Green and Blacks Chocolate (owned by Cadbury Schweppes), Percol Coffee Company, Fyffe's (one of the five largest global fresh produce distributors which supply's Tesco with own-label bananas), Nestlé and Billingtons (Europe's leading supplier of unrefined cane sugar).
- Multiple retailer own-labelled FT products supplied by own-label supplier. These products sit on the shelf with branded FT products.
- Own-labelled FT products from retailers Marks and Spencer and Starbucks Coffee Company, who only stock their own-labelled products.
- Joint labelled FT products, where mainstream retailer and FT company work together on joint brands e.g. the original Co-op Divine 45g milk chocolate bar (launched in 2000).

There is much debate about the pros and cons of mainstreaming FT. Low and Davenport (2005a and 2005b) propose that FT in the mainstream has shifted the message of FT from participation in an international programme of trade reform to individualised shopping for a better world, mainly focused on the dimensions of fair price for producers and product quality. According to Seyfang (2004) this individual ethical consumption lacks a collective focus. However, Ransom (2005) argues the availability of FT products provides something practical that almost anyone can do to counteract the current international trading system's injustices. Page and Slater (2003) propose that access to markets and the understanding of these markets is a key route for small-scale producers out of poverty. It is interesting to note that in a

MORI survey on FT awareness, 43% of those aware of FT were first made aware of the FT mark and what it stands for whilst shopping (Fairtrade Foundation 2005). Strong (1996, 1997) also identified communicating the human element of sustainability as one of the key challenges for FT companies, whose aim is to develop a mainstream position. According to the Economist (2006) deciding to buy FT products in grocery stores sends out a very clear political message. A number of authors agree and argue the consumer acts not as a purely economic agent or a purely political agent but as a hybrid of the two: as a consumer-citizen whose identity, belief and practice is brought to bear via the market (Parker, 1999, Urry 1995). Gabriel and Lang (1998) suggest that buying by consumer citizens can be described as economic voting. The consumer voting metaphor is not new (see Shaw, Newholm and Dickinson 2006 for historical perspective). Dickinson and Carsky (2005) have developed the concept of voting via ethical purchase behaviour. However in contrast Nicholls and Opal (2005) suggest that some FT products in recent years have increasingly positioned themselves on premium quality rather than ethical dimensions.

A number of business and marketing theories have been used to explain both the progress of FT and how to stimulate further growth of the FT market (see table 2). A number of authors argue the growing consumer demand for FT labelled products is attracting the interest of European supermarket chains hoping to position themselves as socially responsible corporate citizens (Nicholls and Opal 2005, Lowe and Davenport 2005a and 2005b). According to Moore (2006), the recent dramatic growth of FT is partly down to the mainstreaming of FT food products such as Divine and Cafédirect brands through conventional retail outlets such as the supermarket multiples. Table 2 identifies strands of the business and marketing literature which help to understand FT; some of them like social marketing and strategic management have a very strong competition component running through them. However, between them they shed relatively little explicit light on issues of competitiveness in ways that would assist to understand how FT companies can and do compete. In fact, they do not identify the specific resources used by FT companies to compete.

Table 2 Business and marketing literatures on Fairtrade

Author/s	Theories
Strong (1996, 1997), McDonagh (2002)	Sustainable Communication
Harrison, Newholm and Shaw (2005), Nicholls (2006)	Ethical Consumerism and Consumer Citizenship
Nicholls (2002)	Retailer responses to Fairtrade
Golding and Peattie (2005)	Social Marketing
Lowe and Davenport (2005a, 2005b), Doherty and Tranchell (2007)	Radical mainstreaming and the "The Alternative High Street"
Alexander and Nicholls (2006)	Actor Network Theory (ANT) and Relationship Marketing
Davis and Crane, 2003, Nicholls, 2002, Welford *et al.*, 2003	Strategic management

The pros and cons of mainstreaming FT will now be analysed in more depth.

2.1.5 The Pros and Cons of Mainstreaming

This debate regarding mainstreaming leads on from section 2.1.1, which discussed the notion of FT being a tension between the radicals and the pragmatists, without or within the dominant social paradigm. Teather (2006) proposes the involvement of major retailers is key to this growth of FT. Both Tesco's and the Cooperative Food group (CF) have both published their strategic aim to be the UK's leading FT retailer (Co-operative Group Strategy Report 2000 & Tesco Annual Report 2004). All the major retailers now stock FT products and their FT market shares and values are shown in table 3.

Table 3 Fairtrade Market Shares in UK Multiple Supermarkets 2007 (source: Mintel 2009)

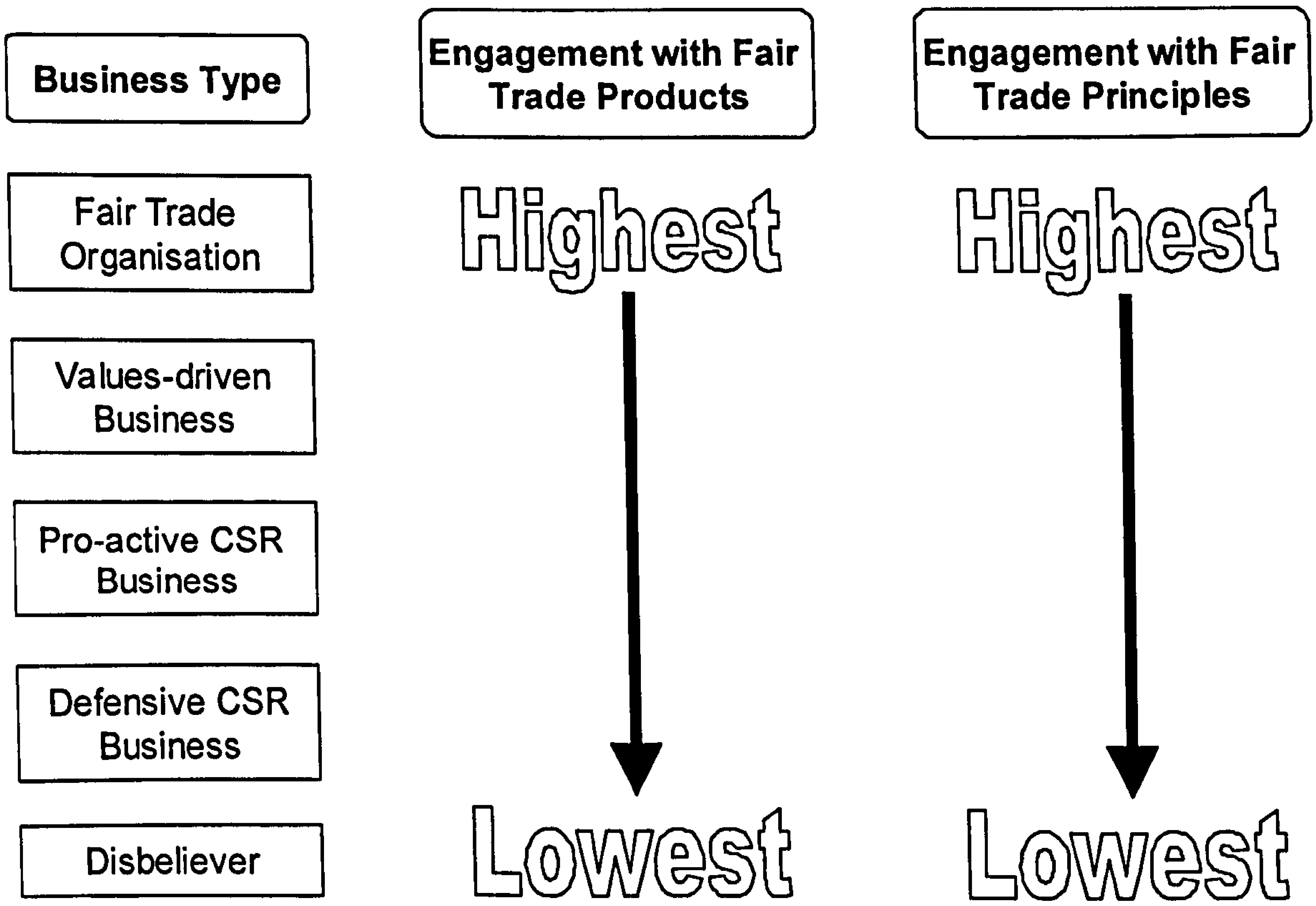
Supermarket	£m	% Market Share
Sainsbury's	125	29
Cooperative Food Group	76	18
Tesco	63	15
Other*	160	38
Total	**424**	**100**

* Asda, Somerfield, Morrisons, Budgens, Marks and Spencer, Waitrose, Lidl etc.

According to Mintel (2008a) the market has seen a vast increase in the number of FT brands on the supermarket shelf including, amongst others, premium coffees from major roasters, budget own-label brands from supermarkets and FT lines from Nestlé (and similarly branded "sustainable" coffee from Kenco). Nicholls (2002) suggested that developing a FT offer can provide retailers with an example of good CSR (Corporate Social Responsibility) and a good commercial opportunity. Also according to Vorley (2004), supermarkets are demanding improved standards from suppliers relating to environmental and social issues. Vorley (2004) argues this response from supermarkets is due to the pressure from civil society due to the unfair commercial demands supermarkets exert on some smaller suppliers. These demands can lead to adverse effects on small producers and workers at the upstream end of the value chain (Action Aid 2005, Robbins 2003). Nicholls (2002) outlined the typology of retailer responses to ethical consumerism with the FT agreement being identified as one of the pro-active options (see figure 2). According to both Smith (2008) and Nicholls (2002), the Cooperative Food Group (CF) is the best example of a retailer working with this strategy (see section 4.2.1 in the Divine case study). Lowe and Davenport (2005a) appear to agree and in their analysis of retailer engagement with FT, the CF is described as a values-driven business (see figure 2).

These business types are characterised by the degree of embededness of ethical principles in their business practices and their willingness to promote FT principles. Lowe and Davenport (2005a) argue CF is a strong advocate of FT principles, illustrated by its conversion of all its own-label chocolate to 100% FT sourced from KK co-operative in Ghana (see section 4.2).

Figure 2 Characterising retailer engagement with fair trade



Source: Low & Davenport (2005a: p: 501)

In 2002 and 2003 respectively CF supermarket turned all their own-label chocolate and coffee to FT certified, a policy followed by two other retailers in 2006: Marks and Spencer (coffee and tea) and Sainsbury's (bananas and own brand sugar). The latter move was estimated to increase the FT premium going to producers by £4 million per annum. In addition, in 2007 Sainsbury's launched their own FT Development Fund, which commits £1m over 4 years to support marginalised producers enter the FT system and provide support to help them meet the FT standards (Sainsbury's 2007). This fund is run by Comic Relief (CR) with assistance from the FtF. There are another two recent important examples of manufacturers switching to FT. Firstly, Tate and Lyle announced in 2007 that all its UK retail sugar would be FT certified by 2009. This should return an additional £2 million to producers per year (Lamb, 2008). Secondly, in March 2009 Cadbury's announced they are to adopt the FT certification mark and certify 300m bars of Cadbury's Dairy Milk (valued at £200m in the UK), their chocolate drinks and the packaged cocoa range by the end of August 2009 (Wiggins 2009). According to Wiggins (2009), this move signals the rising importance of ethical credentials to big business.

As a result of these successes Nicholls (2009a) proposes that FT has increasingly moved into the mainstream and its market impact is such that consumers are increasingly demanding more supply chain transparency and greater equity across other value chains. This represents a shift away from the commodity disconnect between the producer and consumer towards a new reconnection between producer and consumer (Nicholls and Alexander 2006). Nicholls (2009b) also argues that FT is a move away from neo-liberal notions of markets based on a utility maximising rational individual towards a new economics of reciprocity and values. In contrast, critical of some supermarkets and their policies on FT is Smith (2008), who proposes some supermarkets carry the FT mark on own-label products manufactured by a second tier supplier and therefore supermarkets are not even the FT licensee. According to Smith (2008) in some cases the supermarkets have no relationship with the producer group and treat the second tier manufacturer like any other supplier.

Lowe and Davenport (2005a, 2005b) report the positive arguments for being in the mainstream, particularly increased sales volume and the opportunity to reach a wider audience with the FT message. These arguments are also supported by Nicholls and Lee (2006), who argue that the adoption of FT by larger organisations is very important with regards to availability and product range, which is often cited by consumers as a reason for not buying FT. However, there is also a belief that the complex transformative message of FT does not always get across to mainstream consumers, this according to Lowe and Davenport (2005a, 2005b) can lead to 'Clean-wash'. Murray and Raynolds (2000) argue this allows commercial businesses to appropriate and regulate the terrain. Lowe and Davenport (2005a, 2005b) agree and propose that as a result, FT is losing its radical edge with the message being limited to price and quality. Mutersbaugh *et al.* (2005) suggest that

FT will be a weaker concept in the mainstream as it risks transforming the FT offering from a product with an ethical core to a product concept in which ethics represents a mere product augmentation.

Elaine Jones (2005), Chair of the FT Non Governmental organisation Twin Trading[5] is also concerned and explains that FT is much more than a certification process; it strives to address power inequalities in trading relationships. Non Governmental Organisations (NGO's) such as Twin Trading have invested 20-30 years or so in developing innovative alternative models to conventional trading to re-address the disconnect highlighted by authors such as Tiffen (2002). Jones (2005) argues that organisations willing to make these commitments should be welcomed but warns of those firms only interested in FT to grow their market share and credibility as a socially responsible business, she terms this *'Fair Trade Lite'.* FT has been developed by a pro-active approach to building relationships with producers and investing in supply chains to build capacity in producer organisations. This is interesting bearing in mind the argument by Morgan and Hunt (1999), who state firms must also guard against their resources created being easily subject to imitation or substitution by competitors. This element of competition theory has important relevance here for those 100% FT companies faced with competition on FT from larger corporate companies.

The discussion regarding the pros and cons of mainstreaming has highlighted the importance of growing sales in the mainstream whilst maintaining the transformative message of FT. Lowe and Davenport (2005b) argue that having decided to compete in the mainstream the FT movement must protect the integrity and principles of FT. They propose the concepts of the 'alternative high street' and 'radical mainstreaming'. This thesis will discuss each below.

2.1.6 The Alternative High Street and Radical Mainstreaming

According to Lowe and Davenport (2005b) this is where social action and ethical based consumption are combined together, the 'alternative high street' can exist in virtual or physical space, thus providing a way to protect the integrity of FT whilst

[5] Twin Trading established in 1985 is a leading alternative trading company whose approach is based on establishing long term trading relationships with small producers to bring producer organisations and the market closer together. Twin set-up both Cafedirect and Divine Chocolate Ltd

continuing to develop sales. Lowe and Davenport (2005b) propose examples of the 'alternative high street' including Traidcraft's network of part-time *fairtraders*[6], Fairtrade towns, Fairtrade universities, and the Oxfam retail shops and their Progresso Coffee chain. Fairtrade towns are localised grass roots campaigns, which work towards concrete targets to raise awareness and sales of FT across UK towns and cities (Arond 2006). Mintel (2009) have also recognised the impact of local FT campaigns in the growth of the FT market. They also report on the appeal of FT chocolate to young people and add there is a very strong FT movement in schools and universities (some 60 universities have FT status). Lowe and Davenport (2005b) also refer to the literature on the 'new dominant logic of marketing' (Vargo and Lusch 2004) to explain that the 'alternative high street' is another way of thinking about the co-creation of value between producers, retailers and consumers. However, this work by Lowe and Davenport is conceptual and there has been no empirical work looking at the value of 'the alternative high street' in terms of size, sales and importance to FT companies.

Lowe and Davenport (2005a) also argue that FT models such as Cafédirect, Divine and Agrofair[7] are all examples of alternative approaches to the market where Southern producer organisations are shareholders in these Northern FT companies. They describe these companies as examples of 'radical mainstreaming' projects that maintain the transformative message of FT.

However, despite the recent growth of FT, the first report of the Ethical Purchasing Index (Cowe & Williams 2000) highlighted the existence of the 30:3 gap between opinion surveys about consumer interest in ethical issues such as FT and actual spending behaviour on FT products. This discrepancy has been identified as the 'ethical purchase gap'. A number of authors report on the problem of poor availability in mainstream distribution as one of the key reasons for the existence of this 'ethical purchase gap' (Nicholls 2002, Nicholls and Opal 2005, Ronchi 2001 and Strong 1997). Significant differences between intentions to buy ethical

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[6] Traidcraft is an ATO focused on alleviating poverty through trade. One route to market for its products is its own network of *Fairtraders*, who are part-time sales agents working on a percentage commission for products sold. These *fairtraders* traditionally set-up stalls in church venues to sell their products.

[7] Agrofair is a Fairtrade European fruit company that is co-owned by the farmers (50% farmer shareholding), who grow the fruit that Agrofair imports. The company has a turnover of 60m Euros and sells a range of fruit including Fairtrade bananas under the Oke' brand (Agrofair Annual Report 2005)

products and actual purchase behaviours are frequently found in FT. The Co-operative Group/MORI survey '*Shopping with attitude*' (2004) consulted over 30,000 UK consumers and cited that 43% put 'ensuring a fair deal for growers in developing countries' as one of their top three priorities when shopping in a supermarket and 84% claiming they would pay more for an ethically sourced or FT product. However, conflicting research from Mintel (2008c) suggests that only 28.3% of consumers actually bought FT products and the majority of these were one off purchases (Nicholls and Lee, 2006).

The key reasons identified as drivers for this ethical purchase gap include limited product range availability, consumer overstatement of their purchase decisions and social desirability effects (Nicholls, 2002; Nicholls and Lee, 2006). There has also been some cases of negative publicity of FT in the media. FT labelling is argued by some to be largely a marketing ploy, which makes clever use of the almost infinite capacity for guilt harboured by the residents of wealthy countries over the condition of those in poorer ones, even though that condition is, in no rational sense, their fault (Daley, 2008). Nevertheless, according to Golding (2009) there is a growing but still limited level of consumer research on uncovering the attitudes of consumers towards FT products. Despite their purchasing power this is particularly the case in young people (Nicholls and Lee 2006). According to Euromonitor (2008), young people account for 50% of spending on UK confectionery (whether that is through their own primary purchase or via having an influence on adults). Nicholls and Opal (2005) advise that educational campaigns for children should be developed to appeal to children's innate sense of fairness. This according to Nicholls and Lee (2006) could give young people an informed view on the impacts of their consumption (consumer citizenship) and to support the re-configuration of the traditional neo-liberal model of consumption. McGregor (1999) agrees and proposes that people as consumers need to be socialised to see the link between being a good citizen and being a good consumer. In addition, Golding and Peattie (2005) suggest that FT provides consumers with a window to understand the social and environmental implications of production and consumption.

Further claims include there are certain misconceptions surrounding how much farmers themselves actually benefit from FT supply chain operations. In a report written for the Telegraph, claims are made that there are more ethical alternative forms of coffee available and that most FT coffee on sale in the UK supermarkets and on the high street is roasted and packaged in Europe, principally in Belgium and Germany, which is unnecessary and retards development (Singleton, 2008).

Another important explanation offered to account for this 'ethical purchase gap' is the confusion surrounding the different number of ethical labels and that if consumers were given more information about an organisation's ethical and socially responsible activities, they would be more discriminating in their purchase decisions (Simon, 1995). However, it is thought by some researchers that the argument that consumers are becoming increasingly more sophisticated results in them making more ethical purchase decisions is erroneous (Carrigan and Attalla, 2001).

However, despite the mainstreaming of FT by 100% FT companies such as Divine and Cafédirect there has been little research done on how this mainstreaming has been achieved and how these companies have managed to compete. Also, according to Moore *et al.* (2006), FT research has mainly focused on the impact of FT on producer and consumer markets and not the impact on downstream stakeholders, such as buyers in distribution channels, competitor representatives and market analysts. Nicholls and Opal (2005) argue that a reliable study of FT at the downstream level would provide an improved view on how FT companies compete in markets such as chocolate confectionery and hot beverage sectors. Such a study is vital for managers of FT social enterprises who are reviewing and deciding strategy, selecting the correct strategy requires and accurate understanding of the context of competition and the available resources to shape a value proposition for the target market.

Therefore this review will now critically examine literature associated with competition theory in order to assess how FT social enterprises can compete and grow in sectors dominated by larger more resource rich rivals.

2.2 Competition Theory

Theories of business and marketing strategy are normative imperatives. That is, they have the following general form: "*for a firm to achieve its goals it should differ according to the particular theorist's school of thought*" (Hunt and Derozier 2004, p: 5). For example one school of thought, the 'positioning school' of strategy stresses the importance of industry factors (Montgomery and Porter 1991, Porter 1980 and 1985). Other schools such as the 'resource-based view' and 'competence based competition', focus on firm-specific assets and competencies (Day and Nedungadi, 1994, Hamel and Prahalad, 1994, Prahlad and Hamel 1990 and Sanchez *et al.*, 1996) and inimitable resources (Barney, 1991, Grant 1991 and Wernerfelt, 1984). The competence-based strategy of the firm also recommends firms to develop their dynamic capabilities (Helfat and Peteraf 2003, Teece and Pisano, 1994) and high order learning processes relative to the firms competitors (Dickson 1996, Senge 1990). By definition dynamic capabilities involve adaptation and change, because they build, integrate, or reconfigure other resources and capabilities (Zollo and Winter, 2002 and Zott, 2002). Other schools emphasise the value-creating potential of networks of relationships (Berry and Parasuraman 1991, Gronroos 2006, Gummesson 1994 and Morgan and Hunt 1994). Some schools advocate a market orientation (MO) (Jaworski and Kohli 1993, Slater and Narver 1994 and Webster, 1992 and 1994), while others focus on "first mover" innovations (Leiberman and Montgomery 1998) and brand equity (Aaker 1991 and Keller 1998).

Choosing widely from the various schools identified above requires managers to understand not only the alternative theories but also the competitive contexts in which each normative imperative would be likely to work more effectively. A strategy that is highly successful in one context may fail in another. Therefore using theories of business and marketing strategy requires managers to understand the nature of competition. Hence, according to Hunt and Derozier (2004) alternative theories of business and marketing strategy must be grounded in a theory of competition.

This section of the review will consider the key schools of thought outlined above. First of all the thesis will analyse perfect competition theory.

2.2.1 Perfect Competition Theory

Neo-classical economic theory proposes the theory of 'perfect competition' predicted on the assumption of homogenous demand for every industry's product (Gould and Lazear 1989). This means consumer tastes and preferences are assumed to be identical with respect to desired product features and characteristics (i.e. homogenous within industries). Consumers are also assumed to have perfect information about the availability, characteristics, benefits and prices of all products; this information is also proposed to be costless to consumers. Nicholls and Opal (2005) argue that in the context of international trade both producers of agricultural commodities and consumers have imperfect information about the knowledge of market pricing. Perfect competition also assumes there are no impediments or costs associated with the dissemination of information i.e. it is a completely insular world, however in the real world this is not always the case (Mann 2008). Farmers in remote locations are often without the means to access this market information. Also due to the isolation of producers in developing countries competition by buyers is seldom achieved, thus often farmers receive only one price offer for their crop (Barratt Brown, 2007). In Ghana, West Africa, middlemen are accused of rigging the weighing scales (used to weigh the farmers cocoa crop) in their favour (Tiffen 2002). The concept of perfect information also applies to other elements of the business transaction besides price. Both quality requirements and general industry knowledge are other important factors that change the value of a crop (Mann 2008). However, small-scale farmers acting on their own with limited market feedback and or experience may struggle to capture such knowledge. According to Barratt Brown (2007) the FT system (the focus of this dissertation) seeks to address this situation.

Another key foundation of neo-classical perfect competition theory is that consumer motivation is self-interest or utility maximisation (Hunt and Morgan 1995). Boulstridge and Carrigan (2000) agree and propose that consumers only buy for personal reasons and not societal ones. Also neo-classical theory stipulates the firms resources are in the main tangible resources, which include land, labour and capital. However, perfect competition theory does acknowledge information as a resource and also a source of advantage (Hunt and Arnett 2003). In contrast to this focus of self-interest in perfect competition theory, ethical consumption can be the conscious and deliberate decision to make certain consumption choices due to personal moral beliefs and values. According to Harrison *et al.* (2005), it is about consumer decisions beyond self-interest. Also in the case of social enterprise firms, the primacy of their aim is social, the profit made (surplus) is re-invested to achieve their social mission (Amin *et al.* 2002, Dart 2004, Defourney and Nyssens 2006 and Peattie and Morley 2008).

McDonagh (2002) also explains that organisations who promote FT aim to benefit producers and do not have a primary aim to maximise profit for shareholders. To meet the internationally recognised FT standards a FT minimum price must be paid to producers, which covers the cost of sustainable production and living. On top of the FT minimum price a social premium is paid for producers to invest in community infrastructure projects such as digging water wells, building schools, providing health care and working on income generating projects for women (Nicholls and Opal 2005). In contrast to conventional international trade, 100% FT companies such as Divine and Cafédirect trade for a social purpose and are regarded as social enterprises (Huybrechts and Defourny 2008).

In contrast to perfect competition, *heterogeneous demand theory,* views intra-industry demand as significantly heterogeneous when considering consumer tastes and preferences (Myers 1996). Products are bundles of attributes, which are required for different market segments. According to Hunt and Morgan (1995) there have been numerous critiques of perfect competition theory from Austrian to Evolutionary schools of economics. Even the work of some industrial organisation economists can be viewed as resulting from dissatisfaction with neo-classical theory. Hunt and Morgan (1995) argue that any theory of competition should explain the phenomenon of the heterogeneity of firms. This firm diversity is evident through the world's market based economies. The size, scope, methods of operation of firms and financial performance differ across countries and within industries.

In neoclassical economics a move towards network competition or trust-based governance as proposed by Hunt and Arnett (2003) is argued to be both anti-competitive and societally undesirable on the basis of efficiency. Williamson (1993) in his work on New Institutional Economic theory also suggests that no theory grounded in mainstream economics can be competitor enhancing based on trust.

In fact, Granovetter (1985) proposes that neoclassical economics prohibits any hypothesis that social structures or social relations can have any impact on production, distribution or consumption. However, in contrast Davis (1973) attacks the assumption in perfect competition theory that a firm's involvement in society is limited to the creation of wealth. Etzioni (1988) suggests that neo-classical theory conceptualises utility and utility maximisation as being:

1. Pleasure utility (ethical egoism in moral philosophy terms)
2. a tautology, or
3. a mathematical abstraction

Etzioni (1988) also notes that pleasure utility maximisation dominates empirical works and public policy recommendations. DiMaggio (1994) suggests that humans are relentlessly self-interested, selfish and calculating. Williamson (1975) also proposes that although New Institutional Economics (NIE) acknowledges that not all economic agents engage in malfeasance, universal opportunism is ubiquitous. In fact, Williamson argues the theory of Transactional Cost Economics (TCE) proposes that cheaper forms will drive out costlier forms and opportunism is a behavioural assumption (1981). However, North (1981) proposes that the absence of some degree of individual restraint from maximising profit behaviour would render the political or economic institution non viable. North (1981) claimed that strong moral and ethical codes of society are the cement of social stability, which makes an economic system viable.

There has been a long tradition of alternative conceptualisations of market action that emphasise individual behaviour and substantive values as well as efficiency and effectiveness. Alfred Marshall (economist) wrote in 1907 that maximising profit should not be the sole purpose of business nor would such an economy be acceptable to society (Nicholls 2009a). Marshall called for more chivalric behaviour within a reformed business economy. Subsequently, Polyani (1944) proposed a change from socially embedded reciprocity to free market, atomised, price setting exchange as occurring towards the end of the eighteenth century. However, Rose–Ackerman (1996) disputes the historical accuracy of such arguments. Polyani's arguments were revised by Granovetter (1985), who proposed that markets are social structures embedded in culture and the notion of an *Economy of Regard* (Offer, 2007, 2006 and 1997). According to Gintis (2004) this has led to a renewed interest in work around reciprocity and cooperation within economic action. Also important to consider are the arguments of Nobel Prize laureate Milton Friedman's (1970), whose famous article titled 'The social responsibility of business is to increase its profits' argued that a corporation is unable to assume moral responsibility as it is an artificial person. He argues that social responsibility is a subversive doctrine and there should only be one social responsibility of business that being to use its resources to engage in activities to increase its profits whilst staying within the rules of the game. However, Friedman does make the point that while striving to make as much money as possible firms must conform to the basic rules of society, which are embodied in both law and ethical custom (Friedman 1970).

However, Granovetter (1985) argues that New Institutional Economics (NIE) is under-socialised and cannot account for the widespread existence of and importance of trust in economic affairs. Granovetter (1985) suggests that solving the problem of under-socialised accounts of human action in economic theories does not imply ignoring the importance of the rational pursuit of self-interest in for profit organisations. Granovetter proposes the need for a moderately socialised embedded theory of competition that challenges the assumption in neoclassical economic theory that economic actors make decisions in isolation from one another, independent of their social connections (Swedberg, 1997). In Granovetter's seminal 1985 work, the key argument centres on economic behaviour being embedded in a network of interpersonal relations. Earlier scholars in economic sociology (e.g. Max Weber and Emile Durkheim) recognised that economies are embedded in broader social structures. Polyani *et al.* (1971) argued, the human economy is embedded and emeshed in institutions both economic and noneconomic, which affect economic action. This broad conceptualisation of economic action is not only embedded in social structures but also in institutions and culture (Polyani *et al.* 1971, DiMaggio and Zukin 1990).
Jones (1995) argues that firms which contract on the basis of mutual trust and cooperation will have a competitive advantage over firms that do not as it improves their eligibility for contracting. This source of competitive advantage does not of course mean that firms employing ethical contracting frameworks will always out perform firms in which the contract mechanism is based on the assumption of opportunism. In the view of Jones (1995) instrumental stakeholder theory can

explain this by proposing that manifestations of opportunism may not lead to optimal economic performance. Instrumental stakeholder theory is intended to explain why certain behaviours which are thought to be altruistic or irrational are in fact quite compatible with economic success. As in all empirical work the assumption of all else being equal is important here as trusting relationships with stakeholders maybe irrelevant to economic success if the firm has obsolete products, inefficient production processes or uninspired marketing plans. According to Hunt and Arnett (2003) R-A theory can accommodate this dynamic (see later section 2.2.7).

Economists recognise the weaknesses of the 'perfect competition' model and have developed other managerial theories as alternatives for e.g. Baumol (1959) and the theories of industry structure. Two key schools of thought will now be analysed including; the RBV of the firm which highlights the importance of organisational factors in competitive advantage creation and the industry based determinism of the Porterian view (Hooley *et al.* 2005).

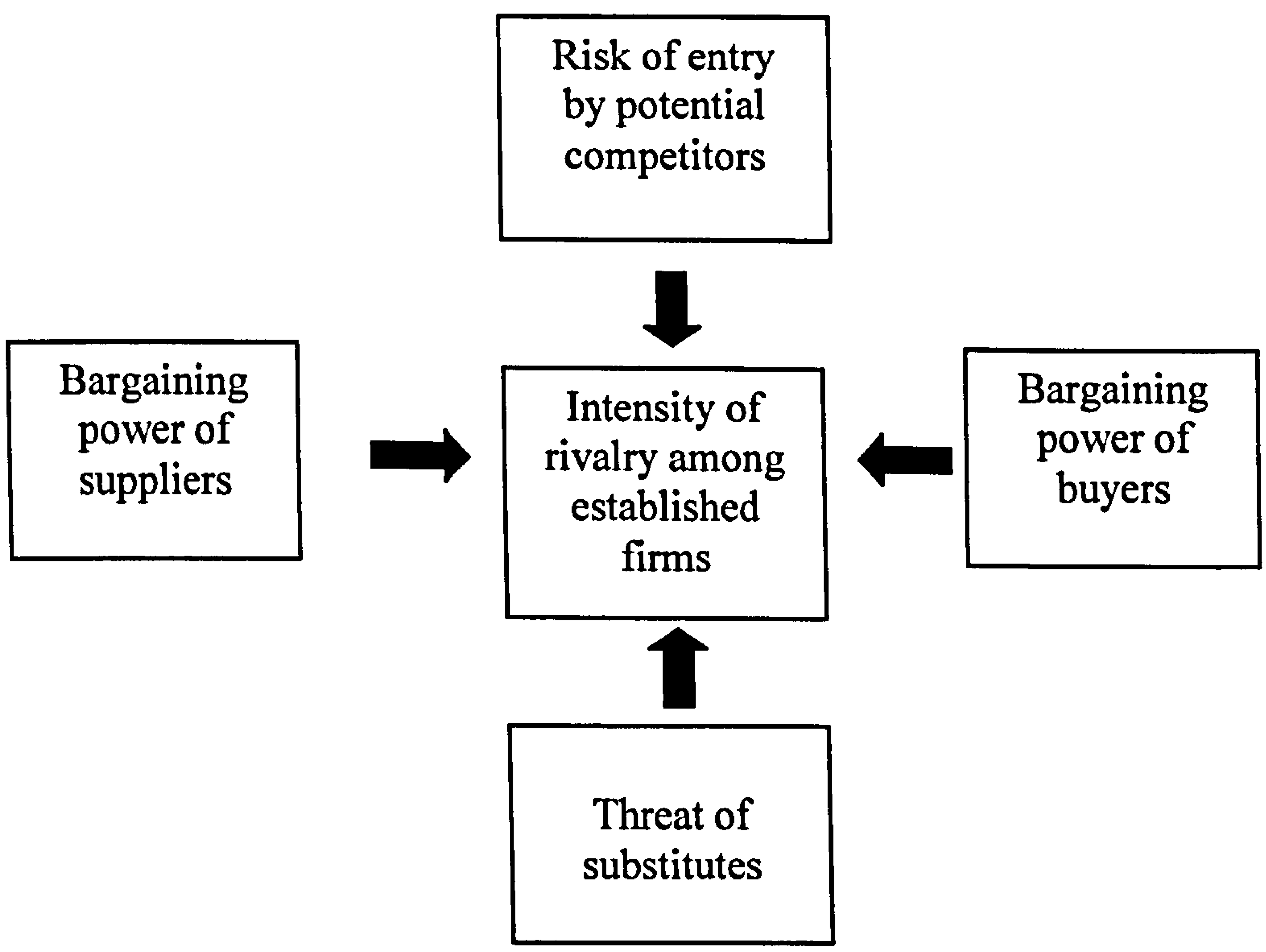
2.2.2 Industrial Organisation Model of Competition

The notion of 'perfect competition' offered by neoclassical economics, and appropriated by certain strategy scholars (notably Porter 1985), underpins the 'industrial organisation' model of competition. According to this model of competition the firm's objective is superior financial performance (Porter 1980). Market place positions determine relative performance with competitor's, suppliers and customers influencing this performance. Hence, the emphasis is on the role of industry environments.

Porter's (1980) framework builds on the structure-conduct-performance (SCP) paradigm from industrial organisation economics. The key proposition of SCP is that the firm's performance in the marketplace depends critically on the structure and characteristics of the industry in which the firm competes (Porter 1981). However, Bridoux (2004) argues Porter's work does in a limited way differ from the SCP paradigm. Porter (1980) recognises the role firm's play in formulating competitive strategy to achieve superior economic performance but Porter (1980) is clear, the source of profits is not to be found in the firm but in the structure of the industry, particularly the nature and balance of its competitive forces.

According to Porter (2004) competition is the core of the success or failure of firms. Two central questions underlie the choice of competitive strategy; the first is industry attractiveness and secondly the firm's competitive position. According to Porter (2004), the rules of competition` are embodied in five competitive forces: the entry of new competitors, the threat of substitutes, the bargaining power of buyers, the bargaining power of suppliers and the rivalry amongst existing competitors (see Figure 3).

Figure 3 Five forces model (source: Porter, 1980)



The strength of the forces varies from industry to industry and can change as an industry evolves. Buyer power influences the prices that a firm can charge; the bargaining power of suppliers determines the costs of raw materials and other inputs. The availability of substitutes can place a ceiling on prices or make a market less attractive due to the inroads made. The intensity of rivalry influences the prices as well as costs of competing in areas such as product development, advertising and sales forces. Also the risk of entry will depend on the barriers to entry, which most commonly include economies of scale, capital requirements, access to distribution channels and cost advantages. In industries where the pressure from one of the forces is intense then achieving attractive returns is very difficult. According to Porter (2004) industry profitability is not a function of product attributes but industry structure. Also, a key to firm profitability is whether a firm can capture the value they create for buyers. The power of suppliers determines the extent to which value created for buyers will be appropriated by suppliers, rather than by firms in an industry. Porter (1985) argues that "*a firm is not a prisoner of its industry structure*" (Porter, 1985, p.7), strategy should aim at choosing the best industries, meaning those with greatest profit potential. Porter (1985) accepts the profit maximisation goal by either altering industry structure or/and by raising barriers to entry and increasing ones bargaining power over suppliers and customers.

A number of authors argue that FT companies such as Divine and Cafédirect are set-up where markets are failing small-scale farmers, in order to support the producers in their fight against poverty and not because these markets are financially attractive (Nicholls and Opal 2005, Barratt Brown, 1993, 2007). This appears to be in contrast to Porters work on industry attractiveness. Porter (2004) also adds that industry structure determines who keeps what proportion of the value a product creates for buyers. Traditionally, conceptions of value in management theory follow neoclassical economics in using price as the appropriate unit of measurement: Value *per se* remaining ill-defined in management disciplines. Porter (1985), for instance, suggests "*value is the amount buyers are willing to pay for what a firm provides them*" (p.38). Similarly, value added has a pecuniary measure as the "*selling prices less the cost of purchased raw materials*" (p.39). Implicitly, value here equates to profit earned at each stage of the value chain.

According to Collis (1995), a key foundation of industrial organisation economics is that all firms have access to the same resources. However, as we will see later the resource based theories propose this is not the case. The second central question is the firm's relative position within its industry. Firms can have a number of strengths and weaknesses against its competitors. Porter (2004) argues that competitive advantage can be achieved by either of four generic strategies, which include: cost leadership, differentiation (two variants of) and focus. The two variants are cost focus and differentiation focus. This is not to say these strategies are mutually exclusive and firms can be low cost, differentiated and nimble in moving in and out of markets. The generic strategies are shown in figure 4a.

Figure 4a Porter's Genetic Strategies (source: Porter 1980)

		Lower cost	Differentiation
Competitive scope	Broad target Segments	Cost Leadership	Differentiation
	Narrow target Segments	Cost Focus	Differentiation Focus

Porter (1985) suggests that after choosing one of the four generic strategies internal factors come into play. Firms should implement their strategies by effectively managing the activities in its value chain. Porter (1991) proposes that if value is defined as "*what buyers are willing to pay*", then superior value stems from offering lower prices than competitors for equivalent benefits or providing unique benefits that more than offset a higher price. Therefore in summary, the core of industry-based strategy is that, to achieve competitive advantage and thereby superior financial performance firms should choose industries and/or modify their structure, select one of the four generic strategies (figure 4a) and manage well the activities in their value chain.

Stacey (1996) argues the whole industry structure/value chain analysis is an elaboration of neo-classical economic theory, which is firmly based upon the assumption of 'rational economic man' operating in clearing markets that tend to a state of equilibrium. In contrast if you take, say, an Austrian or evolutionary economics approach you would arrive at different conclusions as this approach to economics is based on the assumptions that economics operate in non-equilibrium states and that firm survival is determined by innovation and not by adapting to an industry structure as proposed by Porter (1985).

Dissatisfaction with this static equilibrium framework of industrial organisation economics led to a renewal in older theories of profit and competition associated with the writings of David Ricardo, Joseph Schumpeter and Edith Penrose (Grant 1991). This has focused attention on the role of corporate resources in achieving competitive advantage at the firm level (Barney 1986). Some empirical studies have shown that highly concentrated industries are not more profitable than their less concentrated counterparts (Baden-Fuller and Stopford 2004, Buzzell *et al.* 1975, Gale and Branch 1982) and similar studies show that the industry market share-profitability relationship is spurious (Baden-Fuller and Stopford 2004, Jacobsen and Aaker 1985). Baden-Fuller and Stopford (2004) propose there is no such thing as a mature industry, only mature firms and industries made-up of mature firms, which can provide good opportunities for innovative companies.

A number of business strategy theorists particularly those in the resource-based school have questioned the focus on external factors (Barney 1986, Bridoux 2004, Grant 1991, Peteraf 1993, Rumelt 1984 and Wernerfelt 1986). Firstly, the focus on the unit of analysis being the industry cannot explain intra-industry performance differences among firms. Secondly, the returns from entering and competing in an industry cannot be evaluated independently of the firm's resources and capabilities. According to Barney (1991) these developments amounted to what is termed the resource-based view of the firm (see section 2.2.5). Also Toni and Tonchia (2003) argue it is increasingly difficult to define boundaries of industries and so question the usefulness of the Porterian industry view. They also suggest that a focus just on existing industries may lead to neglecting other opportunities.

A number of authors have criticised Porter's five forces work for overemphasising competition to the detriment of cooperation and therefore does not reflect changes in the marketing paradigm towards collaborative relationships between stakeholders (Bridoux 2004, Toni and Tonchia 2003). In Porter's five forces framework, relationships with key stakeholders are reduced to conflicts for profits. The role of cooperation will be reviewed in section 2.2.8.

2.2.3 The New Dominant Logic of Value Creation

Traditionally, conceptions of value in management theory follow neoclassical economics in using price as the appropriate unit of measurement: Value *per se* remaining ill-defined in management disciplines. Porter (1985), for instance, suggests "*value is the amount buyers are willing to pay for what a firm provides them*" (p.38). Similarly, value added has a pecuniary measure as the *"selling prices less the cost of purchased raw materials"* (p.39). Implicitly, value here equates to profit earned at each stage of the value chain.

In breaking through the confines of these narrow definitions, researchers have not only redefined value but, more importantly, shifted the key unit of analysis from the individual firm's value chain to the wider industry value constellation (Normann and Ramirez, 1993). Thus Walters and Lancaster (1999) now define value as "*the utility combination of benefits delivered to the customer less the total costs of acquiring the delivered benefits*" (p.643). We see here a broader consumer-derived definition of value that encompasses the older focus on input costs. Specifically, 'price' is replaced with the more cognitively grounded concept of 'delivered benefits' as the measure of value.

In arguing that "value occurs not in sequential chains but in complex constellations" (p.69) Normann and Ramirez (1993) introduced the customer oriented concept of 'co-production' by a:

> "*value creating system, within which different economic actors – suppliers, business partners, allies, customers – work together to co-produce value. Their key strategic task is the reconfiguration of roles and relationships among this constellation of actors in order to mobilize the creation of value in new forms by new players. And their underlying strategic goal is to create an ever-improving fit between competencies and customers.*" (p: 66)

The idea of 'value constellations' is a departure from more vertically integrated business structures in preference for looser 'networks' and reflects advances in flexible manufacturing technologies, ease of organisational control and coordination through information technology, as well as enhanced customer knowledge and relationships (again supported by information technologies).

Value creation networks are assumed to be constellations of actors with overlapping goals in terms of exchange relations (buyers and sellers). Thus in the upstream supply chain "partnerships" are sought to achieve desired quality and reduce costs. Downstream partnerships with customers to 'co-create value' are deemed desirable as the route to better product development and targeting (Stabel and Fjeldstad 1998, Prahalad and Ramaswamy 2004, Leavy 2004). Gronroos (2006) proposes that value is created in the interactions between the customer and the product/service. This is a clear move away from a value in exchange view towards a notion of value being created when the user interacts and uses the product/service (Shove and Pantzar 2005, Korkman 2006).

The priority afforded downstream actors (especially final consumers) reflects the disciplinary commitments to the market orientation ideology embraced by both marketing and, in the guise of the 'positioning school', strategy. It also reflects the governance structures prevailing in many Western countries (where the revised theory is under development). That is to say, revised models of value creation have so far implicitly accepted a particular distribution of the created value more consistent with profit maximising business models. The author argues that the broadened concept of value in terms of "total benefits" (Walters and Lancaster 1999) suggests a broader perspective, than the older idea of "value for money", and thereby allows for a changed distribution of created 'value' to be part of the preferred benefits of socially aware consumers. It is through these socially grounded preference bundles that such consumers are influencing industries, at the macro level, via their desire for sustainable development and, at the micro level, through a desire to see sustainable business models that fairly reward upstream partners to ensure their ability to sustain and develop their operations and wider communities.

Highlighting the need for revised governance structures with which to control these new value networks, Achrol and Kotler (1999) observe that:

> *"Networks are not tolerant to traditional instruments of authority and control. Hierarchy, power, and contracts recede in managerial significance and are supplanted by relational mechanisms of governance."* (p:146)

Achrol and Kotler suggest no specific mechanisms to replace hierarchy, power and contracts. It is the author's contention that values, ethics and revised governance structures could provide a viable alternative, replacing dependence relationships based on vertically integrated hierarchies, market power, contracts and/or history. As discussed in section 2.1.1, FT companies offer upstream producers more equitable terms of trade, better pay and conditions, more trust, shared ownership, and access to network resources (capital, skills, technology and markets).

2.2.4 The Changing Nature of Competitive Resources

The developments noted above have resulted in a more sophisticated concept of value and greater understanding of the contexts (i.e. value networks) in which it is created. Another theme present in the literature on value creation relates to the nature of the resources from which value is created. Gone are limited notions of finite (in quantity and productive potential) factors of production associated with an industrial economy. Replacing tangible resources are intangible competencies, knowledge, technology and relationships (Barney 1991, Davenport and Prusak, 2000, Gronroos 2000, Hamel and Prahalad 1994, Nonaka and Takeuchi 1995, Porter 2001, Rayport and Jaworski 2002, Srivastava, Fahey and Christensen, 2001). Consistent with this view, Gummesson (1998) suggests that services marketing research, and its emphasis on relationship interaction, plus the network approach in industrial marketing are the two most crucial contributions to relationship marketing (RM). The author will return to the paradigm shift of RM in section 2.2.8. Vargo and Lusch (2004) propose that this view regarding intangible competencies is grounded in and largely consistent with both R-A theory and core competency theory. Hunt (2001) refers to core competencies as higher-order resources because they are bundles of basic resources.

Vargo and Lusch (2004) observe:

"The relative role of operant resources [resources that enable change to be effected in chiefly physical resources – knowledge and processes for example] began to shift in the late twentieth century as humans began to realize that skills and knowledge were the most important types of resources" (p.2).

Sheth and Parvatiyar (2000) suggest that an alternative paradigm of marketing is required to acknowledge the continuous nature of relationships among marketing actors. This shift has implications for the bases of competition in broadening recognition as to what constitutes a competitive resource. However, researchers have not yet addressed how changing social and ethical dimensions of business, which are increasingly valued by consumers, can be harnessed as competitive resources. In fact, Vargo and Lusch (2004) are criticised by Abela and Murphy (2008), for not dealing with societal and ethical issues in the new dominant logic of marketing. They argue that the separation of ethical and marketing theory is difficult to sustain and call for a more integrated approach that avoids such compartmentalisation and which should reduce ethical conflicts in marketing. Abela and Murphy (2008) call for the integration of ethical accountability into marketing decision making. They argue that issues such as misleading advertising, abuse of distribution channel power, unsafe and harmful products, promotion of materialism are still serious problems. Abela and Murphy (2008) also suggest that the new dominant logic of marketing proposed by Vargo and Lusch (2004) has a stronger ethical foundation due to both its consumer-centric and strong relational focus, for example the collaborative nature of co-creating value presupposes a requisite level of trust and integrity by both parties. For instance the objective of marketing in the old logic is to maximise profits (i.e. charge customers more and pay suppliers less), which can cause tension. In the new dominant logic of marketing the goal is to increase the firms value, this includes the value of its relationships with customers, suppliers and society as a whole and therefore the company and its multiple stakeholders are better aligned.

In fact, according to Ballantyre and Varey (2006) firm value includes both profits and the intangible value of the organisations relationships with its customers (customer and brand equity) and the rest of society (reputation and trust). However, Abela and Murphy (2008) rightly point out that the new dominant logic of marketing proposed by Vargo and Lusch (2004) makes no specific reference to ethics in its initial formulation (Abela and Murphy 2008). This thesis will investigate to see if social and ethical dimensions of business can be equally important determinants of customer value and competitiveness as are differences in physical resources, knowledge, competencies and customer relationships (Wernerfelt 1984, Barney 1991, Grant 1991).

2.2.5 Resource Based View of the Firm

The Resource-based-view (RBV) approach to strategy (Barney 1991, Grant 1991, Peteraf and Barney 2003, Peteraf 1993, Rumelt 1984, Wernerfelt 1986, Wernfelt 1984) identifies resource heterogeneity as the explanation of firm diversity in particular industrial contexts. This theory views firms as combiners of heterogeneous, imperfectly mobile resources, consistent with the view of institutional economics that the most important firm resources are intangibles (DeGregori 1987, Ranson 1987). The RBV has become one of the dominant contemporary approaches to the analysis of sustained competitive advantage (Bridoux 2004). The central proposition of the RBV is that firms compete on the basis of their resources and capabilities (Peteraf and Bergen 2003). The resource-based theory in business strategy is an internal factors approach, traces to the work of Penrose (1959), who viewed the firm as a collection of productive resources and that each firm possesses a distinctive set of competencies, specialised resources, skills, tangible and intangible assets (including brand-name recognition, reputation and market share). Penrose (1959) proposed that it is "*never resources themselves that are inputs to the production process, but only the services that the resources can render*" (Penrose, 1959, p: 24-25). Viewing resources as bundles of possible services gives each firm its unique character. This contrasts with the neoclassical notion of optimum firm size and Penrose (1959) argues the expansion of firms is largely based on opportunities to use their existing productive resources more efficiently than they are currently being used.

The work of Penrose was further developed in the 1980's by authors including Lippman and Rumelt (1982) and Wernerfelt (1984), followed by the research from Barney (1991, 1992) and Conner (1991). The RBV maintains that resources are both heterogeneous across firms and are imperfectly mobile. This means that all firms have an assortment of resources that is at least in some way unique (resource heterogeneity). Imperfectly mobile means that firms resources to varying degrees are not easily or readily bought and sold in the marketplace. Therefore because of resource heterogeneity some firms are more profitable than others. Also because of resource immobility, resource heterogeneity can persist through time despite attempts by firms to acquire the same resources of particularly successful competitors. Hence, the underpinning to the RBV is that firms should seek out resources that are valuable, rare, imperfectly mobile, inimitable and non-substitutable (Hunt and Derozier 2004). The developments noted above have resulted in a more sophisticated concept of value and greater understanding of the contexts (i.e. value networks) in which it is created. Another theme present in the literature on value creation relates to the nature of the resources from which value is created. Gone are limited notions of finite (in quantity and productive potential) factors of production associated with an industrial economy. In addition to tangible resources are intangible competencies, knowledge, technology and relationships (Barney 1991, Davenport and Prusak, 2000, Gronroos 2000, Hamel and Prahalad, 1994, Nonaka and Takeuchi, 1995, Porter 2001, Rayport and Jaworski 2003, Sampler 1998, Spender 1996, Srivastava, Fahey and Christensen, 2001). This distinction between resources and competencies is a typical feature of RBV. Grant (1991) argues that firm's resources and competencies, on one hand provide the basic direction for a firm's strategy and on the other are the primary source of profit. Grant (1991) distinguishes between resources and competencies:

- The resources are the input of the productive process, the basic unit of analysis, which needs accumulation and coordination
- The competencies are placed at a higher level of aggregation, and identify the capacity of a group of resources, if properly managed, to perform an activity. Competencies explain how two firms with similar objectives and exactly the same resources can achieve different performances.

This development helped to explain why companies without dominant market positions were able to compete effectively in those contexts, i.e. exhibit competitive advantages. Grant (1991) proposed the persistence of such diversity, and competitive advantages, is explained in terms of resource immobility and/or transparency. These unique bundles of competencies and resources enable a differentiated offering to be made available to a specific matched segment leading to superior financial performance (Hunt 2001).

RBV defines resources as both intangible and tangible (see below), which is consistent with the institutional economic view that intangible resources, not just physical resources are important to the success of a firm (Hunt 2002).

Financial	(cash resources, access to financial markets),
Physical	(e.g. plant, equipment),
Legal	(e.g. trademarks, licenses),
Human	(e.g. skills and knowledge of individual employees including their entrepreneurial skills)
Organisational	(e.g. competences, controls, policies, culture)
Informational	(e.g. knowledge from consumer and competitive intelligence)
Relational	(e.g. relationships with suppliers and customers)

RBV theory is viewed as inherently dynamic, which has no end stage but an on-going process of change. RBV is very much rooted in the strategic literature and according to Hunt 2001 underpins the 'competence perspective' in evolutionary economics and the 'capabilities' approach of Teece and Pisano (1994). Once a firm has acquired or built a resource, it uses the resource in order to make it contribute to a firm's sustainable competitive advantage (SCA). To avoid imitation by competitors, firms must build barriers to imitation by using isolating mechanisms such as first mover advantages, learning curve experiences, quality reputation and buyer switching costs (Bridoux 2004).

Hooley *et al.* (2005) comment on the lack of empirical research regarding the performance impact of marketing resources and argue most of the work in this area has thus far been mainly conceptual. In their 2005 empirical study Hooley *et al.*, have demonstrated that brand and company reputation and credibility are key assets in increasing market share and sales volume. Hooley *et al.* (2005) argue they lead to consumer choice and loyalty. However, their research is mainly focused on major brands and they do not appear to discuss or research the specific resources/competencies that result in company reputation or credibility.

2.2.6 Competence-based Theory (CBT)

A second theory of business based on internal factors of the firm is competence-based theory (CBT). According to Hunt and Derozier (2004) the work on distinctive competencies traces back to the work of Selznick (1957), which was then used by Andrews (1971) and colleagues in the SWOT (Strengths, Weaknesses, Opportunities and Threats) model to refer to what a firm could do well relative to its competitors. This theoretical perspective on distinctive competencies was further developed in the 1980 and 1990s by a range of authors, who argued that it should be a strategic imperative to identify, seek, develop, reinforce, maintain and leverage distinctive competencies in order to achieve competitive advantage and the resulting superior financial performance (Hamel and Prahalad 1994, Prahalad and Hamel 1990, Heene and Sanchez 1997, Sanchez and Heene 2000 and Snow and Hrebiniak 1980). For Hamel and Prahalad (1994) business strategy needs to focus on industry foresight and competence leveraging. Industry foresight relies on predicting the future by finding out what types of benefits firms should provide their customers in the long term and what new competencies need to be acquired or built to offer such benefits. Theorists in this school argue that too much attention in strategy has been focused on resource efficiency rather than resource effectiveness. Freur and Chaharbaghi (2008) propose that core competencies and capabilities form the essence of competitiveness. In particular, CBT emphasises the behavioural aspects of strategic planning. According to CBT, a solid competitive advantage is based on the capacity to create, strengthen and broaden the firm's core competencies to make new products that will be a success.

Teece *et al.* (1997) also propose a dynamic capabilities approach, which involves adapting, integrating, and reconfiguring internal and external organisational skills, resources, and competencies to match the requirements of a changing environment. Eisenhardt and Martin (2000) argue that long-term competitive advantage is rooted in the resource configurations that managers build using dynamic capabilities and not in the capabilities themselves.

Day and Wensley (1988) propose two categorical sources involved in creating a competitive advantage including; superior skills and superior resources. Barney (1991) states that not all firms resources hold the potential for sustainable competitive advantage (SCA); instead they must possess four attributes: rareness, value, inability to be imitated and inability to be substituted. The actual term SCA emerged in 1985, when Porter discussed the basic types of competitive strategies that a firm can possess (low-cost or differentiation, see figure 2) in order to achieve a SCA. However, no formal conceptual definition was suggested by Porter. Barney (1991) has probably come closest by proposing;

> *"A firm is said to have a SCA when it is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors and when these firms are unable to duplicate the benefits of this strategy"* (Barney 1991, p.102)

Prahalad and Hamel (1990) suggest that firms may succeed in establishing a SCA by combining skills and resources in unique enduring ways. Hoffman (2000) suggests that intangible resources may offer a better route to SCA than tangible ones as SCA is based on an external focus. Fahy (2000) agrees and proposes that intangible assets are relatively resistant to duplication efforts by competitors due to the inherent complexity and specificity of their accumulation. Srivastava *et al.* (2001) delineates market-based assets into two types: relational and intellectual (knowledge). Relational market-based assets are those that reflect bonds between a firm and its customers and/or channel members. Day and Wensley (1988) suggest using perspectives of both the customer and the competitor to assess the firm's performance (also the case in this thesis). Measures of customer input such as satisfaction and loyalty, balance the competitor focus and help to assess the SCA of a firm. Bharadwaj, Varadarajan and Fahy (1993) agree and state that a firm's skills and resources can only be considered sources of SCA, if they offer benefits desired by customers. Morgan and Hunt (1994) state that relationships formed to acquire organisational, relational, or informational resources will commonly result in sustainable resource-based competitive advantage.

Webster (1992) proposes that networks consisting of multiple relationships where firms gain resources needed to build core competencies are a route to SCA. If actors participating in this network realise the opportunity for joint value creation, then the network can enhance the SCA. Todeva (2000) defines business networks as:

"Business networks are sets of repetitive transactions based on structural and relational formations with dynamic boundaries that comprise of interconnected elements (actors, resources and activities). Networks accommodate the contradictory aims pursued by each actor, and facilitate joint activities and repetitive exchanges that have specific directionality and flow of information, commodities, heterogeneous resources, individual affection , commitment and trust between network members" (Todeva 2000, p:1)

Todeva (2000) suggests each member of a business network is capable of accumulation of resources called *network capital*[8]. Todeva (2000) introduces the term *network capital* as a concept that builds upon the relational content of social capital, and includes the resources engaged in network links. Todeva (2000) also suggests there are two types of networks:

- **Self regulating**, through norms, rules. Loyalty, commitment and trust
- **Regulated**, either internally by powerful members, or externally through hierarchies.

Some networks achieve a high level of cohesion based on trust and commitment of its members. Todeva (2000) terms this cooperation, which is based on the moral principles of trust. This literature on networks and trust is important if you consider the emphasis in the FT literature on the key role played by networking and networks (Davies 2009). Hoffman (2000) proposes that further research is required on understanding how the network environment can lead to SCA. A number of authors argue it is the trust and commitment in these networks that results in SCA (Moorman *et al.* 1992 and Morgan and Hunt 1994). In addition to internal resources a number of authors argue that resources also reside in the firm's external network, which can be important to the firm in forming cooperative networks (Burt 1992, Langlois 1992, McEvily and Zaheer 1999, Nohria 1992 and Powell, Koput and Smith-Doerr, 1996). Firstly, relationships in these cooperative networks are potential conduits to internal resources held by connected actors (Nohria 1992). Secondly, capabilities created within a network of competing and cooperating firms

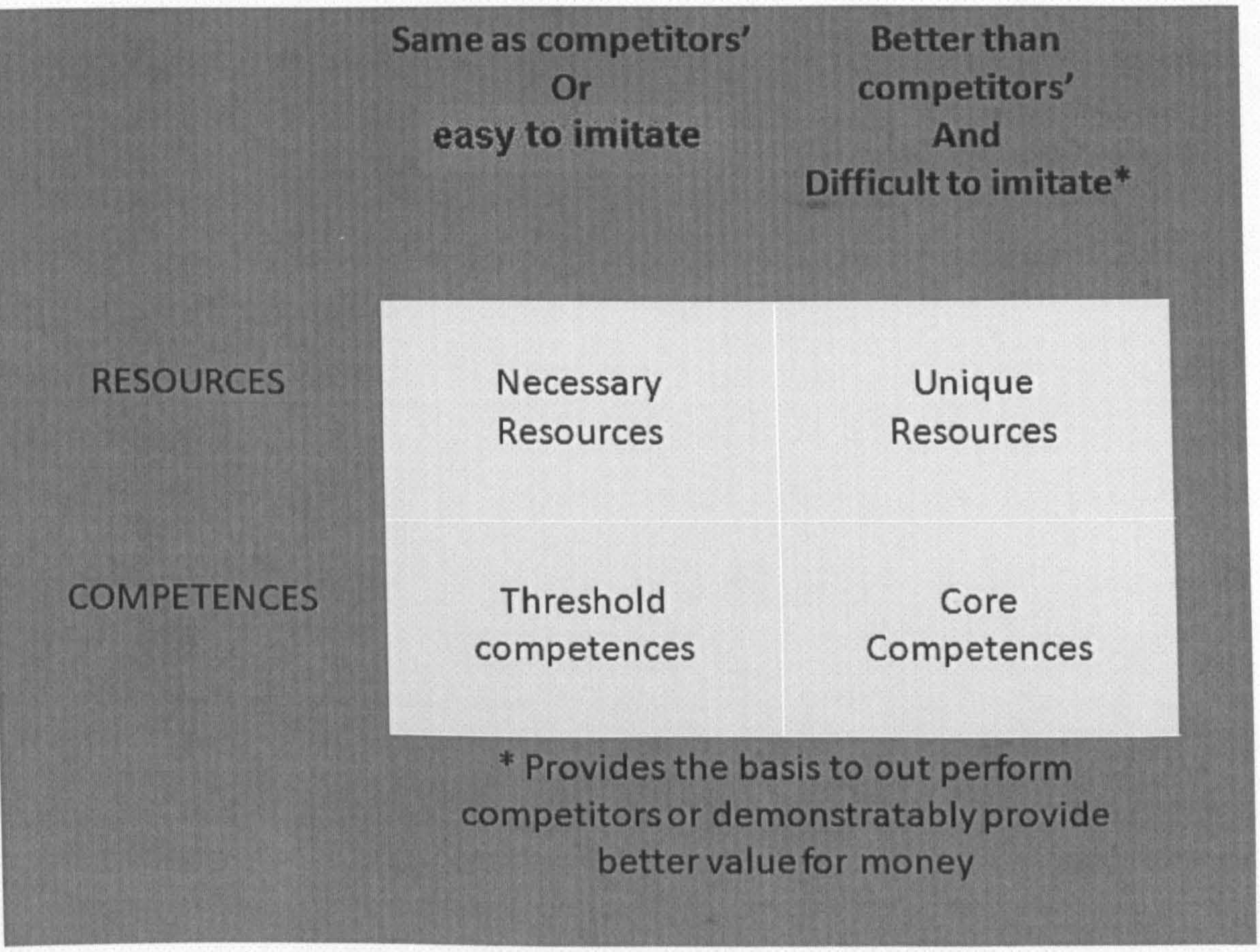
[8] The term capital is used by Burt (1992), who refers to three types of capital- *financial capital* (cash, bank reserves (lines of credit), *human capital* (abilities , experience, formal education and training), and *social capital* (contacts and relations).

can often complement firm's internal resources (Langlois, 1992). Thirdly, the rate of return on internal resources is determined by how well structured the firms network is (Burt 1992). Fourthly, a firm's position in a network contributes to its acquisition of new competitive resources, which in turn enhances its ability to attract new network partners (Powell, Koput and Smith-Doerr, 1996). Building on the notion of networks as loci of resources, Gnyawali and Madhavan (2001) propose three types of network resource flows including:

- *Asset flows*- involve resources such as money, equipment, technology and organisational skills that flow between connected firms in a network
- *Information flows*- involves information and knowledge gathered from connected firms about their competitive intent ,strategies and resources
- *Status flows*- are flows of legitimacy, power and recognition from high status firms to lower status firms. For example a start-up company in a strategic alliance with an established company.

Johnson and Scholes (1999) argue that the strategic importance of both resources and competencies are strongly linked to an assessment of how difficult they are to imitate. They propose to compete in an industry the firm requires a necessary set of resources and competencies to a threshold level (see figure 4b). However, competitive advantage is built on the uniqueness of resources and the core competencies. Therefore firms must have the threshold level resources and competencies in place to reach a certain level in a sector but to really create a sustainable competitive position, unique resources difficult to imitate should be developed. Hamel and Prahalad (1994) in their work on competing in the future propose that to create a competitive position in long standing industries, new entrants should change in some fundamental way the rules of engagement. They also discuss the changing value of resources and competencies and argue what is unique in one decade can just become a necessary resource or competence in the future.

Figure 4b Resources, competencies and competitive advantage (source: Johnson and Scholes 1999, p:153)

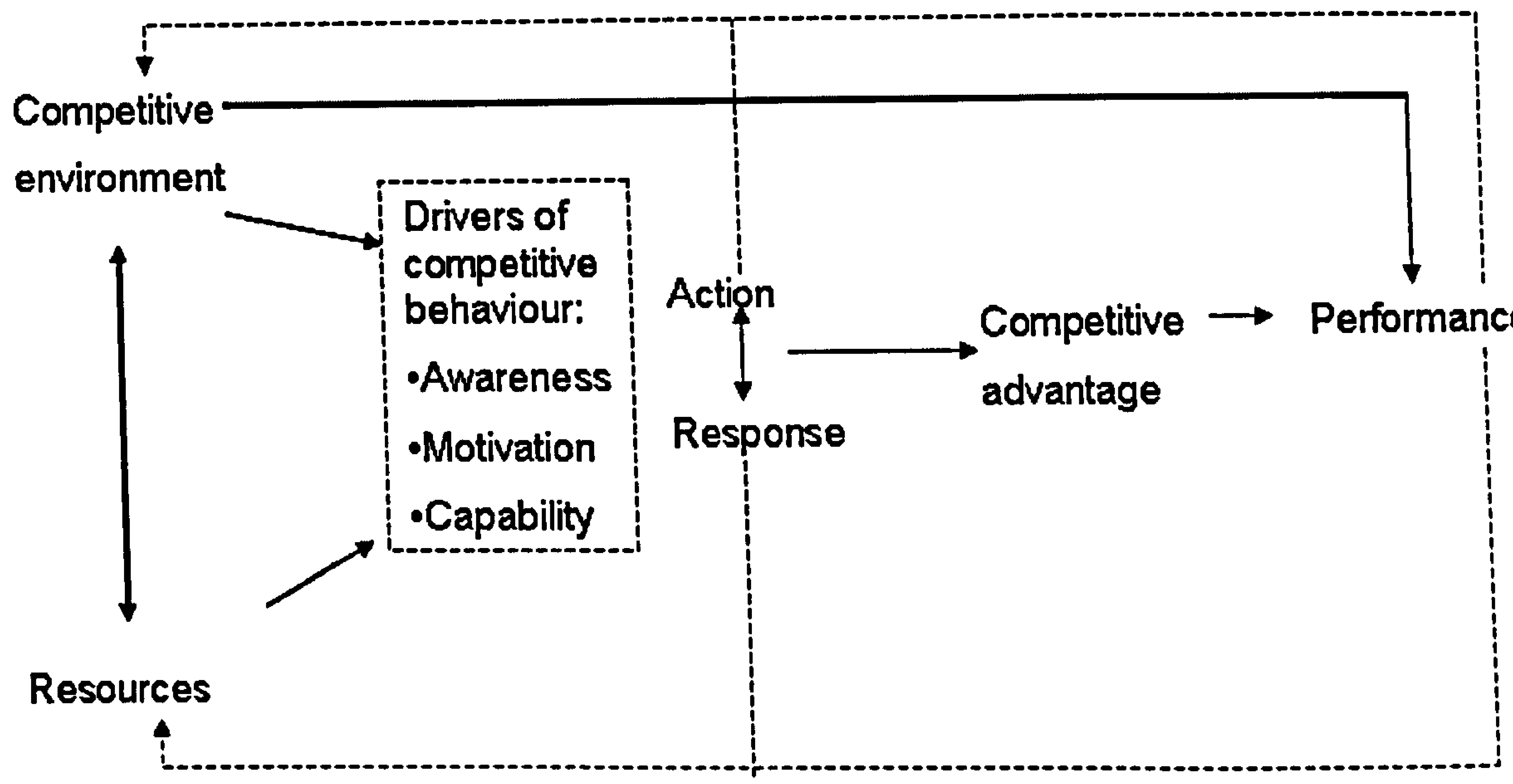


In a critique of RBV and CBT, Priem and Butler (2001) argue for a more dynamic theory and suggest that in order for the resource-based view to realise its potential in strategic management theory it must be integrated with an environmental demand model. This is because the RBV and CBT are focused on the single firm and not also the industrial context. Montgomery (1995) also proposes a re-evaluation on the optimism placed on the capacity of a restricted number of resources to give competitive advantage. They point out that the resource advantage theories inclusion of heterogeneous demand in a dynamic theory is in the right direction.

A number of authors have highlighted a number of problems with the RBV and CBT approaches (Amit and Schoemaker 1993, Bridoux 2004, Foss 1998, Priem and Butler 2001a and 2001b and Toni and Tonchia 2003). Firstly, RBV takes the individual resource as the unit of analysis to study competitive advantage. Foss (1998) suggests there can be strong clustering and interplay between resources and therefore the choice of individual resources may only be legitimated if the relevant resources are well defined and free standing. Foss (1998) also suggests the concepts of 'capabilities and competencies' could be used to capture this clustering and interplay. Secondly, Priem and Butler (2001a, 2001b) argue that RBV neglects the industry environment and recommend that scholars address the key connections between resources and the environment. While resources represent what can be done, the competitive environment shows what must be done to compete effectively to satisfy customer needs.

Foss (1998) proposes that the RBV approach could also be used to understand industry level competitive dynamics by identifying those resources which underlie barriers to mobility and entry. Priem and Butler (2001a, 2001b) argue for a single framework, which brings together the firm's resources and the competitive environment to help explain how resources both contribute to performance and influence competitive dynamics. They propose to either integrate the RBV approach with organisational economics and dynamic capabilities approach or industrial organisation models. In fact, some RBV authors (Barney 1991, Peteraf and Barney 2003, Wernerfelt 1984) recognise the complimentary potential of RBV perspective and industrial organisation tools such as Porter's five forces model. Foss (1996) proposes that RBV provides a long term orientation and will facilitate the analysis of the future potential for competitors to imitate by looking at the competitors resources and capabilities. Porter (1980), in turn could provide an understanding of the external environment in the short term with concepts such as commitment, signalling, the role played by exit barriers etc. Both RBV and Porter's (1980) framework also seek to explain SCA and both perspectives also assume managers are rational and that a firm's ultimate goal is to improve its performance (Spanos and Lioukas 2001). Toni and Tonchia (2003) propose that RBV can be seen as an excellent starting point in the analysis of the relative strengths and weaknesses of a firm, while a strategic positioning approach such as industrial organisation is probably the cornerstone of any opportunities and threats analysis. Bridoux (2004) has therefore proposed a conceptual framework to integrate both resources and the competitive environment as sources of performance and drivers of strategy. This is shown as a general framework in Figure 5.

Figure 5 General Framework for Integrating Resources and Competitive Environment (Source: Bridoux 2004, p: 13)



The framework shows how both resources and the competitive environment condition a firms' strategy. The firm strategy and performance affect the competitive environment and resources and all these changes produce new information, which in turn provides new learning opportunities and may lead to the development of new resources. Hence, Bridoux (2004) views strategy as an ongoing sequence of actions and reactions conditioned by the firm's resources and competitive environment, which in turn become exogenous key moments in the environment of other firms.

Combining a range of inter-disciplinary approaches including; the RBV, CBT and the industrial organisational approach is the Resource Advantage theory (R-A theory) of competition. R-A theory is a general theory of competition that integrates the different schools of thought in competition theory including both the resource based view and the competitive environment school.

2.2.7 Resource Advantage Theory of Competition (R-A theory)

R-A theory has been developed in the literatures of marketing, management, economics, ethics and general business (Hunt and Arnett 2005, Hunt and Derozier 2004). The theory also draws on and has affinity with research traditions such as; Austrian Economics, the historical tradition, industrial organisation economics, the resource based tradition, institutional economics, transaction cost economics and economic sociology and is therefore inter-disciplinary, see table 4. Schlegelmilch (2002) argues that R-A theory is a treasure chest for promising research avenues and it rejects the silo approach of many theories. It is interdisciplinary in the sense that it has been developed in a number of different disciplines, research traditions and theories. Hunt and Arnett (2005) also acknowledge Wroe Alderson's[9] contribution, particularly his 'theory of differential advantage of competition' to Hunt and Morgan's (1995) R-A theory. Alderson changed the focus of marketing thought from distribution (macro) to marketing management (micro) and shifted the unit of analysis from the market to an individual organisation.

R-A theory is a general theory of competition that describes the process of competition. Figure six illustrates the disequilibrating nature of competition, where firms constantly work for a comparative advantage in resources that will yield a market place position of competitive advantage. The key assumptions of R-A theory are outlined below (Hunt and Morgan 1997);

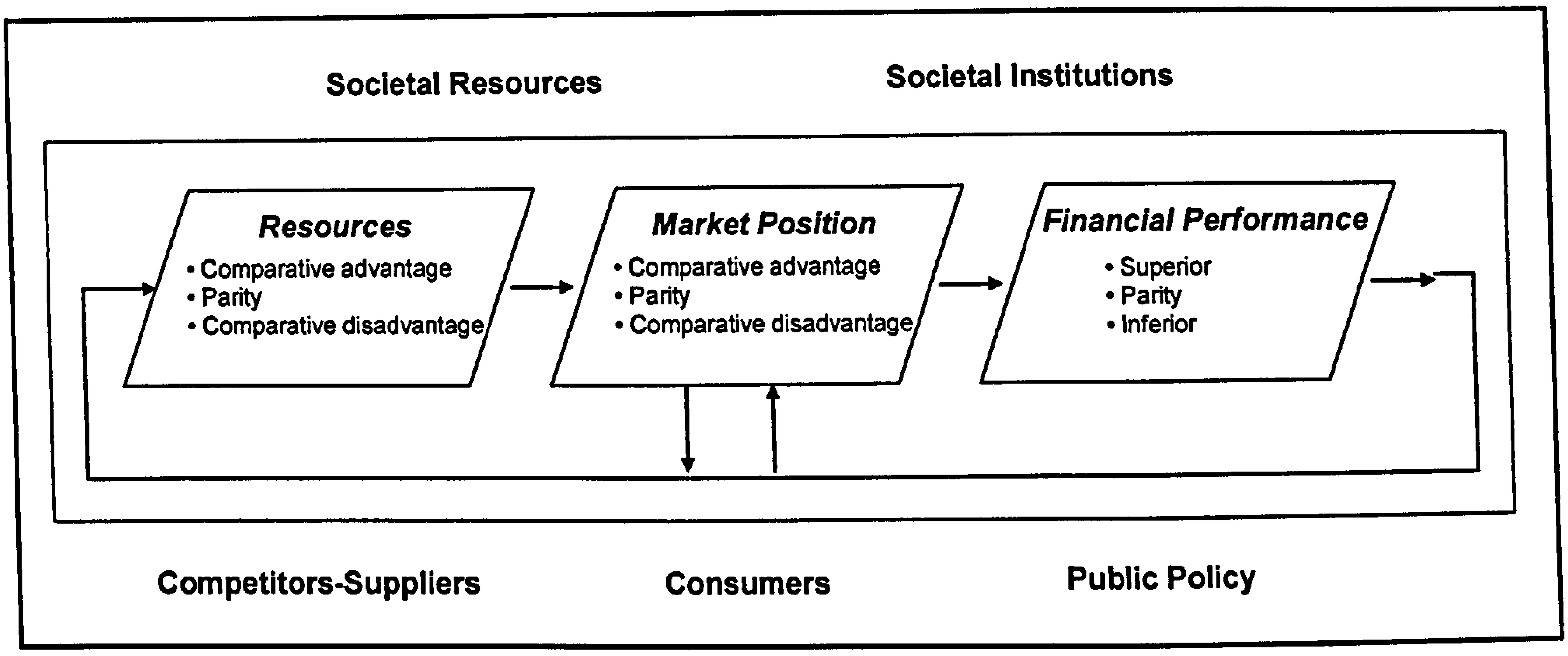
P1. Demand is heterogeneous across industries, heterogeneous within industries, and dynamic.
P2. Consumer information is imperfect and costly.
P3. Human motivation is constrained self-interest seeking.
P4. The firm's objective is superior financial performance.
P5. The firm's information is imperfect and costly.
P6. The firm's resources are financial, physical, legal, human, organisational, informational and relational
P7. Resource characteristics are heterogeneous and imperfectly mobile.
P8. The role of management is to recognise, understand, create, select, implement, and modify strategies.
P9. Competitive dynamics are disequilibrium-provoking, with innovation endogenous.

[9] Wroe Alderson, regarded by some as the father of modern marketing, who wrote the landmark book titled *Marketing Behaviour and Executive Action* in 1957 and was regarded as the most theoretical exposition of marketing up to that time. Alderson represented a paradigm shift from reliance in marketing upon economics to a broader behavioural sciences perspective.

Table 4 The Pedigree of Resource-advantage theory (adapted from Hunt 2001, p: 525)

	Representative works	Affinities with R-A theory
1.Evolutionary Economics	Schumpeter Foss (1993) Hodgson (1993)	Competition is an evolutionary disequilibrating process. Firms have heterogeneous competences. Path dependencies can occur
2. Austrian Economics	Lachmann (1986)	Competition is a knowledge discovery process. Markets are in disequilibrium. Entrepreneurship is important, particularly innovation. Value is subjective. Intangibles can be resources.
3. Heterogeneous demand theory	Myers (1996)	Intra-industry demand is substantially heterogeneous
4. Differential advantage theory	Alderson (1965)	Competition is: dynamic; both initiatory and defensive, and involves a struggle for advantages.
5. Historical tradition	Landes (1998)	Firms are entities, historically situated in space and time. Institutions influence economic performance
6. Industrial organisation economics	Porter (1980, 1985, 2004)	Firm's objective is superior financial performance. Market place positions determine relative performance. Competitors, suppliers and customers influence performance
7. Resource-based tradition	Wernefelt (1984) Barney (1991)	Resources maybe tangible or intangible. Firms are historically situated combiners of heterogeneous imperfectly mobile resources
8. Competence-based tradition	Hamel & Prahalad (1994) Teece & Pisano (1994) Sanchez & Heene (1997)	Competition is disequilibrating. Competences are resources. Renewal competences prompt proactive innovation
9. Institutional economics	Hodgson (1994)	Competition is disequilibrating. 'Capital' is more than just physical resources. Resources have capabilities
10. Transaction cost economics	Williamson (1993)	Opportunism occurs. Many resources are firm specific and are important
11. Economic sociology	Granovetter (1985) Etzioni (1998)	Institutions can be independent variables. Social relations may be resources. Economic systems are embedded

Figure 6 Schematic of R-A theory (source: Hunt and Derozier 2004, p:7)



Firstly, R-A theory builds upon resource based theory. The RBV approach to strategy (Wernerfelt 1986, Barney 1991) identifies resource heterogeneity as the explanation of firm diversity in particular industrial contexts (*see P6 and P7 above*). Secondly, R-A theory draws on heterogeneous demand theory (Alderson 1965). This theory holds that because intra-industry demand is significantly heterogeneous, different market offerings are required for different market segments in the same industry. This development helped to explain why companies without dominant market positions were able to compete effectively in those contexts, i.e. exhibit competitive advantages. Grant (1991) proposed the persistence of such diversity, and competitive advantages, is explained in terms of resource immobility and/or transparency. These unique bundles of competencies and resources enable a differentiated offering to be made available to a specific matched segment leading to superior financial performance (Hunt 2001). The importance of market segments and heterogeneous resources are illustrated in both figure six and figure seven. RBV defines resources as both intangible and tangible (see *P6.*), which is consistent with the institutional economic view that intangible resources, not just physical resources are important to the success of a firm (Hunt 2002). Therefore a key construct of R-A theory stipulates the firms resources are not just land, labour and capital, as in neoclassical theory but include as in the RBV of the firm (Barney 1991);

Financial	(cash resources, access to financial markets),
Physical	(e.g. plant, raw materials and equipment),
Legal	(e.g. trademarks, licenses),
Human	(e.g. skills and knowledge of individual employees including their entrepreneurial skills)
Organisational	(e.g. competences, controls, policies, culture)
Informational	(e.g. knowledge from consumer and competitive intelligence)
Relational	(e.g. relationships with competitors, suppliers, employees and customers)

It is the unique set of resources displayed by a firm that could constitute a comparative advantage in resources that could lead to a position of competitive advantage for some market segments, resulting in superior financial performance (Hunt 2001). Market segments are defined as intra-industry groups of consumers whose tastes and preferences with regard to an industry's output are relatively homogenous. Collis and Montgomery (1995) also add that unique capabilities, which yield an advantage in one market segment may be of little use in another. R-A theory argues that each firm in the market will possess some resources that are unique, which could constitute a comparative advantage in resources that may lead to a position of advantage in the market. This position of advantage is illustrated by the position of cells 2, 3, and 6 in figure seven. Some of the immobile resources which are not easily copied or acquired are perhaps a source of long-term competitive advantage. With R-A theory's focus on proactive and reactive innovation, Hunt (1997) recommends that resources should be inimitable, non-substitutable and non-surpassable. Firms occupying positions of competitive disadvantage (cells 4, 7 and 8) in figure seven will be motivated to engage in three forms of reactive innovation:

1. Imitating the resource of an advantaged competitor
2. Finding or creating an equivalent resource
3. Finding or creating a superior resource

Figure 7 Competitive Position Matrix (source: Hunt & Morgan 1995 cited in Hunt 2001, p: 529)

Relative Resource Costs	Relative Resource-Produced Value: Lower	Parity	Superior
Lower	Intermediate Position 1	Competitive Advantage 2	Competitive Advantage 3
Parity	Competitive Disadvantage 4	Parity Position 5	Competitive Advantage 6
Superior	Competitive Disadvantage 7	Competitive Disadvantage 8	Intermediate Position 9

R-A theory highlights the fact that reactive innovation as described by Schumpeter (1950) can prompt disequilibrium-provoking behaviours, which can create new resource assortments enabling the firm to surpass the previously advantaged competitor. R-A theory expands the concept of resources to include such entities as organisational culture, knowledge, competencies. Therefore, according to Hunt and Morgan (1997) a comparative advantage in an intangible resource such as a new organisational form or competency, can result in a market place position of competitive advantage. Thus, rewards flow to firms that successfully create new resources (e.g. competencies), which provides them with a powerful motivation to innovate. In fact, R-A theory permits competence-based strategy to be successful. Differences in competencies can explain why some firms are better than others, for example firms can have superior entrepreneurial competences etc. Also highlighted in R-A theory is the role of renewal competencies such as those described by Teece and Pisano (1994). Renewal competencies can prompt pro-active innovation by equipping firms to:

- Anticipate potential/new market segments (unmet, changing, and/or new needs, wants and desires)
- Envision market offerings that might be attractive to such segments

- Foresee the need to acquire, develop or create the required resources, including competencies, to produce the envisioned market offering

However (Barney 1991, Hunt and Morgan 1995, Hunt 2001) do not acknowledge an ethical position as a resource for competitive advantage.

Hunt and Morgan (1997, *p: 78)* define resource advantage theory of competition;

> *"Competition is the disequilibrating, ongoing process that consists of the constant struggle among firms for comparative advantage in resources that will yield a market place position of competitive advantage and, thereby superior financial performance. Firms learn through competition as a result of feedback from relative financial performance signalling relative market position, which in turn signals relative resources"*

The dynamic nature of R-A theory is illustrated by those competitors who try and neutralise and/or leapfrog the advantaged firm through acquisition, imitation, substitution, or major innovation. In the terminology of Hodgson's (1993) taxonomy of evolutionary economic theories, R-A theory is non-consummatory: it has no end stage, only a never ending process of change. Because R-A theory draws heavily on Austrian economics and the Schumpeterian tradition in evolutionary economics, innovation and organisational learning are endogenous to R-A competition, firms and consumers have imperfect information and entrepreneurship and institutions influence economic performance. In explaining firm diversity in terms of factor market imperfections, scholars associated with the RBV School have provided Hunt and Morgan (1995) with a key element of their R-A theory of competition. This theory is proposed as a major advance over the abstract notion of 'perfect competition' offered by neoclassical economics and appropriated by certain strategy scholars (notably Porter 1985) to underpin the 'industrial organisation' model of competition, with its deterministic emphasis on the role of industry environments. R-A theory is a process theory that can explain when neo-classical theory will or will not predict the competitive environment successfully, particularly under circumstances of market statis. This is because R-A theory incorporates perfect competition as a limiting special case and therefore preserves the importance of economic science (Hunt and Morgan 1997). R-A theory rejects the notion that "choosing industry" as in the industry based strategy is the key factor for strategic success. Figure six shows the competitive processes in R-A theory are influenced by five key external factors: societal resources on which firms draw, the societal institutions that construct the 'rules of the game', the actions of competitors, the behaviours of consumers and suppliers, and public policy decisions. This aspect of R-A theory draws on socio-economics and institutional theory (DeGregori 1987, Etzioni 1988, North 1981) and recognises that societal institutions such as customs, laws, codes and traditions produce order by structuring political, economic and social interaction.

Hunt (1997) argues that because societal institutions constrain individuals and firm activities, moral codes matter. In particular, both individual and societal moral codes, which he proposes are primarily deontological and constrain utility and profit maximisation. One outcome proposed by Hunt (1997) is that trust is not only possible in R-A competition when participants share a moral code, but it also plays a key role in facilitating productivity and economic growth. R-A theory specifically incorporates institutions. Its ability to also recognise that social relations and social structures can also affect competition (both negatively and positively) is the foundation for the moderately socialised embedded theory of competition proposed by Hunt and Arnett (2003). This approach tries to explain why in certain circumstances social structures and trust-based governance can be competitive enhancing.

Similarly, Hunt and Morgan (1995) accept market imperfections within consumer markets as the norm rather than a departure from the equilibrium. In fact, they view industry demand as significantly heterogeneous and dynamic and stress that this implies that few, if any, industry markets exist; there are only market segments within industries (Hunt and Morgan, 1995). This aspect draws on heterogeneous demand theory (Hunt 2002). Hunt and Morgan (1995) go on to argue that supply and demand-side imperfections explain competitive behaviour in the form of innovation and quality improvement as ways to differentiate a firm's offerings and achieve superior performance. Consistent with its Schumpeterain heritage, R-A theory places greater emphasis on innovation that is both proactive and reactive. Proactive innovation by firms is not prompted by specific competitive pressures but motivated by the expectation of superior financial performance (Hunt and Derozier

2004). It is genuinely entrepreneurial in the classic sense of entrepreneur. The Schumpeterian narrative of entrepreneurship emphasises the role of the entrepreneur as the innovator. According to Schumpeter (cited in Nicholls 2006a, p: 101), entrepreneurs have the will and vision (the dream) to develop new combinations of goods, services and organisational forms in their relentless drive to create.

In the context of this thesis, the focus on the two case studies (Cafédirect and Divine), who are both regarded as social enterprises led by two social entrepreneurs; Sophi Tranchell at Divine and former Chief Executive Penny Newman at Cafédirect (Nicholls 2006), this is interesting from this perspective of innovation. Put in the context of social objectives, social entrepreneurs are essentially social innovators but unlike business entrepreneurs who are motivated by profits, social entrepreneurs are motivated to improve society, they are change agents, seizing opportunities others miss and improving systems, inventing new approaches and creating sustainable solutions to change society (Skoll Foundation 2005). In contrast, reactive innovation is directly prompted by the learning process of firms' competing for leading positions in market segments (Hunt and Derozier 2004). Both proactive and reactive innovation contribute to the dynamism of R-A competition. This feature of R-A theory draws on evolutionary economics, which views competition as a selection process, a struggle. It is this process of competition that produces; innovation, creative destruction, increases in productivity and economic growth. However Hunt and Morgan (1995) argue that social objectives can only be entertained when such superior financial performance has been achieved. In summary R-A theory stresses the importance of:

- market segments;
- heterogeneous firm resources;
- a comparative advantage/disadvantage in resources; and
- market place positions of competitive advantage/disadvantage

The differences in foundational propositions between R-A theory and the neoclassical theory of competition are presented in table 5 as follows:

Table 5 Foundational Propositions of the Neoclassical and Resource Advantage Theories of Competition (source: Hunt and Morgan 1997, p: 76)

	Neoclassical Theory	Resource-Advantage Theory
P1: Demand is	Heterogeneous across industries, homogeneous within industries, and static	Heterogeneous across industries, Heterogeneous within industries and dynamic
P2:Consumer information is	Perfect and costless	Imperfect and costly
P3: Human motivation is	Self-interest maximisation	Constrained and self-interest seeking
P4: The firm's objective is	Profit maximisation	Superior financial performance
P5: The firm's information is	Perfect and costless	Imperfect and costly
P6: The firm's resources are	Capital, labour, and land	Financial, physical, legal, human, organisational, informational and relational
P7: Resource characteristics are	Homogeneous and perfectly mobile	Heterogeneous and imperfectly mobile
P8: The role of management is	To determine quantity and implement production function	To recognise, understand create, select, implement, & modify strategies
P9: Competitive dynamics are	Equilibrium seeking with innovation exogenous	Disequilibrium provoking with innovation endogenous

Hunt & Morgan (1995) also say that superior financial performance can be constrained by the morality considerations of manager's i.e. the deontological component. In summary, R-A theory maintains that consumers, owners, and managers are constrained in their self interest by their moral codes, that is, by considerations shaped but not determined by societal institutions. As a consequence, the influence of different moral codes on economic processes becomes a subject for theory development and empirical work. R-A theory does not deny that individuals may act opportunistically. Rather constrained self-interest seeking as proposed by R-A theory implies that opportunism is not assumed to prevail in all circumstances. In the case of trust based governance, constrained self-interest seeking indicates that trust may exist among people who share a moral code, but it also implies, as Raub and Weesie (1990) and Morgan and Hunt (1994) stress that a firm's reputation for trustworthiness can become economically advantageous. Also Arnett and Hunt (2003) propose that a knowledge of ethics by managers can positively influence strategic decision making, however they fail to give specific examples.

Hunt's (1997) work also highlights relational resources as a source of comparative advantage (i.e. relationships with suppliers and customers) but not on ethical grounds. However, according to Hunt and Arnett (2003) strategic alliances between firms can through time promote trust-based governance by both signalling non-opportunistic intent and developing the type of concrete social relationships to constitute what Coleman (1988) describes as "social capital. Indeed, Lawler and Yoon (1996) term this kind of trust built over time as "relational cohesion". This view that a firm's relationships with its customers and suppliers is an important basic resource that can lead to a competitive position in the market place is regarded as another feature of R-A theories explanatory success. The success of certain alliances and networks cannot be explained by neoclassical theory. In fact, neoclassical theory would predict that strategic alliances between competitors would just lead to collusion and price fixing. Also neoclassical theory does not identify intangibles such as relationships as a resource unlike R-A theory (Hunt and Arnett 2003), which states that relationships with competitors, suppliers and customers are resources. Hunt (1997) states also that relational resources can lead to organisational capital and a firm's market place position of competitive advantage.

A number of authors also propose intangible resources such as information, relationships, skills, technology and knowledge (Hamel and Prahalad 1994, Gronroos 2000, Porter 2001, Rayport and Jaworski 2003 and Vargo and Lusch 2004) as core competencies for the firm (not explicit about ethics). They argue for an orientation that has shifted towards the consumer, based on greater connectivity and ongoing relationships, which they describe as co-creating value with consumers. Bolton *et al.* (2002) comments on the importance of this work by Vargo and Lusch (2004) but suggests the need for more research on how value is created and therefore leads to a competitive resource. According to Golding and Peattie (2005), FT challenges the dominance of the consumer investor interests via recognising the producer as a key stakeholder. They argue that FT aims to build equity of exchange through the formation of transparent partnerships that benefit all participants. This approach appears to describe aspects of relationship marketing (RM).

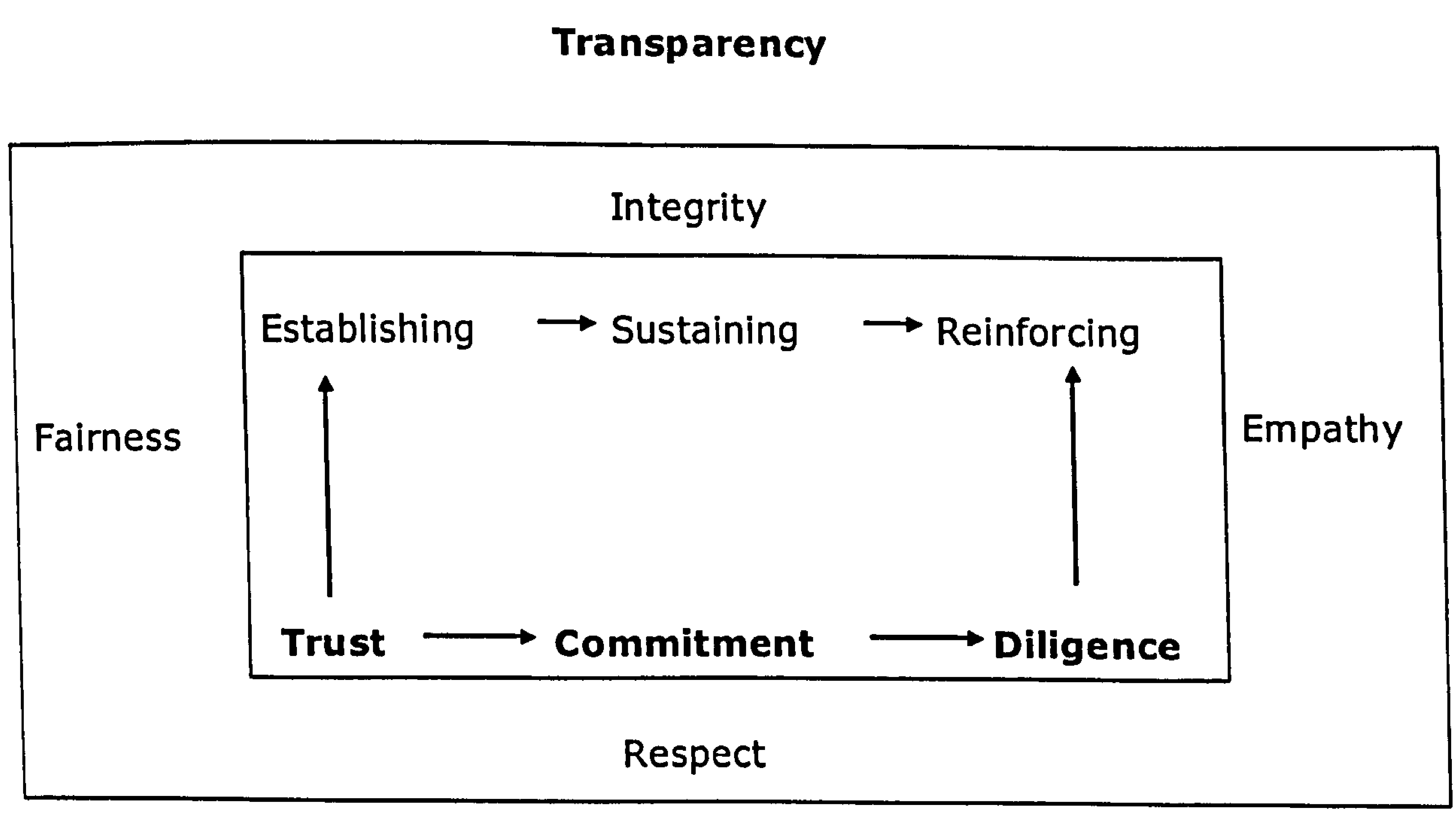
2.2.8 Relationship Marketing (RM) and Competitive Advantage

This thesis thus far has discussed the evolution of marketing theory. In addition, the review of literature associated with both FT and the changing nature of competitive resources has highlighted the importance of cooperative relationships and networks. This challenge to the managerialist tradition in the form of RM is particularly relevant here to FT consumption and production. Despite the different views on RM, all agree this is a significant paradigm shift in marketing (Harker and Eagan 2006). What makes RM so pervasive is that it has been shown to be applicable to key sectors of marketing including; consumer goods, services and business to business environments. Gummersson (1999) proposes that RM has the aim of building mutually satisfying long-term relations with key parties including; suppliers, customers and employees. According to Gronroos (2006), RM involves stakeholder relationships with an emphasis on both economics but also on emotional ties built on trust that exist into the long-term. Included in RM are not only buyer/seller exchanges but also business partnerships, strategic alliances and cooperative marketing networks (Harker and Eagan 2006). In Europe, the historical perspective of RM is closely tied to network analysis and the Industrial Marketing and Purchasing group that began in the 1980's (Ford 1990). This work demonstrated that network interactions led to the development of social relationships and relationship building, which was in contrast to the American four-Ps paradigm, where the seller is active but the buyer is passive and no personalised relationships are supposed to exist, at least initially (Gronroos 2006). Hence, RM is not so much a new concept but rather a more relevant one in today's business environment (Gronroos 2006). The values that underpin RM began to be identified in the 1990's with confidence/trust being highlighted as a primary reason by Gwinner *et al.* (1998), loyalty was also identified as a key element in relationships (Sirdeshmukh *et al.* 2002).

Recent work by Murphy *et al.* (2007), proposes an ethical basis for Relationship Marketing (RM) based on trust and commitment, supported by a number of virtues including fairness (see Figure 8). They argue that despite the ethical concept of trust being dominant in the RM literature, only one previous article by Kavaili *et al.*

(1999) focused on an ethical approach. Trust is regarded as being an essential element for exchanges moving from a transactional to a relationship base (Solomon and Flores 2001). Trust is regarded as a property of those relationships built on reciprocity, mutual benefits and obligation and leads to commitment. According to Fullerton (2005) the key characteristics of commitment include; sacrifice, loyalty and stability. RM does not occur in an ethical vacuum and requires several other supporting virtues such as, honesty, fairness and reputation (Gruen *et al.* 2000). They suggest that these virtues of trust and commitment provide a theoretical and moral underpinning for the successful practice of RM. Murphy *et al.* (2007) also argue that establishing, sustaining and reinforcing relationships is based on the virtues of trust, commitment and diligence. The establishment of trust and continued diligence leads to commitment in the relationship (see figure 8). The model in figure 8 also proposes a number of supporting virtues including; fairness, integrity, empathy and respect. Murphy *et al.* (2007) also point out the need to use their model to test whether branding can be better connected with trust.

Figure 8 Ethical basis for Relationship Marketing (source: Murphy *et al.* 2007, p: 44)



Murphy *et al.* (2007) argue that RM passes through three stages including establishment, maintenance and reinforcement. This process they argue is embedded in the ethical virtues of trust and commitment, which foster long-term relationships. They argue that RM must also be ethical marketing and suggest that long-term partnerships based on these virtues go beyond the cost benefit calculation.

Morgan and Hunt (1999) explore further their work on relationships as a resource and propose the Relationship Based Competitive Advantage concept (RBCA). They argue that RM should only be practiced when it offers, or contributes to, a company's strategy for achieving a SCA. These relationship based competitive advantages (RBCA's) drive the success of RM. Morgan and Hunt (1999) propose that academics have neglected the search for explanations as how to create SCA based on relationships. Partnerships with other organisations can mean firms are able to access resources when compatible partners are identified, whose complimentary resources when combined with their own resources, provide competitive advantages, that is RBCAs. Frels *et al.* (2003) propose that in certain markets a customer's decision to adopt a product can be influenced by factors other than the value inherent in the product. One of the key factors is the concept of 'network markets', where a significant portion of product utility is created by the expectations and existence of networks surrounding the product. Frels *et al.* (2003) have mainly focused their research on information technology markets and have identified three types of networks that add value including:

1. The user network
2. The Complements network
3. The producer network

Thus far these perspectives on 'network markets' have yet to identify social or ethical commitments as a key characteristic.

Theoretical discussions regarding relationships between organisations and the resources utilised are often focused on transaction cost analysis (TCA) or resource dependence theory. TCA has been criticised by a number of organisational studies authors as TCA assumes universal opportunism and takes a negative view of sharing valuable resources (Donaldson 1990, Ghoshal and Moran 1996). Also resource dependency theory holds that firms enter relationships both cautiously and reluctantly (Morgan and Hunt 1999). In fact, this theory views relationships as liabilities and fear that participating in them will result in a loss of power in their own decision making (Oliver, 1991). However, Morgan and Hunt (1999) disagree and propose that firms often enter relationships optimistically looking to access valuable resources that are best accessed via building a relationship. This strategic orientation towards resources, distinguishes the resource-based theory approach to understanding relationships from TCA in economics and resource dependence theory. Using resources strategically implies four managerial requirements (Bharadwaj, Vaadarajan and Fahy 1993, Day and Wensley, 1988 and Hunt and Morgan, 1995):

1. Resources must be efficiently acquired or developed, regard this as the main motivation for entering relationships
2. Combined skilfully to create complex resources
3. Deliberately applied to competitive situations, and
4. Carefully maintained and protected to ensure on-going availability

Understanding of all the above 4 points is important in developing theory associated with the strategic nature of marketing relationships. Regarding point 2 above a number of authors discuss this deployment of resources and skills to develop core competencies in firms (Hunt and Morgan 1995, Prahalad and Hamel 1990). They argue these combinations of resources are the precursor to competitive advantage. Gummesson (1994) proposes that when firms have access to external resources through partnerships, such resources when combined with the firm's internal resources can produce a competency which provides a competitive advantage. Morgan and Hunt (1994) also add that resource sharing relationships built on commitment, trust, and cooperation do take time to build and once established must be maintained.

Morgan and Hunt (1999) suggest that the key tangible and intangible resources identified in both RBV and R-A theory can be shared/exchanged via relationship marketing (RM). For example co-marketing relationships might arise if one partner wants the others expertise in new product development, production or retailing (Ganesan, 1994). Morgan and Hunt (1999) also state that relational resources comprise of two types of relationships:

1. Relationships between various constituencies within an organisation (internal)

2. Between the organisation and its external partners

Their paper on RBCA (Morgan and Hunt 1999) highlights relationships between retailers and consumers, wholesalers and retailers, manufacturers with employees, as unique opportunities to add value as a result of resources shared. Information regarding the knowledge of markets, customers and competitors is also regarded as a key shared resource possible via RM.

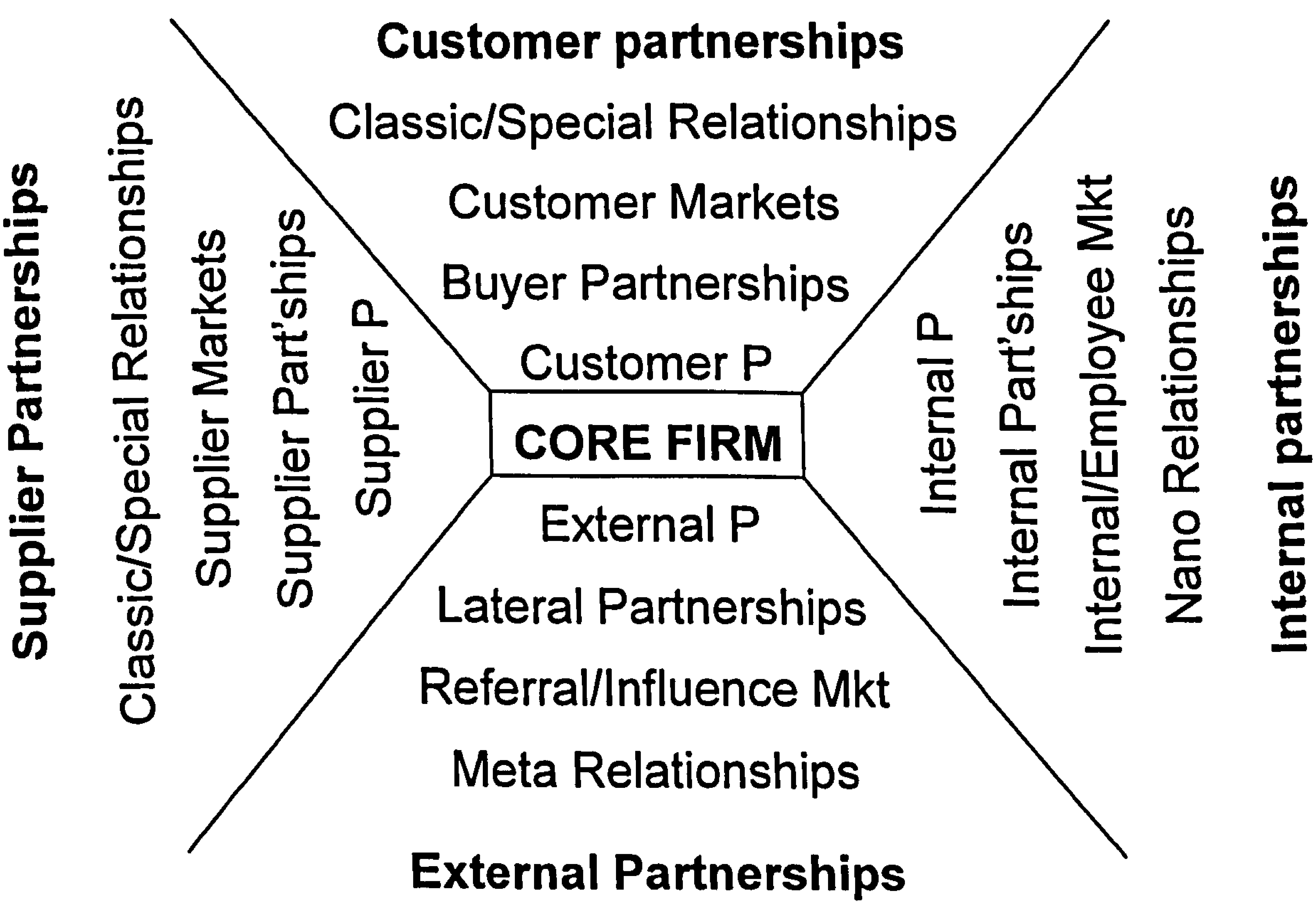
Morgan and Hunt (1999) also argue RBCA should be sustainable and valuable when built on resources that are firstly unique, secondly with partners who are unique in owning them and thirdly are unique in combination with partner's resources. However, firms must also guard against the resources created being easily subject to imitation or substitution by competitors (see discussion on 'Clean-wash' in section 2.1.5). In the case of RBCA there are a number of factors that limit the risk from imitation and substitution. One key aspect is that of *Casual Ambiguity*, this is when it is unclear to competitors how a firm's competitive advantage was achieved. Organisational learning is regarded by Morgan and Hunt (1999) as an example of casual ambiguity; they argue that benefits from organisational learning accrue to firms that are involved in true relationships. Complexity is key in arriving at casual ambiguity; Gummesson (1994) suggests that a business exists within a network that requires continuous creation, transformation, and maintenance of its network rather than a set of simple dyadic relationships. Networks in marketing are central to RM theory. Gumesson (1999) believed that this was one of the ways in which RM theory differed from earlier ideas about marketing, which dealt primarily with competition, to stressing collaboration, whereby all parties take responsibility for ensuring a functional relationship. A number of authors argue the RM paradigm emphasises the importance of other stakeholder relationships in addition to buyer/seller exchanges (Eagan 2004, Gummesson 1996, 1999, Hunt and Morgan 1995). Anderson *et al.* (1994) show that often it is not the firms own resources, but those of its network partners that make it an attractive partner.

Another factor that guards against imitation is the imperfect mobility of resources. Dierickx and Cool (1989) suggest that strategic resources such as loyalty, trust, reputation and research and development capability, should be non-tradable. They argue these intangibles such as trust are cultivated often over long periods of time.

Day and Wensley (1988) support this and argue that loyalty may be the best measure of competitive advantage in marketing contexts. It appears that RBCA is often created from a bundling of many different resources together across relationships, as the combination becomes more complicated, the ability of competitors to imitate or substitute for those RBCA's is reduced. According to Morgan and Hunt (1999), organisational, relational and informational resources gained via cooperative relationships offer the highest potential as sources of RBCA. It is clear that RM is becoming of strategic importance to many firms. The co-operate to compete approach often requires firms to be an effective co-operator in some network (Hunt 1997). This implies that some co-operative arrangements amongst firms are pro-competitive. Neoclassical perfect competition theory only permits capital, land and labour to qualify as firm's resources and not relationships. In fact, in neoclassical literature relationships between firms is viewed as anti-competitive collusion (Hunt 1997).

In summary, the basis of RM is for firms to gain competitive advantage by developing and nurturing relationships. R-A theory recognises intangible resources such as relationships as a competitive resource and provides RM with a theoretical foundation. RM theory should centre on the firms relationships with customers, consumers, suppliers and external influences (Eagan 2004). However, conventional RM looks at customer loyalty from the retailer consumer perspective and not really multiple relationships or even relationships from producer to consumer via the retailer. Golding and Peattie (2005) suggest that perhaps the marketing of FT social enterprises is closer to the true spirit of RM as it is based on equity, openness and mutual benefit. FT also appears to provide an example of an ethical basis for RM based on the work of Murphy *et al.* (2007), who link RM to ethical virtues such as fairness. Possibly RM could be utilised to explain FT consumption and production? The RM paradigm emphasises the importance of other stakeholder relationships in addition to buyer/seller exchanges (Eagan 2004; Gummesson 1997 and Hunt and Morgan, 1994). Eagan (2004) suggests that older definitions of RM focused mainly on the traditional supplier-customer relationship. However, by the end of the 1990s there was a growing consensus that, in addition to the customer focus, a company should be considering a range of partnerships with suppliers, internal customers, institutions and intermediaries (Eagan 2004). In this respect RM is similar to the much older stakeholder theory (Tzokas and Saren, 2000, p: 6). The common theme in the literature on RM is that firms should compete through the development of long-term relationships with all their stakeholders to develop partnerships. Eagan (2004) identifies four major groupings of partnerships including; customer partnerships (intermediates or final consumer), internal partnerships (business unite, employees etc), external partnerships (Government, non-profit organisations, competitors, alliances, knowledge relationships) and supplier partnerships (goods and service suppliers), see figure 9:

Figure 9 The Firm and its Relationships (adapted from Eagan 2004, p: 127)



Arnett *et al.* (2006) suggest that RM has long recognised the importance of social benefits and relational exchange. However, most research has been conducted in contexts in which the benefits to both parties are mainly economic. This RM research has also mainly focused on relationships that involve business to business marketing and involve for profit firms. Arnett *et al.* (2006) argue that RM is also a viable strategy in such contexts which involve high levels of social exchange, such as business to consumer marketing and non-profit marketing. A transaction is typically considered an exchange of money for a product or service. However, in some exchanges one or more partners may receive benefits that are not economic in nature. For example, when donors give money or time to a non-profit organisation they do not receive monetary compensation. This type of transaction is better represented by Kotler's (1972) broader concept of transaction, which he defines as an exchange of values between two parties, which are not primarily economic in nature. In the case of non-profit organisations their maybe social rewards, which include emotional satisfaction, spiritual values and the sharing of humanitarian ideals. Blau (1968) suggested that the important benefits in social exchange do not have any material value but are exemplified by social approval and respect. Social rewards can be valued more than economic rewards and is the reason for both non-profit and for-profit organisations using social rewards in their promotional campaigns. This perspective of Social Exchange theory is often used as a theoretical foundation for commitment and trust in relationship marketing (Dwyer *et al.*, 1987, Morgan and Hunt 1994, Smith and Barclay 1997). Arnett *et al.* (2006) also argue that because certain organisations often rely heavily on the promise of social benefits from their products, it is important they develop an improved understanding of the factors that affect relationships that involve primarily social exchange. Nijohof *et al.* (2008) in their work on Non Governmental Organisation (NGO)/business partnerships in CSR strategy highlight the dangers of diminishing NGO-legitimacy in certain types of partnerships. They propose it is those companies that have the potential for the biggest contribution to the ambitions of NGOs, which can pose the highest risk to NGO legitimacy. It is important to consider their reasons for working on CSR issues, which maybe quite different, companies are often focused on risk control and reputation management, in contrast NGOs could be working to solve human rights issues in supply chains.

Shamir (2004) warn of companies whose aim is to reshape the notion of responsibility in ways that dilute the original radical transformative potential of NGOs. With respect to FT, this argument appears to describe the practices of those companies accused of 'Clean wash'. An example of this is corporations trying to postpone actual transformations by making issues continuously more complex. To counteract this problem, Nijohof *et al.* (2008) propose a stewardship orientation in a business/NGO partnership, where the focus changes from the role of a single organisation towards the roles and responsibilities of different stakeholder groups such as suppliers, consumers and governments in the whole value chain. Stakeholders play a significant role in companies working from a stewardship orientation and the resulting dialogue can lead to constructive partnerships with NGO's. Companies working from this perspective are usually willing to be transparent about their CSR activities and also involve NGO's in monitoring these activities and improving their CSR policies.

Until recently the use of ethics and social resources to build exchange relationships has not been the focus of attention. Alexander and Nicholls (2006) argue consumers search for connection and involvement as part of a developing consumer marketing network in which the consumption value of goods is partly defined by the links they generate (Cova, 1997). Successful marketing communications can be developed by understanding these networks to maximise consumer-producer connection. Alexander and Nicholls (2006) argue this desire for connection is apparent in high involvement purchases such as FT products. Their work suggests we need a deeper conceptualization of marketing networks to understand the consumer producer relationship. According to Alexander and Nicholls (2006) this flow of information is strengthened by product quality and the assurances provided by FT certification.

From this review of competition theory, R-A theory termed a *'General Theory of Competition'* appears to be the only holistic theory that acknowledges the key role played by the heterogeneity of resources as the explanation of firm diversity in particular industrial contexts. R-A theory therefore seeks to address the deficiencies in other competition theories by encompassing the heterogeneity of resources. This thesis investigates the heterogeneity in FT social enterprises and therefore R-A theory provides an appropriate meta theoretical framework for this thesis that subsumes other competition theories.

However, these recent revisions of competition theory do not appear to acknowledge 'social resources' and ethical commitments as a resource (Hunt 2001) and still therefore supports the Friedmanite view, that social objectives must follow rather than precede profit objectives. However, Hunt and Arnett (2003) suggest the influence of different moral codes on economic processes need to be the subject of further research. Hunt and Derozier (2004) argue that R-A theory grounds the major schools of business and marketing strategy including resource-based strategy, competence-based strategy, industry-based strategy, market orientation and RM. Hence understanding those resources that enable FT social enterprises to compete will enable the development of competitive business and marketing strategies. The proposed extension of R-A theory will also support the development of the theoretical perspectives outlined in table 2 (see section 2.1.4) by grounding FT in business and marketing theories.

2.3 Point of Departure and Gaps in the Literature

This literature review thus far shows that using ethics and social values to build exchange relationships with consumers has (so far) not been the focus of attention by those authors developing the new theoretical perspectives on competition theory. However, there is evidence to suggest that social and ethical products/services can be a method of differentiation and competitive positioning in mainstream consumer markets. Consumers appear to demonstrate an increasing interest in the goods and services they consume, looking for more information concerning their provenance and background. This is illustrated by a general move towards ethical consumption (Alexander and Nicholls 2006). For example the market for UK FT marked goods in 2008 totalled £700 million, recording an annual growth of 80% (Fairtrade Foundation 2009a). Ethically aware consumers are willing to seek out and pay premiums for the offerings of companies with superior social performance (Harrison *et al.* 2005). The Co-operative Bank's Ethical Purchasing Index 2005 reports that ethical consumerism in UK markets is worth £29.3 billion per year. Spending on ethical food (Organic, Fairtrade and Free-range) was up by 18% to £5.4 billion. A further £11.6 billion was accounted for by ethical finance, up from £1.6 billion from previous year. Clifton (2001) argues the key criteria for successful brands is changing from a pragmatic price and value perspective to a bundle of meanings from a moral and ethical framework.

Lafferty *et al.* (2002) propose that a growing body of evidence strongly supports the view that positive corporate image is positively correlated to purchase intention; this is a notable point of departure in the literature. They suggest that consumers discriminate between firms and their product/service offerings based on trustworthiness and expertise. Lafferty *et al.* (2002) also argue that corporate credibility plays a crucial role in creating partnerships and securing loan finance. Wrigley (2008) agrees and proposes that company's social activities do create a more positive consumer attitude towards the firm. Hart and Milstein (2003) also argue that the case for viewing CSR as a route to superior performance is now well established. Meehan *et al.* (2006) also propose the 3C-SR model of CSR, which incorporates social resources as way of integrating CSR for competitive advantage in firms. Meehan *et al.* (2006) highlight the lack of practical guidance for managers in integrating aspects of CSR into their corporate actions and strategies. They argue that CSR has typically been presented as either in opposition to the profit motive or, at least, an adjunct to it.

In addition, some authors have identified moral decision making in firms as a source of competitive advantage (Petrick and Quinn 2001). This is in contrast to Hunt & Morgan (1995), who suggest that superior financial performance can be constrained by morality considerations of manager's i.e. the deontological component. Therefore the 'resource-advantage' revision of competition theory has yet to address the social and ethical issues associated with FT social enterprises. However, this theory does provide the conceptual tools that allow for social and ethical issues to be integrated into a revised theory of competition. According to Nicholls and Opal (2005), the ethical element is the core product for FT companies. FT is in a Kantian analysis, deontological.

This approach to supply chain relationships establishes the need to treat others fairly, as one would wish to be treated. Deontological ethics (ethics of duty) priorities personal moral duty to others and is the foundation for the ethics of rights and Justice (Crane and Matten 2004). Authors in the neoclassical tradition identify all economic agents as egoistic, who ignore deontological considerations (Beauchamp and Bowie 1988). For example, Etzioni (1988) proposes that neo-classical theory argues that no theory of human motivation can be taken seriously if it ignores self- interest.

According to Hunt (2001) companies can maintain their competitive advantage if they continue to re-invest in the resources that produce the competitive advantage and the rival's innovations, substitutions and imitations fail. The relationship between FT and marketing is worth deeper investigation. Industrialisation and the rise of mass production and mass markets allowed the delocalisation of production and consumption and therefore the physical separation of the producer and consumer. According to Golding and Peattie (2005) this led to consumers becoming distanced from producers, Tiffen (2002) refers to this as a disconnect. FT emphasises the establishing of new social bonds between consumers in the North and producers in the South. In fact, Golding and Peattie (2005) argue that FT marketing is perhaps closer to the true spirit of RM, since it is based on the issues of equity, openness and mutual benefit, which are important for successful long-term relationships.

From the literature review it appears that competition theory and recent revisions of this, namely R-A theory (Hunt and Morgan 1995, Hunt 2001), do not yet explain the success of FT social enterprises. In order to support investigation of the resources and strategies deployed by FT organisations in their efforts to mainstream FT products in UK markets, the following research objectives were determined:

- To critically analyse how Fairtrade social enterprises have performed and impacted on the UK chocolate confectionery and hot beverage sectors. This investigation will focus on key downstream stakeholders such as supermarkets.
- To examine how effective the 'resource-advantage' theory of competition is in explaining the success of Fairtrade social enterprises.
- To evaluate which resources enable Fairtrade social enterprises to compete against larger rivals. This objective will critically analyse if the social and ethical elements of these firm's product offerings really constitute meaningful differentiators (i.e. comparative advantage) as required by 'resource-advantage' theory.
- To extend Resource Advantage theory in order to explain how the case study companies Divine and Cafédirect compete in the UK.

Both the research question and objectives provide a focus to the research which is aiming to extend R-A theory to account for the success of FT social enterprises. Hence, this thesis will take FT and look at this through the lens of R-A theory in order to try and explain the progress of FT companies such as Cafédirect and Divine.

CHAPTER 3 METHODOLOGY AND OUTLINE OF METHODS

3.1 Introduction

This chapter details the methodology adopted for this research. In so doing, it provides a rationale for building theory from rich case studies (Eisenhardt 1989, Eisenhardt and Graebner 2007). Particular emphasis will be placed on the analysis of multiple data sources within two rich case studies. Interviews, direct observation, participant observation and internal documents/archives will all be used. No pre-set number of interviews, site visits etc., will initially be determined, interviews will be conducted until obvious patterns and themes emerge and become iterative (Lincoln and Guba 1985). Eisenhardt's (1989, 1991) eight-step procedure for theory development will be used (see table 6, section 3.4). This choice is made, mindful of the alternatives and their strengths and weaknesses. Also, the implications of this choice upon methods and research design are considered. Discussion of sampling technique, data analysis, triangulation, ethical considerations and methods are also provided later in this chapter.

This chapter will first review the literature associated with research methodology, then secondly look at case method research strategy before explaining case study design.

3.2 Research Methodology

Methodology is defined as "*...the analysis of, and rationale for, the particular method or methods used in a given study, and in that type of study in general*" (Jankowicz, 2000, p. 214). The development of research methodology is driven by the selection of an appropriate research paradigm. Paradigms are defined as: "*...a general metaphysical world outlook*" (Blaugh, 1992, p.28). Paradigms guide research through the acceptance of key assumptions by the inquirer, related to ontology; epistemology; axiology; generalisability; causation and logic (Firestone, 1987; Lincoln and Guba, 1985). According to Hughes (1990) epistemology is the philosophy of knowledge or how we come to know. Methodology is focused on the specific methods that we can use to try and understand the world better. Their importance is marked by how they both identify the motivations of the researcher and suit the research to be undertaken. It is of importance to understand the relative merits of each paradigm. A discussion of the key similarities and differences amongst the major paradigms is provided below in order to present a thorough methodology. Two broad schools of thought prevail in the research methodology literature; positivism and interpretivism (constructivism paradigm). Positivists interpret findings through assuming an objective world-view with a heavy reliance on quantitative data, which allows for replication (Saunders, Lewis and Thornhill 2003).

Interpretivists on the other hand, take a subjective stance and explore meanings through understanding the motivations, actions and intentions of those involved in the situation (Denscombe 2000). Intrepretivism is predominantly associated with qualitatitive research methods (Fisher 2004). The strengths and weaknesses of both these paradigms will be discussed leading to the proposition of Postpositivism. The key assumption here is the need for multiple constructed realities that upon investigation are influenced by values relative to the subject under inquiry.

A number of authors (Alexander 1990, Miles and Huberman 1994) propose that the post positivist paradigm encourages the acceptance of both positivism and interpretivism and therefore subsequent research can utilise both quantitative and qualitative data (mixed methodology). The research design in this thesis is theory building from multiple case studies using Eisenhardt's eight-step procedure for theory development (Eisenhardt 1989, 1991, and 2007). This approach to theory building recommends the use of both quantitative and qualitative data.

Also, consideration in this study is given to the methodological norms in related fields of inquiry. McDonagh (2002) when investigating the emergent theory of sustainable communication by analysing the two case studies of Cafédirect and Rugmark, also applied Eisenhardt's (1989, 1991, 2007) eight-step procedure for theory development. The thesis will now discuss the competing research paradigms.

3.2.1 Positivism

There exist a number of classified paradigms that are used to frame research inquiry. However, one paradigm, positivism, has long been the driving force of scientific research (Giddens, 1976). The positivist paradigm asserts key beliefs as 'facts' about reality, knowledge, values and logic of inquiry. Adoption of this paradigm poses implications for how the inquirer seeks to conduct and accomplish the research process. Positivism invokes the idea of a shared reality, which can be explored through experimental, controlled inquiry. This empirical study *"...formally tests nomothetic propositions...towards creating enduring theoretical structures."* (Rist, 1977, p.43). These *a priori* statements are verified by results of inquiry and can therefore be generalised across time and space (Lincoln and Guba, 1985). This in turn advances theory and knowledge building in the chosen area of inquiry. This is crucial to positivism; that observations of phenomena, once verified, represent 'real' facts that are true in any context. Positivism provides the world with a truth about "*how things really are*" (Guba, 1990, p:19). To this end, quantitative analysis is conducted in order to manipulate and test the data to prove its factual qualities. For the positivist, *objectivity* is integral to the relationship between the researcher and the subject of the research. The researcher stands independent from the subject of investigation (Smith and Heshusius, 1986). This means that inquiry is *value-free* and not subject to influence by the researcher. The qualities of positivism are well documented, though they also form the basis of criticisms of this paradigm in the latter part of the 20th century (Tashakkori and Teddlie, 1998). These criticisms expose weaknesses in positivism as the primary methodological paradigm.

The period of debate that resulted in positivism being discredited has been referred to as the 'paradigm wars' (Alexander 1990). The outcome of this debate was the emergence of competing (or accommodating) paradigms to guide research based on different core assumptions to those of positivism. Positivism was undermined by the changing view of how to study the social world, as something distinct from the study of the physical and natural sciences. Firstly, it has been contended that the preoccupation within positivism of observation leading to theory building is untenable, amounting to 'naïve realism' (Lincoln and Guba, 1985). Also, historical analysis of the nature of scientific progress has challenged the positivist notion of advancement by the steady accumulation of theory (Kuhn, 1970).

Consequently, other paradigms were developed that either accommodated the criticisms of positivism (postpositivism), diverged from the traditional view (critical theory, constructivism) or reframed the issue to 'what works best' (pragmatism). The utility of these alternative paradigms is to provide philosophical underpinning for research in 'new' or non-scientific fields (Alexander 1990).

3.2.2 Constructivism

The paradigm most distinct from positivism is constructivism (or phenomenology). The constructivist paradigm presents a world-view that is directly opposite to positivism, from an *absolute* to a *relative* world-view (Berger and Luckmann 1966, Weick 1969). Constructivism was developed as a response to the dominance and dissatisfaction with positivism (and postpositivism). Its origins lie in the interpretive / hermeneutical methodology of Dilthey and Weber (Smith, 1983; Smith and Heshusius, 1986). Constructivism possesses a number of qualities that present a different view of the world and of the nature of inquiry to the prevailing positivist view. Primarily, the divergence is ontological, where multiple realties are created and exist, and change as their creators change (Tashakkori and Teddlie, 1998). Both Dilthey and Weber asserted that the positivist/realist approach cannot enable an understanding of a complex social reality (Smith and Heshusius, 1986). This type of reality is constructed temporally and is honed by individual values, beliefs, experiences and contexts. This provides the rationale for the basic assumptions of constructivism, including the intertwining of the 'knower and the known' (epistemology), the accepted influence of values upon inquiry, and the impossibility of generalisability across time and contexts. Furthermore, constructivism advocates inductive, rather than deductive reasoning (Janesick, 2003).

Constructivist inquiry works from particular findings related to phenomena, leading to general theorising – where this is applicable in a given time and context. Its methodology is hermeneutical, rather than experimental and aims to "*distil a consensus construction that is...informed and sophisticated.*" (Guba and Lincoln, 1994, p. 111). Clear division between proponents of the prevailing positivist paradigm and the constructivists, led to the *incompatibility thesis*. This prompted a period where debate amongst proponents of either paradigm were arguing for superiority (Firestone, 1987; Gage, 1989; Lincoln and Guba, 1985; Rich and Patashnick, 2002; Smith and Heshusius, 1986). The outcome of this was dėtente, where the debate was seen to be inimical to progress in methodological research. This signified the emergence of pragmatism as a viable paradigm, hence a *compatibility thesis* (Howe, 1988; Rist, 1977).

In this view, traditional divisions between paradigms are seen as out-dated and unhelpful in tackling research problems (Howe, 1988; Johnson and Onwuegbuzie, 2004). Rather, the focus is on accommodation of paradigms to suit the research question, and the orientation and values of the researcher. This tailors research on the basis of methodological assumptions that enable an examination and understanding of the natural and social world. Thus, there is no 'best' methodological paradigm to adopt for the research, and the implications this has for choice of methods.

Given the political dimension of this study Marxist approaches and realism is also worthy of discussion. According to Peet and Lyons (1981), Marxism is a critical approach to modern society, which aims not only to study, but also to change social processes. Marxist approaches aim to do this by exposing the inherent injustices within present social relations, which they argue are the result of the economic bases of capitalism. They argue that social relations are constrained within regulating capital structures. These structures exist as a means of enforcing and reproducing wealth for a minority of the population through the exploitation of labour. Marxists argue that positivism failed to recognise the economic and political constraints imposed upon spatial patterns by the way in which society worked (Cloke *et al.,* 1992). Further, they suggested that positivistic methods restricted analysis to how things actually seemed to be, rather than considering how they might be under different social conditions. Realism is concerned with investigating the underlying mechanisms and structures of social relations and identifying the building blocks of reality (Unwin 1992). Realism shares with positivism the aim of explanation rather than understanding. However, here the similarities end. Whilst realists do believe there is a real world that exists independently of our senses, perceptions and cognitions, in contrast to analytical empirical approaches, realists argue that the social world does not exist independently of knowledge and that this knowledge, which is partial or incomplete, affects our behaviour (May, 1993).

According to Unwin (1992) realists want to find out what produces change and what makes things happen. Unlike positivism which posits a closed system of discrete events that can be tested with specific hypothesis, realism presents an alternative by assuming a stratified and differentiated world made up of events, mechanisms and structures in an open system which is complex. Realism seeks to investigate the underlying mechanisms of policy and practice that produces change.

Given the outline of methodological development above, the choice of methodology was made on the basis of suitability with the research question, and the methodological norms when investigating new phenomena such as FT. Mindful of this and the need for depth and quality of data and rigorous analysis, the orientation and values of the researcher prompt the acceptance of postpositivism, rather than pragmatism. A detailed explanation of and rationale for this choice is provided in the next section.

3.2.3 Postpositivism

Postpositivism represents the modified view of modern science. The rationale for postpositivist inquiry is to accommodate the criticisms of positivism, without losing some of its key elements. Postpositivism is marked by key works, such as Kuhn (1970) and Popper (1981), altering how we should understand the use of science in investigating the world. Kuhn's (1970) historical analysis of the nature of scientific progress altered the way that many researchers understand how progression is made in science. Popper's considerable influence is felt mainly through the concept of falsification – a key part in discrediting verificationism and positivism in the latter part of the 20th century. Further, Popper (1981, p.113) determined that his version of falsificationism modified elements of 'scientific' methodology. For example, propositions are "*basic statements' rather than factual, spatio-temporally universal theories...*". Therefore, it has almost become the default option for scientific-orientated social research to adopt a postpositivist framework. Another key development of postpositivism came from Campbell and

Fiske (1959), who pioneered the use of both quantitative and qualitative research methods, whilst carefully adhering to key assumptions of the positivist orthodoxy.

Central to the development of postpositivism is the acceptance of three key assumptions: value-ladenness of inquiry, nature of reality and theory-ladenness of facts (Tashakkori and Teddlie, 1998, p.8). First, the value-ladenness of inquiry relates to the belief that research (particularly of the social world) cannot be devoid of influence by those who investigate it.

Postpositivism asserts that all inquiry is influenced by values, including choice of research and the methods used, and in the analysis and understanding the outcomes of this research. In this relativist outlook, such outcomes can include theory that is *probably* true but cannot claim to be generalisable across contexts. As Alexander (1990, p.532) comments: "*Theoretical knowledge can never be anything other than the socially rooted efforts of historical agents.*" In postpositivism, the researcher accepts the theoretical framework they seek to progress, and the guarded limitations that any outcomes can have. This diverts from the positivist view of inquiry being value-free, and that observation is "the final arbiter of what can be believed." (Phillips, 1990, p.32). Instead, the researcher must also accept that in the study of constructed social realities, values are important to understand why the phenomenon presents itself in the way it does. This is a concession to the criticisms made of positivism about its suitability for studying the social world. Also, this concession infers the presence of more than one reality, which is a central aspect of positivism. Hence the postpositivist paradigm modifies the traditional scientific basis of 'fact' through the proposition that findings are 'probably true', that are subject to falsification (Guba and Lincoln, 1994).

The key assumption is that there is not one single reality shared by all, where fact is the outcome of our rigorous and objective analysis of quantities of data. Rather there are multiple, constructed realities that upon investigation are influenced by values relative to the subject under inquiry. Postpositivism has been criticised on the grounds that it does nothing more than accommodate the failings of positivism, rather than present a completely new paradigm (such as constructivism). Furthermore, critics argue that postpositivism remains much the same as positivism: an inadequate 'realist' lens with which to study social phenomena. The same exclusions apply in this case, that attempting to state things as 'true' or even 'probably true' are untenable on the grounds of multiple realities advocated in the idealist paradigms.

According to Eisenhardt and Graebner (2007) one of the advantages of building theory from case studies is the potential to use data both qualitative and quantitative data from multiple sources. They argue this provides the opportunity to take advantage of rich empirical data. Weick (2007) agrees and supports the value of richness in case study research. Eisenhardt and Graebner (2007) also propose that multiple cases create more robust theory because the propositions are more deeply grounded in varied empirical evidence. Constructs and relationships are more precisely delineated because it is easier to determine accurate definitions and appropriate levels of construct abstraction from multiple cases.

Yin (1994) suggests that 5-10 cases is ideal for PhD research, however in this study the author has selected the two cases of Cafedirect and Divine. Both companies are regarded in the UK as the first examples of 100% FT branded companies, whose aim was to establish a UK mainstream position. Both companies were also incubated by the NGO Twin Trading and are regarded as successful FT brands (Davies 2007). The author argues, what maybe lost in breadth is more than compensated for in the depth achieved by access to both a rich variety of data sources and a range of key informants. This approach also appears to meet the requirements of Eisenhardt and Graebner (2007), who propose that theory building from case studies is appropriate in situations when:

- No existing theory offers a feasible answer
- Illuminating cases are available from which to develop theory
- Also the research question needs to be scoped within the context of an existing theory, which in this case is resource advantage theory.
- Also the justification relies heavily on the ability of qualitative data to offer insight into complex situations that cannot be done by quantitative data alone.
- Rich variety of data sources is available including interviews, archival data, documentary evidence, observations etc

- Researcher has access to highly knowledgeable informants

In this thesis the author has already established that both Cafédirect and Divine are unique FT cases based on their mainstream position in both hot beverage and confectionery markets respectively. The author due to previous experience and his relationship with both companies has good access to both informants and internal archives. This position will support the use of rich evidence from both qualitative and quantitative sources (mixed methodology). It is interesting to note that in 2005 a number of winning authors from the *Academy of Management Journal* used the building theory from case studies approach (Ferlie, Fitzgerald, Wood and Hawkins 2005 and Gilbert 2005).

3.3 Methodological Norms

Miles and Huberman (1994) propose the quantitative versus qualitative argument is unproductive. Howe (1985, 1988) proposes that quantitative and qualitative methods are inextricably intertwined, not only at the level of specific data sets but also at the level of study design and analysis. Rossman and Wilson (1984, 1991) suggest three broad reasons to link qualitative and quantitative data:

1. To ensure confirmation or effective triangulation
2. To elaborate or develop analysis to provide richer data
3. To create new lines of thinking and provide fresh insights

They also argue that quantitative data can help qualitative data by providing background data, plus supporting design and analysis. An important factor was establishing the normative methodological approach in the study of organisational case studies. The Development of theory is a central activity in organisational research. The approach used in this thesis is based on data collection from case studies. Eisenhardt (1989, 1991, and 2007) describes the process of inducting theory via case studies. She explains that some parts of this process such as problem identification and construct validation as similar to hypothesis-testing research (deductive). Eisenhardt (1989, 1991, and 2007) also argues that building theory from case studies is suited well to new topic areas; FT is one such area. A useful way to build theory from case studies is to first sketch the theory in the introduction. Then in the body of the work write each proposition and link this to the supporting empirical evidence for each construct. It is also crucial to write the underlying theoretical arguments that provide the logical link between the constructs within a proposition. These arguments can be drawn from the case evidence.

3.4 Research Strategy

The research strategy in this thesis is theory building from multiple case studies using Eisenhardt's eight-step procedure for theory development shown in table 6 (1989, 1991 and 2007). Both Yin (1994) and Stoecker (1991) propose the case study research strategy as a rigorous and comprehensive method of research. Yin (1994) defines this:

> *"A case study is an empirical inquiry that investigates a contemporary phenomenon within its real life context especially when the boundaries between phenomenon and context are not clearly evident" (Yin, 1994, p: 13)*

According to Yin (1994) case study inquiry is able to cope with technically distinctive situations with many variables of interest and data points. This approach to theory building recommends the use of both quantitative and qualitative data.

Table 6 Process of Building Theory from Case Study Research (source: Eisenhardt 1989 p: 533)

Step	Activity	Reason
Getting Started	Definition of research question Possibly a priori constructs Neither theory or hypothesis	Focused efforts Provides better grounding of construct measures Retains theoretical flexibility
Selecting Cases	Specified population Theoretical not random sampling	Constrains extraneous variation and sharpens external validity Focuses efforts on theoretically useful cases
Crafting Instruments and protocols	Multiple data collection methods Qualitative and quantitative data combined Multiple investigators	Strengthens grounding of theory by triangulation of evidence. Synergistic view of evidence Fosters divergent perspectives and strengthens grounding
Entering the Field	Overlap data collection and analysis including field notes Flexible and opportunistic data collection methods	Speeds analysis and reveals helpful adjustments to data collection Allows investigators to take advantage of emergent themes and unique case features
Analysing data	Within case analysis Cross-case pattern search using divergent techniques	Gains familiarity with data and preliminary theory generation
Shaping Hypothesis	Iterative tabulation of evidence for each construct Replication, not sampling, logic across cases Search for evidence to why relationships	Sharpens construct definition, validity and measurability Confirms extends and sharpens theory Builds internal validity
Enfolding Literature	Comparison with conflicting literature Comparison with similar literature	Builds internal validity, raises theoretical level, and sharpens construct definitions
Research Closure	Theoretical saturation when possible	Ends process when marginal improvement becomes small

Eisenhardt's (1989) roadmap utilises the comparative method for developing grounded theory developed by Glaser and Strauss (1967), which relies on the continuous comparison of data and theory beginning with data collection. Eisenhardt's (1989) building theory from case studies is clearly informed by grounded theory and applies many of its principals. However, there is a distinction between building theory from cases and a fully-fledged grounded theory approach. This study clearly uses cases to test and extend an existing theory rather than to generate new theory from scratch as is the case with a full-blown grounded theory application. Miles and Huberman (1994) propose that data analysis needs to be ongoing throughout a study. This roadmap framework also uses the work by Yin

(1994) on validity and reliability in the design of case study research. Previous work by Miles and Huberman (1994) on specific techniques for qualitative data analysis are also utilised in Eisenhardt's roadmap. Eisenhardt combines these approaches to building theory from case studies and proposes the road map above (see table 6). Case studies typically use multiple data collection methods to gather evidence such as archives, interviews, questionnaires and observations, evidence may also be qualitative and quantitative. Yin (1994) proposes that case study research is appropriate for exploratory research and also argues that case method is very appropriate in examining contemporary events. Edmondson and McManus (2007) agree and propose that research using case studies is appropriate in investigating unexplored research areas, where research questions are about 'how' and 'why'. The author in this research was previously Head of sales and marketing at Divine and also worked closely with Cafedirect. This has allowed the author to immerse himself into the research and investigate from multiple perspectives and realities. Due to his access to both case study organisations the author is in a good position to use multiple data collection methods. Miles and Huberman (1994) argue that multiple case sampling adds confidence to findings. Herriott and Firestone (1983) argue that evidence from multiple cases is considered more compelling and robust.

However there are some criticisms of case study strategy. The main areas include the use of unequivocal evidence or biased views influencing the direction of results and conclusions (Robson 1994). Reliance on a single case and the length of time taken to carry out case study research are other problems. Another challenge of case study research is the need to master a range of data collection techniques. Denzin (1978) also argues that using multiple sources of evidence can be costly to gather. During this thesis a number of the interviews and the subsequent transcribing was funded by the DFID as part of a measuring the impact of FT on the UK food and drinks industry.

A common misunderstanding of case study research is to confuse this with ethnographies (Fetterman 1989) or with participant observation (Jorgensen 1989). Yin (1994) suggests a number of approaches to managing bias within case study research, including discussing the case with friends, colleagues and other experts. Also ensuring case reports are read and approved by the key informants involved in the research. Eisenhardt and Graebner (2007) also highlight the challenges of biased interview data in building theory from case studies. They recommend using numerous and highly knowledgeable informants, who view the phenomena being investigated from diverse perspectives. According to Eisenhardt and Graebner (2007), these informants can include organisational actors from different hierarchical levels, functional areas, groups, geographies and outside observers such as market analysts. This is certainly the case in this thesis (see section 3.4.4). According to Yin (1994) case study investigators must also possess a range of skills including; ability to be flexible and adaptive, must have a firm grasp of the issues being studied, should be a good listener, should be in a position to manage bias and also need to maintain a grasp of the issues throughout the study, including awareness and experience of the different data collections methods (see figure 10). The author has managed to maintain good relationships with both case companies via working on Knowledge Transfer partnerships and strategic review work for both organisations. Yin (1994) also proposes a helpful guide to the characteristics of exemplary case studies which include:

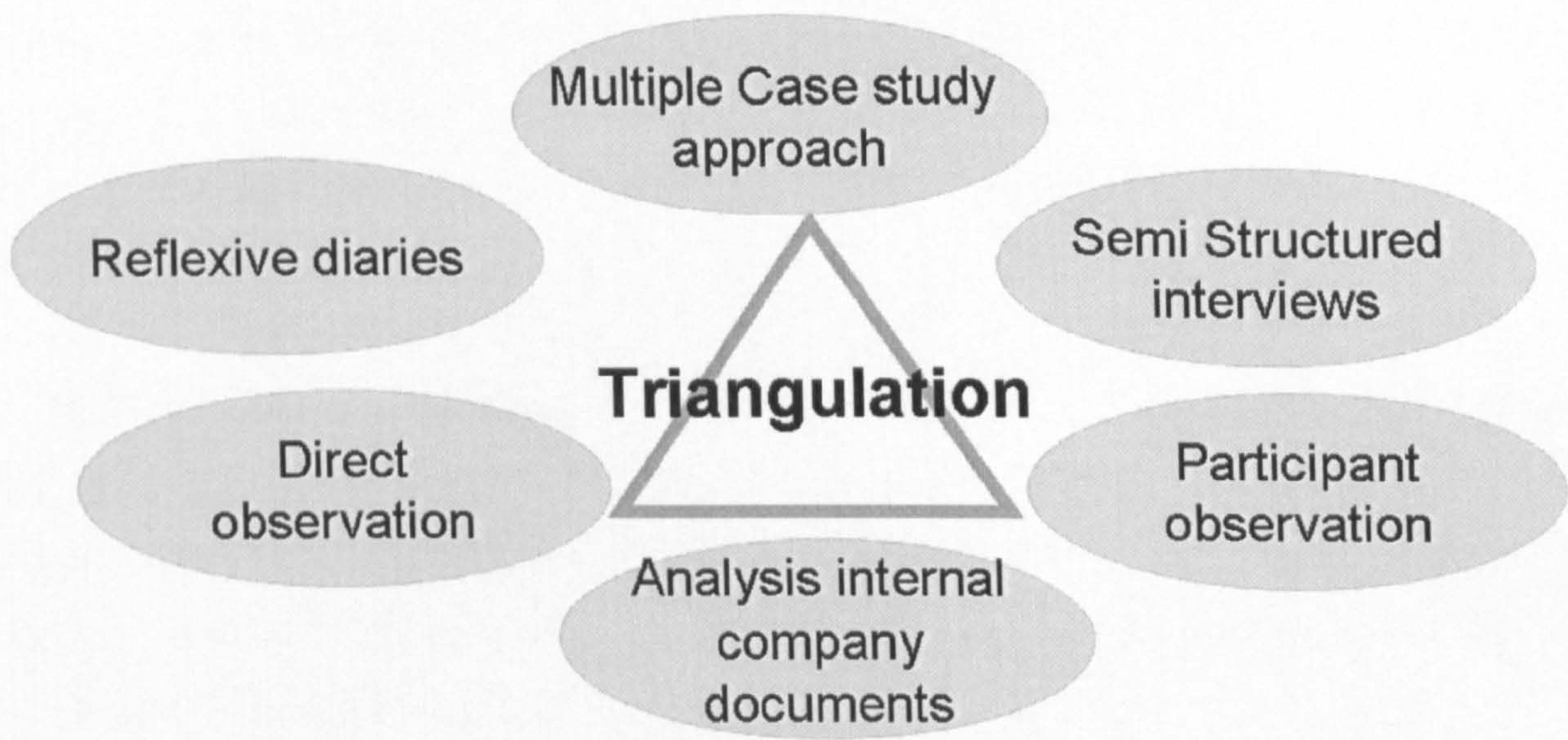
- Cases must be significant and be unusual and of general public interest.
- Critical pieces of information should be included in the case and be supported with sufficient evidence
- Case studies should consider alternative perspectives i.e. rival propositions
- Case study reports should be compiled in an engaging manner

This chapter will now discuss the important aspect of triangulation.

3.4.1 Triangulation

Yin (1994) argues the most important advantage of using multiple sources of evidence is the potential for triangulation. This process is the development of converging lines of enquiry. Triangulation is "*...a strategy that (aids) the elimination of bias and allows the dismissal of plausible rival explanations (of) a truthful proposition about some social phenomenon...*" (Mathison, 1988, p.13). Triangulation is a means to verifying collected data via corroboration of results from different sources, investigators or methods. The value of triangulation is to reduce the impact of methodological bias upon research. Utilising a single research method (for example only quantitative methods) allows the inherent bias of that approach to prevail throughout the research. Greene *et al.* (1989, p.259) state that triangulation can "*...increase the validity of constructs and inquiry by counteracting or maximising the heterogeneity of irrelevant sources of variance...*". Triangulation encourages proper verification of findings and reduces the likelihood of alternative explanations for the outcomes of the research. Yin (1994) proposes multiple sources of evidence can provide multiple measures of the same phenomenon (see figure 10).

Figure 10 Convergence of Multiple Sources of Evidence (adapted from Yin 1994, p: 13)



It is frequently invoked as a verification strategy in mixed methods research. Yin (1994) proposes that any finding or conclusion in case study research is likely to be much more convincing and accurate if it is based on several different sources of information. Patton (1987) discusses four types of triangulation including:

1. of data sources
2. amongst different evaluators
3. of perspectives on the same data set (theory triangulation)
4. of methods

However, it must be noted that triangulation rests on some key assumptions; principally that each method measures the same phenomenon independently and simultaneously (Greene *et al.*, 1989). As these authors elucidate, there exist alternatives to triangulation, where key factors such as method independence, simultaneous deployment and paradigm congruence are different to the conventional requirements for triangulation. These include *complimentarity* and *developmental design.* In a similar vein to choice of methodological paradigm, the appropriateness of each mixed method design is contingent upon assumptions, as mentioned above. A key task of the research is interpreting findings from an across-methods approach to align *towards* convergent findings.

3.4.2 Multiple Sources of Evidence

Yin (1994) recommends in case study research the use of different sources of highly complimentary evidence including; documentary evidence, interviews (structured, open-ended and focused), direct observation, participant observation and archive information (see figure 10). This thesis will employ a number of these approaches.

Firstly, *documentary evidence* should be the focus of explicit data collection plans. For case study research the most important use of documents should be to corroborate and augment evidence from other sources. In this thesis the author will source internal documents (restricted access) from both companies that are accessed by special permission only, such as:

- Sales reports from both Divine, Cafédirect and Cooperative Food sales ledgers
- Meeting minutes
- Strategic planning documents from both companies
- Shareholder documents from Cafédirect (author is a shareholder)

In addition, published documentary evidence from a range of sources including academic journal articles will also be used. Secondly, a key source of evidence is *direct observation*, which involves making targeted field visits to the case study sites to create opportunities for passive direct observation. This approach is good for providing additional evidence about a topic being studied and can also be carried out at the same time as the researcher is collecting other evidence. For this thesis the author will observe a number of key events, including shareholder meetings, strategic planning meetings and product/campaign launch events, these are presented in table 7.

A third source of evidence in this study is *participant observation,* which is a mode of observation where the researcher is not passive and may instead assume a variety of roles and actually participate in the event itself. For example, the author was invited to participate in a strategic visioning day for Divine. This took place in London on 17th July 2007; the author was invited along with eighteen other participants to discuss the future vision for Divine. Robson (1994) suggests that gaining access to events is one of the key challenges in participant observation. In this study the author's relationship with both case study organisations will ensure an excellent level of access to key events. Lofland and Lofland (1995) outline two forms of participant observation:

- *Participant as an observer,* which is when the participant reveals their intentions to the observing group from the commencement of the study
- *Participant acting covertly,* which means research community is not aware they are being observed for research

Due to the trusting relationships already established with both case organisations the author has already been granted permission to observe key events for this thesis. Therefore the author will be acting as a participant observer during this thesis. Another challenge identified by Robson (1994) is the potential for bias when acting as a participant as you maybe required to take on a supportive/advocacy role during events, rather than a more critical approach. Fortunately, in this study the author is requested by both case study organisations to take a critical approach and to challenge current thinking. Robson (1994) proposes that observation (direct and participant) is a very appropriate technique for investigating real life situations.

In this thesis both direct and participant observation are employed as a supportive approach to the main effort in this study, which will be focused on semi-structured interviews (see sections 3.4.3 to 3.4.7). In addition, archival records will also be utilised in this thesis particularly sales ledger reports, meeting minutes and internal strategic planning documents. The author worked as Head of Sales and Marketing at Divine from 1999-2003 and kept field diaries during this time period to record key events, this approach to keeping a diary also continued during the research for this thesis. The author has also been granted special permission by both case study organisations to view their respective archives (meeting minutes, strategic planning documents etc), which are under restricted access. Finally, a major thrust of this thesis is a series of semi-structured interviews (first and second phase interviews). The interviews will be qualitative in nature and will explore emerging themes. The thesis will now discuss the qualitative interview approach (Askey and Knight 1999).

Table 7 Direct and Participant Observation Events

Event	Date & Venue	Approach	Further details
TWIN Trading's '20 years on- Fair Trade at the Crossroads' conference	22nd-23rd September 2005, London	Direct Observation *(DO1)*	Over 100 participants including Northern fair trade companies (both Divine and Cafédirect) and producer groups discussing the way forward for FT
Divine Board meeting	27th January, 2006	Participant Observation *(PO1)*	All eight board members present with agenda item to discuss this PhD.
Cafédirect Annual General Meeting (AGM)	30th March 2006, London	Direct Observation *(DO2)*	300 shareholders, plus producer partners and board for the first AGM has a plc
Divine Chocolate strategic visioning day	9th July 2007, London	Participant Observation *(PO2)*	Eighteen key participants including board members and critical friends
Friends of Cafédirect Campaign day	October 11th, 2007, London	Participant Observation *(PO3)*	Over sixty participants brought together to discuss friends of Cafédirect initiative
Cafédirect	April 18th 2008, London	Direct Observation *(DO3)*	Over 300 participants including shareholders producers and Cafédirect staff
Divine Chocolate, Strategic Planning workshop	July 8th 2008, London	Participant Observation (*PO3*)	All Divine team members and colleagues from TWIN to develop SWOT Analysis for Divine
Cafédirect AGM	March 27th 2009, London	Direct Observation *(DO4)*	Over 250 participants including shareholders, producers and Cafédirect team
European Fairtrade Towns conference	January 26-27th 2008, Brussels, Belgium	Participant Observation (PO4)	Over 130 Fairtrade campaigners from all around the world.
ESRC workshop on Uniting Research, Policy and Practice in Fair Trade: A Knowledge Exchange Workshop	April 20th-21st BRASS Institute, Cardiff University.	Participant Observation (PO5)	Over 30 key fair trade academics and practitioners

3.4.3 Qualitative interviews

Qualitative research *"studies things in their natural settings, attempting to make sense of, or interpret, phenomena in terms of the meanings people bring to them."* (Denzin and Lincoln, 2003, p. 2). Qualitative methods can be implemented in a variety of ways; in fact the range of qualitative tools is extensive and continues to grow. The traditional antipathy for qualitative research (producing 'soft' data) is outdated (Denzin and Lincoln, 2003; Miles and Huberman, 1994). The key informant interview technique will be one of the methods used for this research.

Exploratory interviews are needed to provide a focus on the case study companies Divine and Cafédirect. The literature review established that competition theory in FT social enterprises is under-researched. The fundamental orientation of the research is the exploration and examination of unique case studies. The exploratory interview allows the interviewer to better understand the nature of phenomena present in a particular context (Fontana and Frey, 1994). They also enable further research to be built on *"...sound conceptualisation and instrumentation..."* drawn from the exploratory investigations (Oppenheim, 1992, p. 65). To enable this, expert input was requested from the management boards of both Divine and Cafédirect to narrow down the research focus. Therefore, the exploratory interviews will aim to identify the constructs. Exploratory research is ideal for "*confirming and disconfirming cases*", as well as determining patterns emerging in the field of study (Patton, 2002, p. 329). Furthermore, it is an accepted method for adding depth to propositions drawn out of previous scholarly work. In contrast to the *standardised* form, exploratory interviews are suited to samples where the outcomes of the interview are not pre-determinable. In the context of this research, the deductive approach from the literature review exposed the need for further research in the FT sector. However, it did not indicate how the research should be focused. The exploratory interviews are well suited to the task of providing direction to research where literature surveys do not suffice. This inductive phase of the research will involve generating theoretical propositions from the data by identifying regularities. Using both a deductive and inductive approach is a key component of Eisenhardt's (1989, 1991) approach to building theory from case studies.

Essentially, this exploratory stage is a stakeholder consultation: giving key informants from the sector the opportunity to contribute to and / or direct research in their sector. Eisenhardt's (1989, 1991) eight-step procedure for theory development recommends the use of multiple data collection methods. Hence the findings from these exploratory interviews are used in combination with other sources (see section 3.4.2).

3.4.4 Sampling

Purposive sampling is employed in this thesis. Jankowicz (2000) explains that purposive sampling involves selecting people whose views are particularly relevant to an issue. The key informant interview technique will be applied to the purposive sample. This technique differs from other interview forms as respondents are chosen on the basis of their idiosyncratic specialised knowledge, rather than being randomly chosen (Jankowicz 2000). As discussed later in section 4, market analysts regard both the UK confectionery and hot beverage markets has particularly concentrated between major manufacturers, supermarket retailers and major wholesalers (Mintel 2006a, 2006b). Statistical analysis of FT sales in both Cafédirect and Divine's sales records show their top ten customers to be a mixture of both conventional supermarkets, major wholesalers combined with both Fairtrade/ethical wholesalers and Fairtrade/ethical retailers (Divine and Cafedirect's Sales Ledgers 2007). All the interviewees (initial and main phase) selected will hold senior positions within key sector organisations including:

- Supermarket trading managers (buyers) of both coffee and confectionery
- Supermarket managers of Corporate Social Responsibility (CSR)
- Senior executives in major competitors
- Department store trading managers
- Trading managers in wholesalers including wholesalers to student and school outlets
- Trading managers in coffee shop chains
- Fair trade industry key informants e.g. senior executives at the Fairtrade Foundation
- Media journalists such as ethical experts, confectionery and coffee industry writers

- Senior managers at both case study social enterprises, Cafédirect and Divine.
- Food service wholesalers that supply work place cafes and restaurants
- Alternative Trade Organisations in the UK that distribute both Cafédirect and Divine Chocolate product ranges.
- Charity retailers who retail both Cafédirect and Divine Chocolate product ranges.
- Senior executives in southern producer groups

The sampling frame for the initial phase of eight interviews is presented in table 8.

Table 8 Exploratory interviews (first stage) with key informants (semi-structured)

Name and Position	Stakeholder type	Date and venue
Senior Executive of Cafédirect	Case organisation A	April 3rd 2006, Cafédirect, Head Office, London
Senior Executive of Divine Chocolate Ltd	Case organisation B	February 14th 2006, Divine Chocolate Head Office
Confectionery buyer	Multiple supermarket A	April 4th 2006, multiple supermarket A, Head Office.
Trading Manager for Confectionery and Hot Beverages	Multiple supermarket B	April 19th, 2006, multiple supermarket B, Head Office.
Confectionery Trading manager	Multiple supermarket C	May 15th, 2006, multiple supermarket C, Head Office.
Senior Executive at the Fairtrade Foundation	Independent body monitoring and awarding the Fairtrade Mark	May 15th 2006, Fairtrade Foundation, Head Office, London
Head of Supermarket Brand and Head of Fairtrade Marketing (two informants)	Multiple supermarket A	November 8th 2006, multiple supermarket A, Head Office.
Senior Executive at leading Multi-national Food group competing in both hot beverage and confectionery markets.	Competitor A	November 16th 2006, UK Head office of competitor A.

The different stakeholder groups covering the key channels of distribution in the UK hot beverage and confectionery sectors will be investigated. According to Mintel (2008d) the UK food retailing sector is one of the most concentrated in Europe. The top 5 supermarkets by market share (Tesco, Sainsbury's, Asda, Wm Morrison and the Cooperative Food Group) account for over 70% of all UK food retail sales (Mintel 2008d). Supermarket buying is centralised with individual buyers (sometimes called trading managers) deciding product choice across all supermarket stores for all product categories (Mitchell 2001). It means that in the UK there are five key supermarket buyers of both hot beverages and confectionery respectively, who have a major influence on these two key market sectors. This further justifies the purposive sampling approach employed in the qualitative interviews in this thesis.

The sampling frame for the main interview phase is presented in table 9. In this study buyers in all five major supermarkets are interviewed as part of the interview sample (see tables 8 and 9). Also three corporate responsibility managers from three of the major supermarkets, plus a chief executive and a FT marketing manager from a multiple supermarket will also be interviewed. In addition, six buyers/trading managers in other distribution channels; including department stores, coffee shops, wholesalers to retail, vending and food service catering outlets will be interviewed. Three key informants in the Fairtrade/ethical sector including executives from two wholesalers and an ethical retailer will also form a key part of the sample. In addition, other key opinion leaders such as media journalists in ethical issues, food and drink matters, business and consumer affairs plus FT campaigners will also be interviewed. Senior executives in two key competitor organisations also form part of the designed sample. Two more senior executives in the case firms Cafédirect and Divine will also be interviewed, plus two senior executives in their partner organisations. In addition, two southern producer representatives (farmer organisations) will also be interviewed along with a buying group representative for 58 independent newsagents in North London. Finally, two executives from respective Trade Associations will also be interviewed. A potential criticism of this sample is the reliance on senior executives, however the author would argue that in these supply chains organisations such as supermarkets are highly centralised in their decision making about buying and eventual product choice. Kaplinsky (2004) argued there is a lack of research investigating these key chain governors in supply chains such as coffee and confectionery, hence the focus on these key decision makers in this thesis. Also the author has not consulted individual consumers but will seek the opinion of FT campaign groups, consumer affairs journalists and market analysts to seek expert opinion across a range of consumer groups.

These interviews will provide multiple perspectives across two market sectors. All channels of distribution will be investigated building significantly upon the initial exploratory phase (see table 8). A vital requirement is that all key informants must hold posts which mean they have a good level of knowledge relating to their particular area of the FT sector (Jankowicz, 2000). All interviews will be recorded and transcribed to print. This new evidence will help to craft instruments and protocols for this thesis (see table 6, step 3). The specialist knowledge of the key informants for the main phase interviews can be found outlined in Table 9. It is important to note here that due to the category management approach in supermarkets, buyers are often assigned specific responsibility for a particular product category. Therefore when investigating different sectors such as confectionery and hot beverages, it is necessary to interview several informants within the same supermarket business. An exception to this is the Trading Manager at the smaller multiple supermarket B, who is responsible for buying across both confectionery and hot beverage sectors. In the case of wholesalers the trading manager is sometimes responsible for buying across categories and therefore one informant can provide the knowledge of both market sectors. This is also the case in the ethical wholesalers and retailers, whose representatives interviewed in this study also buy for both product ranges (confectionery and hot beverages).

In summary, the sample covers the main channels of distribution, key customers of Divine and Cafédirect and other key influences in the respective market sectors. The combined total of semi-structured interviews is forty, with eight from the initial phase and thirty two from the main phase. Due to the nature of both the informants job roles (explained above) and their associated level of knowledge, twenty seven of the informants are asked questions pertaining to Divine and twenty of the informants asked questions associated with Cafédirect. This is shown in appendices 5-8.

Table 9 Main Phase Key Informant Interviews

Key Informant Category	Position	Specialist Knowledge
SUPERMARKET BUYERS		
Multiple Supermarket A	Hot beverage buyer	15 years buying experience with 7 years as hot beverage buyer for 3,000 UK stores.
Multiple Supermarket D	Confectionery buyer	5 years experience as confectionery buyer for 200 UK stores
Multiple Supermarket E	Confectionery buyer	3 years experience as confectionery buyer for 250 UK stores
Multiple Supermarket E	Hot Beverage Buyer	4 years experience as beverage buyer for 300 stores
SUPERMARKET SENIOR MANAGERS		
Multiple Supermarket A	Corporate Social Responsibility (CSR) Manager	7 years experience as supermarket CSR manager
Multiple Supermarket E	CSR Manager	3 years experience as CSR manager
Multiple Supermarket F	CSR Manager	4 years experience as CSR manager
Multiple Supermarket A	Chief Executive	25 years experience in UK Food Retail
Multiple Supermarket A	Fairtrade Marketing Manager	15 years experience of marketing in Food Retail
BUYERS/MANAGERS IN KEY DISTRIBUTION CHANNELS		
Department Store A	Confectionery buyer	2 years experience as buyer with 750 UK stores
Coffee Shop chain A	Trading manager	3 years as buyer with 600 UK coffee shops
Wholesaler A (mainly to public sector)	Trading manager	5 years as trading manager at leading vending wholesaler
Wholesaler B (independent newsagents and petrol forecourts)	Trading manager	20 years experience as trading manager in major national wholesaler to independent newsagents
Wholesaler C (food service, work places and public sector)	Chief buyer	6 years experience of buying for food service company supplying workplace restaurants, café's etc
Wholesaler D (Student Unions)	Managing Director	15 years as Managing Director of wholesaler to college and university outlets

Table 9 Key Informant Interviews for Main Phase of Research continued ...

SENIOR EXECUTIVES IN ETHICAL SECTOR		
Fairtrade/ethical distributor A (both Divine and Cafédirect)	Managing Director	Managing Director for 14 years and also has a seat on the board of Cafédirect
Fairtrade/ethical wholesaler B (wholesale both Divine and Cafédirect)	Marketing Manager	6 years experience
Fairtrade/ethical retailer (for Divine and Cafédirect)	Trading manager	8 years as trading manager buying for 800 UK high street shops
MARKET ANALYSTS		
Market analyst A	Food writer and journalist on ethical issues	10 years as leading food writer
Market analyst B	Food writer & journalist on ethical issues	12 years as leading writer & analyst on ethical food issues
Market Analyst C	Consumer issues journalist	4 years as consumer issues journalist in National newspaper
Market Analyst D	Trade confectionery journalist	Editor of leading industry publication for 4 years
Market Analyst E	Journalist in young persons magazine	Consumer issues writer for past 4 years.
COMPETITORS		
Competitor A	Senior Executive (manufacturer of both coffee and confectionery)	Head of Corporate Affairs for 11 years
Competitor B	Senior Executive (manufacturer of confectionery)	Global Director of Ethics for 5 years
CASE ORGANISATIONS		
Divine	Chairperson	Chair for 5 years
Cafédirect	Chairperson	Chair for 4 years
CASE PARTNER ORGANISATIONS		
Partner A	Senior Executive	8 years of experience of working with Divine
Partner B	Senior Executive	13 years of experience working with Cafédirect
TRADE ASSOCIATION		
Trade Association A	Senior Executive	Director for 10 years
Trade Association B	Senior Executive	Head of Communications for 7 years.
NEWSAGENT BUYING GROUP		
Head of buying group	Senior Executive of buying group and owner of 4 independent newsagents	Head of buying group for 2 years and owner of own newsagent business for 12 years.

Initial approaches will be made via letter (approved by both Divine and Cafedirect); follow-up telephone calls will then be made to arrange appointments for the interviews. Each interview will be recorded on the permission of the informant; each interview will then be transcribed to print. A number of the interviews were funded as part of a Department for International Development (DFID) research project to measure and evaluate the impact of FT models such as Divine Chocolate on the UK confectionery market.

3.4.5 Implications for Research Design

The first phase of interviews consists of series of 8 semi-structured interviews (see table 8) with key informants from the UK Fairtrade, coffee and confectionery sectors. The rationale for this approach is to encourage emergent themes to arise. Analysis of these interviews and other data will produce a legitimate course of action for the main stage of the research. The validity of the interpretations offered here are strengthened via triangulation using multiple methods and sources, thus ensuring greater rigour in the findings and conclusions (Askey and Knight 1999). In addition to this, to ensure construct validity as explained by Yin (1994), a number of key informants will also be asked to review the work in this thesis.

To triangulate, additional fieldwork involved sourcing and analysing stakeholder policies and internal documents from both Divine and Cafédirect. Extensive field work is an important strength of this research approach. The objective will be to confirm any interpretations by triangulation from multiple sources of evidence (Bryman, 1988, Robson, 1994). The key themes resulting from the study will be analysed in the four-step interactive process of data analysis proposed by Miles and Huberman (1994), see figure 10a. This will involve initial data collection, then data reduction via coding (i.e. labelling data into various research themes), building data displays (i.e. theorising ideas about codes and their relationships) and developing propositions to both draw and verify conclusions (Glaser, 1978, Gill and Johnson, 1991).

3.4.6 Interview Structure

Prior to the interviews, a structure will be developed by the researcher to facilitate the interview. A decision is made that the semi-structured interview format gave enough control to the interviewer (the researcher) to direct the flow of the interview. However, this approach also presents the interviewee with enough freedom to elaborate on their answers where they see fit. The semi-structured format is chosen because it is a flexible and informal style of interview technique (Askey and Knight 1999). It is advantageous to the interviewer because it creates an informal, exploratory mood in the interview. This enables the interviewer to engage and empathise with the participant, which is useful when inquiry relates to participant attitudes towards a subject. This flexibility provides more useful outcomes from the interview that more closely reflect the unique perspective of the interviewee. The key interview themes selected for discussion in the semi-structured interviews include:

- *The market performance of both Divine and Cafédirect*
- *The impact of both case studies on their respective market sectors?*
- *To what extent, if at all has Divine and Cafédirect managed to compete?*
- *What specific resources have enabled both companies to compete, if at all?*

Further discussion will take place in section 3.5.3 regarding the research design. However, it is worth highlighting here the work of Carmel (2004), who carried out a quantitative study on assessing the core intangible resources of companies using his *Strategic Analysis Technique* (SAT). Carmel's study involved a structured questionnaire mailed to chief executive officers (CEO's) to rank the core resources of firms as: most valuable, rare, inimitable and non-substitutable. The author can see the value in this approach for a future more quantitative study (see section 6. 4) on both Divine and Cafédirect. However, in this thesis the research is exploratory, with the aim of identifying which particular resources enable Divine and Cafédirect to compete and to investigate both their impact and performance in their respective sectors. The author can also see challenges with the approach of Carmel (2004). Firstly, a mailed-out structured questionnaire to buyers and trading managers, particularly in supermarkets, could potentially result in a low response rate. This is because supermarket buyers can successfully refuse access to researchers and are what Ostrander (1993) describes as an elite setting (see section 3.5.3). The author of this thesis suggests you should aim for face to face access to this type of key informant. Secondly, the author also proposes that terms such as non-substitutable would require further explanation and is not convinced by Carmel's mail-out questionnaire approach.

During the interview, answers will be elicited by asking general, projective questions relating to the key areas for exploration identified. The interviewee will be given as much time as they require to develop their answer and the interviewer will note salient points. An important part of the interview will be to move from the 'general' (introduced by the interviewer) to the specific (achieved by the interviewee). The semi-structured format will allow the interview to be paced appropriately and will encourage the participants to reflect on their answers (Jankowicz, 2000). The interviewer's role in exploratory interviews is one of guidance and minimal interference in the flow of the interview. This enables the interviewee more scope to answer in their way. Also, it should reduce the likelihood of interviewer bias, through 'prompting' particular answers (Oppenheim, 1992). With 'subjective' data collection forms, bias is always likely to be present in some way. Yet, minimising interviewer influence and couching the discussion in general terms will allow the interviewee to decide the specific direction of the interview in the way that they determined. This will be influenced by their particular experience and knowledge of their organisation.

3.4.7 Data Collection and Analysis of Interview Data

In making sense of the extensive qualitative data to be gathered in this study the author has consulted a number of key publications, of particular use are Miles and Huberman (1994), Strauss (1987), Dey (1993) and Coffey and Atkinson (1996). Firstly, the interviewer will record the interviews and make some notes as memos to record interviewee responses. This approach is useful because the interviewer reflects on accounts post-interview to confirm/disconfirm perceptions noted at the time. The method is considered accurate in qualitative research (Macan and Dipboye, 1994). To verify their accuracy, transcripts will be sent back to the interviewee to ensure that their views have been correctly represented as a result of the interview. Miles and Huberman (1994) recommend annotating transcripts immediately after transcribing to note down ideas and memos. These annotations open up the data to start the process of analysis.

Data from the first and main research phase will be analysed using the four-step interactive process of data analysis recommended by both Eisenhardt (1991) and Miles and Huberman (1994), this process is shown in figure 10a. The second step involves coding the data, which allows the creation of categories and themes from the data (Coffey and Atkinson 1996). According to Miles and Huberman (1994) these categories are linked to some particular topic or theme. As Seidel and Kelle (1995) point out codes represent the decisive link between the original raw data (i.e. interview transcripts) and the theoretical concepts. In practice coding is a range of approaches that aid the organisation, retrieval and interpretation of data. Miles and Huberman (1994) suggest that coding constitutes the substance of the analysis, allowing the researcher to differentiate and combine data one has retrieved with the reflections made about the information. They describe a code as a tag or label for assigning units of meaning to the descriptive or inferential information compiled during a research study. Dey (1993) argues the easiest way to code data is to work your way through transcripts, placing a specific code next to each relevant piece of data. Strauss (1987) proposes that qualitative researcher's must learn to code well and easily, as coding is much more than simply giving categories to data. Strauss (1987) suggests coding is about conceptualising the data, raising questions, providing provisional answers about the relationships among and within the data. Miles and Huberman (1994) recommend creating a start list of codes, in this study this start list of codes (see table 10) will be created from a combination of the literature review and the eight initial interviews (see table 8). Miles and Huberman (1994) argue this process of data reduction takes place continuously throughout the life of the study and is not separate from the analysis; in fact it should be part of the analysis. Data reduction eventually organises data in such a way that conclusions can be drawn. However, according to Mishler (1986) some researchers are reluctant to code their interview data in such a systematic and fragmented way, because individual chunks of text are removed from their context. Mishler (1986) recommends analysing bigger sections of text around any given topic to search for illuminative stories and narratives. This approach can be used to show case exemplar's of key themes.

This four-step approach by Miles and Huberman (1994) then recommends cross checking findings by building-up matrix analysis of the major data themes. These data displays are the second major flow of analysis activity; a display is a compressed assembly of information that allows researchers to drill further down into the data conclusions to be drawn. These displays are in contrast to extended text, which can be extremely bulky when faced with a large amount of data. The production of data displays is also part of the analysis, typical data displays include; matrices, displays of coding, graphs, charts and networks. Eisenhardt and Graebner (2007) recommend building rich presentation of evidence in tables and appendixes by building evidence displays. The key evidence displays to be utilised in this study will be both conceptually and role ordered displays. A typical approach is a conceptually clustered matrix, which organises its rows and columns to demonstrate key themes and patterns (Miles and Huberman 1994). For multiple cases any data display needs to be configured to allow cross-case comparison of patterns and themes, both between companies (Divine and Cafédirect) and informant groups (e.g. supermarket buyers, media journalists). According to Miles and Huberman (1994) conceptually ordered displays can be useful in this respect. Also worth remembering here that codes are not set in stone and can be subject to change when new data is sourced (compare start list of codes in table 10 with codes in appendix 2a). A key objective of this process is to look for relationships between themes to develop a set of generalisations. Miles and Huberman (1994) also point out the need to be alert to rival hypothesis that can produce new lines of enquiry, this is termed deviant case analysis.

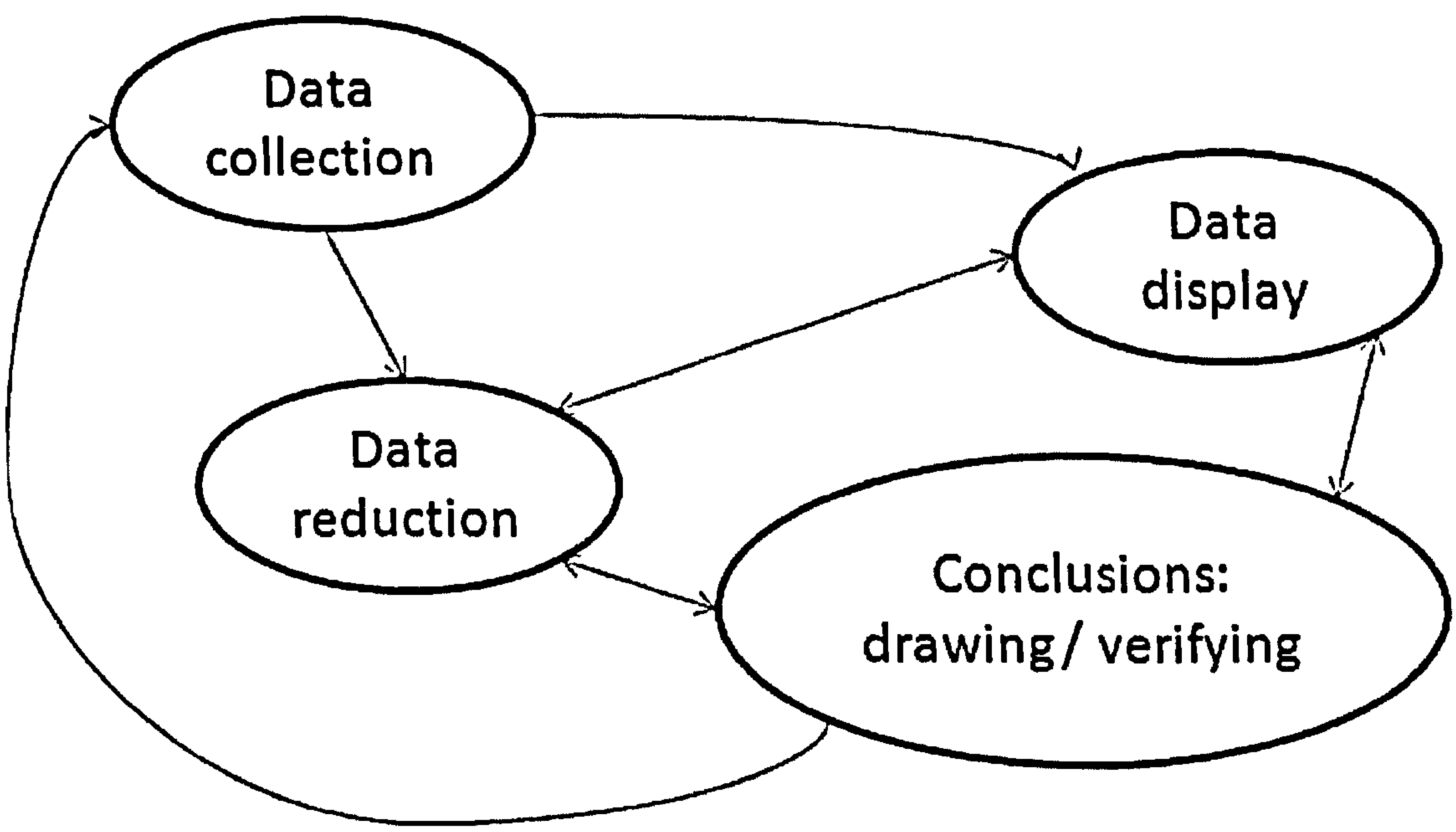
Interpretations will be confirmed through triangulation and claims will be supported by multiple evidence, such as the comparison of interview notes with the interview transcription and field diary notes from personal and participant observations (Bryman,1998). Collecting data from multiple sources, considering rival explanations and going back into the field to test out theoretical developments are all approaches to ensure accuracy and trustworthiness of findings and conclusions in this study. In addition, secondary sources will be used such as;

- academic journal articles published in the area of competition theory and fair trade.
- internal documents, minutes of meetings, sales reports etc

- Market databases such as Mintel and Data monitor
- Newspaper and magazine articles in such titles as the Financial Times and the Economist.
- Trade association reports from the Food and Drinks Federation

The four-step process to data analysis proposed by Miles and Huberman (1994) is shown in figure 10a:

Figure 10a Components of Data Analysis: Interactive Model (source Miles and Huberman 1994, p: 12)



Basit (2003) argues that data analysis is both the most difficult and most crucial aspect of qualitative research. Basit (2003) proposes that electronic methods of coding data such as NVivo software are increasingly being used by researchers. The advantages of computer analysis are the rapid and comprehensive searching of data. However, according to Basit (2003) computer software does not do the analysis for the researcher and the user must still create the data categories, do the coding and decide what to retrieve and collate. No amount of routine work will produce new theoretical insights without the application of disciplinary knowledge. The author of this thesis found manual coding allowed him to feel closer to the data and helped increase his own deep familiarity with the evidence collected. A number of training courses attended by the author on NVivo failed to persuade him of the need to employ computer software for the data analysis of interview transcripts. Personal communication with Mark Saunders (one of the authors of Saunders, Thornhill and Lewis 2003) established support for this approach to manual coding; he commented that "*Personally to code my data I am more comfortable and effective with manual coding from paper copy. It allows me more thinking time; the computer screen I find is a barrier*" *(pers.comms., May 2008).*

A key case study validation procedure in the write-up phase recommended by Schatzmann and Strauss (1973) is to ask peers and participants to review and agree the composition of the case studies. In this thesis the case studies will be used to compile academic journal articles, parliamentary reports and also a monitoring and evaluation report for the Department of International Development (DFID) Ghana desk (see appendix one). During this process, agreement will be required from both case study organisations and participants prior to publication.

Yin (1994) recommends the importance of maintaining a case study database. This will be accomplished in this thesis via firstly keeping audio tapes and transcripts of interviews combined with corresponding interview notes and memos in field diaries. These same field diaries will also contain notes from direct and participant observation events. In addition, these observed events (see table 7) will also be recorded in site visit reports (see appendix 3) for site visit report from Cafédirect AGM 2009. Both the documentary and archival evidence is maintained in a manual filing system.

The structure of the project diary will follow the guide proposed by Hughes (1996), who recommends that a project diary should be kept throughout the process showing stories of the research process along with notes on reflections.

3.5 Research Design Building theory from case studies

Research methods are defined as the "systematic and orderly approach taken towards the collection and analysis of data so that information can be obtained from those data." (Jankowicz, 2000, p. 9). Eisendhart's roadmap to building theory from case study research identifies eight key steps as discussed above in section 3.2 (see table 6, p: 94) which will be outlined below.

3.5.1 Getting started

A defined focus is the first step. To avoid being overwhelmed by data Eisenhardt recommends developing an initial definition of the research question. In this thesis the question defined is:

> *How can Fair Trade social enterprises compete in sectors dominated by larger more resource rich rivals?*

Both Yin (1994) and Eisenhardt (1989, 1991 and 2007) also recommend that prior specification of the constructs although not common in theory building studies can actually shape the initial design and enhance accuracy. Although early identification of constructs is useful, however it is important to note that no construct is guaranteed a place in the resultant theory (Eisenhardt 1989). In fact, both Miles and Huberman (1994) and Yin (1994) recommend looking for 'rival hypothesis'.

3.5.2 Selecting Cases

Glaser and Straus (1967) propose that building theory from cases relies on theoretical sampling and not random sampling. Lowe and Davenport (2005a, 2005b) identify both Cafédirect and Divine Chocolate as unique FT companies in the UK and call for further study. All products from both companies are FT certified. In addition, southern producers are shareholders in both companies. In the case of Divine, 45% of the shares are owned by the cocoa farmers co-operative KK from Ghana (Golding 2009). Also useful in theory building is the fact that both selected cases compete in different markets, Cafédirect in the UK Hot Beverage market and Divine in the UK Chocolate confectionery market. FT mainstreaming is a relatively recent phenomenon and both Yin and Eisenhardt propose that a number of key insights can be gained from focusing on specific case studies (Eisenhardt 1989, 1991, Yin 1994).

3.5.3 Crafting Instruments and Protocols

Eisenhardt (1989) highlights the importance of multiple data collection methods to make triangulation possible (see section 3.4.2). This will lead to stronger validity of constructs and hypothesis. In addition, Yin (1994) proposes the combination of qualitative and quantitative data as highly synergistic. In this thesis both the initial phase and main phase of data gathering will employ a series of semi-structured qualitative interviews with key stakeholder groups (see tables 8 and 9).

In addition, both stages will be enhanced by personal and participant observation plus archive research, particularly sales ledger data (see 3.4.2). A strength of this thesis is the extensive fieldwork. The previous role of the researcher as Head of Sales and marketing at Divine Chocolate (1999-2003) has facilitated access to key informants, valuable opportunities for observation and important access to archive information including both internal documents and press cuttings. The eight first phase exploratory interviews are needed to provide a focus on the case study companies Divine and Cafédirect (see table 8). The literature review established that how FT social enterprises are able to compete against much larger resource rich rivals is under-researched. The initial exploratory stage is useful because it provides clarification for theoretical grounding to help progress the research (Patton, 2002). The fundamental orientation of the research is the exploration and examination of unique case studies. The exploratory interviews allows the interviewer to better understand the nature of phenomena present in a particular context (Fontana and Frey, 1994). They also enable further research to be built on "*...sound conceptualisation and instrumentation...*" drawn from the exploratory investigations (Oppenheim, 1992, p. 65).

The rationale for the eight first stage interviews is to inform the further direction of the research. These initial interviews were conducted over a period of 12 months, contingent on interviewee availability. The key informants are shown in table 8.

The interviewer both recorded the interviews and made some notes as memos to record interviewee responses. This method is useful because the interviewer reflects on accounts post-interview to confirm / disconfirm perceptions noted at the time. The method is considered accurate in qualitative research (Macan and

Dipboye, 1994). To verify their accuracy, transcripts were sent back to the interviewee to ensure that their views have been correctly represented as a result of the interview. The key interview themes selected for discussion in the semi-structured interviews include:

- *The market performance of both Divine and Cafédirect*
- *The impact of both case studies on their respective market sectors*
- *To what extent, if at all has Divine and Cafédirect managed to compete?*
- *What specific resources have enabled both companies to compete?*

The interview guide for the initial semi-structured interviews can be viewed in appendix 2. This guide is developed with the support of the author's PhD supervisory team, other academics in Liverpool Business School and senior executives and board members at both Divine and Cafédirect. This interview guide was also deemed appropriate for the main phase interviews. According to Miles and Huberman (1994), one of the most helpful coding techniques is that proposed by Straus (1987) and described best in Straus and Corbin (1990) where initial data are collected written-up and reviewed line by line for categories and patterns. The categories and coding from these first phase interviews is shown in table 10. An example transcript with coding is shown in appendix 4. From the transcripts a number of key categories have been identified (see table 10)

Table 10 Categories and Coding for First Phase Exploratory Interviews

CATEGORY CODE	CAT	SUB CATEGORIES	CODES	SUB-CODES
INDS/IMP	Impact	Cadburys buying Green & Blacks	A1	
		Impact on Co-op and other retailers	A2	A2.1 Coop own label FT strategy
		Impact on other manufacturers	A3	A3.1 Second tier manufacturers A3.2 Nestle launching partners blend
		Impact on consumers	A4	A4.1 Campaign groups A4.2 School children
		Very competitive	A5	A5.1 Price discounting A5.2 Difficult to get position on shelves
		Raising FT awareness	A6	A6.1 Consumer education
		Innovation	A7	
		Raised industry ethical standards	A8	
PERF	Performance	Selling well	B1	B1.1 Dark Divine excellent performance B1.2 Cafédirect Roast & Ground coffee strong performer B1.3 Own label coop B1.4 Teadirect doing well
		Mainstream	B2	B2.1 Getting product listings in supermarkets B2.2 Mainstream branding
		Product	B3	B3.1 Dark Divine excellent performer B3.2 Matches UK palette B3.3 Premium quality B3.4 Appealing packaging B3.5 Packaging tells you its Fair trade- FT Mark key part B3.6 Taste
		Company	B4	B4.1 Good at marketing communications B4.2 Good service levels B4.3 Professional and quick to respond

ETH/SC	Ethical and social commitments	Fairtrade Marked	**C1**	**C1.1** FT Mark/Logo Guarantee **C1.2** Gold Standard **C1.3** Fair price **C1.4** Consumer loyalty **C1.5** PPP programme **C1.6** Farmer ownership
		Farmer ownership	**C2**	**C2.1** strong link to cooperative **C2.2** more than just making money
		Good Ethics	**C3**	**C3.1** Supporting third world farmers **C3.2** Doing good in the world **C3.3** Consumers demand
CONPT	Connections with partners	Fairtrade relationships with producers/farmers (Supply chain)	**D1**	**D1.1** Strong links back to producers & communities **D1.2** Quality relationships **D1.3** Benefits to producers **D1.4** PPP programme
		Links with consumers (supply chain)	**D2**	**D2.1** consumers connect with FT, brings producers and consumers closer **D2.2** consumers feel they are doing some good **D2.3** consumer trust
		Partnership with Co-op (supply chain)	**D3**	**D3.1** impacted on other retailers
		Links with supporter networks	**D4**	**D4.1** Fairtrade Town groups **D4.2** Ethical consumers **D4.3** Comic Relief **D4.4** Christian Aid **D4.5** Fairtrade Schools **D4.6** Oxfam
CONSIS T	Consistency of ethical behaviour	100% Fairtrade	**E1**	**E1.2** Trust **E1.3** Consumer confidence
		Profit back to farmers not shareholders	**E2**	**E2.1** Credibility **E2.2** integrity from ethical credentials
		Producer programmes	**E3**	**E3.1** Credibility and trust
		Influencing other groups	**E4**	**E4.1** Politicians **E4.2** NGO's

During the thirty two main phase interviews the codes and categories are again added to and revised as a result of on going analysis of the data. A table of codes for the main phase interviews can be found in appendix 2a. It is important to note there are differences between the coding in table 10 compared to the codes from the main phase interviews in appendix 2a. This is due to the on-going analysis of the transcripts, where new sub categories emerge. The key categories identified include industry impact (INDS/IMP), performance of both companies (PERF), ethical and social commitments (ETH/SC), connections with partners (CONPT) and consistency of behaviour (CONSIST). Eisenhardt (1989) also proposes the potential use of multiple investigators. However, the author felt this was problematic due to the difficulty of accessing some of the key informants in this study, such as supermarket buyers. Groups such as supermarket buyers can successfully refuse access to researchers; Ostrander (1993) describes this type of group as an elite setting. The familiarity of the author with the supermarket buyers and other key industry informants proved invaluable in gaining access. The author displays what Lofland (1996) describes as "deep familiarity" with the subject area, which allows the author to immerse himself in the research and analyse from multiple perspectives. As recommended by both Yin (1994) and Eisenhardt (1989), this study is strengthened by peer debriefing with both academics and practitioners throughout the course of the research.

3.5.4 Entering the Field

An important feature of building theory from case studies is overlap in the collection, coding and analysis of data. Making field notes and organising meetings to discuss ones ideas are important. The author maintained field diaries with extensive notes and found the LJMU Social Enterprise Research group (SERG), useful for discussing ideas. The stated overlap is useful in making minor adjustment to the data collection process, such as the addition of new questions etc. It also allows the researcher to take advantage of special opportunities which may occur in a given situation. For example in this research the author was invited to take part in a special summit in London on July 9th 2007 to discuss the future ten year vision for Divine. This ability to add data collection methods and alter questions provides extra depth when building theory from case study research. This flexibility is termed controlled opportunism (Eisenhardt 1989).

3.5.5 Analysing within case data

Analysing data is at the centre of building theory from case studies. Within case analysis allows the unique patterns of each individual case to emerge, which in turn accelerates the cross case comparison. Miles and Huberman (1994) also recommend analysing data by data source. Miles and Huberman (1994) also suggest the need to list both similarities and differences between cases (see previous section (3.4.7). Eisenhardt and Graebner (2007) recommend developing theory in sections or by distinct propositions in such a way that each is supported by empirical evidence. They argue that the use of extensive tables and other visual displays that summarise the related case evidence is central to signalling the depth and detail of empirical grounding. The use of tables and other visual displays can be found in both chapters 4 and 5 and the appendices.

Eisenhardt (1989, 1991) recommends looking at cross case data in divergent ways to detect cross case patterns. One tactic is to list the similarities and differences between the two case companies, Cafédirect and Divine. Another different strategy is to analyse data by data source, which exploits the different insights provided by different data sources. In this study, this will mean looking at data from different stakeholder groups, for example supermarket buyers and media journalists. Grounding data is effective if corroborated by evidence from different data sources. The idea of looking at cross case data in different ways is to help researchers look at data through different lenses. As recommended by Miles and Huberman (1994) the data will initially be coded into initial categories, then pattern coding will take place by identifying coding subsets in the data.

3.5.6 Shaping Hypothesis

From within case and cross case analysis tentative themes, concepts and relationships may begin to form. Researchers must constantly compare theory with data. First step is the refining of the original constructs and secondly building evidence which measures the construct in each case. This occurs through the constant comparison of the data.

3.5.7 Enfolding Literature

A key feature of theory building research is the comparison of emergent concepts, theory or hypothesis with extant literature. A key to this is to consider a broad range of literature some of which may conflict with key findings. This is important to ensure both confidence in the findings and to look at opportunities for frame breaking creative thought. This should lead to a deeper insight and strengthen internal validity. Linking the results to literature is particularly important in theory building from case studies due to the limited number of cases. Eisenhardt and Graebner (2007) recommend that each proposition should be linked to the supporting empirical evidence. The author will follow this approach in sections 4.4.1 to 4.4.3.

3.5.8 Reaching Closure

Two aspects are key here, when to stop adding cases and when to stop iterating between theory and data. There is no ideal number of cases but the author has chosen both recognised examples of FT brands in the mainstream. Within these two cases several mini-cases could also emerge. With regard to data the time to stop iterating between theory and data is when the incremental improvement to the theory is minimal. Eisenhardt and Graebner (2007) suggest that finally in case study research you should present a visual theory summary, such as diagrams or summary tables (see table 21 and figures 20 and 21 in chapter 5). Also according to Eisenhardt and Graebner (2007) the researcher must ensure that any resulting theory fully exploits the available evidence in terms of possible nuances and alternative interpretations.

3.5.9 Limitations

The intensive use of empirical evidence can yield theory which is over complex. Another weakness is that resulting theory maybe narrow and idiosyncratic. However, in this thesis we are in the early stages of FT research, particularly with reference to FT social enterprises that compete in Northern markets.

The initial interview stage of the research was intended to gauge the key areas for further research. In particular, to investigate how FT social enterprises can compete in sectors dominated by larger more resource rich rivals. It was crucial that the chosen sample contained individuals with the requisite knowledge and experience of the FT sector. Therefore, a purposive sampling approach was taken. Purposive sampling has been criticised as a sampling method, due to the assumed increase in non-random sampling bias as a result of selection. As discussed previously in section 3.4.4, the 'selection' of interviewees for this stage was necessary to ensure that a suitable range of experts were contacted for their input. It is the nature of modern day distribution channels that the responsibility for buying policy and therefore the products made available to consumers is concentrated often in the hands of one buyer, who buys particular product range/ranges for an entire retail/wholesale business. Key informants were selected from a broad range of distribution channels along with other key experts including market analysts (see section 3.4.4). This approach of using numerous and highly knowledgeable informants, who view the subject from diverse perspectives is a recommendation from Eisenhardt and Graebner (2007). This is an approach to managing interview data bias and informants can include organisational actors from different hierarchical levels, functional areas, groups, geographies and outside observers such as market analysts. This is certainly the case in this thesis. Also, the onus was placed on each respondent to volunteer through their own volition.

Efforts were made to contact a suitable number of experts in the sector across a number of distribution channels which could inform the research. The aim was to ensure that a broad spectrum of experts in the field had the opportunity to contribute for a study on this scale. Denzin (1978) proposes that gathering data from both multiple data sources and from multiple informants can be costly and time consuming. The author was supported in this regard from various funds including; a small research contract fund provided by the DFID, who are interested in the impact of FT business models. Also, the author's relationships with both Divine and Cafédirect and other key informants have resulted in time efficient access to invaluable data. In qualitative interviews the principal limiting issue is the central role of the interviewer and the problem of bias. Efforts were made to ensure that the role of the interviewer was to 'set the scene' of the interview, and then allow the respondents to elucidate their thoughts on the key issues. The intrinsic subjectivity of interviewing is asserted as one limitation of the interview process.

A number of measures are implemented in this study to manage potential limitations. Firstly, all interview transcripts are returned to the key informants in this study for checking agreement with the content. Secondly, both of the final case studies in chapter 4 were sent to the respective case study companies for comment and checking. Thirdly, the author has regularly during this four year research period presented his interim work and findings to both respective organisations. This approach has proved invaluable in cross checking understandings. Finally, the author has taken many opportunities to present and publish from this research. The published papers are listed in appendix 1. In addition the author has presented at a number of workshops and conferences, which are listed in appendix 9. These events have enabled the author to consider a number of rival hypotheses.

3.6 Ethical Issues

There are a number of ethical issues that are considered by the researcher before the commencement of data collection. Consideration of these issues should enhance the credibility of research outputs (Fontana and Frey, 1994; Janesick, 2003; Jankowicz, 2000). Qualitative interviews are heavily reliant on the level of trust between researcher and participant. The amount and quality of data acquired from such research is contingent on such trust. Therefore, to increase the likelihood of a productive (and credible) interview, certain assurances are offered to the participants involved.

Firstly, researchers are bound by the ethical codes of their profession (as well as their own conceptions of moral 'appropriateness'). This research is guided by the Ethical Code of Practice at LJMU, the researcher's affiliated institution. This document outlines the key areas for ethical consideration, including:

- Consent
- Volunteer rights
- Confidentiality
- Professional standards
- Honesty

- Openness
- Documenting results and storing data

Ethical consent was required by LJMU from both case study organisations prior to embarking on this PhD study. Letters of consent were received from both Sophi Tranchell (Managing Director at Divine Chocolate Ltd) and Penny Newman (former Chief executive of Cafédirect). Ethical consent was not required from the University prior (or following) the interviews, as the participants involved were not considered to be vulnerable or at risk as a result of the interviews. The researcher has built in important ethical considerations such as (Jankowicz, 2000): informed consent, the right to anonymity, careful interpretation, controlling the risk of deception, and upholding the expected professional standards of the University.

Consent was given by individual interviewees upon acceptance of the request to take part in the research project. The interviews required no personal or confidential information to be imparted. Furthermore, their attitudes towards areas of importance for future research were required. All interviewees were informed of their right to withhold their identities if they so wished, and to indicate whether any responses made were in a professional or personal capacity. They were also given notice that they could withdraw themselves, and any interviewee data they had provided, at any time. To date, no such requests have been received.

3.6.1 Confidentiality

Firstly, the right of confidentiality is addressed. The LJMU research regulations state that:

> *"Confidentiality (Regulation 14):*
>
> *The confidentiality of the volunteer must be maintained at all times. If the viewing of case notes is a necessary part of the study, the confidentiality of the subject (and the institution) must be maintained."*
>
> *(Liverpool John Moores University Code of Practice for Ethical Approval, 2007, p.1)*

The individual respondents in the survey were made aware of their automatic rights in this area, and all data collected was treated on the basis of anonymity and privacy.

3.6.2 *Informed Consent*

As the research relied on volunteers to take part in the survey, informed consent was required. Volunteers have the right to know for what purpose they are being contacted, how their information has been released, and by whom.

3.6.3 *Holding Data*

The Data Protection Act (1998) sets out the guidelines applicable for the duration data can be held for, and the methods suitable for its storage. All information used in the study was stored on a private-use computer used by the researcher only. No information was stored on public-access machines or networks, including those in the University.

3.6.4 *Trust and Credibility*

In order to clarify the credibility of the research described, efforts were made to encourage any of those interested (or unsure) of the motives of the researcher, to contact the University, and the Director of Studies.

3.7 *Dependability, Credibility and Transferability*

Dependability refers to whether the research is "...*consistent, stable over time and across researcher and methods.*" (Miles and Huberman, 1994, p.278). To enhance dependability of the research, there are some issues that need to be accounted for, including:

Table 11 Dependability Issues and Justification

Dependability Issue	Justification
Clarity and connectedness of theoretical underpinning.	Propositions elucidated in chapters One, Two and Three.
Role / implication of investigator during research.	Planned interview 'strategy' prior to interviews taking place. Impartial.
Check for bias / interviewer knowledge.	Collation of notes and checking these with interviewees and reference group.
Use of peer / colleague review.	Through supervisory team and publication. Plus peer reference group.

Adapted from Miles and Huberman (1994)

The table details the checks established during the research to enhance the reliability of the data. The conceptual orientation for the study was made clear in chapter 2, culminating in several propositions to guide the exploratory research. The key informants are chosen on the likely depth and breadth of knowledge of FT and the respective confectionery and coffee market sectors. All interviews will be conducted by one researcher. This will enable a consistent approach through this stage. All notes will be verified with interviewees as a check of reliability.

Credibility is often described as the qualitative description of validity, used in qualitative research (Graneheim and Lundman, 2004). This issue is the examination of "*...whether or not the explanation fits the description.*" (Janesick, 2003b, p.69). It aims to ensure that agreement is reached over the correct interpretation of the data collected. In so doing, it legitimises the research process by ensuring that findings are representative of the participants involved in the study. This enhances the findings of research, because it reinforces the credibility of inferences made by the researcher about the findings. To achieve this, findings from the interviews will be offered back to the interviewees so they could verify and agree with this interpretation.

3.8 Chapter Summary

The purpose of this chapter has been to present the methodological foundations for the research. In so doing, we have discussed the role and choice of an appropriate paradigm in research. A discussion of the 'paradigm wars', and the bases of positivism and constructivism, provided the context for explaining the chosen methodological paradigm, post positivism. This paradigm has many proponents and critics, and its use in social science is examined. Further, explanation is given for the influence of methodological norms from the theoretical framework upon which this research is based.

Finally, it provides an outline of the methods chosen and implications of them upon research design. Eisenhardt's (1989, 1991) eight-step procedure for theory development from case studies is used. This chapter has provided further rationale for the choice of methods in this study. It has given details of the various factors that have influenced development of the research instrument. Issues such as reliability, validity and triangulation have been discussed and methods to compensate for, or reduce the likelihood of sampling bias / error. A range of potential limitations to the methodology and methods were raised and discussed in terms of how they can be minimised. Both case studies will now be presented.

CHAPTER 4 CASE STUDIES OF ORGANISATIONS: CAFÉDIRECT AND DIVINE CHOCOLATE LTD

This chapter will present the evidence and findings from both case studies. Attention will be given to the implications these outcomes will have for the development of constructs and propositions. The aim of this thesis is to answer the research question:

How can Fair Trade social enterprises compete in sectors dominated by larger more resource rich rivals?

In order to support investigation of the resources and strategies deployed by FT organisations in their efforts to mainstream FT products in UK markets, the following research objectives were determined:

- To critically analyse how Fairtrade social enterprises have performed and impacted on the UK chocolate confectionery and hot beverage sectors. This investigation will focus on key downstream stakeholders such as supermarkets.
- To examine how effective the 'resource-advantage' theory of competition is in explaining the success of Fairtrade social enterprises.
- To evaluate which resources enable Fairtrade social enterprises to compete against larger rivals. This objective will critically analyse if the social and ethical elements of these firm's product offerings really constitute meaningful differentiators (i.e. comparative advantage) as required by 'resource-advantage' theory.
- Aim to extend Resource Advantage theory in order to explain how the case study companies Divine and Cafédirect compete.

Firstly, an overview of the competitive context of both the hot beverage and confectionery markets will be presented followed by the individual company case studies of Divine and Cafedirect. To explain the competitive context evidence from both market data combined with data from the interviews, direct observation, participant observation and field diaries are all utilised. The market data is useful in showing the power of both the major manufacturers and retailers in both the sectors under investigation and supports the evidence gathered from the primary data. Secondly, the case studies will be structured in order to answer the key research objectives. The first section will present evidence to investigate the market performance and impact of both Divine and Cafédirect using multiple sources of evidence (see sections 4.1-4.3). The second section will investigate evidence from how and with what resources both these companies compete (see section 4.4).

4.1 The Competitive Context of the UK Chocolate Confectionery and Hot Beverage Markets

FT Chocolate accounts for 5% of total UK FT sales at £30 million (see table 1 in section 2.1.1), with £22 million of this being sold through multiple supermarkets (Fairtrade Foundation 2009a). FT coffee accounts for 15% of the total UK FT sales (Mintel 2009). Tiffen (2002) describes chocolate confectionery as a mature and oligopolisitc market. Chief executive at multiple supermarket A suggests competitive conditions in the UK confectionery sector present a major challenge to new entrants:

> *"The sector is hugely dominated by the major brands and therefore creates a significant challenge; you would have questioned whether it was worth entering at all"* (interview, 2006)

Both the UK chocolate confectionery and coffee sectors are particularly concentrated between major manufacturers, who posses long established brands (Mintel 2006a, Mintel 2006b). The economies of scale afforded by the international resources of these leading firms make it increasingly difficult for smaller national players to compete in terms of price, distribution, range of products and marketing spend (Blythman 2004, Kaplinsky 2004, Tiffen 2002). This concentration is also on a global scale with the International Cocoa Organisation (ICCO 2005) reporting that ten chocolate manufacturing companies now account for 43% of all global sales of chocolate confectionery. The largest companies include; Nestle, Ferrero, Cadbury Schweppes, Mars, Hershey and Kraft Food.

Concentration of power is also exhibited at retail level (Mintel 2008b). For example 55% of all chocolate confectionery sold in the UK is purchased via multiple supermarkets, up from 47% in 2001 (Mintel 2008b). Sales of chocolate via independent newsagents has declined from 16.4% in 2001 to 10.5% in 2007 (Mintel 2008b) due to the growing share represented by supermarkets. In the UK coffee market 83% of all sales are through multiple supermarkets. It is also important to understand the overall concentration of the UK grocery market with 74% of all grocery sales accounted for by only four major supermarket chains, including; Asda-Wal-Mart, Tesco, Sainsbury's and Morrison's (Barrinetos and Asenso-Okyere 2008). Mintel (2008d) cite leading retailers working in conjunction with large branded manufacturers, on national price promotions, as the chief reason for the power of supermarket distribution. Market analysts estimate the total UK chocolate market to be valued at £3.16 billion (Mintel 2008b). The coffee industry is also characterised by intense brand based competition. The big four coffee companies include; Kraft Food, Nestle, Proctor and Gamble and Sarah Lee, who respectively control the major brands of: Maxwell House, Nescafe, Folgers and Douwe Egberts (see table 12 for sales and market shares of the major brands).

Table 12 UK coffee sales by manufacturer in 2007 (source: Mintel UK Coffee Report, 2008a)

Manufacturer	2007 sales in £m	% Market Share
Nestle	304	42
Kraft	139	19
Douwe Egberts (owned by Sarah Lee)	47	7
Cafédirect	9	1
Taylors	11	2
Lavazz	11	2
Lyons	4	1
Supermarket own label	122	17

Mintel (2008a) report the UK retail Coffee market is valued at £720 million, showing a growth from 2002 of 19%. According to Mintel growth in premium coffee sales, which includes FT and other ethical coffee products are a key driver in this growth. The total market of £720 million coffee sales is split by coffee type shown in table 13.

Table 13 UK Coffee sales by type 2007 (Source: Mintel 2008a)

Coffee type	Sales £m	Percentage Growth since 2002
Instant	582	-5%
Roast & Ground	132	+ 65%
Ready to Drink	6	+250%

According to Mintel (2008a) coffee consumers are trading-up into premium coffee segments for a number of reasons including;

- Education of consumers by coffee shops, who are making consumers aware of higher quality coffee
- Increasing popularity of coffee products with ethical attributes
- The growing interest from consumers in the provenance of coffee products.

Mintel (2008a) report that FT marked products are one of the fastest growing segments of the hot beverage market. A TGI consumer lifestyle survey which commenced in 2003 has been asking the following lifestyle statement:

I buy Fairtrade products when available?

The results are shown below.

	2003	2005	2007	% change
I buy Fairtrade products when available	28%	31%	36%	+ 7

Source: Mintel UK Coffee Report (2008a)

Both Divine and Cafedirect set-up with the objective of developing FT brands to compete in the mainstream sectors of chocolate confectionery and coffee respectively. According to Nicholls and Opal (2005), Divine's aim was to be merchandised next to the mainstream chocolate brands on the supermarket shelf, both these FT brands have achieved this. However, it is important to point out both these markets are segmented by product type and both companies have targeted certain product segments such as Divine with block chocolate and seasonal novelties and Cafedirect with roast and ground and freeeze dried instant coffee. Mintel (2008a) propose that the FT mark is a highly recognised trademark and is a concept most people understand. The growth in the premium coffee sector reported above is also down to significant new product development activity in the FT and ethical areas. According to Mintel (2008a) some sources believe that it will become mandatory for coffee manufacturers to trade with ethical values. In the past year the growth of FT coffee has been significant, with a rise in sales of 26% to reach £117m sales, which represents a total UK market share in the grocery coffee sector of 16%. This FT coffee growth is outperforming the total UK coffee market, which is growing at 19% (Mintel 2009). FT products occupy up to 10% of the hot beverage shelf space in multiple supermarkets, according to Mintel (2008a), this is because retailers are also trying to demonstrate their credentials on CSR performance.

According to Golding and Peattie (2005) the commercial success of FT brands such as Cafédirect is being matched by a move by mainstream coffee players to develop social attributes as part of their product offering. The mainstream player with arguably the most significant contribution is Starbucks; in 2003 they purchased £2.1m worth of FT certified coffee (91% increase upon 2002). Also Marks and Spencer's have switched all their Café Revive coffee shops over to using only FT certified coffee and AMT takeaway coffee kiosks have followed suit (Mintel 2009). Also Nestle launched their own FT coffee brand, *Partners Blend* in 2006 (The Economist 2006). In addition, Cadbury's announced recently their intention to move all 300m CDM bars to be FT certified from August 2009 (Wiggins 2009). Following this decision by Cadburys, another major chocolate company Mars announced its move to certify its Galaxy chocolate brand in the UK and Ireland from 2010 with the Rainforest Alliance[10] ethical label (Just-Food.com 2009). However, the International Labour Rights Forum (ILRF) argue this ethical label does not go far enough in terms of workers rights and call for Mars to go further and support the FT label. Also in May 2005 Cadburys acquired organic chocolate manufacturer Green & Blacks for an estimated sum of £20m (BBC News 2005). Green and Blacks is one of the UK's fastest growing block chocolate brands and possesses in its range a FT chocolate bar called *Maya Gold* and a FT certified cocoa powder.

[10] A labelling scheme for coffee produced without rainforest destruction (used by Kenco and The Eden Project)

Buying decisions for UK supermarkets are made centrally by category buyers. According to Blythman (2004), this concentration of power puts smaller firms at a disadvantage in terms of required volumes and in overcoming the risks faced by buyers in adopting a new entrant's products. Blythman (2004) also explains that a supermarket retailer will appoint a major supplier to a particular category as a category "*captain or partner*". The "*captain*" manages the product category jointly with the retailer, deciding the consumer product offering (of all firms supplying in that category not just the captain's own products). From evidence gathered in both the initial and main phase of this thesis a number of other retailer policies and practices have been identified, which illustrate the challenge of working with large supermarket/department store retailers. These are listed as follows:

- Increased competition for shelf space manifests itself in the policy of "one in, one out" for new chocolate/hot beverage product lines. This competition is exacerbated further by the proliferation of new products from the major manufacturers, this makes distribution an enormous challenge;
- Retailer's margin requirements of 27% minimum pose a particular challenge to smaller firms paying higher FT input prices and lacking the scale economies of global rivals.
- Retailers require fully funded price promotional support, which in some cases needs to be margin maintained. This means that on promotions such as Buy One Get One Free (BOGOF) the manufacturer has to fully fund the free product;
- Some retailers require substantial up front payments for stocking new products and additional one off costs for inclusion on seasonal promotions and advantageous store positions;

These practices present particular difficulties for both Divine and Cafédirect, who are relatively new market entrants with limited tangible resources compared to their rivals. Also of concern to FT companies is *Fairtrade deflation*. According to Mintel (2009), the growth of supermarket own-label FT products has contributed to the decrease in the average price paid for FT products. These own-label FT products sell normally at more than the standard brand but have entered the market at considerably less than the leading FT brands (see comment from Cafédirect senior executive in table 14). To supplement the evidence presented thus far on the competitive context, findings from both sets of interviews (initial and main) illustrate the competitive nature of both these markets (see table 14). The author has taken a subset of the interviews by looking at evidence from both the key channels of distribution (including supermarkets, independent newsagents, and wholesalers) and senior executives from both Cafédirect and Divine. The evidence shows the criteria used to decide stocking policy in key channels is based on sales and profit performance, one exception to this is supermarket D, which has a company policy to stock FT products if available in a category. Table 14 also shows the strong competitor activity both on pricing, acquisition of ethical brands and the move by competitors to incorporate social attributes into their own product offerings. Evidence from interview transcripts with wholesaler B and the independent newsagent informant also shows the significant challenge for FT companies in the independent newsagent sector.

Table 14 Competitive Context of Hot Beverage and Confectionery Sectors (source: coding from interview transcripts)

	Competitive	Context
Informant	**Channel member stocking policy**	**Competitor activity**
Confectionery Buyer at Multiple supermarket A (first phase interview)	*"All products have to stack-up financially in the range, if it's not performing its going to go; we are so limited on space. When we do the range review we basically look at sales by store by week both in terms of value, volume and margin "*	*" Divine are competing with Cadburys Dairy Milk (CDM) who do three bars for 79p, three times per year, they are driving their brands so hard on price promotion"*
Confectionery Buyer at multiple supermarket C (first phase interview)	*"I look at sales per store per week as a measure of performance"*	*"Cadburys have bought Green and Blacks to lift the competitive pressure"*
Hot beverage Buyer at Multiple supermarket A (main phase interview)	*"Due to the proliferation of products in the hot beverage sector we have to be ruthless in our range choice, products need to perform to stay on the shelf"*	*"Multinational companies are now moving into ethical and Fair trade branding and will compete strongly with pioneer FT companies*
Confectionery buyer at Multiple supermarket D (main phase interview)	*"Our macro policy is to stock fair trade, if management say we have got a fair trade policy then it goes above anything that the buyer thinks, regarding margin or volume performance etc"*	*"I think that its very hard for fair trade brands to compete in the market because there is such strong deals on the other major brands"*
Wholesaler B Trading Manager for confectionery and hot beverages (main phase interview),	*"We have very important agreements with the large companies who provide us with large annual bonus payments, fair trade can't compete with that"*	*"Multi-national have large field sales teams ,who control our channel of distribution to newsagents*
Head of Newsagent owners buying group In North London (main phase interview)	*"Nobody has ever asked me for Divine or Cafédirect, the large manufacturers are to strong and advertise heavily on TV"*	*"We receive weekly visits from the major manufacturers, who offer us bonus payments for volume targets"*
Senior executive at Cafédirect (main phase interview)	*" Very tough trading conditions in the supermarket sector with strong price promotions "*	*"Sainsbury's who have recently been discounting FT tea which has led to a 40% reduction in Teadirect sales".*
Senior executive at Divine (main phase interview)	*"The Multiple retailers now account for 53% of the chocolate market, that makes the chocolate buyer in each of the groups increasingly powerful"*	*"With the exception of Waitrose they all continue to use a category captain system where the major manufacturers assist them with their stocking decisions".*

Consumers appear to be cutting down on their intake of chocolate and they appear to be trading up i.e. shifting to premium products, this is partly driven by increasing levels of affluence and health concerns regarding milk chocolate (Mintel

2008b). There is also evidence that ethical production and sourcing is recognised as a useful mechanism in developing customer loyalty (Mintel 2006b).

The chocolate confectionery sector is particularly concentrated between the three leading manufacturers, who possess long established brands. In 1999, Cadbury, Nestlé and Mars (Masterfoods) accounted for a combined value share of 77.5% However, recently the market has become more of a duopoly with Cadburys dominating with around 35%, Masterfood (Mars) share growing to account for 30% and Nestlé now only accounting for 15% (Mintel 2006b). According to Mintel (2006b), Nestle are losing market share, they have been criticised for launching too many products and over extending popular brands that has led to an erosion of customer loyalty e.g. Double cream and Kit Kat varieties. Other significant developments include the growth of organic chocolate brands such as Green and Blacks, to value £40 million (Mintel 2008b). Green and Blacks is now owned by Cadbury's, and is regarded as one of their five leading chocolate brands. In addition, recent developments include the announcement by Cadbury's in March 2009 to convert 300m bars of Cadburys Dairy Milk (CDM) to be FT certified by the end of August 2009 and the decision by Mars (Masterfoods) to certify Galaxy in the UK and Ireland with the Rainforest Alliance logo (Just-Food.com 2009 and Wiggins 2009). This demonstrates as in coffee the move by some larger confectionery companies to incorporate social attributes into their brands. However, it is important to point out here that Cadbury has a long tradition as a values led brand from its Quaker roots. It appears Cadbury is striving to reposition Dairy Milk as an ethical brand at the product level, whilst also aiming to extend and strengthen Cadbury's as a socially responsible brand at the corporate brand level.

Another key factor to consider in these case studies are the increased payments paid to producer partners in developing countries by both case organisations. Firstly, both Divine and Cafédirect pay more for their respective cocoa and coffee raw material compared to their mainstream competitors. As previously discussed in section 2.1.1, the FT minimum cocoa price is $1600 a tonne plus a social premium of $150 a tonne (ICCO 2005). This has the twin benefits of offering better prices than world markets typically offer, and also protects growers from market price volatility, thus enabling them to plan future investments and enjoy stable income streams. During the last 45 years cocoa prices in real terms have shown a significant decline and have been subject to a high degree of volatility. In fact between 1986 and 1996, Ghana exported nearly 80% more cocoa but received just 2% more income (Robins & Roberts 2000).

Both Divine and Cafédirect pay the FT price premium for cocoa and coffee respectively. In addition, they pay the FT social premium plus a percentage of their turnover to Twin Trading (Non Governmental Organisation that works with small-scale farmers) for producer support and development. To illustrate the significance of these revenue streams, table 15 shows the impact of this on the farmers co-operative KK, who are partners with Divine. Please note from the table 15 that market prices of both the FT price premium and the social premium are paid to KK in $US dollar. The producer support and development fund is calculated as 2% of Divine sales turnover and is therefore calculated in UK sterling.

Table 15 Kuapa Kokoo income streams from Fairtrade Partnership with Divine Chocolate (source: Divine 2007a and Divine 2009)

Financial Year	Tonnes of Cocoa purchased	Fairtrade price premium $ US	Social Premium $US	Producer Support and Development (PS&D) £ sterling
2003/04	750	$1,200,000	$112,500	£74,352
2004/05	996	$1, 593,600	$149,400	£107,426
2005/06	1165	$1,864,000	$174,750	£125, 832
2006/07	1420	$2,272,000	$213,000	£209,500
2007/08	1691	$2,705,600	$253, 650	£246,021

In addition to the above three income streams to KK and other producer groups working with Divine, the company has also paid a share dividend to KK for the past three years (see section 4.2). Also, according to Barratt Brown (2007) both Cafédirect and Divine go beyond the standard FT supply agreement and also operate a *gold standard,* which includes not only the FT Mark criteria, but also:

- Always making advance payments
- Paying above the minimum FT price (see Cafédirect case study below)
- Financing producer partnership programmes for community and personal development in producer organisations
- Supporting producers to increase control over the whole supply chain of their products
- Involving producer representatives in the control and strategic policy making of the whole organisation

- Working with other FT organisations and government bodies to advance the general worldwide success of FT

Smith (2008) proposes that these additional ethical and social commitments are difficult to communicate to consumers. The Economist reports that despite global sales of chocolate reaching some $75 billion a year, growers capture only a tiny fraction of this (The Economist 2007). Manufacturing costs for FT companies are generally higher due to lower economies of scale (Mann 2008). These cost elements resulted in a retail price for Divine milk chocolate approximately 15-20% above the brand leader negating a price based positioning strategy (Simms 2004).

High unit costs also reduce the margin available to invest in the marketing budget. This is particularly challenging bearing in mind the high levels of above and below the line marketing spend associated with both the confectionery and hot beverage sectors (Mintel 2003). For example, Nestle UK spent £9 million on the launch of Kit Kat Chunky (Mintel 1998). In comparison to the major players Divine is a small business with a narrow but growing product range. Ian Bretman, Deputy Director at the Fairtrade Foundation, explains:

"Chocolate is also a low priced market made possible by huge economies of scale. At the outset of Divine in 1998 it appeared they could be 'biting off more than they could chew'. " (Doherty and Tranchell 2005 p: 6)

Another factor to consider is the current economic downturn. Mintel (2009) report that FT foods seem to be suffering less than other premium sectors such as organic food. This is highlighted by Mintel's own research, which shows that a third of shoppers have cut down on their purchases of premium foods, however only one in ten shoppers has cut back on ethical produce. In addition, figures from the FtF show that consumers are remaining loyal to FT products (Fairtrade Foundation 2009a).

Despite these highly competitive conditions in both these markets there is evidence of a moving competitive landscape with mainstream players developing social attributes as part of their product offering. This is illustrated from both the documentary market data and other sources of primary data. The study will now investigate the market performance and impact of the case organisations.

4.2 Divine chocolate Ltd- Market Performance and Impact

Divine (formerly The Day Chocolate Company) set-up in 1998, is the UK leading FT confectionery company, with a turnover of £12.4 million in 2007/2008, growing by 19% on the previous year (Golding 2009, Cooper 2009, Divine 2009). The profit after tax in 2006 totalled £500k (Purvis 2007). At the 2007 KK Annual General Meeting (AGM) in Kumasi Ghana, Sophi Tranchell the Managing Director of Divine Chocolate handed over a cheque for £47,000. This was the first dividend paid to KK from Divine as a result of their part ownership of Divine. Everyone who was a full member of KK received one US dollar each. The remainder of the dividend was invested in supporting KK (Purvis 2007).

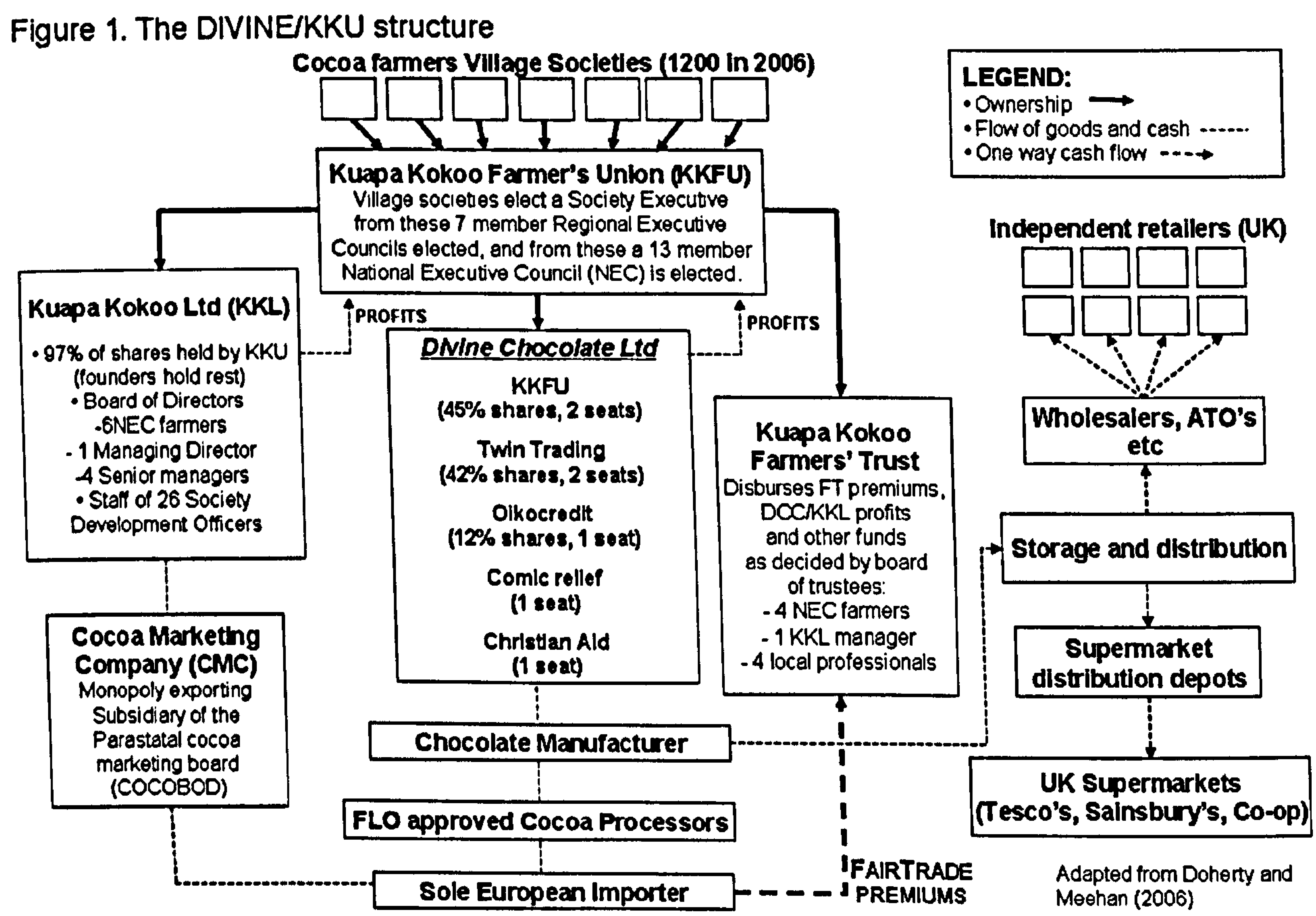
Divine shares with its partners a mission to improve the livelihoods and opportunities for small-scale cocoa farmers in West Africa, by establishing a dynamic branded company in the valuable UK Chocolate market (Doherty and Tranchell 2005, Tiffen 2002). The cocoa farmers co-operative KK in Ghana are joint owners in Divine, with a shareholding of 45% and have two seats on the board (see Figure 11). The governance structure, involving board level representation of all key stakeholders, is a first for FT in enabling cocoa farmers to gain added value from the entire value network and not just from the selling of the primary commodity. Divine was established with the financial and technical support of Twin Trading, The Body Shop Plc, Comic Relief (CR) and Christian Aid (CA). KK initially held a 33% stake in Divine although this subsequently rose to 45% after the L'Oreal purchase of the Body Shop Plc and the subsequent donation of their 14% stake to KK. Other key shareholders include; Twin Trading (42% of shares) and Oikocredit[11] (12% of shares), see figure 11.

Divine pays both a FT price and the additional '*social premium*' for all the cocoa purchased from KK (Doherty and Tranchell 2005), consequently its branded products Divine and Dubble all carry the FT mark. Hence, Divine is regarded as a 100% FT Company. This governance structure is unique in both the UK Fairtrade and confectionery markets. In recognition of this innovative organisational model Divine was awarded in 1999 the "*Millennium Product* "award status from the Design Council (Duncan 1999). Also, Divine's original coalition of shareholders

[11] Oikocredit is a worldwide co-operative society and is an ethical investment fund which finances development projects in the South benefiting disadvantaged and marginalised people.

was no accident. Twin Trading's mission, to facilitate market access for disadvantaged producers, was already known and had seen them set up the successful FT hot beverage company Cafédirect. The Body Shop uses KK's cocoa butter in more than twenty of its products as part of its *Community Trade Programme*. Also both CA and CR have missions to alleviate poverty and see FT as part of the solution. Divine's social mission means it is recognised as a social enterprise, defined as 'business with primarily social objectives '(DTI –Strategy for Success 2002).

Figure 11 Divine and Kuapa Kokoo structure (adapted from Doherty & Meehan 2006: p304)



Divine's mainstreaming objectives were clear from the outset and include (Tiffen 2002);

- To take a quality and affordable range of fair trade chocolate bars into the mainstream chocolate market
- To raise awareness of fair trade issues among UK retailers and consumers of all age groups

- To be highly visible and vocal in the chocolate sector and thereby act as a catalyst for change
- To purchase all cocoa used under Fairtrade criteria

The Divine structure appears to represent a genuine business partnership with both small-scale cocoa and sugar cane farmers (Divine sources FT sugar for its products). In 2007/2008, the producer support and development programme (PS&D) of Divine continued to work with KK in Ghana and also provided support to *Kasinthula Cane Growers Trust* in Malawi, who supply the sugar for Divine, and *Kpey Agricultural Enterprise*, a small cooperative of cocoa farmers in Sierra Leone, who have just achieved with this support FT certification. The origins of KK and how they became partners in Divine is now discussed.

The Kuapa Kokoo (KK) Story

Ghana is the second largest exporter of cocoa in the world representing 17% of the total (Cote d'Ivoire with 46% is the largest). Cocoa is the second largest export commodity of Ghana after gold, accounting for 32.2% of export earnings and 9.5% of Gross Domestic Product (SGER 2006). There are 720,000 small-scale cocoa farmers in Ghana with average farm size of two hectares (Barrientos and Asenso-Okyere 2008). From 1947 until 1993 the Government in Ghana operated a state run buying system called COCOBOD, which interfaced with millions of cocoa farmers. The cocoa price was determined by the state, who bought all the cocoa in Ghana. In 1993 the Ghanaian Government agreed to liberalise the cocoa market within the framework of the World Bank's Structural Adjustment Program (SAPs[12]). According to Tiffen (2002, p: 385) "*the introduction of the structural adjustment program by the World Bank (WB) and International Monetary Fund into Ghana was a major precondition to Kuapa Kokoo being born*". Liberalisation, whilst making farmers more vulnerable to international market forces, also enabled them to set up their own organisations and hence was vital to the formation in 1993 of the first co-operative licensed buying company, KK.

[12] SAPs are agreements whereby countries receive new loans from the World Bank in return for cutting public spending and liberalising trade and exchange controls. This usually involves an agreement to break -up certain state marketing boards dealing with key export commodities.

This initial group of 2000 small-scale cocoa farmers led by cocoa farmer Nana Frimpong would collect and sell its own cocoa for the member farmers' own benefit (Tiffen 2002). The start was very challenging as KK was seen as high risk for finance. However, Twin Trading (Twin) provided start-up finance plus operational and financial advice. Also SNV a Dutch Development Organisation offered village level development and training. This was a farmer rooted response to liberalisation, aimed at increasing farmer power and representation within the market as well as enhancing women's participation and encouraging environmentally sustainable production patterns (Kuapa Kokoo 2001).

Established in 1994 by the KK Farmers Union (KKFU), the KK Farmers Trust (KKFT) was set-up to receive premiums from the sale of cocoa to the FT market (see figure 11). These funds are prioritised for developing a successful business coupled with community projects such as improving access to clean water through bore hole construction, investing in education and health facilities for village communities, setting up credit unions and establishing income generating projects for women, such as soap making (Tiffen *et al.* 2004).

Today KK is a successful co-operative in its own right with 45,000 farmer members across 1124 village societies in Ghana and is responsible for 10% of Ghana's cocoa supply (Divine 2008). At KK's annual general meeting in 1997 the farmers voted to set up their own chocolate company in partnership with Twin and the Body Shop International, namely Divine Chocolate Ltd. The aim of this venture was to increase profits from their cocoa, increase their knowledge of the western chocolate market and to produce their own, branded FT chocolate bar for sale in western markets. Mr Ohemeng Managing Director of KK explains that *"we wanted to increase the value we were receiving from the supply chain; the real value is in the finished branded chocolate product*" (Doherty and Tranchell 2005, p.173). KK also propose that working as joint owners of Divine is an alternative model of trading based on trust. The relationship also builds farmer self-confidence (Barratt Brown 2007).

The first product of Divine launched in October 1998 was Divine Fairtrade milk chocolate (Day Chocolate Company 1998). Page and Slater (2003) argue that access to markets and the understanding of these markets is a key route for small-scale producers out of poverty; the governance structure of Divine appears to provide such access (Tiffen *et al.* 2004)

The importance of producer consumer links appears to be supported by a recent YouGov survey (Boal 2007) commissioned by Marks & Spencer in the UK, which revealed that 78% of consumers would like more information about how and by whom goods are made or produced. The marketing of FT products plays a key role in bringing consumers and produces closer together to shorten the supply chain and thus avoid the disconnect of small-scale producers highlighted by Tiffen (2002).

Divine is recognised as one of those FT brands responsible for FT developing its mainstream position (Lowe and Davenport 2005a and 2005b, Doherty and Tranchell 2005). Divine UK also began exporting to the USA in 2002. During 2007, Divine stepped up their investment in the USA market by setting-up their own operation, Divine Inc. The aim is to develop Divine's presence in the US chocolate market (Purvis 2007). Divine's top twelve customers are shown in table 16. This key customer list shows a mix of both mainstream supermarkets and those companies regarded by Lowe and Davenport (2005a, 2005b) as the 'alternative high street' such as Oxfam and Equal Exchange (see section 2.1.6).

Currently Divine is available in all key channels of confectionery distribution, including supermarkets, wholesalers, newsagents, coffee shops, vending companies and cash and carry's. Divine's top twelve customers are listed as follows.

Table 16 Top 12 Divine Customers 2006/07 (excluding Co-op own label (source Divine's sales ledger 2007)

Position	Company	Type
1	Oxfam	High street charity retailer
2	Tesco	Multiple supermarket
3	Traidcraft	Fairtrade wholesaler and catalogue company
4	Equal Exchange	Alternative trading company
5	Waitrose	Multiple supermarket
6	Starbucks Coffee Company	Coffee shops
7	The Co-operative Food Group	Multiple supermarket
8	ASDA	Multiple supermarket
9	Sainsbury	Multiple supermarket
10	Spring Fine Foods	Wholesaler
11	3663	Food service wholesaler
12	Premcrest	Wholesaler to student union shops and cafes

It is worth noting the balance of Divine's major customers, which includes not only mainstream channels such as supermarkets but also ethical and FT channels including; Oxfam shops and the Traidcraft fair trade network and sales catalogue. In terms of branded Divine and Dubble chocolate sales, the ethical retailer Oxfam is currently Divine's largest customer. Also most of the major UK supermarkets appear in Divine's top ten customers, this illustrates the brands mainstream availability. During Divine's first year of trading, the company found it challenging to achieve distribution in mainstream supermarkets. Its first major breakthrough came late in 1999, when Divine launched a coupon promotion with the CA supporters (featured in Christian Aid Campaign mailing) redeemable within specific Sainsbury's supermarkets. This promotion resulted in an unusually high coupon response rate for redemption persuading Sainsbury's to increase the distribution of Divine from 70 stores to 343 UK stores (Doherty and Tranchell 2005).

Since 1998 the UK chocolate market has been relatively static at around £3.16 billion. Moulded block chocolate bars account for a quarter of the market and this is one of the chocolate segments in growth. Bars have increased by 12% since

2003 with the small premium sector delivering the fastest growth as consumers choose the high cocoa solids chocolate, organic and FT products.

Table 17 UK sales of moulded chocolate bars by size and positioning (source: Mintel, 2006b)

	2001	2003	2005
	£m	£m	£m
Large >85gm	226	281	312
Small <85gm	122	120	135
Premium	57	83	96
Total	**405**	**484**	**543**

From consumer trend and tracking studies carried out by Ronchi (2001), two thirds of Divine consumers surveyed stated that FT awareness, coupled with widespread availability of Divine and Dubble, had reduced their consumption of other chocolate. In the same consumer study the results show that 11% of Divine consumers had come to FT for the first time and 40% of Dubble consumers had never purchased a FT product before.

Since 2001, Divine's product range has grown significantly. Ronchi (2001) reported that Divine's product range included only four products; Divine milk 100g and 45g sizes, Divine Advent Calendar and Dubble 40g chocolate bar. Today, Divine boasts a comprehensive branded FT chocolate range of 28 products and 12 own label products, giving 40 products in total. According to Mintel (2009), Divine have the largest number of FT chocolate product lines in the UK. The Divine and Dubble branded products include;

- Eight, 100g Divine flavours of block chocolate
- Four, 45g Divine Flavours of count-line snack bars and a pack of 6*14g Divine Dark mini-bar pack
- Five seasonal products including advent calendar, chocolate coins, both Divine Dark and Divine milk mini eggs and a larger shell Divine Dark Easter egg with brazils
- Five boxed chocolate products including a luxury box of Belgian chocolates
- Plus a Dubble branded product range of a 40g bar, Dubble shell Easter egg and Dubble chocolate 90g Christmas puddings
- Also a Divine Drinking Chocolate and a Divine Cocoa powder

In addition to the Divine and Dubble branded products, Divine have also developed two own-label product ranges of FT chocolate for both Starbucks Coffee Company and the Co-operative Food (CF) group respectively. It is important to note here the strong growth of own brand confectionery chocolate across Europe (Kumar and Steenkamp 2007). Own-label also known as store brands or private label are exclusive to a chain of stores. In 2006 nearly a quarter of confectionery products sold in UK stores was own-label retailer brands (Kumar and Steenkamp 2007). Divine has responded to this by developing own-label products for both Starbucks and CF.

The Starbucks branded range initially includes three small moulded bars:

2) 45gram FT Dark Chocolate
3) 45gram FT Milk Chocolate
4) 45gram FT White Chocolate

These chocolate bars have been in UK distribution since early 2004. Burkeman (2007) reports that Starbucks have 550 coffee outlets in the UK. Recently, with the contract coming up for tender, this partnership between Starbucks and Divine was renewed. As a result a new chocolate range has been developed and these products (see below) were launched in the UK on 7th January 2008 and then throughout the Starbucks European and Middle East estate by the end of March 2008. Starbucks have 249 coffee shops in the rest of Europe, 47 in Turkey and 158 in the Middle East. Therefore the Starbucks branded FT chocolate bars supplied by Divine will be available from March 2008 in 1004 international Starbucks coffee shops.

1) 50gramm FT/Organic Milk Chocolate
2) 50gramm FT/Organic Dark Chocolate

Divine also competes in other chocolate segments including seasonal chocolate. According to Mintel (2006b), UK seasonal chocolate markets are significant but in decline, Easter sales are valued at £227m with Christmas chocolate sales totalling £139m. Also 85% of Easter sales are accounted for by hollow shell eggs and £29m worth of Christmas sales are represented by both advent calendars and tree decorations. The drive towards premium chocolate is also reflected in seasonal sales particularly in Easter eggs, where higher valued premium eggs are offsetting price deflation. Within the Divine product portfolio is the Dubble bar, launched in conjunction with CR and has sold more than 6 million bars to date since its launch in October 2000. Dubble was the first FT product developed specifically for young people (Deveson 2005).

In conjunction with Dubble the educational pack *Papapaa* was launched by CR and received mainstream press coverage e.g. *Times Educational Supplement* (Brooks 2001). The teaching pack focused on a detailed case study of KK and the Dubble FT chocolate bar, taking pupils and teachers through the "bean to bar" story. Through learning about the challenges that face cocoa farmers and the benefits that FT can bring it was hoped by CR that pupils will want to spend their pocket money on FT chocolate. In addition, a FT fan club called *'Dubble Agents'* was set-up in 2001 by Divine and CR, which now has over 50,000 members who have signed up via the Dubble website (www.dubble.co.uk). The *Fair Measures survey* (Comic Relief 2003) suggested that 74% of young people had heard about FT at school and highlighted the importance of FT teaching resources for young people. According to Nicholls & Opal (2005) Divine has used innovative means to educate their consumer base about cocoa farming, particularly with regard to the development of the *Papapaa* education pack for young people. A FT Towns activist commented that;

> *"The launch of the Dubble bar in November 2000 made working with schools even easier. Now there was a Fairtrade chocolate bar aimed particularly at children and sold at a very affordable price. The association with Comic Relief meant that the Dubble bar was very high profile and there was no shortage of excellent quality resource materials for schools."* (site visit PO4, see Table 7, European Fairtrade town's conference 2008, Brussels)

The impact of Divine's educational work is not limited to an increased understanding of FT among young people, but is also affecting the chocolate industry, as young consumers increasingly make their preferences known to branded chocolate companies (see table 19 for quote from senior executive at competitor A). Identified above is the presence of Divine and Dubble chocolate bars in mainstream supermarkets. The extent of this distribution is shown in table 18.

Table 18 Distribution of Divine in UK supermarkets (source: Divine Sales ledger 2007/2008).

Supermarket	Divine milk 100g	Divine Dark 100g	Divine mint 100g	Divine Orange	Dubble
	Number of stores stocked in				
ASDA		321			
Booths	26	26	26	26	26
Co-op	800	800			225
Tesco	550	550	550		
Morrisons	360	360			
Sainsburys	385	213			421
Waitrose		185	85	85	

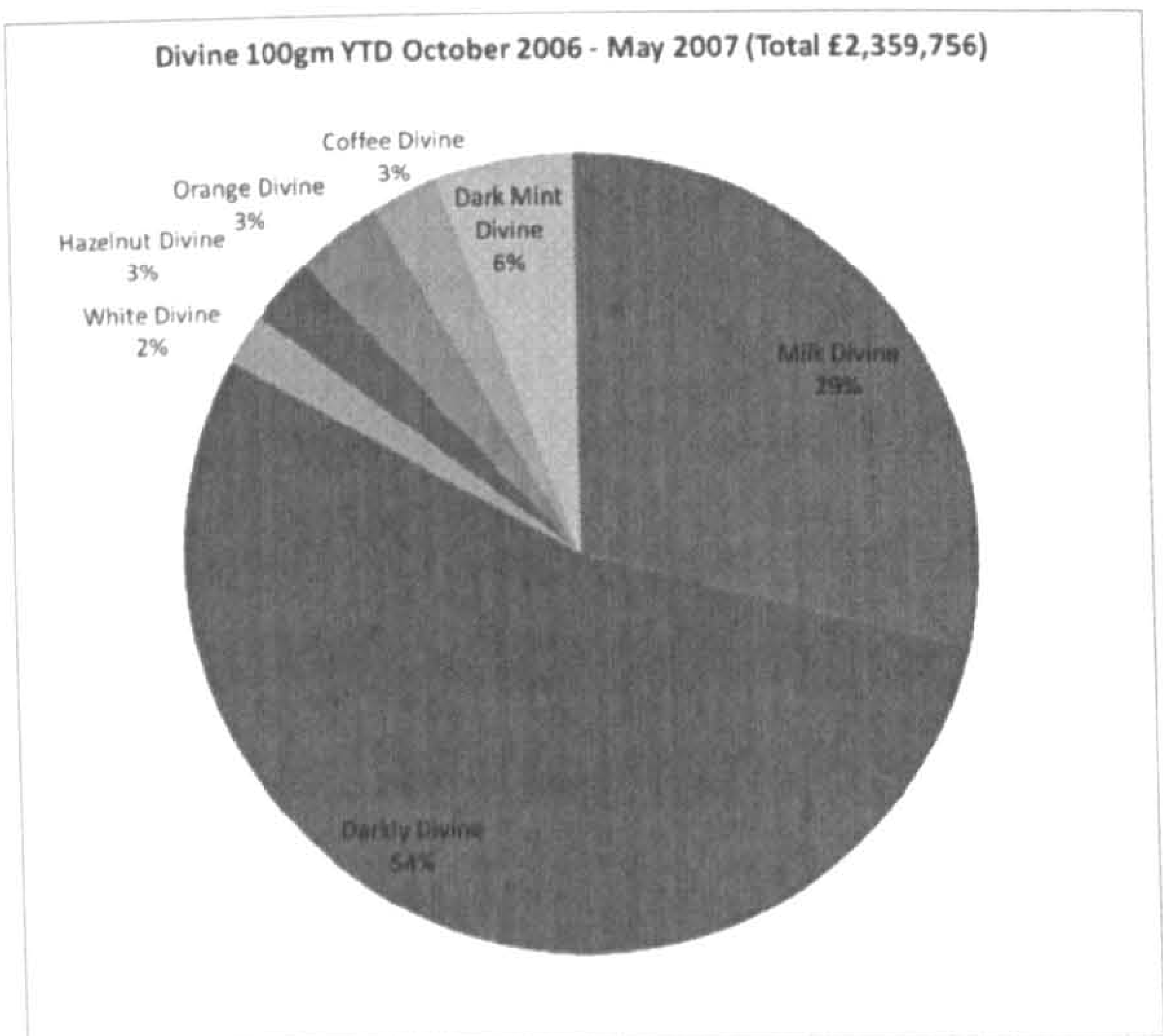
Divine is also stocked in 450 high street Oxfam shops plus:

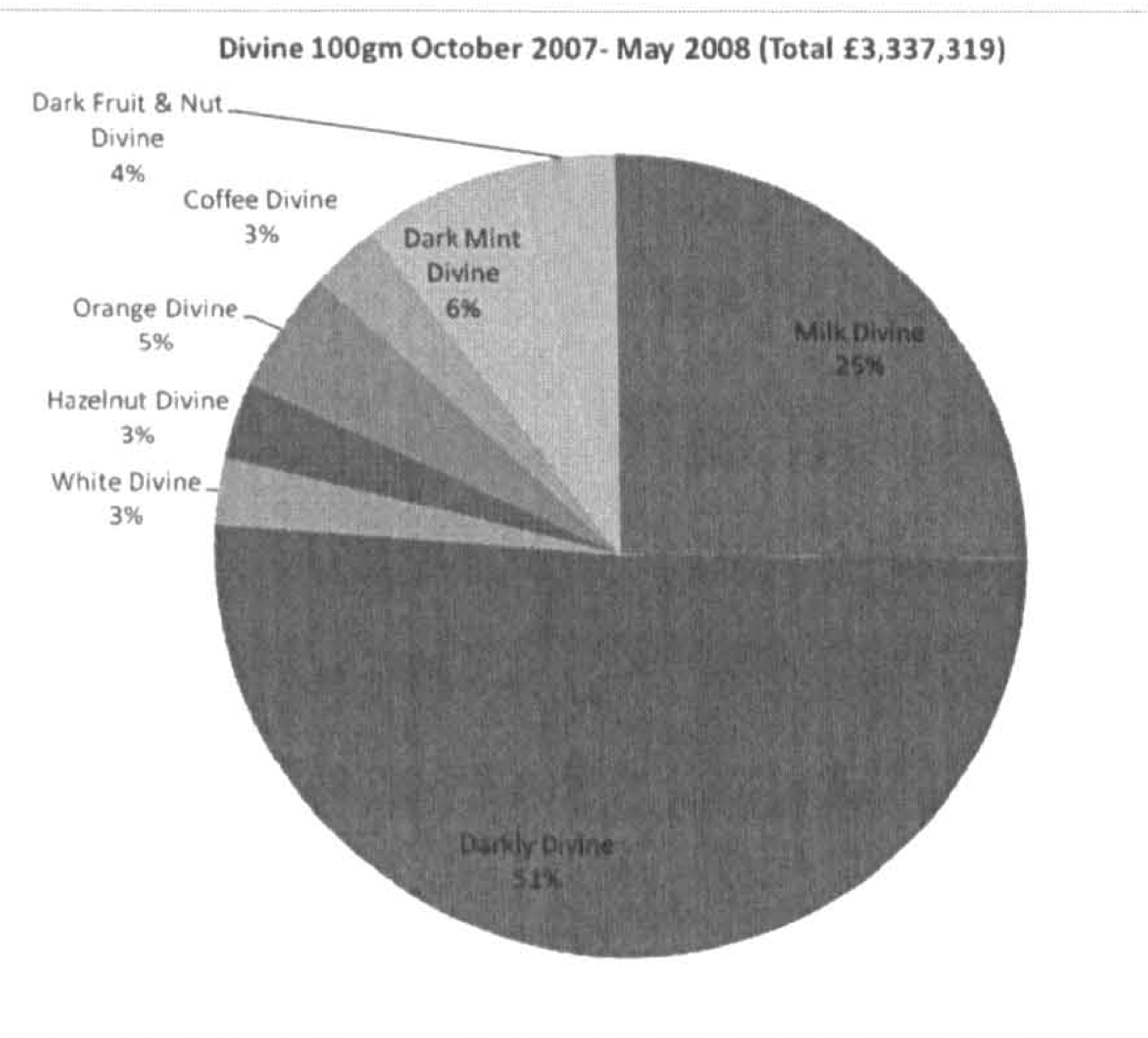
- 400 UK Healthfood/Wholefood shops
- 100 Student Union shops
- 40 Fairtrade shops
- 80 Wine rack stores
- 28 Est Presso stores

(Divine Sales Ledger 2007/2008)

The product sales analysis below shows the strength of the Divine Dark recipe in the Divine range. Sales from 2007/8 show that 61% of Divine's sales come from Divine Dark product variants (see figure 12). This position appears to demonstrate the importance of the UK market growth in dark chocolate sales for Divine. This analysis also supports the view of some key informants, who recommend further product development in this Divine Dark product area (see table 19 and appendix 5). However, Divine also need to counter balance this suggestion against the hugely dominant position of milk chocolate based countlines in the UK.

Figure 12 Divine Sales by product variant (these figures are calculated using the sales data from the Divine Chocolate Ltd sales ledger 2007/2008).





These findings of Divine's impact and performance are also supported by analysis from the initial first phase interviews (see table 19). The start list of codes shown in table 10 (section 3.5.3) identify impact and performance as key categories. From the coded first phase interviews the following role ordered data display matrix is developed:

Table 19 Data Display Matrix- Impact and Performance of Divine from First Phase interviews (source: coded interview transcripts)

Research Questions

Informants	Performance	Impact
Senior Executive of Divine Chocolate Ltd	*" We have managed to achieve a mainstream position in a very short period and have some very loyal consumers"*	*" We can demonstrate through our marketing and campaigning work we have been a catalyst for change"*
Confectionery buyer at multiple supermarket A	*"Divine Chocolate has really proved some experts wrong, they have managed to develop a high quality range of Fairtrade chocolate products and gain impressive distribution, they have used their links back to producers to demonstrate to us all the importance of people and relationships in supply chains. Remember chocolate is a highly competitive market and is very difficult for any new product to succeed"*	*"Divine has had a massive, massive impact on our business strategy, it's worked on chocolate and it's been rolled out elsewhere into other categories. Also huge impact on *second tier manufacturers who are now developing FT capacity".*
Trading Manager for Confectionery and Hot Beverages at Multiple supermarket B	*"Divine is selling well off and on promotion, particularly Divine Dark which sells better than Lindt"*	*"Big impact, Divine now appearing on industry statistics and I am sure their success is behind Cadbury's buying Green & Blacks. Also key player in Co-op going own label"*
Confectionery Trading manager at Multiple supermarket C	*"Divine performs very well and commercially delivers. Divine Dark is up with the best performing dark chocolate's"*	*" Success of Divine has played a role in Cadbury's buying the Green & Blacks brand, more suppliers are now talking about FT and Divine have played their part"*
Senior Executive at the Fairtrade Foundation	*" It is very difficult for new products to get listings in all major supermarkets but Divine has managed this, it is a big achievement"*	*" Significant impact in confectionery sector, has been responsible for making FT chocolate a mainstream proposition"*
Head of Supermarket Brand and Head of Fairtrade Marketing at supermarket A	*Divine has shown steady growth and has mainstreamed FT chocolate. Our own label FT sales are up 33% since working with Divine"*	*"Divine has had significant impact on our FT own label strategy, success in chocolate persuaded business to convert all own label coffee to fair trade. Our success has also stimulated other retailers to look at own label fair trade"*
Senior Executive at leading Multi-national Food group manufacturers of both hot beverages and confectionery – Competitor A	*"Divine has shown good growth, particularly in the supermarket sector"*	*"Key impact on young people, "Divine's work in schools has made an impact, we receive several letters every week from school children asking us to do fair trade chocolate bar like Dubble. Divine also influenced retailers such as the Co-op"*

* Second tier manufacturers are those companies making chocolate on contract for major manufacturers or multiple supermarkets such as UK companies Ashbury's and Derwent Lynton (not recognised brands by the public).

These initial interviews demonstrate that in the view of informants the Divine product range particularly Divine Dark is performing well, particularly in supermarkets. In some cases Divine is performing as well as some of the mainstream equivalent products such as Lindt (see table 19). In addition, it appears that Divine has made an impact in the UK confectionery industry on a number of levels including: with retailers such as the CF group with their own-label FT strategy (see section 4.2.1), branded manufacturers such as Cadbury's in their purchasing of the organic/FT chocolate company Green and Blacks and on second tier chocolate manufacturers. There is also evidence above of Divine's impact with young people and their campaigning for FT products. These key themes are further investigated in the main phase of interviews, the analysis of Divine's impact and performance is presented in the role ordered display matrix in appendix 5. To drill into this collected data at ever-increasing levels further analysis is shown in figures 13a and 13b. Both these figures are displays of coding resulting from the interview analysis in appendix 5. The diagrams show the different components of Divine's impact and performance identified by the informants from the main phase interviews.

Figure 13a Display of coding relating to Divine's Performance

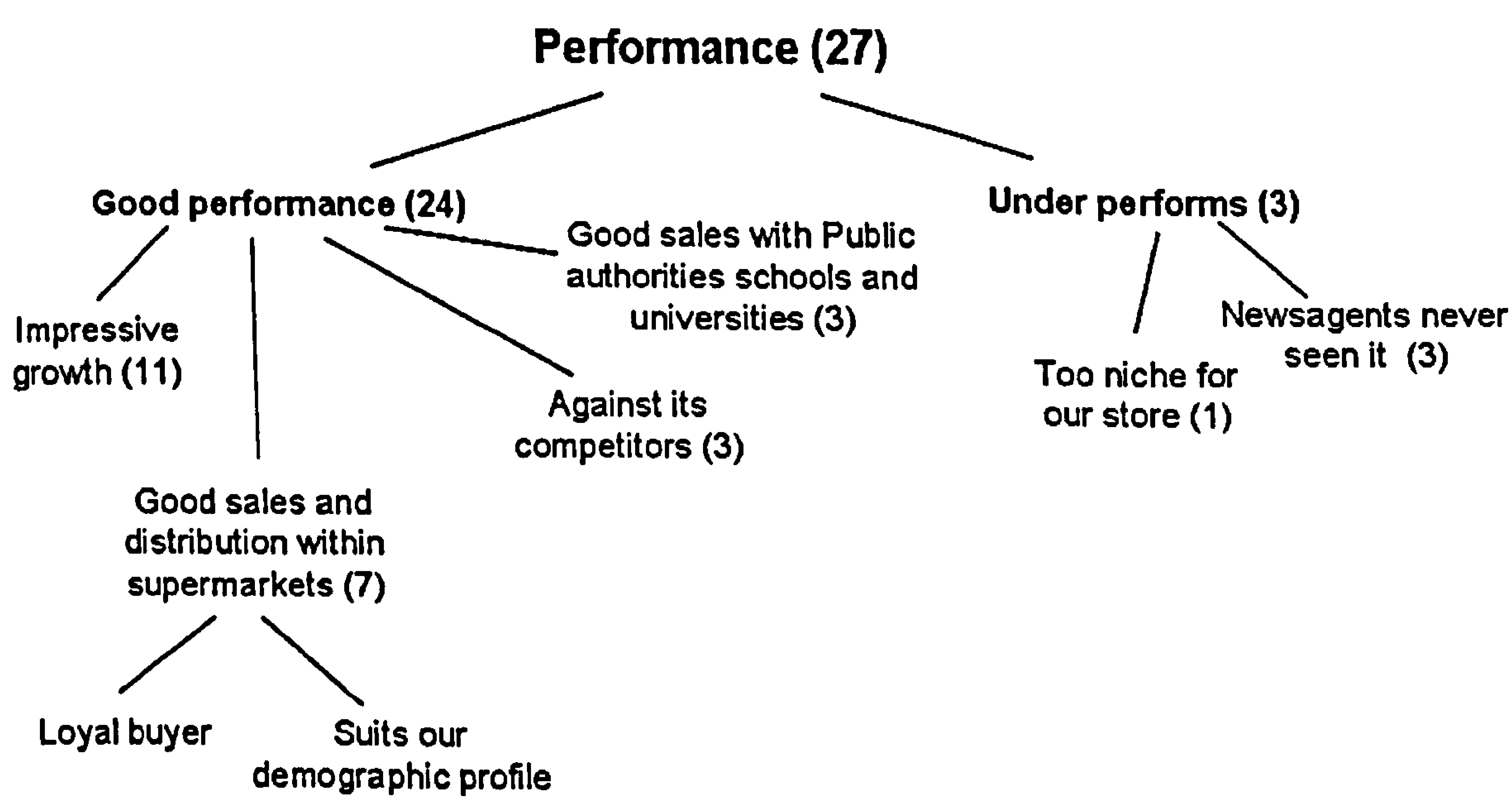
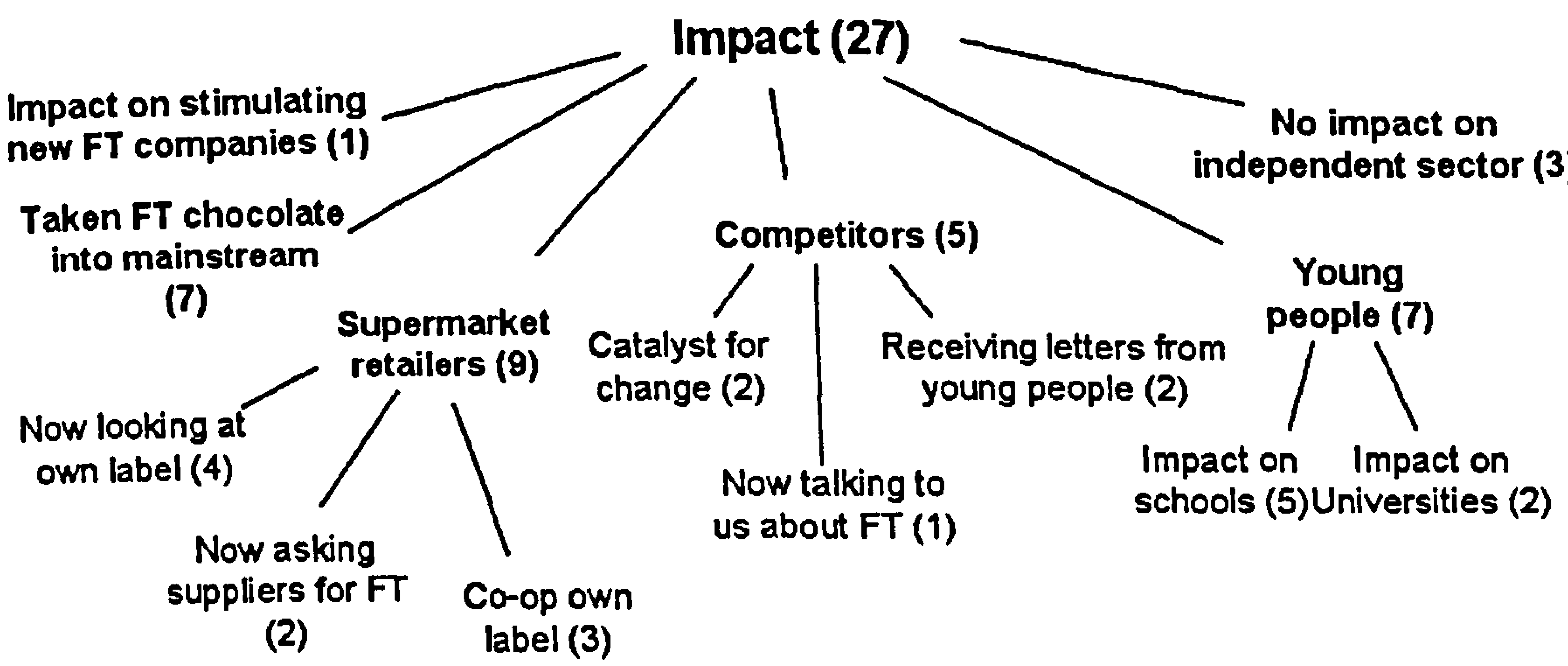


Figure 13b Display of coding relating to Divine's Impact



The above analysis from the main phase interviews appear to support the initial findings (see table 19) and demonstrates that Divine performs commercially in a number of distribution channels. This is particularly the case in supermarkets, where all six key informants in this main phase considered Divine's sales performance as good. Divine also performs well in alternative channels of distribution (such as ethical retailers, distributors and wholesalers) and those wholesalers supplying public authorities, schools and universities. These six informants in the wholesale and ethical sector identified strong sales via public sector authorities, schools and universities. For example managing director of the FT ethical distributor (see table 9 and appendix 5) explains;

> *"Divine performs well; Divine outperforms the whole food wholesale sector. Currently our sector is stagnant but Divine is growing at 23%"* (interview 2008, managing director of FT ethical distributor)

However, those wholesalers and retailers making up the independent newsagent channel do not yet regard Divine as a serious competitor (two key informants). This is also supported by evidence from one of the market analysts, who also commented on the lack of availability of FT products in newsagents (see appendix 5). Divine also appears to perform poorly in the department store interviewed in the sample due to competitor pricing. Other informants, including competitors and those representatives from trade associations (three informants), also suggest that Divine has performed well in terms of distribution and marketing communications.

Regarding Divine's impact on the confectionery industry, there is further evidence in the main phase interview analysis to support earlier findings from the initial interviews (see figure 13b). Firstly, there is evidence to suggest that Divine has been a catalyst for change, *competitor B* attributed their own move into FT directly to Divine:

> *"Frankly Divine provided a mirror image for ourselves and have been a key catalyst in our own move to fair trade"* (interview 2008, senior executive at competitor B)

Two supermarket informants also highlight the impact of Divine on other chocolate manufacturers, again attributing the acquisition of Green and Blacks by Cadburys down to the activities of Divine. Another key theme emerging is that of Divine's impact on the development of FT own-label supermarket products. This impact is specifically mentioned by two of the market analysts and three supermarket informants. Both market analysts attribute the development of CF own-label chocolate down to Divine. A third theme emerging from this interview analysis is also the impact of Divine on young people. Seven informants identify strong sales in channels of distribution supplying schools, colleges and universities as a result of Divine's impact. This is also supported by *market analyst E,* who is the editor of a major national young person's magazine (see appendix 5). The trading manager from coffee shop chain A also highlights the impact of Divine on their own business activity, see below:

> *"Divine has had an interesting impact on our business. As a result we have the opportunity to network and discuss relevant FT issues with other UK licensees. We also get a heads up on FT Foundation campaigns e.g. Fairtrade fortnight and are given the opportunity to input to plans and participate in promotional activity. It has given us the opportunity to engage with the Fairtrade Community and being a part of this broad group is healthy and provides us with the opportunity to understand and contribute to the fair trade debate"* (interview 2007, Trading manager from Coffee Shop Chain A)

The coding display (figure 13b) also shows that some informants particularly those in the ethical sector claim Divine has taken FT chocolate into the mainstream:

"Both brands have had big impact in the mainstream and also now on mainstream companies themselves" (interview 2007, trading manager for ethical retailer)

One of the informants in the partner organisations also attributes the success of both Divine and Cafédirect to the launching of new FT business models. It is clear Divine's impact has been significant on the industry at various parts in the value chain. A key emerging theme from this analysis is Divine's impact on the supermarket Cooperative Food (CF). Eisenhardt (1989, 1991 and 2007) proposes a flexible approach to data collection during case study research and recommends taking advantage of illuminating mini-cases if they arise in the research process. Divine's relationship with the CF group is an example of such a mini-case and is therefore investigated below.

4.2.1 The Divine Chocolate Relationship with the Co-operative Food (CF) Group

CF is part of a larger group of diverse businesses from Co-op travel to The Co-operative Bank. CF is different from most other UK retailers; it was founded in 1844 on a set of co-operative values and principles that guide the organisation (Birchall 1994). CF is consumer owned and democratically controlled (one member one vote) by its members. CF is now responsible for 3,000 UK stores, which are in the main convenience stores (between 1,000 -5,000 square in size). CF for many years has been recognised for its *Responsible Retailing Strategy*, the Co-op Brand product range has been one key way of communicating this strategy (The Co-op and Fairtrade Strategy Paper 2000, internal document). The CF during 1998 decided to embark upon a strategy to take FT out of the niche and into the mainstream (Co-op 2002). By 2006 the CF share of the UK grocery FT market was 25%, in contrast to its share of the overall grocery market, which is 6.1% (AC Neilson 2006). It is also worth noting that 64% of CF shoppers are aware of FT compared to 52% nationally (Co-op 2007). In fact, according to Mintel (2009), CF was the first UK supermarket to make a strategic move into FT and now records total retail sales of £76m, with FT products in more outlets than any other retailer.

The CF's aim was to integrate FT with the CF brand and develop a range of CF branded FT products. The strategy wherever possible was for these products to be supplied from recognised FT development organisations such as Divine. CF brand is a £1 billion brand and was the first retailer own brand introduced over 150 years ago (Co-op 2000). A number of research reports show CF brand being associated with consumer trust and strong attributes of honesty and openness (Financial Times 2007). The NOP survey (2007) reported Co-op brand as the UK's most ethical brand with the national Consumer Council (2006) judging the Co-op to be the most trusted UK brand. This appears to demonstrate the value of social and ethical commitments in developing trust via the Co-op brand.

In 2002, the CF Retail Executive Committee decided to make a significant strategic move in FT by switching its entire own-label block chocolate range to 100% FT sourced. At the time the CF own-label block chocolate was supplied by Kraft Jacob Suchard and totalled £1 million in sales at retail value (The Co-op and Fairtrade Strategy Paper 2000, internal document). Brad Hill (CF Strategic Fairtrade Development Manager) explains;

> "*Kraft were offered the opportunity to move to FT as the incumbent supplier to the Co-op. We received a quick negative response from them*" (interview 2007)

The CF category management teams were concerned with both the commercial risk and how the CF consumer would respond to a new range of block chocolate recipes from a new supplier. However, CF decided to go ahead and partner with Divine to supply the new own-label FT range of CF chocolate. Divine's credibility and its co-operative links with KK in Ghana were also attractive to CF. This switch to FT led to a documentary screened in November 2002 on BBC News 24 about Fairtrade Chocolate. Also CF produced a campaign document in 2002 called '*The Chocolate Report*', which discusses in depth the inequalities in the world trading system and how both FT consumption and lobbying the large multinationals to convert to FT can make a difference. Divine organised a trip in 2003 for commercial representatives from CF to visit KK in Ghana and view the impact of FT. Sales of the new CF Fairtrade chocolate range outperformed the previous own-label range by over 30% in the first year 2002/2003 (CF Sales Ledger 2004/05). This was compared to a decline in sales of branded chocolate products at the time of 15% (Mintel 2003). Sales continued to grow and in 2006 retail sales of CF own-label FT chocolate range are worth over £4m, showing a 20% growth on 2005 (Co-op 2006). The CF own-label block chocolate range now totals 13 products. According to CF, the success of this mainstream FT chocolate venture resulted in the move in 2003 to switch their entire CF own-label range of coffee to FT sourced (Co-op 2003).

Due to their partnership relationship with Divine, CF are the FT licensee for their own-label FT chocolate range. This means CF have signed a contract committing themselves to the FT standards and processes, which in addition to paying a license fee also includes financial support for producer support and development. This is made possible due to Divine's processes, which commit the 100% FT company to pay not only the FT license fee on their entire turnover but also a producer support and development fee on all cocoa purchased (see table 15). This development fee is within the price CF pay Divine for the product. This position by CF is further evidence of its ethical commitment to FT.

Despite the pressure for shelf-space within stores, CF agreed not to replace Divine's existing brands of Divine and Dubble FT chocolate with their new CF chocolate range, but for both brands to be available in CF stores. David Croft (former Head of FT at CF) explains; *"It's important that retailers do not let own-label FT products cannibalise sales of existing FT brands"* (McAllister 2004, p: 42-47).

The success of Divine's partnership with CF (see above) has provided the business case for CF to continue with its FT own-label programme. The value of this relationship between CF and Divine Chocolate is also demonstrated by the willingness of CF to discuss flexible payment terms at critical stock flow periods, shared promotional costs, no requirement to pay listing fees and the investment of CF in FT marketing communications (*personal diary extracts*, 2006). This is in contrast to the practices highlighted by those authors who are critical of the way supermarkets treat suppliers (Blythman 2004 and Lawrence 2004). In fact, Blythman (2004) agrees and proposes that CF exhibit a non-exploitative and developmental approach to FT. This approach appears to support the work of Murphy *et al.* (2007) and shows the value of both diligence and commitment by the

CF in sustaining relationships. According to Mintel (2009), Divine has a special relationship with the CF supermarket chain.

Between 2002-2005 (post launch of the CF own-label FT chocolate range), the CF promotional support package for FT, which included national TV advertising totalled over £3million. CF has also given up specific merchandising space in shops to FT, called *'Responsible retailing bays'* with associated point of sale materials. This increases the number of FT product facings in store. From the evidence CF has invested resources in communicating the human element of FT, which Strong (1996, 1997) highlighted, is a key challenge for the FT movement. CF's marketing communications illustrated by the *'Chocolate Report'* have focused on the transformative message of FT and not just the price and quality dimensions, which Lowe and Davenport (2005b) argue is a danger of being in the mainstream. The CF own-label FT chocolate range is stocked in all 3,000 stores; this addresses the concerns expressed by those authors who identified poor availability in the mainstream as a barrier to FT growth (Nicholls 2002, Nicholls and Opal 2005, Ronchi 2001, Strong 1997). This is also most advantageous in raising the awareness of FT, bearing in mind that 43% of the public hear of FT while shopping (Fairtrade Foundation 2005).

The impact and performance of the second case organisation Cafédirect will now be investigated.

4.3 Cafédirect- Market Performance and Impact

Founded in 1991, Cafédirect is a successful FT social enterprise (Nicholls 2006a). Cafédirect is the UK's largest FT hot drinks company, with a turnover of £22.3m, up 3% on 2006 (Cafédirect 2007b). This now makes it the sixth largest coffee brand in the UK. It's brands include Cafédirect coffee, Teadirect and Cocodirect, which are sold through both major supermarket chains and alternative channels of distribution, including Oxfam shops. Cafédirect buys from 39 producer organisations across 13 different countries and its FT purchases ensure over a quarter million growers benefit from FT (Cafédirect 2007a). Cafédirect's product portfolio includes 15 coffee products from the roast and ground coffee segment, espresso, decaffeinated and instant coffee products, 3 tea products and

Cocodirect drinking chocolate. Recent developments include organic and speciality coffees (Fairtrade Foundation 2008c). Teadirect, launched in 1998 is now ranked ninth in the UK's top tea brands (Mintel 2008a). Teadirect sales have grown 30% in the last year. According to Mintel (2008a), Cafédirect has a 7% UK market share of the roast and ground coffee market. Cafédirect is sold in all mainstream retail channels and also via the 'alternative high street' by companies such as Traidcraft and Oxfam charity shops.

In 1989 the international Coffee Agreement collapsed and international coffee prices slumped to a thirty year low. This caused the price of coffee beans to fall to a third of its pre-1989 level within a few years. This decline had a devastating effect on the incomes of small-scale coffee farmers globally (Barratt Brown 2007). Three quarters of the global supply of coffee is produced by small family owned farms. In response to this crisis Oxfam, Traidcraft, Equal Exchange and Twin Trading got together in 1991 and formed the branded FT coffee company, Cafédirect. Twin Trading worked together with marginalised coffee farmers to build capacity in order to supply Cafedirect. All four organisations were already involved in the distribution of FT coffee into the UK but they realised that collectively they could achieve so much more:

> *"Our contribution to Cafédirect was that we were the only member who had any marketing experience. Twin Trading had the coffee supply chain management, Oxfam had shops and campaigners and Traidcraft had Traidcraft Reps."* (Managing Director of FT ethical distributor, interview 2007)

Cafédirect was born from this alliance with one specific mission; to pioneer FT into the mainstream of consumer consciousness and purchasing in the UK. According to Nicholls and Opal (2005) this was a change of focus on the part of these ATO's to re-position their offering towards more mainstream consumers. The mainstream proposition was to create a quality FT coffee brand to be sold in mainstream outlets such as supermarkets. Cafédirect is now regarded as the UK's leading FT company (Nicholls and Opal 2005).

Recognising the reality of the competitive coffee market, Cafédirect was the first FT company to implement major marketing campaigns (Bird and Hughes 1997).

The focus of these campaigns centered on relationships with individual producers. According to Nicholls and Opal (2005), Cafédirect's marketing objective is to connect the consumer more closely to the producer. Raynolds (2002) proposes that FT products such as Cafédirect combine trust and knowledge for the consumer. According to McDonagh (2002) when marketing Cafédirect the emphasis is placed on cooperation and not competition. Interesting for this study are the comments of Bidlake (1994) who raised a fundamental question:

> *"How has Cafédirect coffee, which has thus far had a very minimal advertising spend when compared to its larger rivals, launched by a group of non-profit-making organisations, won over the minds and shelf space of the profit hungry multiple supermarkets?" (*Supermarketing p: 31*)*

According to King (2004) Cafédirect's success is also about good quality and appropriate pricing. By 1999 all major UK supermarket retailers stocked Cafédirect products, it was regarded as a FT 'trail blazer' (McDonagh 2002). By 2003 the company had achieved impressive sales and distribution in what is a highly competitive UK coffee market (Mintel 2006a). According to the Director magazine (2007) Cafédirect competes avidly with the multinational companies for shelf space in supermarkets (Director 2007). The growing buying power of the ethical consumer and Cafédirect's relationship with suppliers and its quality coffee are key to the companies ability to compete (Director 2007). In relation to product quality a senior executive at Cafédirect states:

> *"If consumers do not drink the coffee you can't help the producers"* (Interview, 2007)

In 2004 Cafédirect raised £5m through an initial public share offer (IPO) and is now a public company with 4,500 shareholders, including ownership for coffee farmer producer groups of 5% shareholding. 40% is held by the founder members (Oxfam, Traidcraft, Equal Exchange and Twin Trading) and 55% to new investors, which are made up of individuals, institutions and Cafédirect employees. The shares are not traded on a public exchange. Instead buyers and sellers are linked up through Ethex, an exchange set-up by the ethical bank Triodos, where you can buy and sell ethical shares and bonds. The share prospectus (Cafédirect 2004) made it very clear that Cafédirect is first focused on reinvesting in the company and supporting its producer partners, and second in providing investors with a fair financial and social return.

The company now buys coffee from 39 different producer organisations spread across Africa, The Caribbean and Latin America. The coffee is bought directly from these coffee groups and the resulting FT premium paid by Cafédirect is ensuring that over 250,000 families receive a decent income from FT (Cafédirect, Annual Report 2006). Cafédirect competes in all major coffee segments, its product range includes;

- instant coffee products such as classic blend, decaffeinated, organic and special selection
- Roast and Ground- medium and rich roast, decaffeinated, organic and expresso
- Super premium roast and ground including single origin coffees from producer groups in areas such as Kilimanjaro in Tanzania.

In November 2006 Cafédirect relaunched its product range with a new packaging design to re-enforce their FT credentials and emphasise the relationships with producers (Director 2007). As previously explained in chapter 2 (section 2.1.1), the FT Mark ensures in practice that a higher than market price is paid to growers (in the case of tea and coffee it is between 5-15 cents per kg depending on the product) and a floor placed on the market price to protect growers from rapid reductions in market prices for their produce. For instance, in 2004/5 tea prices fell from \$1.60 to \$1.35 per kg in Tanzania and as low as \$1.18 in Uganda, yet Cafédirect bought at a minimum price of \$1.95 per kg. In 2007, Cafédirect paid nearly £1.0 million more than the market price for its coffee, tea and cocoa raw materials in FT premiums (Cafédirect 2007b). As coffee prices are volatile, FLO has established a minimum guaranteed FT price, which covers the growers cost of production. The FT minimum prices for different types of coffee beans are as follows (FLO 2007):

Arabica coffee	= 131 US cents/lb
Arabica organic coffee	= 151 US cents/lb
Robusta coffee	=111 US cents/lb
Robusta organic coffee	=131 US cents/lb

Whenever the world market price for coffee goes beyond these minimum prices then FT guarantees to pay the market price plus 10 US cents/lb. Cafédirect's policy is to go further and pay an extra 10% above this minimum FT price. In addition, for tea, Cafédirect grade the quality of their teas sourced from East Africa on a scale from 1(lowest) to 7 (highest). The minimum price Cafédirect pay for their tea varies between US $ 1.75 up to US $ 1.88 per kilo depending on the grade. The FT minimum price set by FLO is US $ 1.50 per kilo, meaning Cafédirect pay 16-25% more than the FT minimum price depending on the grade. In addition, the extra FT social premium is used for social development programmes to help strengthen the grower organisations, widen their influence and make them more sustainable (Cafédirect 2007a). Cafédirect also provides pre-payments with advances of up to 60% of the minimum price, if requested (Barratt Brown 2007). This can help producers cash flow and eliminate intermediaries, who often provide a lower price for coffee beans. Cafédirect only works with small-scale growers, and farmer organisations which are accountable to their members. The front of the Cafédirect packet carries the FT logo and states that the coffee has been traded to ensure that producers and their families benefit directly from a consumers purchase. As a result of these pricing policies Cafédirect has paid more than £13m in the past seven years over and above market prices for raw materials in order to support communities (Mintel 2009).

In addition, Cafédirect paid £0.6m to its producer partners in the 2007 financial year through its Producer Partnership Programmes (PPP). These programmes consist of business development programmes tailored to the needs of producer organisations, who supply Cafédirect with tea and coffee. They include building capacity in marketing, quality control, crop husbandry and crop diversification projects. From 2004-2007, Cafédirect has invested £1.9 million or 60% of operating profit in PPP. Since Cafédirect's initial public offering (IPO) in 2004, they have also handed over 4.9% of their share issue to the producer communities to give them a role in the governance of the organisation. Cafédirect with its producer partners has set-up Cafédirect Producer Ltd, which is a producer cooperative that holds shares in Cafédirect Plc on behalf of the producer member organisations. According to Cafédirect (2009) this organisation gives growers increased influence in the governance of Cafédirect. The aim is to enhance the partnership between the company and its producers.

In the face of strong competition Cafédirect now holds a product range of 41 products including coffees, teas and drinking chocolate. It competes effectively against larger companies through creative and innovative marketing, effective PR activity, strong networks and partnerships (Director 2007). Cafédirect's first major product line was roast and ground coffee. However, market research revealed that the majority of UK consumers were drinking freeze dried coffee so, in 1994, Cafédirect launched a freeze dried instant coffee. This led to the company making its first profits in 1995 (Davies 2007). Cafédirect had to very quickly create awareness of their range amongst supermarket shoppers and to persuade them to buy their products. A key part of its marketing strategy was the campaigning work of volunteer FT supporters, who would devote time towards campaigns such as Fairtrade Fortnight. This is an annual event aimed at raising FT awareness (Nicholls and Opal 2005). Many of these supporters were from the partner organisations such as Oxfam and Traidcraft.

This was the start of Cafédirect's strong growth, which they continued to fuel by adding new products. In 1998, Cafédirect entered the tea market with Teadirect and, following that in 2002, Cocodirect drinking chocolate, which uses both FT cocoa and sugar, was launched (Cafédirect 2006). More recently, they have also released many gourmet single source of origin coffees, some of them organic (an increasingly popular market), a range of premium instant coffees and specialist teas, such as green tea and decaffeinated tea (Davies *et al.* 2009). In 2000, Cafédirect entered into a partnership with Costa Coffee to sell FT coffee as a menu option throughout their estate of UK coffee shops. This market sector is termed "out-of-home" and in recent years has been the strongest growth sector for Cafédirect, enjoying sales of £4.6m in 2007 from a base of £0.5m in 2002 (Cafédirect 2007a). New products developed for vending machines and catering packs for cafes, restaurants, planes and trains plus significant new contract wins are key reasons for this growth. Cafédirect's approach to distribution has therefore been a vital pillar in establishing FT products into mainstream consumption (Davies *et al.* 2009). They took the initiative to convince trade buyers and consumers alike that they are not just a niche brand but a mainstream competitor with a unique selling proposition (Nicholls and Opal 2005). Cafédirect's strongest growth continues to be in the out of home sector which grew 33% year on year to £4.6m in 2006/2007 (Cafédirect 2007a). However, trading conditions in other sectors primarily UK retail continue to be tough and sales declined by 4% year on year to £17m in 2006/2007. According to a senior executive at Cafédirect;

> *"Retailers own-label Fairtrade products coupled with the increase in number of other ethical products contributes to an increasingly competitive market for coffee and tea"* (main phase interview, 2007).

In 2008, Penny Newman (CEO) was given an OBE after overseeing the vastly over-subscribed IPO for Cafédirect in 2004. Cafédirect paid its first dividend in 2005- much to many investors' surprise -despite the increase pressures from competition and was also voted number one most-recommended UK brand by a Millward Brown consumer market survey in 2007 (Davies 2007). The market performance of Cafédirect and other major brands in the coffee market is shown in table 20.

Table 20 Market share (by value) of coffee by manufacturer: 2003-07 (source: adapted from Mintel 2008a)

Company	£m 2003	£m 2005	£m 2007	% change 2003-07	% change 2005-07
Nestlé	294	308	304	3.4	-1.3
Kraft	126	128	139	10.3	8.6
Douwe Egberts	27	40	47	74.1	17.5
Cafédirect	**7**	**8**	**10**	**28.6**	**12.5**
Taylors	8	8	10	37.5	37.5
Lavazza	8	8	11	37.5	37.5
Gala (Lyons)	6	5	4	-33.3	-20
Food Brands Group (Percol)	5	5	5	0	0
Own-label	88	104	122	38.6	17.3
Others	44	56	68	54.5	21.4
Total	**613**	**670**	**720**	**17.5**	**7.5**

However, in 2006, the company made its first after tax loss since 1995. During 2007, retail sales actually fell 4% to £17.0 million for the first time in the company's history, which must be viewed with some concern as 70% of total company turnover is via the retail channel. According to Mintel (2008a) Cafédirect are feeling the effects of increasing competition from both like-for-like FT goods, which includes supermarket own-label FT products, and new sustainable coffees. For instance, thirty nine percent of FT coffee sales are now accounted for by supermarket own-label brands. However, the Cafédirect shareholders report (in advance of their annual report) released on 19th December 2008 reported a record pre-tax profit of £901,000, which is a 28% increase on the 2007 figure (Cafédirect 2008a). These year end results are for the year ending 30th September 2008 and have been audited. The total turnover is recorded at £22,343,000, just higher than last years figure. Sales in the out of home sector grew year-on-year by 21% to £5.6 million, while retail sales fell by 5% to £16.2 million, according to Cafédirect this is due to further penetration of the major supermarkets own-label brands. Cafédirect report their retail market share in FT coffee, tea and cocoa is 29%, 24% and 10% respectively (Cafédirect 2009). The performance and impact of Cafédirect from the initial phase interviews will be analysed in table 21.

The analysis of the first phase interviews appears to show that Cafédirect is performing well in a competitive sector, particularly the roast and ground coffee segment; this is also supported by market statistics (Mintel 2008a). In addition, it appears that Cafédirect's impact is also significant on both major coffee and tea manufacturers and supermarket retailers, who are now taking FT seriously. Also worthy of note are the comments from a senior executive at competitor A, who highlights the importance of Cafédirect's campaigning work in the coffee industry.

Table 21 Data Display Matrix- Impact and Performance of Cafédirect from First Phase interviews (*source: coded interview transcripts*)

Research Questions

Informants	Performance	Impact
Senior Executive of Cafédirect	*" Despite the tough market place the brand continues to perform in sales and quality"*	*" Currently we are seeing a real interest in this fair trade category partly due to our success"*
Trading Manager for Confectionery and Hot Beverages at Multiple supermarket B	*"Cafédirect is our top performing Roast and Ground coffee, Teadirect also sells well"*	*"Probably the success of Cafédirect is a key factor in Nestle developing their own FT product"*
Senior Executive at the Fairtrade Foundation	*" Now a £20m brand and still growing, excellent performance"*	*" The success of Cafédirect has caught the eye of large hot beverage companies who are now talking with us in a serious way about FT "*
Head of Supermarket Brand and Head of Fairtrade Marketing at supermarket A	*" Both Cafédirect and Tea direct perform very well, they have extensive distribution even in our small stores"*	*"They were the original mainstream trail blazer and showed that fair trade could work in a competitive market"*
Senior Executive at leading Multi-national Food group manufacturers of both hot beverages and confectionery – Competitor A	*"Cafédirect have done a good job in developing and growing the fair trade coffee segment "*	*"Cafédirect through their campaigning have created a lot of debate in the coffee industry and have highlighted the importance of provenance and traceability"*

The analysis of the main phase interviews also appears to support a number of the initial findings above on the performance and impact of Cafédirect (see appendix 6). To drill into this collected data at ever-increasing levels displays of coding are presented in figures 14a and 14b. These diagrams show the different components of Cafédirect's impact and performance identified by the informants.

Figure 14a Display of coding relating to Cafédirect's performance

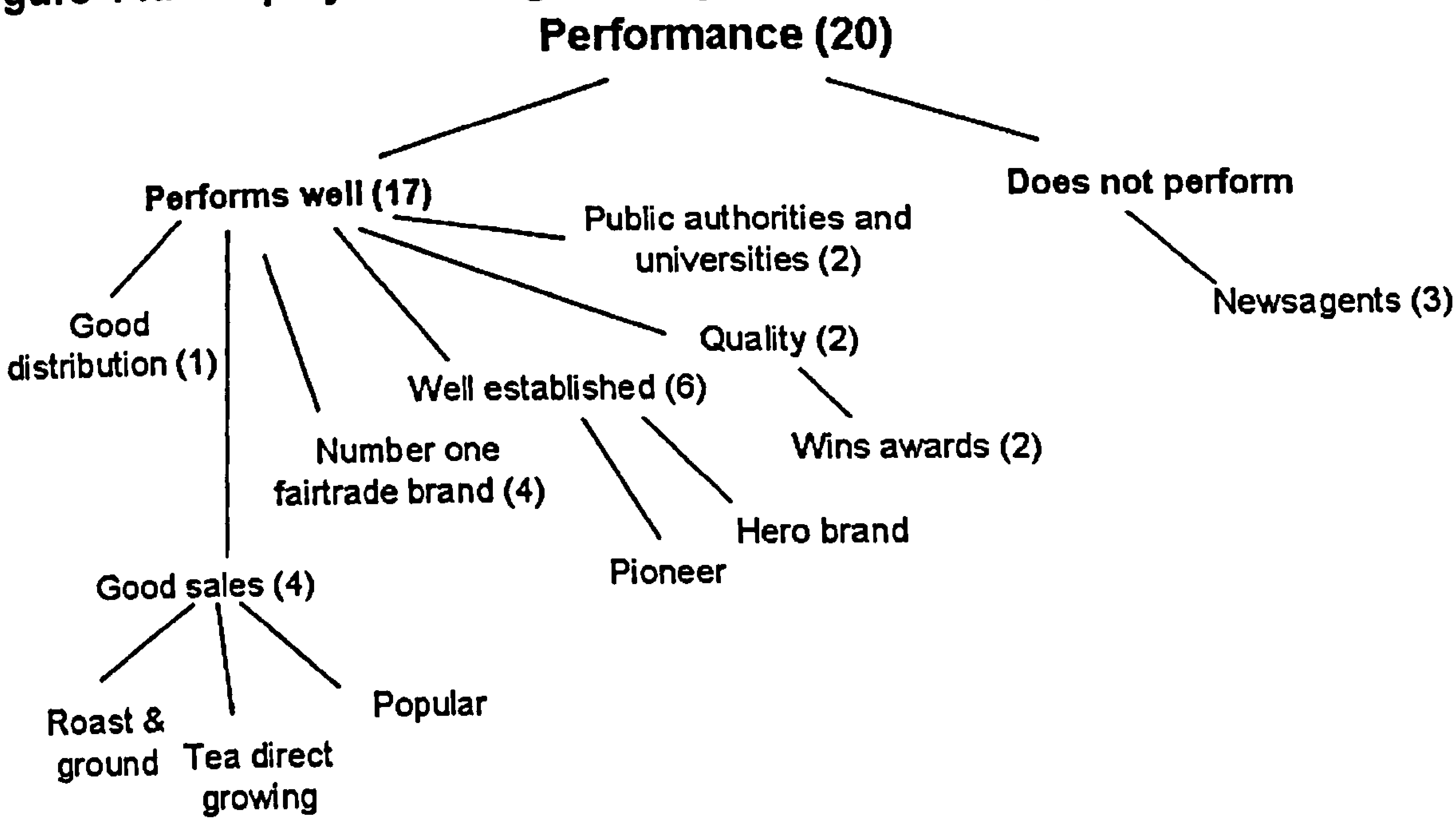
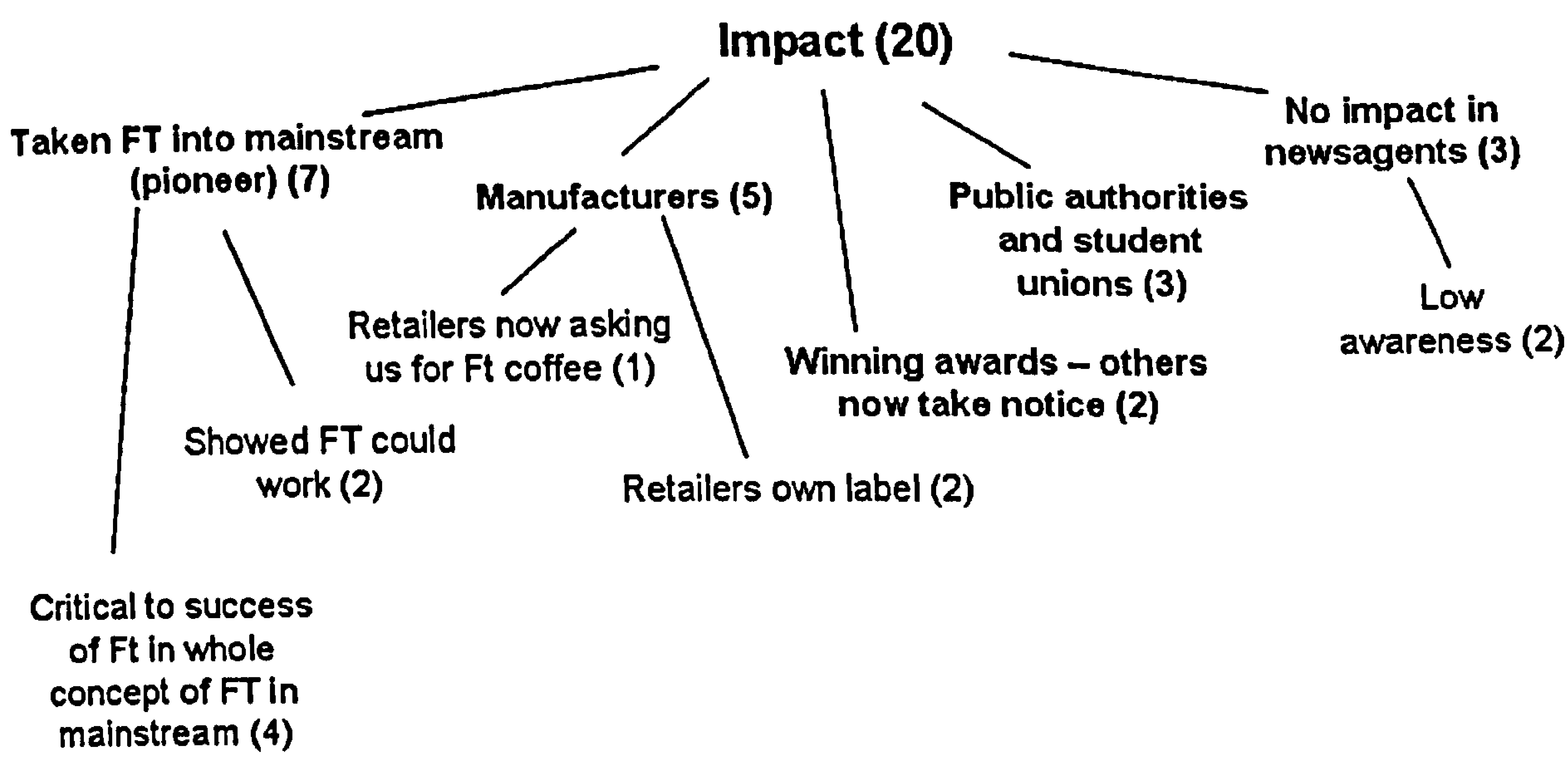


Figure 14b Display of coding relating to Cafédirect's impact



Seventeen of the twenty Cafédirect key informants interviewed in the main phase interviews identify that Cafédirect performs well in a range of distribution channels. From the interviews Cafédirect is regarded as a well established successful FT brand with a good reputation for quality. This is illustrated by the comments of the chief executive from supermarket A;

> "*Cafédirect is now a very well established brand and one of the leading hot beverage companies in the UK, just shows what you can do*" (interview 2008)

Cafédirect is recognised for performing particularly well in both roast and ground coffee segments and the tea sector. Also a significant number of the informant groups (supermarket buyers, wholesalers to the public sector, market analysts, ethical wholesalers, the ethical retailer and competitors) regard Cafédirect as an established brand and the original FT pioneer. This is supported by the comments of informants from wholesalers C and D, plus two of the senior executives from the ethical sector, who identify Cafédirect as their number one FT brand. However, like Divine, Cafédirect has not gained any sizeable distribution in the independent newsagent sector. Cafédirect also has a reputation for quality and like Divine is recognised for its sales via those wholesalers supplying public authorities and universities. This would go some way to explain its good growth in the out of home sector, which is reported above in this case study.

With regard to Cafédirect's impact a number of emerging themes can be identified. Firstly, in the opinion of seven key informants it has played a crucial role in actually mainstreaming the whole FT concept, not only just within coffee but in other sectors also. Secondly, it appears like Divine to have influenced the development of supermarket own-label FT brands and also put pressure on branded manufacturers to develop FT products. This is illustrated by the comments of the CSR manager at multiple supermarket E below:

> *"The success of Cafédirect has made us look at our own-label coffee range closely. They are helping us with our own supply chain management"* (interview 2007).

Cafédirect is also recognised by the chief executive from multiple supermarket A and market analyst D for winning a number of product quality awards (this was not the case with Divine in the interviews). Secondly, like Divine it also appears to show strong sales through wholesalers supplying public sector and higher education customers. This demonstrates the underpinning to its growth in the out of home sector. In contrast, informants appear to be more specific about Divine's influence on branded manufacturers such as Cadburys and the Cooperative Food retailer.

Thus far we have established that both companies compete in their respective sectors and have made a significant impact in these markets. The next section will investigate what resources enable both Cafédirect and Divine to achieve this position.

4.4 Resources that enable Divine Chocolate Ltd and Cafédirect to Compete

This section aims to answer the following key question:

What specific resources have enabled Divine and Cafédirect to compete?

4.4.1 First Phase Interview Analysis

Informants were asked to identify what resources enabled Divine and Cafédirect to compete in their respective market sectors. The respondents in the first phase interviews identified three key inter-related themes, including:

> 1) *Ethical and social commitments*- ethical standards, Fairtrade guarantee and social objectives
> (2) *Connections with partners in the value network*; links back to producer communities, the fair trade relationship
> (3) *Consistency of ethical behaviour* over time to build trust; adherence to stated values, credibility, profit to farmers not shareholders

From the first phase interview transcripts the author has built displays of coding relating to the above emergent themes (see figures 15-.17). With regard to the ethical and social commitments theme (see figure 15) there is a clear demonstration in the interviews of the importance of ethics and the guarantees provided by the FT mark. For instance the Trading Manager at Multiple Supermarket B proposes:

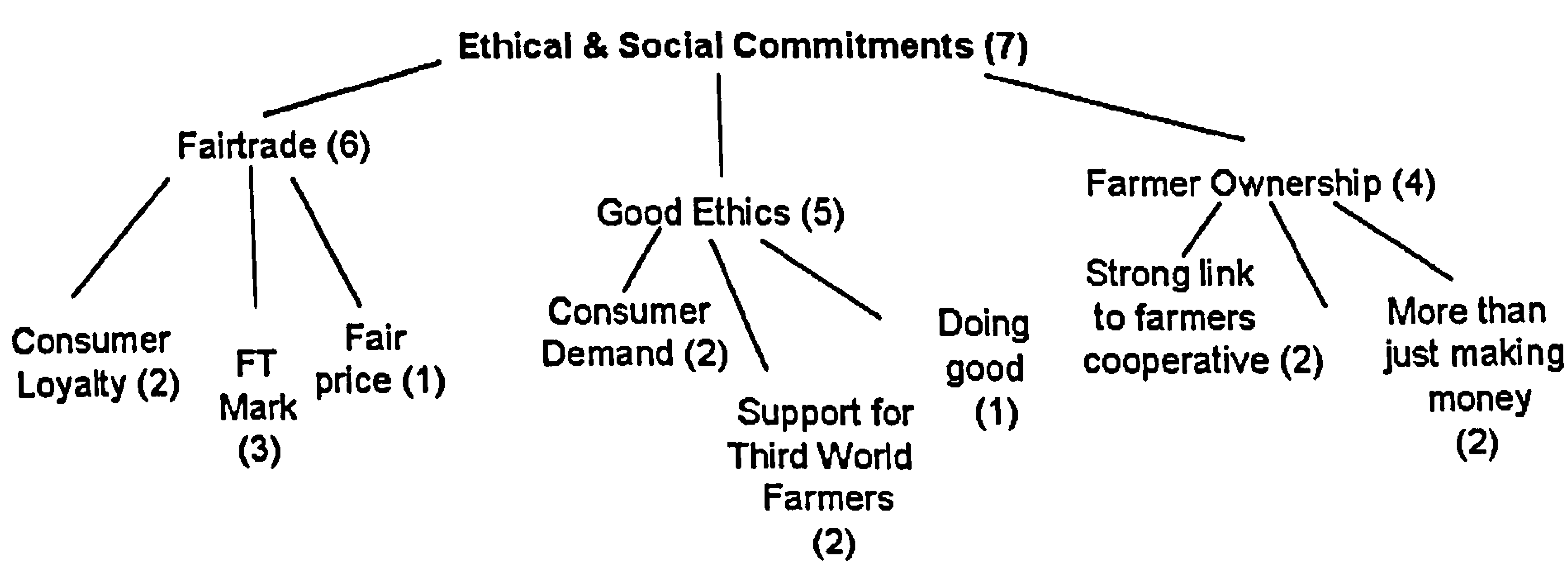
> *"the ethics behind both Divine and Cafédirect are key to their unique market position, consumers feel they are doing something for the world, they know Divine and Cafédirect is linked back to farmers giving them a fair wage"* (interview, 2006)

When asked to expand further on what the trading manager means by ethics, they replied;

> *"I think going back to the farmers and the countries where it's coming from that they feel that they are giving a fair trade, you know a fair wage out to the people who are actually producing it"* (interview with trading manager at multiple supermarket B)

The trading manager here is referring to their supermarkets own consumers. The findings here tend to support those authors who have highlighted the importance of ethics in purchase decisions (Harrison *et al.* 2005). Lafferty *et al.* (2002) also propose that consumers discriminate between firms based on trustworthiness. In fact, Nicholls and Opal (2005) argue that ethical dimensions are the core product for FT companies.

Figure 15 Display of coding relating to Ethical and Social Commitments (first phase interviews)



Connections with partners is also identified as a key theme in this initial research (see figure 16). Credible relationships based on trust throughout the entire supply chain (downstream and upstream) emerge as important to the informants. The importance of other partners such as CR, CA and FT town campaign groups are also coded. Head of CSR at Multiple Supermarket A explains;

> *"The relationship is a real partnership with Divine. We both have a shared vision and a shared ownership perspective of key issues. Discussions are easier and there is a greater degree of flexibility in the relationship in comparison to the major players, which actually means the relationship between our supermarket and Divine is stronger. For example the*

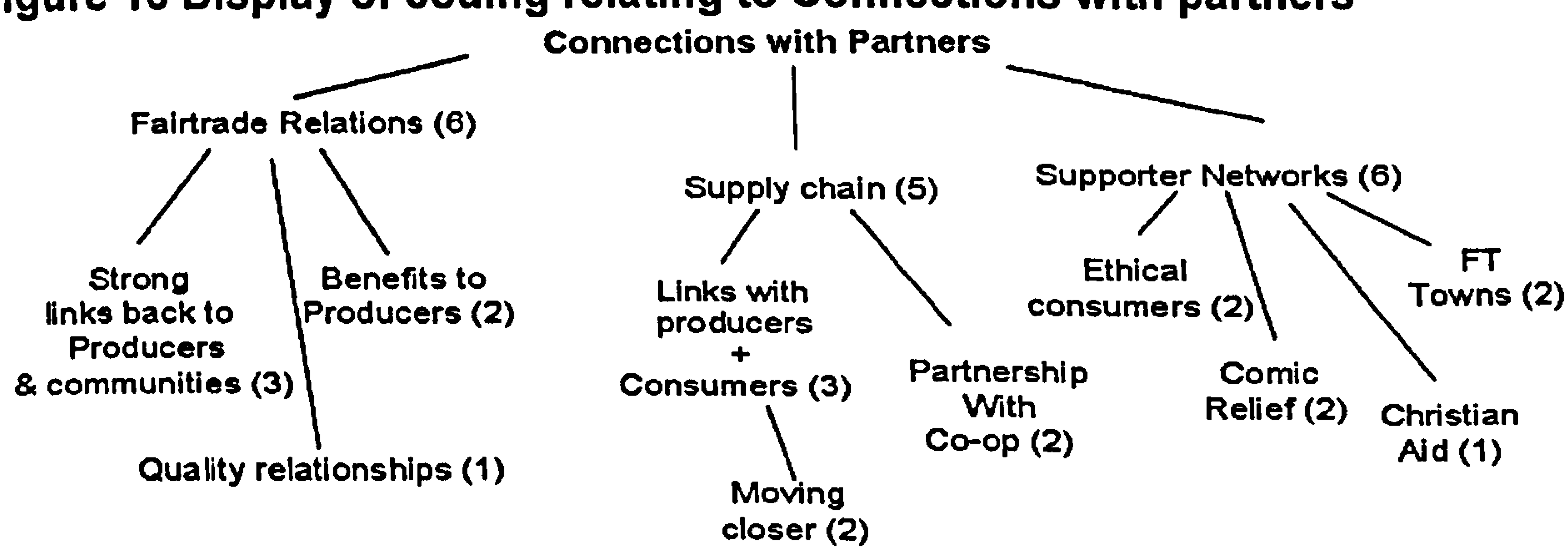
relationship with the major players is based on the need to make more money. With Divine it is at a different level of relationship, of course there is a need to make money but what we are doing together is much broader than just making money" (interview 2007)

A Senior Executive at Cafédirect explains:

> *"Our investment in supply chains, working with producers and investing in social infrastructure for producer communities is key. Recent research carried by our Market Research agency identified our key strength was our relationships with producers, which demonstrated our values and integrity"* (interview, 2006)

The identification of connections with partners as a key theme supports the RBV and R-A theory construct, that relational resources are an important resource (Hunt and Derozier 2004). However, in this work by Hunt and Derozier, relationships with upstream actors such as primary producers are not identified. Tiffen (2002) highlights the disconnect between primary producers of coffee and cocoa and downstream actors such as retailers and consumers as a problem in developing responsible supply chain management.

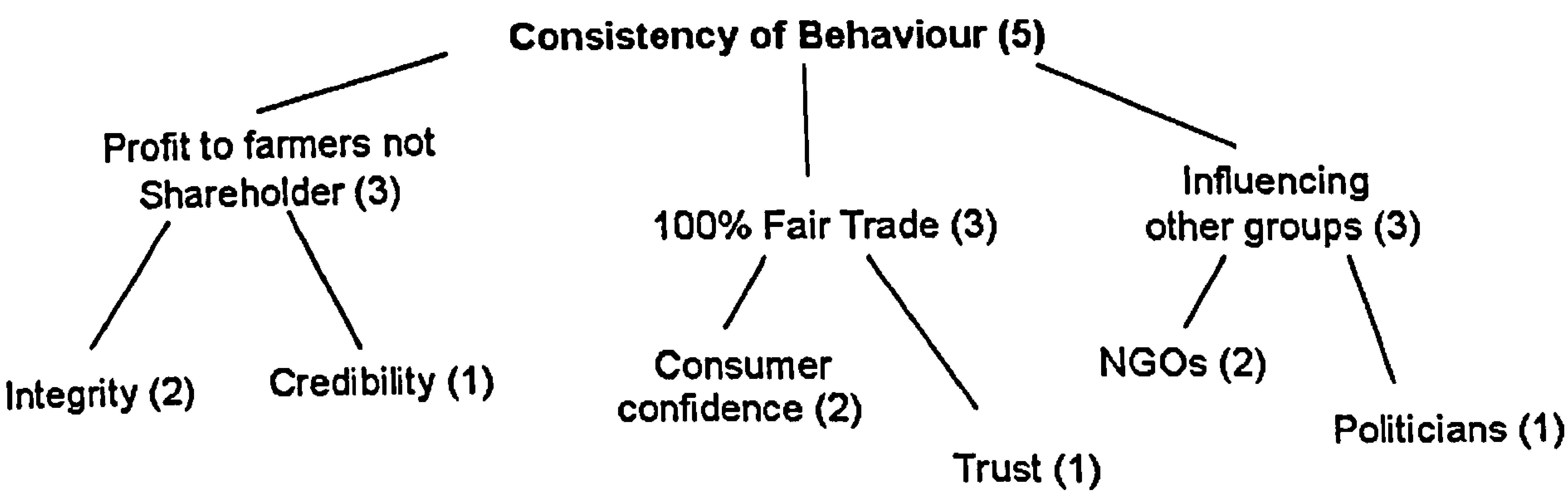
Figure 16 Display of coding relating to Connections with partners



With regard to the 'social resource', *consistency of behaviour*, the Confectionery Trading Manager at Multiple Supermarket C identified consumer loyalty as a key competitive resource and explains;

The *consistency of behaviour* construct (see figure 17) shows the importance of being 100% FT and the trust and confidence this generates with consumers. This finding appears to disagree with Williamson (1993), who proposed that no theory grounded in mainstream economics can be competitor enhancing based on trust.

Figure 17 Display of Coding relating to Consistency of behaviour



By focusing attention on the heterogeneity of firm resources and consumer preferences the new theories of value creation encourage consideration of a broader array of competitive resources as bases for SCA. In the case of Divine and Cafédirect the critical assets in this regard from this initial interview phase are identified as 'social resources'.

The results from this first interview phase appear to confirm the unique and revelatory nature of the two case studies chosen for this research. The emerging concept of 'social resources' provides the basis for the further work on this study. It appears there is a potential to extend R-A theory to include 'social resources'.

These emergent themes (see below) are now tested in the main field research phase of Eisenhardt's eight-step procedure to building theory from case studies (1989, 1991).

1) *Ethical and social commitments*- ethical standards, Fairtrade guarantee and social objectives

(2) *Connections with partners in the value network*; links back to producer communities, the fair trade relationship

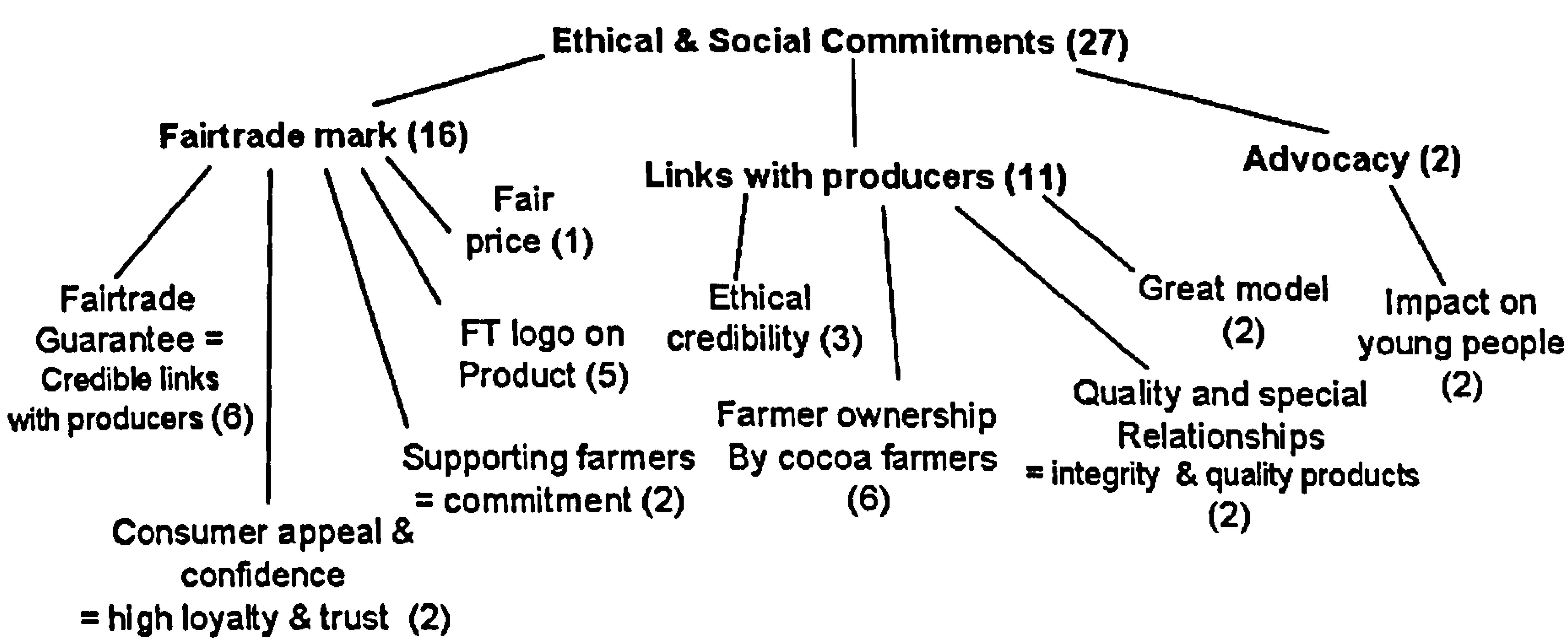
(3) *Consistency of ethical behaviour* over time to build trust; adherence to stated values, credibility, profit to farmers not shareholders

The findings from the main phase interviews will now be discussed.

4.4.2 Resource Analysis of Divine Chocolate Ltd

To drill into this collected data at ever increasing levels a further figure 18a is presented, which shows a conceptual display of coding from the main phase interview analysis in appendix 7. The codes used for this analysis can be found in appendix 2A. The figure 18a shows the display of coding for one of the key identified components of 'social resources', namely *ethical and social commitments*. Twenty seven informants are interviewed in relation to Divine.

Figure 18a Display of coding relating to Divine's Ethical and Social Commitments



Firstly, it is clear that one of the key components of ethical and social commitments is the FT mark itself. CSR manager at multiple supermarket E sites the importance of the FT label in helping both Divine and Cafédirect to compete:

> *"The impact and importance of the Fairtrade label mustn't be under estimated and is absolutely critical, there are lots of other products trying to claim ethical credentials but do not have the guarantees of the Fairtrade mark"* (interview, February 2008).

According to the informants, the FT mark provides consumer appeal via the confidence and trust provided via the mark, resulting in consumer loyalty. In the case of Divine this confidence appears to result from the FT guarantee and its credible links with producers. There is also a sense that supporting farmers is important to people. These findings appear to be the case across most channels of distribution apart from the Department store and those informants involved in supplying the independent newsagent channel. The importance of the FT mark also supports the earlier findings from the first phase interviews and also documentary evidence from academic articles (Crane and Matten 2007, Nicholls and Opal 2005, McDonagh 2002) and market statistics (Mintel 2009), which identify the importance of the FT mark.

With regard to *ethical and social commitments,* a second key component resulting from the analysis is the links that Divine has with producers. Again this is mentioned by a number of key informant groups. Particularly important in this respect is farmer ownership for cocoa farmers and the special quality relationships mentioned by both managing director of the ethical distributor and the chief executive of multiple supermarket A, who both mention Divine's high level of integrity.

> *"I believe the key resources which differentiate both Divine and Cafédirect are their enormous integrity, created by their special relationships with producers. These quality relationships deliver quality products. I have been highlighting this to the management team at every opportunity".*
> (interview, 2007 Chief Executive multiple supermarket A)

There is even an inference by the supermarket informant that quality relationships lead to quality products. This importance of relationship links with producers and farmer ownership is also supported to a large extent by the analysis from the first phase interviews (see figure 15). Also the findings appear to agree with a range of other sources. Balfour, chair of Divine (Divine 2006, pg.2), says *"Our mission in addition to making delicious chocolate is to be highly visible in debates about Fair trade, to act as a bridge between consumers and primary producers, and to act as passionate advocates for a trading system that brings dignity and respect to all its participants"*. It is interesting to note here that Twin Trading who hold a 42% shareholding in Divine also part own and are a founder member of Cafédirect. Tucker (former MD of Twin Trading) comments in Stanistreet 2000 (p:3), *"our product is our relationship with the farmers based on a relationship between equals".* This approach to relationships tends to support Ransom (2005), who argues that FT is not just about the price premium but primarily about changing the relationship between producers and consumers. Sophi Tranchell (Managing

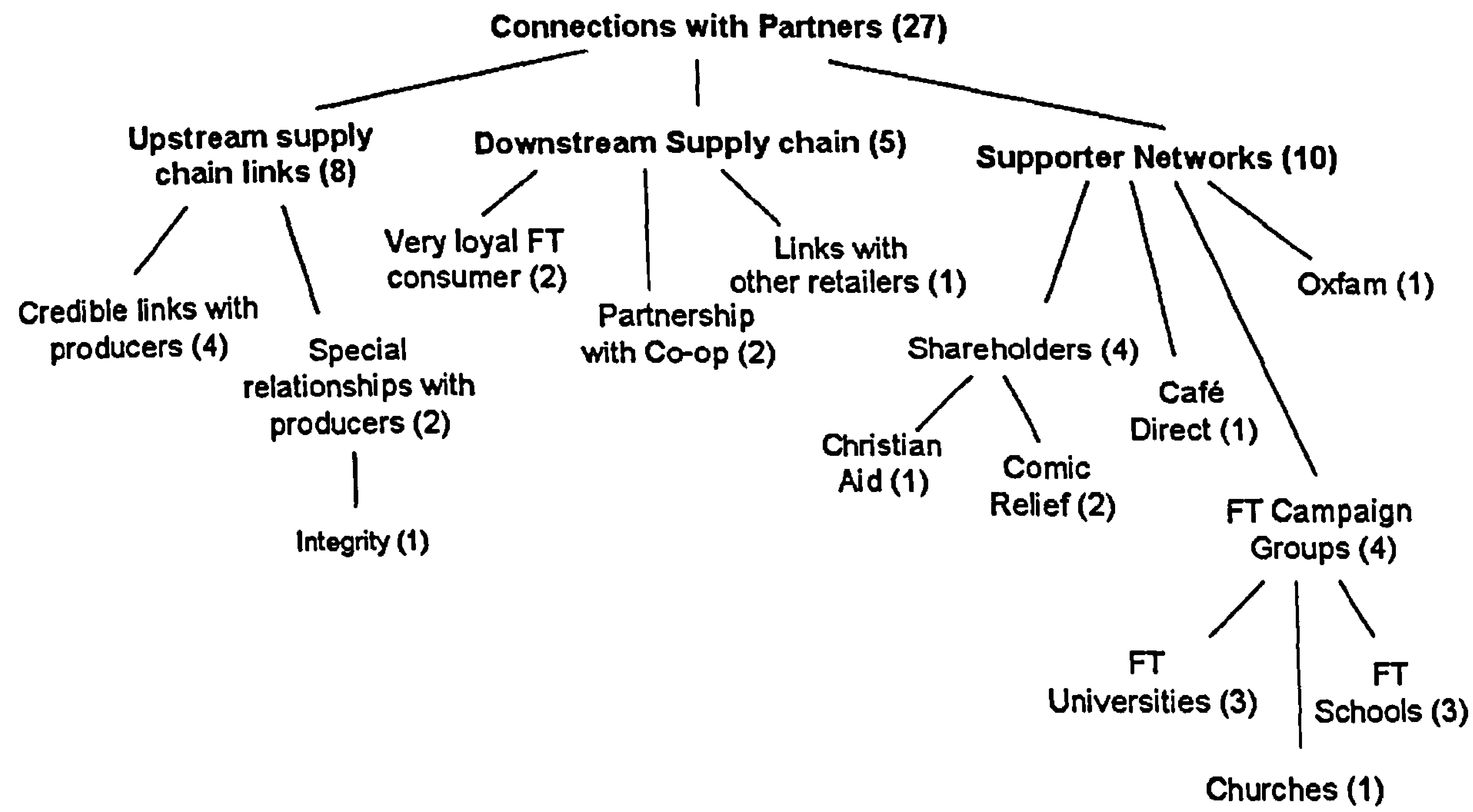
Director of Divine) agrees and argues that "*Divine has found a competitive edge by giving the growers of its cocoa beans a stake in its business and connecting them with customers. By giving producers of the raw material a financial stake in the business, consumers of the end product can connect more closely with the company*" (Tranchell comments in Wiggins 2007, p:15). The farmer ownership model has resulted in KK playing an active role in the marketing of Divine. Golding (2006) proposes that Divine navigates the challenge of mainstreaming FT whilst maintaining the transformative message of FT. Golding (2006) argues that it is specifically the part ownership of Divine by the farmers cooperative KK, which is integral to the organisations raison d'etre and brand meaning. It is this social element that differentiates Divine from its mainstream competitors (Golding 2006). At the Divine strategic planning day (P03, 2008, see table 7) during the group SWOT analysis exercise, farmer ownership was identified by all participants as one of the key strengths of Divine.

There is also evidence coming through of the importance to young people of these ethical and social commitments, particularly from market analyst E.

> "*Divine is a strong brand and young people understand their commitment to fair trade and realise Divine's primary objective is to improve the livelihoods of farmers and not just to make profit. There is a lot of goodwill associated with Divine. The company could do so much if they had access to the same advertising budgets as the big chocolate companies*" (interview, 2007)

The second inter-related component of social resources is *connections with partners.* This figure 18b shows the display of coding for this second identified component of 'social resources'. The different elements of this component are identified in the display. Twenty seven key informants are interviewed and the transcripts are coded using the display of codes in appendix 2A. The initial role ordered display is located in appendix 7.

Figure 18b Display of coding relating to Divine's Connections with Partners



Three key elements related to connections with partners emerge from the analysis of the main phase interviews. Clearly connections with supporter networks, downstream stakeholders and upstream stakeholders are key for Divine. There also appears strong agreement with the initial interviews (see figure 16), where supporter networks, supply chain members and FT relations emerged from the analysis. In the main phase interviews the distinction between upstream producers and downstream stakeholders such as retailers is more apparent. Ten informants (see figure 18b) identify supporter networks as important, this appears to show the value of working with its shareholders CA and CR and also with FT campaign groups in schools, universities and churches. This supports the advocacy work carried out by Divine; interestingly both competitor representatives interviewed identified these supporter networks as key (see appendix 7). Senior executive at competitor B explains:

> *"Its shareholders have all played a key part plus the campaign groups in raising the awareness of fair trade and Divine" (interview 2008)*

Connections with downstream supply chain member's, particularly loyal consumers and retailers such as CF is identified by five informants. The following interview extract illustrates the importance one retailer attaches to its relationship with Divine;

"Without Divine, our fair trade chocolate communications strategy would have been more piecemeal and more disparate; the partnership has resulted in greater brand equity for us as a retailer. This has been achieved through a strong relationship with Divine Chocolate and its amazing "story". We have used this story in marketing messages, which screams credibility, which is an incredible asset. Links back to the producers have always been a very strong part of our strategic message on Fairtrade. I think without Divine's input it would have been difficult and certainly would have taken a lot longer to make some of those arguments to the mainstream part of the business shall we say" (interview with CSR manager at multiple supermarket A, 2007).

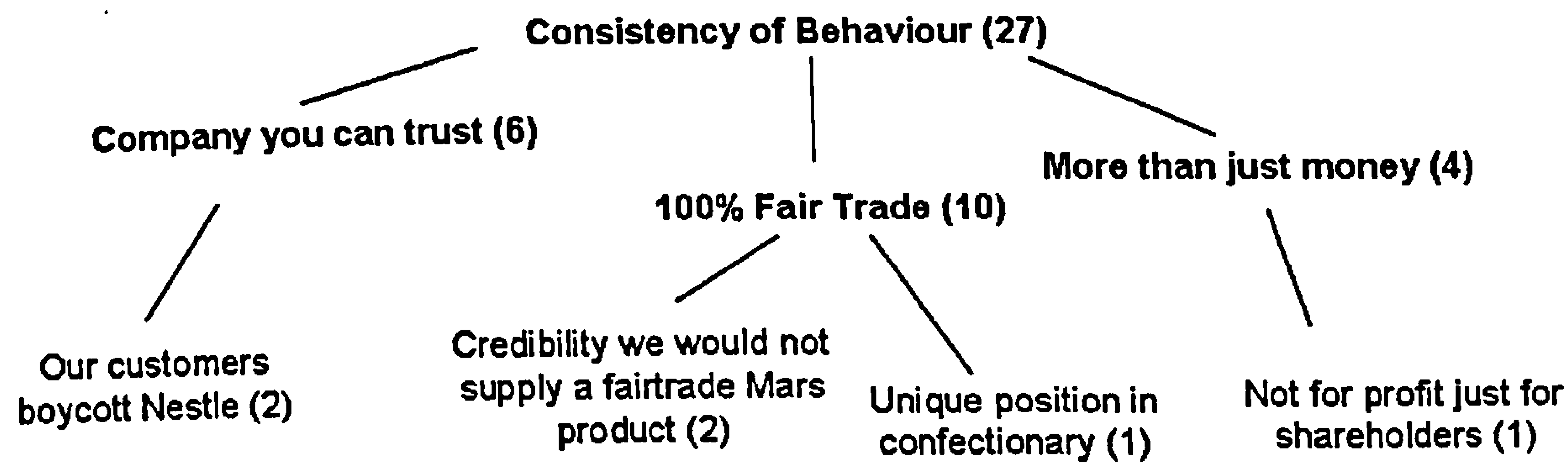
The importance of consumer loyalty for Divine appears to be important at retailer level. The Confectionery Trading Manager at multiple supermarket D identified consumer loyalty as a key competitive resource and explains;

> *"What we actually do, when we are deciding the range, is to use something called composite ranking. This takes into account both rate of sale and loyalty of the people who buy it, so is there a shopper who always buys it, and penetration in terms of the number of shoppers who are buying it and then it ranks it out of the 60 bars of chocolate and then you can judge which is the loyalty card favourite. Divine is actually about half way in terms of the block market in composite ranking and that's completely driven by the fact that it has a really loyal buyer* (Interview, 2007).

The third identified element in figure 18b is connections with producers. Eight informants identify this as a key resource component and suggest these special relationships provide credibility and integrity. This appears to be particular important to both supermarket retailers and market analysts.

The figure 18c shows the display of coding for the third identified component of 'social resources', namely *consistency of behaviour*. The different elements of this key component of 'social resources' are identified in the display. In relation to Divine, twenty seven informants are interviewed and the initial data display matrix can be found in appendix 7.

Figure 18c Display of coding relating to Divine's Consistency of Behaviour



Consistency of behaviour is important to wholesalers A and D, whose customers appear not to stock Nestle products on principal. This consistency of behaviour is also important to Wholesaler C, who would not stock a Mars product even if it was FT. Other key elements identified include trust and the fact that Divine is not only about making profit for shareholders. The importance of both being 100% FT and profits for farmers not shareholders is clearly consistent with the analysis of the initial interviews (see figure 17). Ten informants identify being 100% FT as a key component of Divine's success.

Another key category identified in the main phase interviews is the importance of product quality. Fifteen key informants identify the importance of product quality and taste of Divine's products. Due to Divine's UK mainstream objectives, strenuous efforts were made to match the taste of the product to the palette of the typical British milk chocolate consumer. According to senior executive at Divine, the main challenge centres upon the objective of mainstreaming FT chocolate:

> "*Mainstreaming Fairtrade chocolate involved developing a product taste that was acceptable to the UK consumer coupled with the chocolate being both available and affordable to buy. The decision to mainstream* Divine Fairtrade chocolate has made a difference to what Divine has achieved." (interview, 2006)

A taste acceptable to the British palette, combined with the unique Divine Fairtrade 'story', and an affordable (if premium) price has leveraged Divine a unique position in the UK chocolate sector. Ronchi (2001) in her consumer survey of Divine consumers identified that the Divine range of FT chocolates meets the critical success factors of quality, taste, texture and appearance preferred by the UK chocolate consumer. A senior executive at the FtF agrees and proposes:

> *"Divine got the taste profile right to compete in the mainstream. In contrast, fair trade rival Green & Black's has spent resources trying to persuade people towards their taste profile."* (interview, 2006)

This market matched product strategy meant that Divine was able to focus scarce resources on a communications strategy based on its unique FT "Bean-to-Bar" story. As Sophi Tranchell (Managing Director of Divine) also explains:

> *"Divine aims to excel at marketing communications. Chocolate provides an easy and delicious way to understand what Fairtrade means and what it can achieve".* (initial interview, 2006)

Despite its mainstream taste, Golding (2006) argues that Divine makes a significant departure from the mainstream by offering a social proposition, which takes it well beyond the normal product selling proposition. Farmer ownership by KK at Divine is not just an add on or a CSR policy, it is in fact what Divine is built on. The difference is not the chocolate but the intangibles around the core social proposition. Golding (2006) also identifies the aim of Divine's marketing communications strategy, which is to re-connect producers and consumers via this unique farmer ownership model. Marketing Manager at Multiple supermarket A *agrees:*

> *"a key strength of Divine is their communication strategy"* (interview, 2006)

Consequently, brand differentiation has been created by a public relations strategy based on the unique Divine FT "Bean-to-Bar" story, which has resulted in extensive national media exposure. Divine is also the first UK fair trade company to advertise on TV and the first, through its partnership with the charity CR, to bring an awareness of FT to young people. Such has been the success of this communications strategy in establishing an ethically grounded brand identity that other organisations have leveraged that success in support of their own FT products (see above quote by CSR manager at Multiple Supermarket A).

Golding (2006) argues that chocolate is different from coffee. Previously in chocolate marketing there was no discussion of its African origins. Chocolate came from the corner shop, with other products like coffee, people knew where they came from. Divine's marketing communications feature KK producers in their surrounding Ghanaian landscapes, which according to Golding (2006) provides consumers with a sense of escapism. According to Daviron and Ponte (2005) this approach fulfils consumer yearnings for commodities with cultural and sensory ties. Divine's communications focus on unveiling cocoa's origins and so facilitates the communication of FT's social proposition. Divine's product packaging also communicates its connections with producers by carrying the FT Mark along with producer case study text on both the inside and outside of the product wrappers. McDonagh (2002) argues this is an example of sustainable communication.

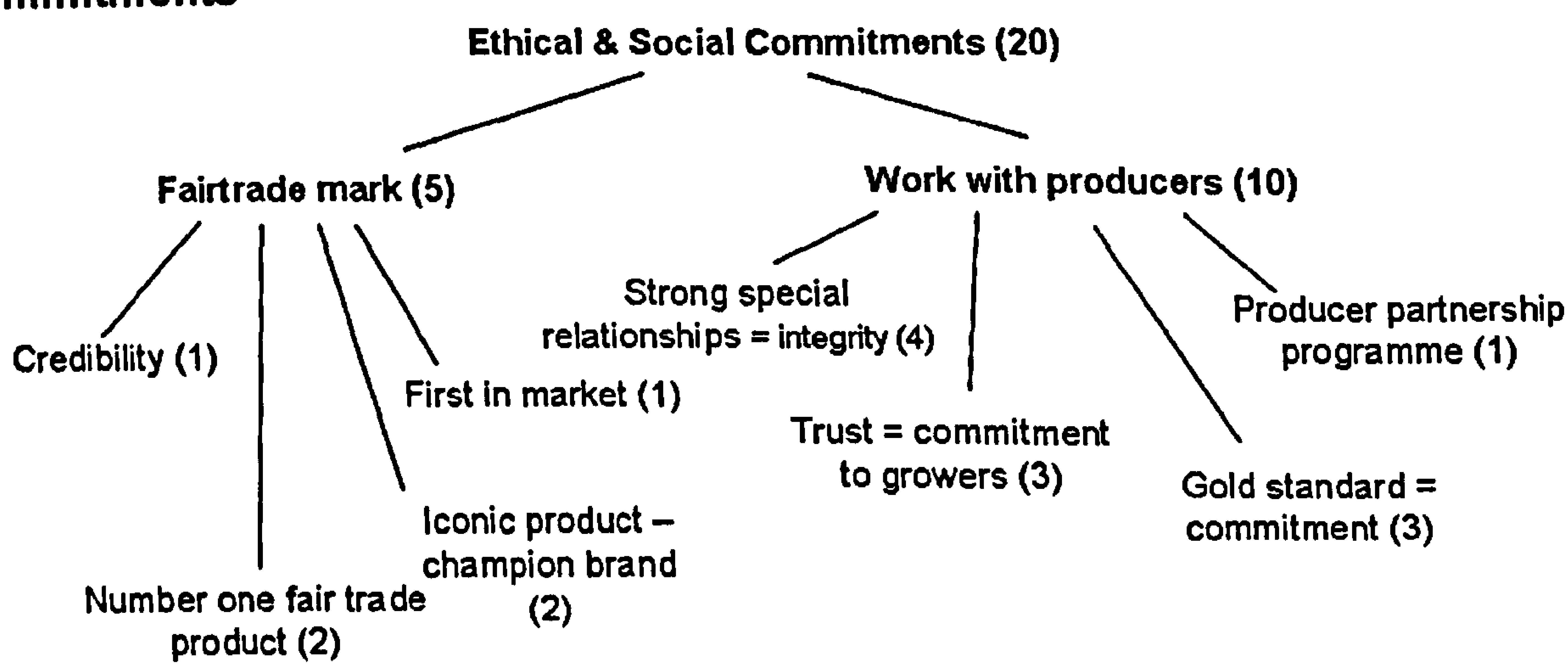
Divine was the first chocolate company in the mainstream to put farmers at the centre of their market proposition (Golding 2009). Since 1999 successive Fairtrade Fortnight campaigns have involved a KK farmer's tour of the UK, organised by Divine. Every year KK cocoa farmers have visited UK supermarkets, other customers, schools, local councils spoke at public events with civic leaders, universities, carried out interviews with TV, radio, newspapers and magazines. In addition, farmers have visited the Houses of Parliament, met with leading politicians and business leaders and also visited many FT towns (Doherty and Tranchell 2005). According to Golding (2006), KK farmers have been central to the marketing communications of Divine Chocolate. A central theme of Divine's marketing is the 'bean to bar' story, which has connected both consumers and producers in addition to other stakeholders. The interviews (see appendix 7) also provide evidence to show that other factors such as appealing packaging, product quality and Divine's service level (percentage of orders delivered on time) to customers are also important factors in Divine's success.

Reported in section 2.1.5 of this thesis is the move by Cadburys to convert their entire CDM brand to FT certified. Cooper (2009) argues the move by Cadbury's is potentially good for the FT market as more consumers will be able to buy FT and this could create real step change in the market. Cooper (2009) also proposes that Divine should continue to thrive due to its brand strength, good taste, strong network of supporters and its unique position as a farmer owned company. These strengths supported by its pioneer position provide Divine with credibility in the market place; this is in contrast to those multi-national companies who are accused of just jumping on the ethical bandwagon. There appears to be good evidence from the interviews to support the arguments by Cooper (2009).

4.4.3 Resource Analysis of Cafédirect

To drill into this collected data at ever-increasing levels further displays of coding for the emergent theme of 'social resources' will be presented below for Cafédirect. All displays are derived from the multiple sources and further analysis of the data display in appendix 8. Firstly, figure 19a is a display of coding for the key component ethical and social commitments.

Figure 19a Display of coding relating to Cafédirect's Ethical and Social Commitments



The coding display shows as with Divine the importance of carrying the FT mark. It is interesting to note that four of the supermarket informants all mention the importance of the FT mark (see appendix 8). Another key theme is Cafédirect's work with producers, emphasising again as with Divine the importance of strong/special relationships. Informants are also specific about the various social initiatives carried out by Cafédirect including; both the *Gold Standard* and the Producer Partnership Programme (PPP). The relationships combined with the social programmes appear in the opinion of the informants to demonstrate Cafédirect's commitment to growers. According to a number of informants (see figure 19a) this results in trust and integrity towards the company. There are similarities with Divine in respect to the importance of both the FT mark and the strong relationships with producers. However, the informants are more specific about the social programmes initiated by Cafédirect. The ethical and social commitments of Cafédirect are illustrated by Angel Colombino Chalas (Chairmen of Fedecares, in the Dominican Republic), who explained how Cafédirect supported his producer cooperative after a natural disaster;

> *"Cafédirect provides vision, hard work and support when times are difficult. During Hurricane George in 1998, eighty percent of our member's farms were destroyed. Cafédirect provided financial assistance to rebuild our farms and provided pre-finance to export our first here containers of production after the hurricane".* (data from DO4 during observation, see table 7, section 3.4.2).

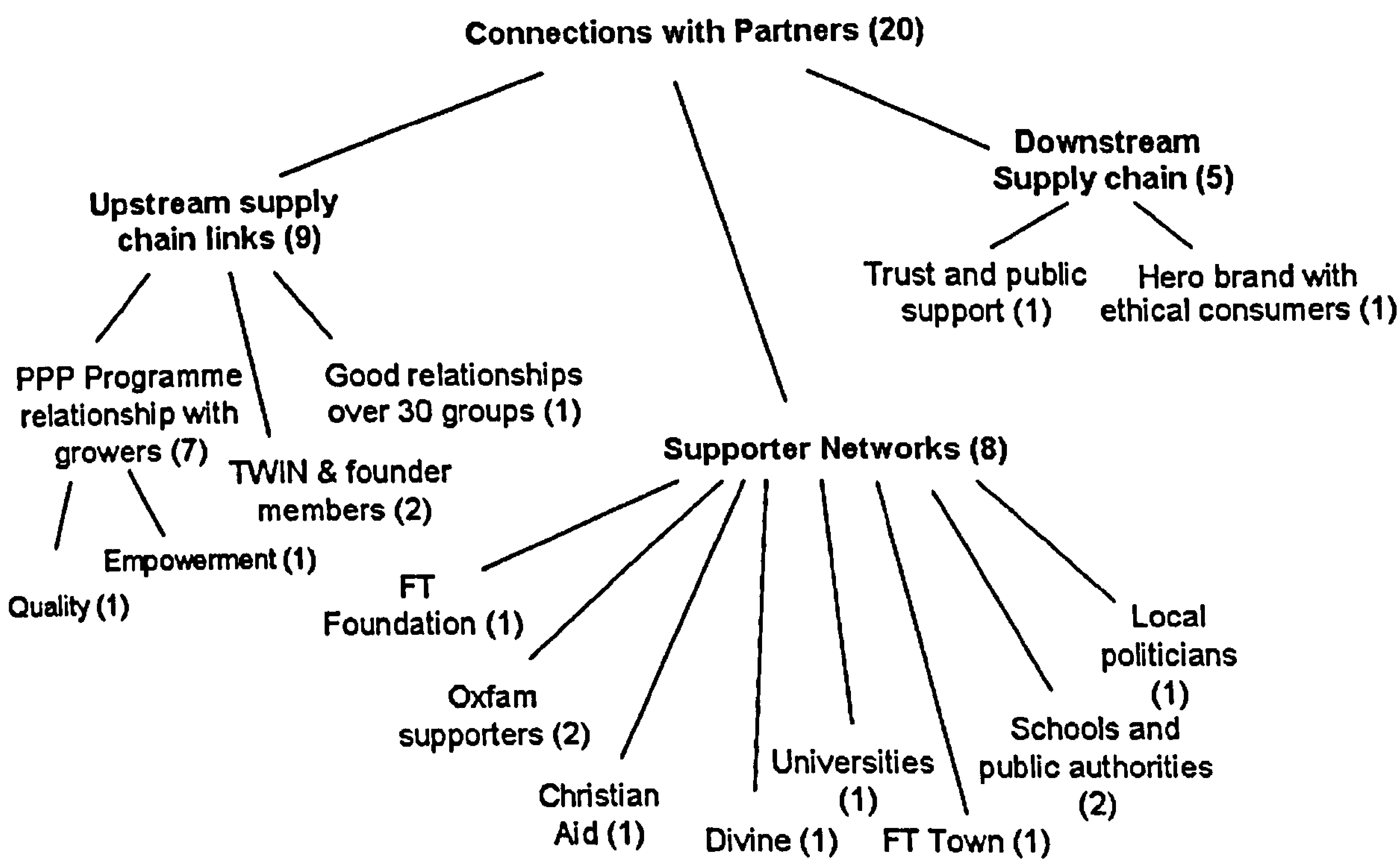
The *Gold Standard* are the principals by which Cafédirect operates and these include a focus on; growers, the business, quality, the environment, relationships and accountability (Cafédirect 2009). The PPP is therefore how Cafédirect implement their mission of "*Changing lives and building communities among our grower partners*" (Cafédirect 2009, p: 9). Currently the PPP is working on many areas including; both helping farmers adapt to climate change and managing volatile commodity prices. Cafédirect paid nearly £1.0 million more than the market price for its coffee, tea and cocoa raw materials in 2007 (data from DO3 during observation, see table 7, section 3.4.2). It then paid a further £600,000 to its producer partners through its PPP. These programmes consist of business development training tailored to the needs of producer organisations, who supply Cafédirect with tea and coffee (Cafédirect 2009). They include building capabilities in marketing, quality control, crop husbandry and crop diversification. With regard to the importance of relationships the senior executive from Cafédirect appears to agree with some of the informants and explains;

> *"The key strength identified was our relationships with producers which demonstrated our values and integrity".* (interview with senior executive at Cafédirect, 2007)

These ethical and social commitments are also demonstrated by Cafédirect giving their 1,200 shareholders the option of donating their 2009 share dividend of 2p per share to the Cafédirect PPP (data from site visit DO4 during observation, 2008). Also worthy of note is the increase of 9% in 2007/2008 of funds paid into the PPP programme totalling 658k; this has been matched by various funding bodies to give a total potential investment of £1.3m for the PPP.

In addition, the company has also begun to involve itself in many issues beyond the FT agenda, such as supporting producers to manage the challenges of climate change, the Sri Lankan Tsunami Appeal and the Kenyan civil strife following the 2008 Kenyan elections (Cafédirect 2009). The senior management of Cafédirect are also now consulting with the Department for International Development (DFID) on health and poverty issues in Africa (data from site visit DO3 during observation, 2008)

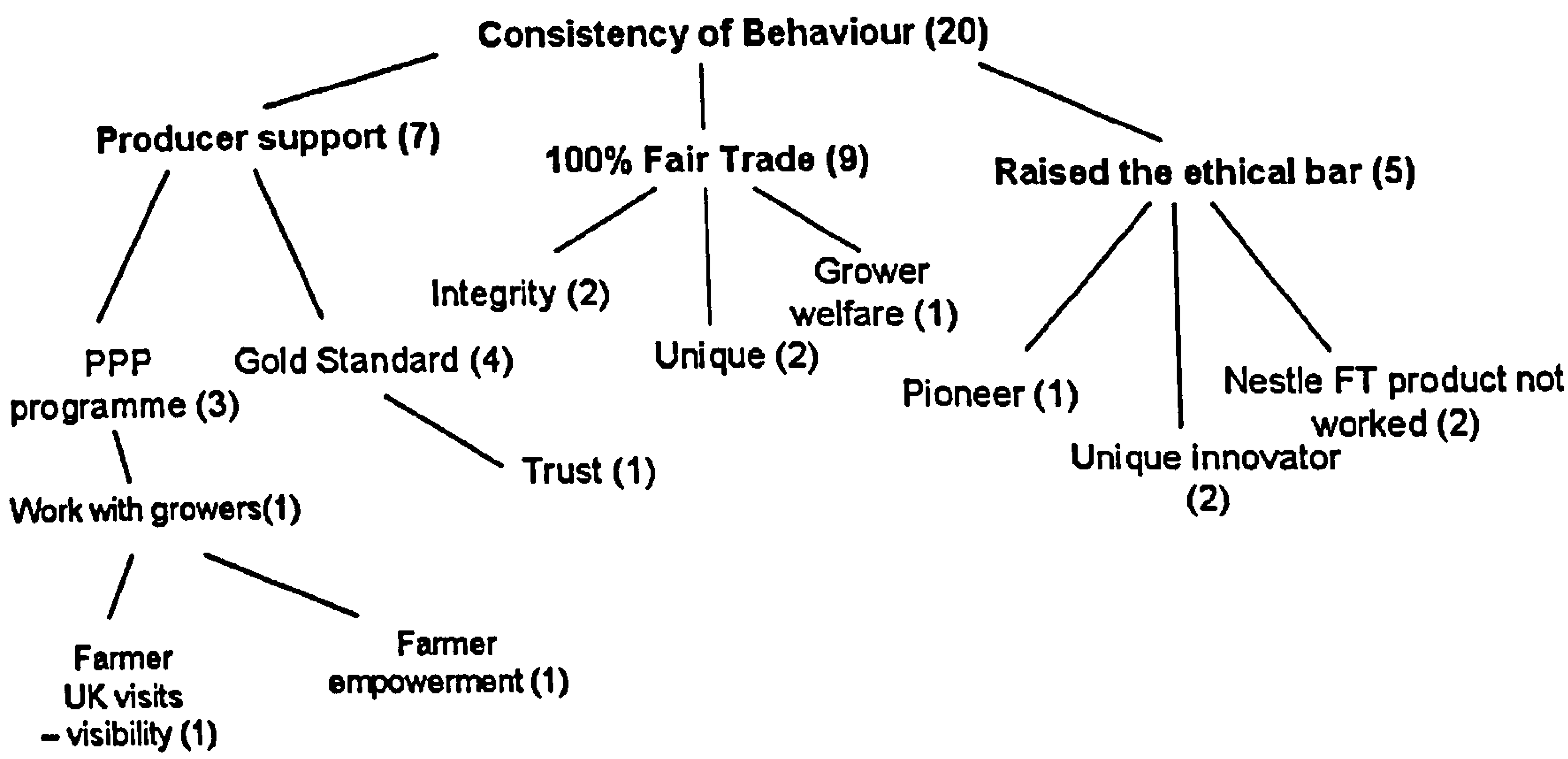
Figure 19b Display of coding relating to Cafédirect's Connections with Partners



The display of coding relating to *connections with partners,* again as with Divine shows the importance of the connections with supporter networks (eight informants) including; FT town campaigners, NGO's (Oxfam and CA), universities, schools and Divine. Also similar to Divine is the importance of Cafédirect's relationships with producers, nine informants have identified these upstream links with producers as an important resource. Support from the public and ethical consumers is also mentioned, but in contrast to Divine, there is no mention of Cafédirect's influence on the own-label product strategy of UK supermarkets.

Highlighting the importance of these supporter networks to Cafédirect is the fact that despite its strong brand name Cafédirect have never advertised their products on television. The company has even won the 2004 Marketer of the Year Award from the Marketing Society on an official marketing budget of only £4,000 (less than 0.02% of the total marketing spend in the industry). This has been achieved through the support of partners, volunteers and network associates (Director 2007). Also Cafédirect has pioneered in 2007 the launch of a *Friends of Cafédirect* initiative, which now includes 17,000 campaigners registered on-line (data from site visit DO4 during observation, 2009).

Figure 19c Display of coding relating to Cafédirect's Consistency of Behaviour



The display of coding above regarding *consistency of behaviour* again as with Divine, demonstrates the importance of being 100% FT (nine informants identify this). However, again both the PPP and the *Gold Standard* programmes of Cafédirect are viewed as key in demonstrating their consistency of behaviour. The importance of producer support is identified by seven informants in this study. There is also a theme emerging from the main phase interviews (five informants) that view Cafédirect responsible for raising the ethical bar in the hot beverage sector. According to Mintel (2008a), the market has seen a vast increase in the number of FT brands on the supermarket shelf including, amongst others; premium coffees from major roasters, budget own-label brands from supermarkets and FT lines from major companies such as Nestlé (and similarly branded "sustainable" coffee from Kenco). However, it is interesting to note that Nestle *Partners Blend* FT coffee has recently been de-listed in certain multiple supermarket chains (interview, 2009, FT marketing manager from supermarket A).

This appears to show that Cafédirect's 'social resources' provide the brand with a potential competitive position. Competitor B agrees and explains;

> *"Consumers just did not trust the Nestle Fairtrade brand, it was just a token gesture, if they would have converted the Nescafe brand then yes that would have made an impact"* (interview with Competitor B, 2009)

This consistency of behaviour is demonstrated by the fact that FT premiums paid to Cafédirects producers amounted to £886,000 over and above the world market prices, bringing the total for the last four years to more than £5 million (Cafédirect 2009). Additionally, the company increased its investment in its PPP, to £658,000 from £606,000 the year before. These investments have been matched funded by network partners Twin Trading and Imani Enterprise[13], bringing the total investment into the business and communities in 2008 of their producer partners to £2,251,000. The amount of raw materials purchased from Cafédirects producer partners increased, with coffee volumes increasing by 16% to 2,847 tonnes, tea up slightly to 957 tonnes and cocoa doubling to 101 tonnes (Cafédirect 2008b)

According to the Director magazine (2007), Cafédirects competitors are some of the biggest brands on the supermarket shelf. It appears from this case study that Cafédirect has developed a strong commercial strategy to sit alongside its social aims, which drives the benefits back to small-scale producer communities. The competitive position of Cafédirect is summarised by their senior executive in an interview in 2007;

> *"Our investment in supply chains, working with producers and investing in social infrastructure for producer communities is key. We recently carried out a comprehensive stakeholder research project from our database of 40,000 people, a number of common themes emerged. The key strength identified was our relationships with producers, which demonstrated our values and integrity. The research showed that our stakeholders want us to shout about these relationships by symbolising through producer stories showing the impact of these Fairtrade relationships. This should be at the heart of our values resulting in a trusted brand, dividends and social/environmental benefits for producers. We need to integrate all three*

[13] Imani Enterprise is part of the Imani Development Group, whose business is enterprise development within African Economies. Imani Enterprise manages and implements the producer support and development for the Cafedirect tea brand; Teadirect in Kenya, Tanzania and Uganda.

more going forward to differentiate ourselves in the market place. Our annual report depicts this aim; our investment in producers builds quality relationships which should inform our advertising campaigns"

The interviews also highlight the importance of Cafédirects product quality. One of the main guiding principles for Cafédirect in the early days was that it had to shake off the poor quality stigma associated with "charity products" (Bird and Hughes 1997). Product quality was therefore a key target to achieve on a consistent basis. When compared to mainstream brands such as Nestle original, Kenco medium roast and other FT brands such as Percol, Cafédirect have always been viewed as premium brand with retail prices 20-30% above the competition. Cafédirect argue that its investment in producer organisations via PPP that ensures the product quality is second to none for its three main product lines (data from site visit DO4 during observation). To demonstrate its product quality, in 2008 Cafédirect won the prestigious *Guild of Fine Foods Award* in the hot beverage section for its quality (Retail News 2008). In addition, the company also won two organic food quality awards from the Soil Association (Cafédirect 2009).

FT social enterprises such as Cafédirect and Divine appear to demonstrate that it is possible and desirable to grow an alternative model of doing international trade with small-scale producers. Cafédirect's success shows that some consumers are engaged with a trading vision that delivers high quality products in the UK to the tangible benefit of downstream stakeholders such as producers (Doherty and Thompson 2006).

Clearly 'social resources' combined with good product quality provide both Cafédirect and Divine with the ability to compete. It is clear from the above analysis the importance of the inter-related nature of the 'social resources' concept (ethical and social commitments, connections with partners and consistency of behaviour). The author returned to the field in the first quarter of 2009 to discuss these findings with a select number of informants. Comments by senior executive at competitor B are particularly revealing:

"The *competitive environment has changed over the past 10 years; competition based on ethical and social commitments is now heavily*

> *populated. Companies including these social attributes are becoming the norm. If these attributes are also linked to strong relationships with both producers and other partners coupled with consistency of ethical behaviour then consumers and customers will trust the brands. We know some companies have ethical and social commitments in some areas but in others areas they display poor practice and are therefore not consistent and customers lose trust. It was the success of the fair trade movement which initiated our discussions on fair trade back in 2003, our move to fair trade is to tell consumers about our work with farmers and this will give consumers confidence and trust that we are a fair company"* (interview with competitor B, 2009)

The author also returned to the field to discuss the findings with the Head of Fairtrade marketing at supermarket A, these comments are also interesting;

> *"Obviously more and more companies are moving into the fair trade market place. I don't believe that any one other than the pioneer brands will be able to convince the market place of their integrity and commitment to growers. The concept of 'social resources' works if all three pillars are combined together, this is an excellent framework to use with these companies"* (Interview, 2009).

These findings show that mainstream competitors are striving to imitate the 'social resources' of both Cafedirect and Divine. To what extent this can be achieved will be discussed in the further research section (6.4).

4.5 Chapter Summary

Overall this chapter has outlined the key findings emerging from the research that underpins this thesis. It has identified how Cafédirect and Divine have performed and impacted on the UK chocolate confectionery and hot beverage sectors respectively. Secondly, the chapter has identified and validated the resources that have enabled both companies to establish a competitive position, namely 'social resources'. These findings and how they relate to the research objectives in this thesis will now be discussed in more depth.

CHAPTER 5 DISCUSSION

5.1 Impact and Performance of Cafédirect and Divine

The first research objective in this thesis was to critically analyse how FT social enterprises have performed and impacted on the UK chocolate confectionery and hot beverage sectors. It is clear from the research that both brands are regarded as mainstream propositions in key distribution channels such as multiple supermarkets. The thesis also confirms the highly competitive nature of both these sectors, particularly with regard to concentration of buying power within multiple supermarkets and the significant market shares held by the major branded manufacturers. The study also supports the work of Taylor (2005), who identified the growing corporate interest in FT. The moves by Starbucks, Sainsbury's and Cadbury's illustrate this development. Applying the retailer engagement with FT model (see figure 2 in section 2.1.5) to CF, would appear to classify this retailer as a values driven business. This is due to its investment in building credible links with both FT companies and producer groups such as KK (see section 4.2.1). It would also be interesting in future research to compare CF with other supermarket retailers, who have recently made a commitment to FT beyond the minimum FT standards, such as Sainsbury's supermarket (see section 6.4).

This research also shows that both Divine and Cafédirect have established a competitive position in their respective sectors. This is particularly the case in specific product segments and channels of distribution. Cafédirect in roast and ground coffee and Divine in the dark (plain) chocolate product segment. As previously discussed in section 4.1 both the coffee and chocolate confectionery markets are segmented by product type, it would appear therefore that in certain product segments Divine and Cafedirect occupy the competitive advantage cells 2, 3 or 6 in the competitive position matrix in R-A theory (see figure 7). There is also evidence to indicate that both organisations perform well in a number of distribution channels including; multiple supermarkets, wholesalers supplying public authorities, workplaces and/or education establishments plus ethical wholesalers and retailers. Both companies also appear to perform well in those channels such as multiple supermarkets, where the performance criteria is predominantly based on quantitative dimensions, such as average rate of sales per store per week in value and volume, coupled with the delivered profit margin. However, there are some channels of UK distribution such as independent newsagents, where both brands do not perform and have thus far had little impact. However, independent newsagents are losing grocery market share (Mintel 2008b) against competition from multiple supermarkets, for example their UK confectionery market share has declined from 16.4% in 2001 to 10.5% in 2007 (see section 4.1). Also Cafédirect is showing a decline of 4% in sales via the supermarkets due to price competition, whilst at the same time experiencing growth of 33% in the distribution channels that supply public authorities, universities etc. The findings related to performance in channels and/or product segments appear to support one of the foundations of R-A theory, which draws on heterogeneous demand theory (Alderson 1965). This theory holds that because intra-industry demand is significantly heterogeneous, different market offerings are required for different market segments in the same industry. This ability to compete is also interesting if you consider the financial resources and consequent marketing budgets of both Cafédirects and Divine's competitive rivals. The findings in this thesis also support the work of Mann (2008), who argues that markets can reward socially just coffee and cocoa production. On a cautionary note, this thesis identifies the challenge faced by Cafédirect from price competition, mainly from own-label supermarket FT products. It could be argued that this price competition from supermarket own-label products provides evidence for those who criticise the mainstreaming of FT and who argue that FT has been diluted and co-opted by mainstream companies (Golding 2009, Lowe and Davenport 2005a, 2005b, Moore *et al.* 2006) This thesis also highlights the important role played by alternative channels of distribution for FT companies, where price competition is less fierce. This challenge to Cafédirect from price competition in some supermarket retailers also shows the value of tangible financial resources.

Despite the success of both case organisations in the mainstream, it is clear the 'alternative high street' has clearly played an important role in their commercial performance. This is demonstrated by studying table 16 (section 4.2), which shows three of Divine's top five customers (Oxfam, Equal Exchange and Traidcraft) to be organisations who are regarded as examples of the 'alternative high street' (see section 2.1.6). There is also evidence in this thesis to show the positive impact of other important examples of the 'alternative high street', namely the FT certified community groups such as FT towns, universities and schools. This is illustrated by comments from the trading manager at multiple supermarket B, who explains;

> *"We get strong sales of FT products in particular locations such as Garstang and Preston because they are fair trade towns and the products get strong support and the fair trade awareness is high in these places".* (interview, 2006).

Mintel (2009) agrees and suggests that due to FT towns there is a strong local/regional appeal for FT products. One of the criteria for achieving FT town status is for local authorities to make a commitment to buy and stock FT products; in addition FT schools must also buy and stock FT products to achieve one of their criteria goals for FT school status. As a result, sales of FT products via the foodservice (out of home) companies supplying local authorities, schools and universities have increased. This would appear to be a factor in the 33% value growth of Cafédirect's sales in the out of home sector (D04, site visit 2009). This work of Divine and Cafédirect with the FT certified community groups appears to demonstrate the importance of the political dimension identified in the work by Huybrechts and Defourny (2008), who explain that FT social enterprises are involved in both education and advocacy work.

Both companies also appear to have been influential in being a catalyst for change in their respective sectors by influencing at a number of key points in the value chain including; retailer level, branded manufacturers and also second tier manufacturers. The impact of Divine on the CF group's own-label FT strategy is of particular significance, bearing in mind CF's total sales of FT products now stands at £76m. It appears from the interviews with competitors that Divine has directly influenced their moves into certifying their own products with the FT mark. This is interesting bearing in mind that Hamel and Prahalad (1994) argued that in long established industries new entrants must change in some way the fundamental rules of engagement. It is also important to highlight here that one of Divine's specific corporate objectives was to be a catalyst for change in the UK confectionery industry; this appears to have been achieved. However, this objective of the FT pioneers appears to be at odds with the mainstream competition theory, which calls for companies to build SCA by developing resources which cannot be imitated (Hoffman 2000, Hunt and Derozier 2004). Both companies also appear to have impacted on young people with sales of both brands showing healthy growth through schools and universities. Also a senior executive at competitor A (see table 19) reports the increasing number of letters from young people asking them to consider switching to FT chocolate.

Encouraging for both brands is the evidence of additional criteria being used based on consumer loyalty (repeat purchase) to judge the performance of products in certain supermarkets. The interview with confectionery buyer at multiple supermarket D (see appendix 5) illustrates that Divine scores very high in terms of consumer loyalty ranking. Evidence also appears to show that both Divine and Cafédirect have a loyal consumer base. This is important if you bear in mind the work of Day and Wensley (1988), who propose that loyalty is one of the best measures of competitive advantage in a marketing context. Divine's relationship with CF appears to show that strong partnerships can be built on a mutual interest in the welfare of small-scale farmers.

5.2 Social resources

Another key research objective in this thesis (see section 1.2) was *to evaluate which resources enable FT social enterprises to compete against larger rivals.* The findings above in both case studies appear to validate the importance of 'social resources' as a route to a competitive position. It is also clear this resource must be combined with other threshold capabilities, such as good product quality, appealing packaging; good service levels, professional approach and effective marketing communications (see appendices 7 and 8). The components of 'social resources' identified from the initial research phase of this thesis are:

- *Ethical and social commitments*
- *Connections with partners in the value network*
- *Consistency of ethical behaviour over time to build trust*

By focusing attention on the heterogeneity of the firms resources and consumer preferences new theories of value creation and competition such as R-A theory encourage consideration of a broader array of competitive resources as a bases for SCA. In the cases of both Divine and Cafédirect, the critical assets in this regard appear to be their 'social resources' combined with particular company and product capabilities such as product quality, appealing packaging and effective marketing communications. The remainder of this section will discuss the concept of 'social resources' and illustrate the components of the model by reference to the two cases presented above. A further research objective in this thesis was *to critically analyse to what extent social resources are a basis of extending R-A theory*. From both the case studies presented above and the displays of coding a number of key elements of these three inter-related components have emerged, they are presented in table 22.

Table 22 'Social Resources' and its components (Divine Chocolate and Cafédirect)

Social Resources	**Components**
Ethical and social *commitments*, e.g. ethical standards and social objectives;	The guarantee of the fair trade mark, Going beyond the minimum standard=credibility Consumer loyalty and confidence=trust and credibility Work and links with producers- special relationships, PPP, Gold standard and farmer ownership= Commitment to producers, credible links with producers, quality products
***Connections* with partners** in the value network, e.g. equitable labour relations	Supporter networks in UK (young people) Trusting and loyal consumers Relationships with retailers such as CF Special relationships with producers via PPP and farmer ownership giving credibility and integrity Certified community groups
***Consistency* of ethical behaviour** over time to build trust; e.g. adherence to stated values.	100% fair trade= credibility, integrity Raised industry ethical standards Producer support programmes Gold Standard Trust, credibility Not just profit for shareholders

Each component of 'social resources' will now be discussed in more depth.

5.2.1 Ethical and social commitments

Ethical and social commitments appear to represent the *values element of* 'social resources'. They comprise the ethical standards and social objectives of both organisations. These values are manifested in the mission, strategic objectives, policies and corporate culture of both Divine and Cafédirect. First of all, the importance of the FLO labelling system (FT certification) is clear, with this providing an important guarantee for supermarket retailers and their consumers. This outcome tends to support the work of Crane and Matten (2007), who proposed that external frameworks such as the FLO system provides societal validity to ethical and social values. However, encouraging for both organisations is the importance to downstream stakeholders of going beyond the minimum FT standards. In the case of Cafédirect, the trust and credibility provided via their gold standard and PPP social programmes is recognised by informants. In addition, the farmer ownership structure of Divine also provides this brand with credibility in the eyes of downstream stakeholders, including consumers. Golding (2006) agrees and proposes this ownership of Divine by the farmer's cooperative KK is integral to the organisations raison d'etre and brand meaning. Sophi Tranchell (Managing Director) from Divine concurs and argues the farmers stake gives Divine a competitive edge because consumers can connect more closely with the company. Farmer ownership appears to provide Divine with increased credibility and trust over and above that provided by the FT Mark alone. Despite Cafédirect having a producer ownership as part of its IPO (see section 4.3), downstream stakeholders in this study appear less aware of this in comparison to the evidence collected regarding Divine. However, the branding of Cafédirect's social programmes gold standard and PPP appears to be more effective than Divine's. Therefore, Divine could learn from this by branding their own ethical and social commitments, including their producer support and development programmes (see table 15) and the whole organisational model of farmer ownership. From this study the ethical and social commitments made by Divine and Cafédirect and the credibility and trust they provide appears to result in consumer loyalty. This is of interest to mainstream supermarkets and increases the performance ranking of both respective brands. This appears to support the work of those scholars who propose that ethical and social commitments can lead to consumer loyalty (Dickson and Carsky 2005, Harrison *et al.* 2005). This also appears to concur with the work of Moore (2004), who argues that virtuous behaviour such as trustworthiness can be rewarded by markets (see section 2.1.3). This aspect appears to have close links with the literature on RM discussed in section 2.2.8.

Despite working within financial constraints compared to their mainstream competitors, the success of both companies marketing strategies is critically dependent on their successful blending of traditional business objectives with a commitment to social objectives. Consider the relationships between the companies respective market orientated product strategy and their socially and ethically based communications strategy. In addition, the product quality of both Divine and Cafédirect appears to be an important factor in their success. Earlier research on FT highlighted that FT products were associated with poor taste perception (Barratt Brown 1993, Bird and Hughes 1997). Consequently strenuous efforts have been made by Divine to match the taste of the product to the palette of the UK consumer and by Cafédirect on coffee product quality. Findings from this research support earlier work done by Ronchi (2001), who demonstrated that Divine meets the critical success factors of quality, taste, texture and appearance preferred by the UK consumer. These findings tend to disagree with the arguments of Mann (2008), who proposes that FT is unprecedented based on its ability to command a premium price without delivering extra physical product quality. The research shows that downstream stakeholders regard both Divine and Cafédirect's products to be of good quality, taste and flavour. This is highlighted in both the interviews with key downstream stakeholders and the market analysts (see appendices 7 and 8). It is clear that both Cafédirect and Divine have changed the perception of poor FT product quality identified by Bird and Hughes (1997). The evidence showing the importance of both FT certification and product quality for Divine and Cafédirect is encouraging, bearing in mind the proposal of Alexander and Nicholls (2006), who state the flow of information between the consumer and producer is strengthened by both product quality and FT certification.

This market-matched product strategy has meant that both Divine and Cafédirect have been able to focus resources on other key areas, including: product development and marketing communications. It is clear that achieving a quality acceptable taste profile has enabled both companies to occupy a mainstream market position. This is illustrated by both brands merchandised in supermarkets up against the mainstream brands on the supermarket shelf (Doherty and Tranchell 2005, Moore *et al.* 2006). It could be argued that matching both the chocolate and coffee taste and quality expectations of downstream stakeholders that both companies possess what is termed by Johnson and Scholes (1999) as threshold resources and competencies (see figure 4b, section 2.2.6).

The importance of communicating these ethical and social commitments via marketing communications is also clear. Both case studies illustrate the importance of public relations and communications on product packaging to demonstrate their difference. This lends further evidence to those scholars developing theory attached to sustainable communications (Golding 2009, McDonagh 2002, Strong 1997, 1996). These ethical and social commitments to producers also appear to be of interest to downstream stakeholders such as supermarket retailers. In the case of CF, their own communications strategy on FT would have been in their view weaker without the relationship with Divine. This also appears to show that 'social resources' can also be shared in a relationship and therefore also a basis for RBCA. Important to note that in the work of Morgan and Hunt (1999) on RBCA that ethical or social dimensions are not recognised as a relational resource. In the case of Divine and CF it is clear that in this relationship, Divine trade 'social resources' for the organisational resource of distribution in retail outlets, therefore showing these resources are partly mobile between partners. Also in the work of Morgan and Hunt (1999) on RBCA, it is the relationships with downstream stakeholders, which are regarded as key and not the upstream producers of commodities as in the case of both case companies. These findings relating to ethical and social commitments also appear to support the work of Lafferty *et al.* (2002), who proposed that credibility plays a crucial role in helping to form partnerships. This is certainly the case between Divine and the CF. Hunt (1997) does highlight relational resources as a source of comparative advantage but not explicitly on ethical grounds. These findings also appear to show that some downstream actors do understand the different levels of FT commitment above the minimum FLO standards.

5.2.2 Connections with partners in the value network

This aspect comprises of relationships within the value network and other affiliations of the organisation and as such refers to the structural element of 'social resources'. It appears that who an organisation chooses to contract or associate with, and the nature of those relationships is important to the perceived credibility in the eyes of ethically aware consumers and other important downstream stakeholders. It is clear from the case analysis, the relationships both Divine and Cafédirect have built with producers, retailers and supporter networks has played a role in the growth of both companies. These relationships are referred to as partnerships by a number of informants, particularly in relation to producer groups and Divine's relationship with CF.

The importance attached here to the connections with partners also appears to support the work of Alexander and Nicholls (2006) on knowledge flows between trade networks, which include producers, retailers and consumers. In the case of Divine and Cafédirect we should also add civil society groups and organisations including CR, CA, Oxfam and FT town, university and school campaign groups. This study shows the value of cooperative networks to FT social enterprises, particularly those campaign groups and also the certified community groups in the FT movement, such as schools, universities, towns and even countries in the case of Wales. This has resulted in noticeable sales via those wholesalers supplying outlets such as universities or public authorities, who have to make a commitment to procure FT in order to achieve FT town status (one of the FT town goals[14]). Findings in this thesis also tend to agree with the proposal by Mann (2008) that FT consumers purchase not only the physical product but also in combination a certain quality of relations, which do not involve themselves. Mann (2008) termed these relations as "moral goods", a concept which dates back to Ross (1930). Findings in this area of connecting producers and consumers also supports the view of FLO (2007), who suggest that making the direct link between producers and consumers is one of the most important tasks for the FT movement.

[14] To achieve Fairtrade Town status you must achieve five key goals including: Local council to pass resolution to support a serve Fairtrade products, a range of FT products to be available in towns retail and café outlets, local workplaces and community organisations to support and use FT products, must create FT media coverage and set-up a local FT steering group.

The importance of cooperation and trust in the supply chains of both organisations lends some support to the work of Gintis (2004), who has stressed the value of reciprocity and cooperation within economic action and Jones (1995), who argues that mutual trust and cooperation can lead to a competitive advantage over other firms. Raub and Weesie (1990) and Morgan and Hunt (1994) also stress that a firm's reputation for trustworthiness can become economically advantageous and therefore 'social resources' could provide a route to SCA. Another key theme occurring in the research is the credibility of both companies due to their work and links with producer groups; again this aspect supports the work of Lafferty *et al.* (2002), who proposed that credibility plays a crucial role in helping to form partnerships. This is certainly the case between Divine and the CF group. This partnership has seen the latter convert both their entire own-label ranges of coffee and chocolate to FT. CF in 2008 reached a total of £76m of FT sales through its store network. The CF own-label FT chocolate range was launched to the market at a 15-20% price premium compared to its previous own-label range. Despite this, volume sales out performed the original range by over 30% (Co-op sales ledger 2004/2005). Anderson *et al.* (1994) argue that often it is not the firms own resources, but those of its network partners that make it an attractive partner. Certainly the links that both case organisations have with producers is of key interest to organisations such as CF. The consumer willingness to pay a premium for FT products from both Divine and Cafédirect is yet more evidence of the successful strategy to mainstream FT products in support of producers. Hunt (1997) does highlight relational resources as a source of comparative advantage but not on ethical grounds. The author will return to the inter-play between both relational resources and 'social resources' in the conclusions.

This approach to marketing also appears to provide a new lens for those academics and policy makers interested in RM. Until now RM has been mainly focused on the relationships between business to business or business to consumer. Both Divine and Cafédirect have focused on developing the relationship between the producer and the consumer. These relationships also extend to the certified FT community groups such as FT towns. Eagan's (2004) representation of a firms relationships in figure 9 does highlight the importance of relationships with both external partners and suppliers. However, these relationships are still shown as dyadic relationships, when in reality as in the case of Cafédirect and Divine it is more complex, shown by the network diagram (see figure 20). The findings of this thesis also lend support to the recent work of Murphy *et al.* (2007), who proposes an ethical basis for RM (see figure 8), based on trust and commitment, supported by a number of virtues including fairness. There work is conceptual and in fact call for examples of organisations that demonstrate an ethical basis to RM. It appears that both Divine and Cafédirect offer some potential here and also lend support to the view of Golding and Peattie (2005), who propose that the marketing of FT social enterprises is closer to the true spirit of RM.

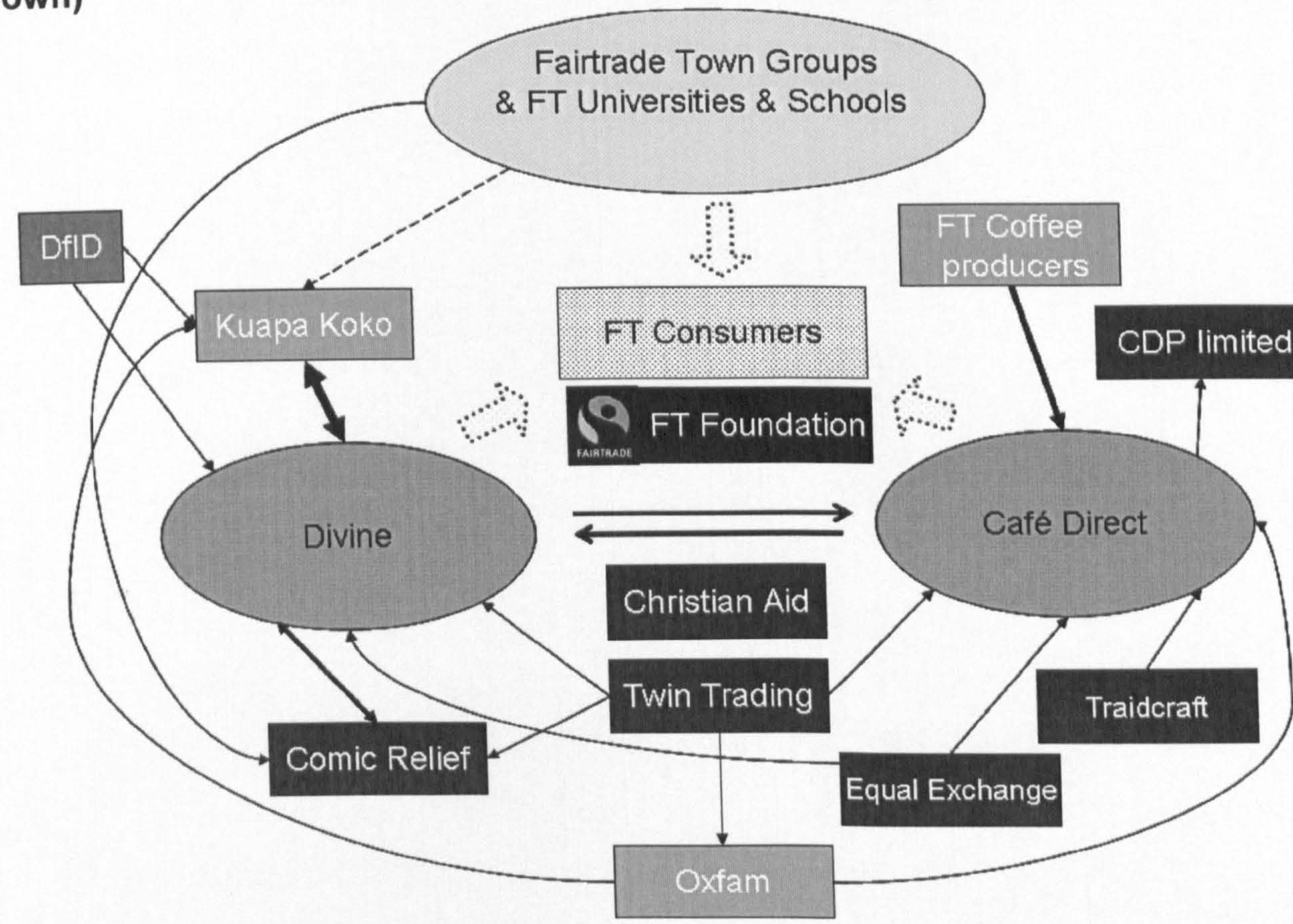
The importance of supporter networks also demonstrates the importance for FT companies of the 'alternative high street' proposed by Lowe and Davenport (2005a, 2005b), particularly alternative retail channels, the FT town's network and FT universities and schools. These are not only important in terms of political advocacy work but are also important in terms of sales. It is clear from this study that dealing with supermarkets is a challenge as they are very competitive environments; therefore distribution in channels where the FT products are seen as hero/champion brands is advantageous. The 'alternative high street' is currently proving very important for Cafédirect, where its sales in the out of home sector are growing at 33%, this is particularly advantageous bearing in mind the increased competition they face in supermarkets from own-label retail products (see section 4.3). Also while the author acknowledges some of the dangers from 'clean wash' in the mainstream, this study has shown the value of maintaining the transformative message of FT whilst being in mainstream distribution. The political and educational advocacy work of Divine is evidence of this and clearly the findings show the importance of the political dimension of FT and therefore supports the work of both Moore (2004) and Huybrechts and Defourny (2008), who identify advocacy as a differentiating feature of FT social enterprises.

Morgan and Hunt (1996) argue that relationships formed to acquire organisational, relational or informational resources will commonly result in SCA. Divine and Cafédirect's relationships appear to be based on the 'social resources'; ethical and social commitments, connections with partners and consistency of behaviour. Both companies appear to demonstrate what Todeva (2000) terms *network capital*. This is a high level of network cohesion based on the moral principles of trust and is termed cooperation. A number of authors propose that this level of trust and commitment can lead to SCA (Gronroos 2006, Moorman *et al.* 1992 and Morgan and Hunt 1994).

A number of authors also argue that some resources exist in the external network. The connection with partners such as CR, CA and FT town groups shows the potential for cooperative networks to be potential conduits to the internal resources held by connected actors. One could propose in this thesis that 'social resources' flow as assets between these connected partners. This is also illustrated in the important role played by the shareholders in both case organisations. All shareholders have strong commitments to FT and have played a key role in the marketing and distribution of both brands. The founder members of Cafédirect; Traidcraft, Equal Exchange, Oxfam and Twin Trading are all acknowledged by the informants in this study as playing important respective roles; Twin's work with producers, distribution carried out by Equal Exchange and Traidcraft, plus the advocacy work of Oxfam. Also in the case of Divine, its shareholder CA and their supporters played a vital role in ensuring Divine made its first breakthrough into a major UK supermarket. Similarly, the development of the Dubble brand (aimed at promoting FT awareness among young people) involved awareness raising through joint efforts with CR. The impacts of this are evident in this study, Dubble and the educational initiative *Papapaa* has resulted in a significant impact on the FT sales of those wholesalers supplying schools, colleges and universities with products.

This FT work with young people could provide Nicholls and Lee (2006) with some evidence to show that education materials used in schools to raise the awareness of FT can impact on the purchasing of young people (see appendix 7, comments from informants at wholesalers A, C and D). There is also evidence of young people campaigning as part of FT school groups. Could therefore education of FT in schools lead to consumer citizenship in young people? From these findings the author shows below a diagram of the important FT network identified in this study.

Figure 20 Network of Cafédirect and Divine Chocolate Ltd. (source authors own)



The importance of relationships based on 'social resources' is evident in this study. This appears to also show the value of relational resources to both Divine and Cafédirect, which is identified in R-A theory as a key part of the intangible resources in the assumption P6 (see section 2.2.7). However, relational resources based on ethical and social commitments have not previously been identified by those scholars of R-A theory (Hunt 2001, Hunt and Morgan 1995, 1997). The importance of both relational and 'social resources', also shows the potential for combining resources to develop complex assortments of resources, which could be difficult to imitate. This finding supports those authors, who identify the strategic approach in combining resources, in order to deliver competitive advantage (Bharadwaj, Vaadarajan and Fahy 1993, Day and Wensley, 1988 and Hunt and Morgan, 1995). This complexity of the resources built up by both Cafedirect and Divine could also be useful as the success of these aforementioned FT pioneer companies persuades other mainstream companies to switch to FT. The focus on cooperation in FT tends to be at odds with the language of industrial organisation model of competition, which frames relationships with key stakeholders as conflicts for profits. Also TCE (transactional cost economics) takes a negative view of sharing valuable resources and views relationships as liabilities and fear that participating in them will result in a loss of power in their own decision making. The comment by CSR manager at multiple supermarket A illustrates how this view is not shared by some informants in this study;

> *"We have built a relationship on more than just money; we are doing something much bigger together" (interview 2007)*

The trading manager of the coffee chain interviewed in this study, who launched a range of FT chocolate products in 2006, comments on the value of their engagement with the FT network;

> *"As fair trade licensees we participate in licensee meetings feeding in to the future planning of FT in the UK. We also have the opportunity to network and discuss relevant issues with other UK licensees. We also get a heads up on FT Foundation campaigns e.g. Fairtrade fortnight and are given the opportunity to input to plans and participate in promotional activity. The 'Fairtrade Community' is a diverse group of individuals, NGO's, companies and opinion formers who are active supporters or detractors through campaigning, consumption or dialogue, we have learnt a lot from them". (Trading manager for Coffee shop chain, 2007)*

The importance of cooperative relationships identified in this study is interesting if you consider the original proposal by one of the leading FT pioneers Michael Barratt Brown (original member of the Twin Trading board), who highlighted back in 1988 (see section 2.1.1) the vital importance of cooperation and networking for FT organisations. This study appears to support his argument that FT companies need to be good networker's. This thesis also supports the recent work of Davies (2009), who investigates the importance of network benefits to FT companies and argues that networks have been key to UK FT companies in gaining access to markets and distribution channels. There also appears from this study further potential to work with other supermarket groups such as Sainsbury's, who have just made a significant commitment to build supply chain capacity with marginalised producer groups (see section 2.1.5).

5.2.3 Consistency of Behaviour

Consistency refers to the behavioural element of 'social resources' over time and across all facets of an organisations operation. Adherence to stated values and careful selection of business partners, who have matched social credibility, is the litmus test of an organisations own credibility. Failure to 'walk the talk' is a common source of criticism of many companies. This is illustrated in this study by the importance of both case organisations being 100% FT and the additional social programmes above the FT minimum standards that are invested in by both Cafédirect and Divine (see table 15 for illustration). Some consumers are adept at seeing through the veneer of credibility and demand long-term consistency of behaviour. Lafferty *et al.* (2002) point to the growing body of evidence strongly supporting the view that positive corporate image is positively correlated to purchase intention and that consumers do discriminate between firms and their product/service offerings. This appears to be highlighted by Nestlé's experience with their FT coffee brand, *Partners Blend.* Despite launching the FT product in 2006, *Partners Blend* has recently been de-listed by some major supermarkets (see appendix 8, comments from Head of Fairtrade marketing at supermarket A). Also, there is evidence in the study that other informants would be cautious of FT products derived from other mainstream companies that are not 100% FT. This is illustrated by trading manager at wholesaler C who explains:

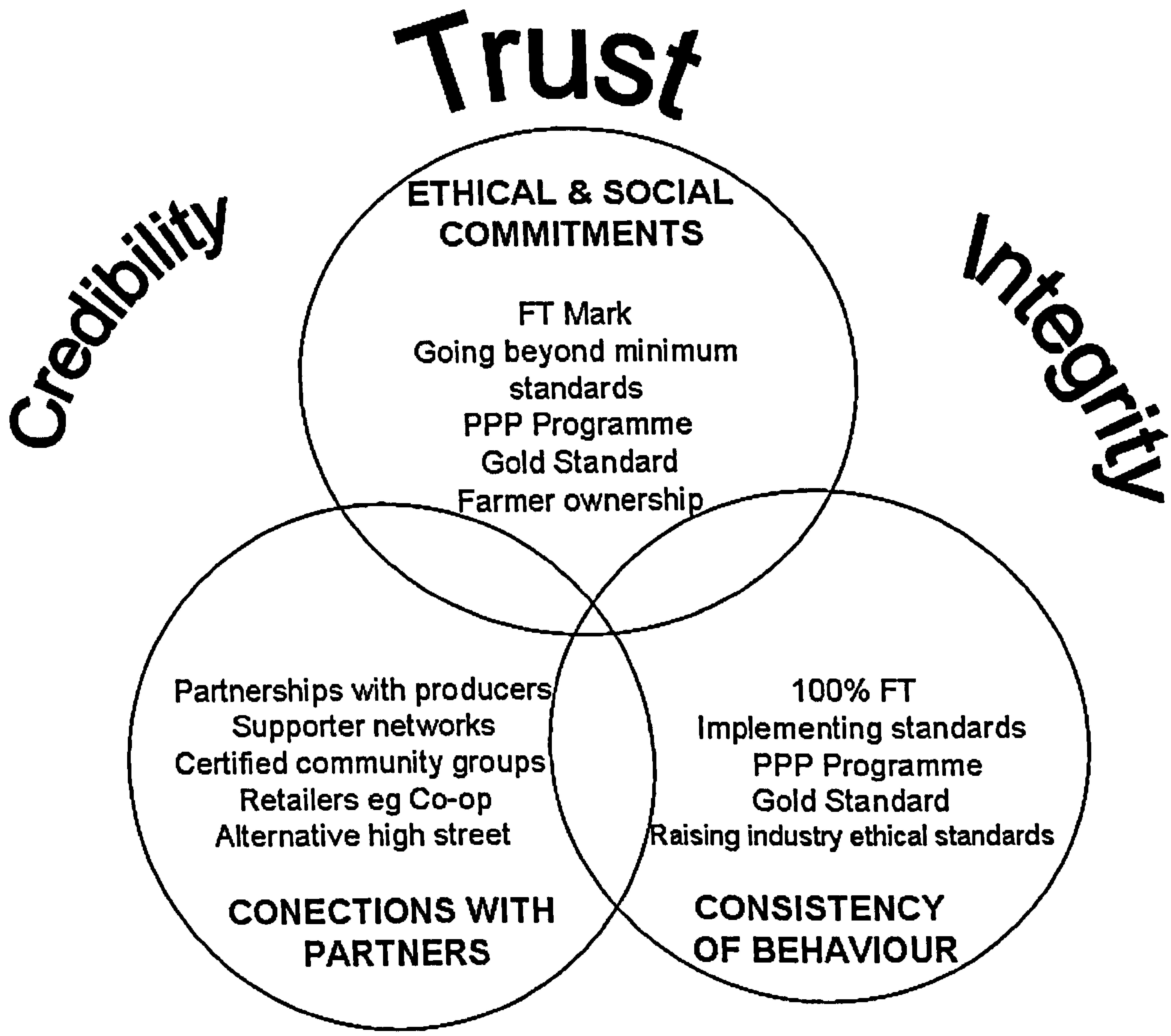
> *"Divine and Cafédirect have got credibility, if Mars came to me with a fair trade product I would not stock it as I would think they were just trying to cash in"* (interview 2007)

This recognition that consistency of behaviour is important has significant implications not only for how a company interacts with its customers but also for the behavioural standards reflected in internal policies, upstream relationships with suppliers and the governance structures of the firm. This is illustrated in this study by the importance of Cafédirects social programmes, namely its gold standard and the PPP. These initiatives demonstrate the companies behaviour with upstream producers and clearly provide feelings of trust, credibility and integrity towards the brand. There is also evidence in this thesis to suggest that both companies have raised the ethical standards in their respective sectors making this `consistency of behaviour even more important for competitors. Clearly both case study organisations need to maintain the investment in these programmes to build their resources.

5.3 Social resource model

The research underpinning this thesis has highlighted the importance of the *ethical and social commitments, connections with partners and consistency of behaviour.* These three interrelated elements are not currently acknowledged in R-A theory and therefore does not explain the performance of FT social enterprises such as Cafédirect and Divine. From this research, the author proposes the model of 'social resources' (see Figure 21), which shows the important components of 'social resources' and their inter-related nature.

Figure 21 A Model of Social Resources for Cafédirect and Divine Chocolate (source: author's own)



Tiffen (2002) identified a disconnect between small-scale growers of commodities such as cocoa and consumers. Divine and Cafédirect have demonstrated how to remove the disconnect between consumers and producers by making producers both integral to the ownership structure and the key focus of the companies external communications. Divine's particular focus on raising the awareness of FT with young people, is perceived to have made an important contribution to consumer education and has created increased pressure on both supermarkets and major manufacturers to consider developing FT products.

The study appears to support the extension of R-A theory to include the concept of 'social resources' made up of its three inter-related components:

- *Ethical and social commitments*, e.g. ethical standards and social objectives;
- *Connections with partners* in the value network, e.g. equitable labour relations;
- *Consistency of ethical behaviour* over time to build trust; e.g. adherence to stated values.

This thesis shows that both Divine and Cafedirect don't '*choose*' to be ethical as an optional means of generating competitive advantage, the ethical proposition is far more intrinsic to the nature of the company and as such is more related to a 'resource' than a 'strategy. This would differentiate them from say Nestle, for whom FT Partners Blend was the product of a distinct strategic choice. The 'social resources' of Cafedirect and Divine are subtly different to the other resources, in that the other types of resources are things which firms can objectively be said to have, manage and even control (money, skills, intellectual property, information, key strategic relationships etc). The 'social resources' appear to depend on the perceptions of key stakeholders including consumers. It is the external perception of consistency of behaviour, '*fairness*' of relationships with partners and ethical and social commitments that give them their value and validity as resources. Also the importance of reputation seems to be strongly implied in the findings, and the concept of reputational resources as a form of 'social resource' is something which will be discussed in section 6.4.

This study also appears to illustrate the value in combining both relational and 'social resources'; Prahalad and Hamel (1990) propose that combinations of resources is the precursor to competitive advantage. A number of authors suggest that combining resources skillfully, such as relational and social, can create complex resources which can be difficult to imitate (Bharadwaj, Vaadarajan and Fahy 1993, Day and Wensley, 1988 and Hunt and Morgan, 1995). The study also goes some way in a FT context to answer those critics of R-A theory (Wensley 2002, Schlegelmilch 2002), who suggest there is little illustration of how companies can gain their resource advantages in the first instance and also how they can manage this resource to further this competitive advantage.

RBV states that firms should seek out resources that are valuable, rare, imperfectly mobile, inimitable and non-substitutable; if you can achieve this you will deliver SCA (Hunt and Derozier 2004). Hoffman (2000) suggests that intangible resources may offer a better route to SCA than tangible ones; this appears to be partly the case with Divine and Cafédirect. Fahy (2000) agrees and proposes that intangible assets are more resistant to duplication efforts due to their inherent complexity and specificity of their accumulation. Hunt (1997) argues that to avoid imitation companies should build barriers to imitation. From this study it appears that a number of competitors are trying to imitate the 'social resources' built up by both Cafédirect and Divine. However, it appears from some key informants in this study that at least one company, Nestlé's with its FT *Partners Blend* has found this problematic and their product is now losing supermarket distribution. In the opinion of one informant, consumers do not trust the brand (see appendix 7, Head of Fairtrade at multiple supermarket A). One could argue that Nestle despite carrying the FT label on this one product has not developed other elements of 'social resources' identified in this study, namely connections with partners or displayed a consistency of behaviour. With only one FT product in their sizable product portfolio, Nestle does not appear to show consistency of behaviour. In fact, despite the launch of this product, still a number of educational establishments are boycotting this company (see appendix 7) and has therefore failed to make a connection with groups such as FT schools. Also, Nestle do not appear to have gone beyond the FT minimum standards with additional ethical and social commitments such as Cafédirects PPP.

Does the experience of Nestle challenge the view of Collis (1995), who argued that firms have access to the same resources? In contrast, the work by Cadbury's on their Cocoa Sustainability Partnership in Ghana (see section 2.1.1) and their move to convert their most famous brand CDM to FT, appears to be a stronger commitment and a more serious attempt to imitate the 'social resources' displayed by Divine and Cafédirect. For one, they are converting a major brand and also investing in producer and community support. How Cadbury's engage with the type of network built by Divine and Cafédirect (see figure 20) will be interesting to monitor in the future. What impact on the Cadbury's brand this move will create in the opinions of key downstream actors would be an interesting future research area. It would be very interesting to look for evidence of those elements identified in this study, such as trust, credibility and integrity. Another significant development with regard to ethical and social commitments with producers is the Sainsbury's supermarket *Fairtrade Development Fund* (see section 2.1.5). This fund will be managed by CR who are a Divine shareholder. This move by Sainsbury's appears to support the work of Smith (2008), who proposed that supermarkets increasingly see demonstrating ethical commitments as a way of appealing to consumers and reassuring the wider campaign community. To a certain extent FT does challenge the mainstream notion of protecting ones SCA and building barriers to imitation etc. FT companies along with the rest of the FT movement via campaigning and advocacy work are involved in trying to persuade mainstream companies to switch to FT. Their role as being a catalyst's for change is a real dilemma for FT pioneers, who want companies to copy their ethical practices. This practice appears to challenge these aspects of competition theory. However, both Cafedirect and Divine are leaders in developing the depth of FT by their partnership work with producers and political advocacy work. How these companies can continue to develop the depth of FT should be the subject of further research.

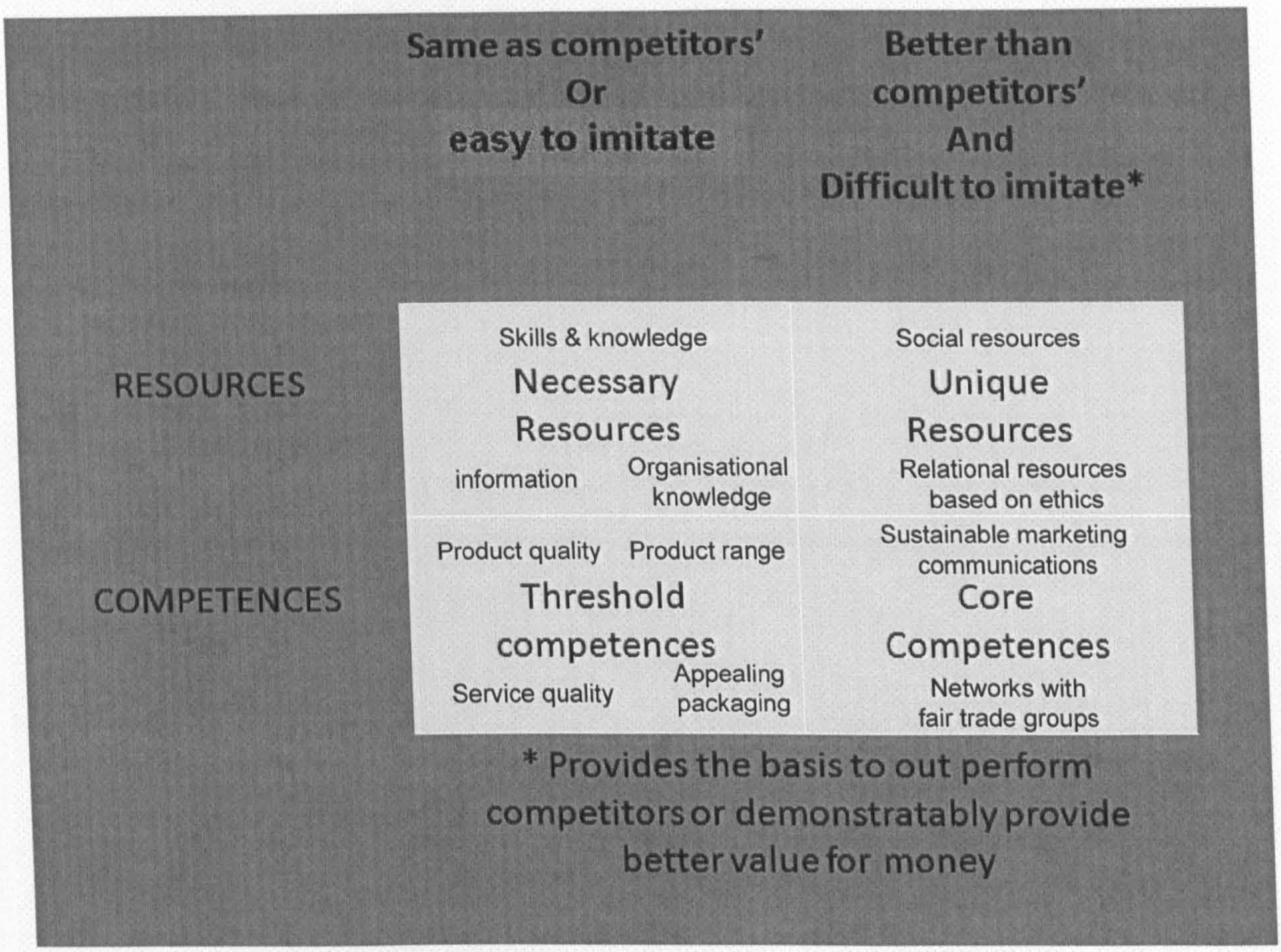
The findings also appear to support the work of those competition theory scholars, who have combined the importance of internal firm resources and the competitive environment (Bridoux 2004, Hunt and Morgan 1999). Figure 6 (see section 2.2.7) is useful in this respect by highlighting the importance of societal institutions, public policy etc in the nature of competition. For example the UK government body DFID played a crucial role in the set-up of Divine by providing a loan guarantor facility for Divine's initial bank loan from the National Westminster Bank. Also the role played by international governments in applying pressure to raise supply chain standards on those companies sourcing cocoa from West Africa, is further evidence of the important role played by external institutions.

Overall the findings tend to disagree with Barney (1991), Hunt and Morgan (1995) and Hunt (2001), who do not acknowledge an ethical position as a resource for competitive advantage. It could be argued that Hunt and Morgan (1995) could see ethics as an attribute of a company's relational resources, which could act as a source of differentiation in R-A theory; they acknowledge the importance of trust but are not explicit about ethical considerations. Embracing ethical and social commitments and developing a value network comprising of business partners and supporter groups who share these commitments are necessary but not sufficient conditions for the development of 'social resources'. Continually demonstrating that all facets of your own, and the network's operations, reflect these commitments is also necessary. In the network economy consumers are not only savvy about product market offerings; they are also switched on to a wider set of business performance metrics of a social and ethical nature. Consequently securing consumer purchases is about more than perceived price-quality relationships at a given point in time. It increasingly extends to the long-term credibility of the value network.

It is also evident from the thesis that Divine's and Cafédirect's impact on downstream stakeholders goes beyond the UK. For example Divine US was set-up in 2007 and Starbucks coffee company now sell products supplied by Divine in a number of international territories. In the case of Cafédirect they have also recently entered the US market.

It follows that any marketing strategy seeking competitive advantage by leveraging 'social resources' will not succeed unless those resources are the product of coherent and sustained commitment to sustainable business practices. Evidence of this commitment for Divine and Cafédirect not only takes the form of growing sales and statements of business partners (see chapter 4), it also comes from the growing impact of both case companies in the UK hot beverage and chocolate confectionery sectors, as evidenced by the growing attention being paid to FT by the major mainstream rivals. The findings in this research with regard to unique resources and core competencies could also be analysed using the Johnson and Scholes (1999) competencies and resources model. Based on the findings in this research the author has selected those unique resources (relational based on ethical commitments and social resources) demonstrated by both Cafedirect and Divine and placed them in the top right-hand quadrant of the model. (see figure 22). The author suggests this leads to the core competencies of developing networks with FT certified groups and also sustainable marketing communications (see bottom right-hand quadrant in figure 22) as recommended by McDonagh (2002). This interpretation using this generic model is not perfect as the author has tried to plot the position of both case study companies. Also, the author has chosen those specific resources and competencies identified in this study that have enabled both FT pioneers to compete against their mainstream rivals. For example sustainable marketing communications (see section 2.1.1) is a defined form of marketing communication practiced by both Divine and Cafedirect to alter the dominant social paradigm (Golding 2009, McDonagh 2002). It would be difficult to see how the case companies could be seen to deliver better traditional marketing communications against the financial resources of mainstream companies such as Cadbury's.

Figure 22 Resources, competencies and competitive advantage for Cafédirect and Divine (Adapted from: Johnson and Scholes 1999, p:153)



This model could provide a useful 'strategic tool' for those managers striving to deliver competitive advantage for FT social enterprises. However, it will also be interesting to monitor if 'social resources' are a long-term basis for SCA, bearing in mind the moves by companies such as Cadbury's to imitate these FT pioneers. It should be acknowledged that with the competitive moves by other companies this model could change over time. For example how effective will Cadbury's be in developing links with FT certified communities will be interesting to review.

CHAPTER 6 CONCLUSIONS AND IMPLICATIONS

6.1 Contributions to Knowledge

This thesis has contributed in a number of ways to both the body of empirical knowledge on FT companies and also to extending R-A theory, in order to explain the competitive success of FT social enterprises. The study has also developed detailed case studies of the 100% FT companies Cafédirect and Divine to show how they generate 'social resource' advantage. In these conclusions implications for practice, theory and methodology will also discussed.

6.1.1 Contributions to Practice

Given the discussion (section 5) this study appears to answer the call by Nicholls and Opal (2005) for more research to be carried out on FT in downstream distribution channels. The author in section 2.1.1 identified the limited amount of empirical research carried out on the impact of FT companies in downstream markets. This thesis provides new data from downstream stakeholders to explain the role of pioneer FT companies in the UK mainstreaming of FT. Both Divine and Cafédirect have established a mainstream competitive position for themselves in their respective market sectors, particularly in identified market segments (roast and ground coffee and dark chocolate). In addition, they have both been catalysts for change at a number of levels in the hot beverage and confectionery sectors respectively. Both appear to have impacted on the strategies of mainstream competitors, retailers and second tier manufacturers. The study also specifically highlights Divine's impact on the Cooperative Food (CF) Group as significant in the development of the UK FT market. The FT own-label CF sales total £76m, which accounts for 18% of total FT sales in the UK. According to all informants at CF, the success of their own-label chocolate partnership with Divine laid the foundations for this FT growth. In addition, some of both Cafédirect's and Divine's mainstream competitors comment on the direct influence of these FT companies on their own policies and practices. This has resulted in mainstream competitors both switching products to be FT certified and raising their own ethical standards. This influence appears to show the value of working in the mainstream, whilst maintaining the transformative message of FT, termed by Lowe and Davenport

(2005a, 2005b) as 'radical mainstreaming'. It also demonstrates that the debate between pragmatists and radicals in the FT literature is to simplistic (Golding 2009).

It is also important to highlight here the poor performance of both Cafédirect and Divine in the distribution channel to independent newsagents. This aspect appears to support the *P1* assumption of R-A theory (see section 2.2.7), which states that intra-industry demand is significantly heterogeneous. This means different market offerings are required for different market segments within the same industry. It appears that both Cafédirect and Divine have yet to meet both the threshold competencies and resources required by this channel of distribution, or leverage their 'social resources'. The author will return to this aspect in the section on further research (section 6.4).

Despite the advantages of developing mainstream distribution the thesis also shows the value for FT social enterprises of sales and relationships with the 'alternative high street'. For FT companies this appears to help offset the affects of increased priced competition in the supermarket retail sector from new market entrants such as supermarket FT own-label products. In addition, the important role played by FT certified community groups in the growth of Divine and Cafédirect appears to indicate the value for other FT social enterprises, such as Liberation CIC (FT nut company) and People Tree (FT clothing company) of developing links with these FT campaign groups. This shows the value of developing connections with partners in a network, which is one of the identified inter-related components of 'social resources'. This development of networks in the case of both Cafedirect and Divine have assisted in the market access, marketing and sales of both organisations and therefore concurs with the recent empirical research of Davies (2009). There could also be wider implications for the social enterprise sector from this growing influence of FT towns.

The author has been approached by both Social Enterprise North West (SENW) and Blackpool Community Enterprise to carry out a piece of contract research to propose goals and criteria for the new *Social Enterprise Town* concept (personal correspondence). The aim is for Blackpool to be the first UK town to achieve *Social Enterprise Town* status. The motivation for this proposed concept has been the successful impact of FT certified community groups in the growth of FT social enterprises such as Cafédirect and Divine identified in this thesis. Divine through its work with CR in UK schools and the launch of its Dubble chocolate bar for young consumers, also appears to have made an impact on young people's awareness of FT (Comic Relief 2003). Nicholls and Lee (2006) call for more research to investigate whether educational work on FT can influence the purchasing habits of young people. This will be discussed further in section 6.4. Clearly the identified importance of the FT labeling system as part of the ethical and social commitments component of 'social resources', also lends support to those authors who support the importance of certification schemes in offering credibility to organisations (Alexander and Nicholls 2006, Crane and Matten 2007).

This thesis also provides support to the recommendations of Golding (2009), who recommends a series of steps for the FT movement to protect the movement from 'clean wash' (see section 2.1.1). The development of 'social resources' could offer potential in preserving the links to social movements, more producer equity and developing further the strength of the advocacy work carried out by FT companies.

6.1.2 Contributions to Theory

A key contribution of this study is that the social and ethical commitments of FT organisations do provide a novel resource to extend R-A theory. This thesis appears to validate the theoretical concepts from the tripartite conceptual model of 'social resources' proposed from the initial phase of this thesis. This research by further testing in the field with a larger sample of downstream actors has demonstrated that the constructs of 'social resources' hold water for FT social enterprises (see Figure 23 with resource components of R-A theory, with the addition of 'social resources'). This also means that assumption *P6* in R-A theory could be extended to include the addition of 'social resources' (see section 2.2.7).

This thesis provides a novel extension to RA theory, which previously has not acknowledged ethical and social commitments as a competitive resource. It is therefore proposed that the 'social resource' dimension is added as the 8th element of the P6 assumption (see Figure 23). The thesis also shows that the three elements of 'social resources' are positively related to perceptions of trust, integrity and credibility, which provide this resource with its distinctive nature. It is the external perception of *consistency of behaviour, connections with partners and ethical and social commitments,* which give them their distinctive value and validity as resources. Other types of resources previously identified in the literature are elements which firms manage and even control (money, skills, intellectual property, information and relationships). This external perception of 'social resources' demonstrates the intrinsic nature of these resources to both Divine and Cafedirect and shows they are at the centre of the brand proposition and not just a strategic choice made for competitive advantage. Golding (2006) argues that Divine's partnership with the farmer's cooperative KK is integral to the company's raison d'etre. In addition, the importance of reputation as another potential social resource is also strongly implied in the findings, this will be discussed further in sections 6.2 and 6.4. These findings are interesting if you bear in mind the recent empirical work of Hooley *et al.* (2005), who have shown that company and brand reputation and credibility are key assets in firm performance.

This research confirms the importance of intangible resources such as relationships and the new concept of 'social resources' proposed from this investigation. This aspect tends to agree with view of those RBV scholars, who view intangible resources as the most important (DeGregor 1987, Ranson 1987). The underpinning to RBV is that firms seek out resources that are valuable, rare, imperfectly mobile, inimitable and non substitutable (Hunt and Arnett 2004). However, a cautionary note here is the current experience of Cafédirect, who have lost 4% of sales in the supermarket retail sector from price competition. This appears to show the value of tangible resources to some key stakeholders.

This theoretical contribution shows that FT has been investigated through the lens of R-A theory (different context from previous studies) and therefore this thesis adds to this body of theory. The concept of 'social resources' in this thesis has been tested in a number of downstream channels of distribution, which could offer potential for the generalisability of these findings (see section 6.2).

Figure 23 The 8th element in the resource dimension of R-A theory

Financial	(cash resources, access to financial markets),
Physical	(e.g. plant, raw materials and equipment),
Legal	(e.g. trademarks, licenses),
Human	(e.g. skills and knowledge of individual employees including their entrepreneurial skills)
Organisational	(e.g. competences, controls, policies, culture)
Informational	(e.g. knowledge from consumer and competitive intelligence)
Relational	(e.g. relationships with competitors, suppliers, employees and customers)
Social	**(e.g. ethical and social commitments, connections with partners and consistency of behaviour)**

This contribution appears to answer the call by Hunt and Morgan (1995) for more research to be carried out on identifying the resources which enable companies to compete. The literature review (chapter 2) identified a lack of research on what resources enable FT companies to compete; this thesis clearly contributes to the gap in this area. This work also potentially shows that 'social resources' could ground theories of marketing strategy such as *Social Marketing* for FT companies as discussed by Golding and Peattie (2005). However, it is important these resources are combined with competencies such as good product quality, appealing packaging and effective marketing communications. These findings tend to agree with the work of Johnson and Scholes (1999), who propose that firms need to first of all make sure they have the basic threshold competencies/resources in place i.e. in this case product quality, service delivery, marketing communications and good product packaging. Johnson and Scholes (1999) then advise that firms should develop the key resources and competencies which differentiate them. This also supports the work of Peteraf and Bergen (2003), who argue that firms compete on the basis of both their resources and capabilities. In the case of Cafédirect and Divine these resources have been identified as 'social resources'. Therefore these case studies demonstrate the viability of competitive strategies based on more socially acceptable business practices.

Furthermore, despite the academic community making significant advances in our understanding of what constitutes a competitive resource, researchers have so far failed to apply these advances to social enterprises and so have not developed models to explain the competitive success of such enterprises. This thesis offers an explanation for the success of two such FT social enterprises. Both theoretically and via empirical work this thesis argues that pursuit of social objectives, rather than being a consequence of achieving profitability by more self-serving business practices can in fact provide an organisation with the competitive resources to develop effective marketing strategies to deliver those profits. This thesis appears to provide an illustration of how companies can gain their resource advantages and also how they can manage this resource to further their competitive advantage.

Choosing the correct strategy requires an accurate understanding of the context of competition and the available resources from which to shape the value proposition. Therefore the concept of 'social resources' as presented in figure 21, could provide a useful framework for strategic discussions in other FT social enterprises. In addition, ethical dimensions have not previously been identified by Morgan and Hunt (1997) in their work on RBCA. Also the work on RBCA has not previously acknowledged upstream actors such as producers as important actors. This thesis shows the importance of both upstream and downstream partnerships with key stakeholders that are non-exploitative. In the case of RBCA there are number of factors that limit the risk from imitation and substitution. One key aspect is that of *casual ambiguity* (see section 2.2.8); this is when it is unclear to competitors how a firm's competitive advantage was achieved. Gummesson (1994) argues that complex networks based on true relationships can be an effective route to *casual ambiguity.* Figure 20 shows the network for both Cafédirect and Divine, this structural component of 'social resources' demonstrates the value of trust and cooperation in value networks and shows the importance of networking to FT organisations. Networking between producers, campaign groups, retailers and other supporters is particularly evident in this research and lends further support to the work of Alexander and Nicholls (2006), who identified the value to FT companies of knowledge flows between trade networks in FT.

This thesis has provided further evidence to support this, particularly with regard to the connections with FT certified communities (schools, universities and towns). These networks have delivered sales through both supermarkets located in FT certified communities and via those wholesalers supplying the out of home sector. In addition, the importance of credible links to producer groups and the importance of these quality relationships is a key feature of this thesis. These relationships with producer partners are clearly based on ethical and social commitments and appear to provide an ethical basis to RM. The conceptual work of Murphy *et al.* (2007) argues for an ethical basis to RM, which identifies the virtues of fairness, integrity, empathy and respect as important. Both Cafédirect and Divine appear to provide Murphy *et al.* (2007) with case study examples of this ethical underpinning to RM. This thesis also shows the value of resource flows between relationship partners, the partnership between CF and Divine clearly provides CF with credible links to producer groups, which they value. These findings appear to support the work of those authors who propose that resources can flow between networks (Gnyawali and Madhavan 2001, Powell, Koput and Smith-Doerr, 1996). Todeva (2000) calls this *network capital* and proposes that networks achieve a high level of cohesion based on trust and commitment of its members. According to Morgan and Hunt (1994), it is this trust and commitment in these networks which can result in SCA.

The connections with partners are the key structural element of 'social resources' identified in this study. This FT network is shown in figure 20 and clearly shows the links with a number of groups including; producers, certified community groups, NGO's, FT companies and retailers such as CF. The importance of networking to both Cafedirect and Divine is clearly demonstrated and provides further empirical research to support the recent work of Davies (2009) in this area, who proposes the value to FT of its ideological network of like minded individuals and organisations. The evidence of this study shows that 'social resources' can also reside in this external network between the partners. It is also clear from this thesis the vital importance of relational resources, which is a key intangible resource identified in R-A theory and is the source of RBCA (see sections 2.2.7 and 2.2.8). This also appears to illustrate the value in combining resources; Prahalad and Hamel (1990) propose that combinations of resources are the precursor to competitive advantage. A number of authors suggest that combining resources skillfully, such as relational and social, can create complex resources which can be difficult to imitate (Bharadwaj, Vaadarajan and Fahy 1993, Day and Wensley, 1988 and Hunt and Morgan, 1995).

Despite the success of both Divine and Cafédirect it will be very important to continue to develop the strength and complexity of these 'social resources' to avoid imitation by its competitors. Both companies will need to continue to innovate to build on their apparent resource advantage. The move by mainstream companies to develop their own 'social resources' does support the work of Hamel and Prahalad (1994), who propose that companies need to stay ahead of the game as competitors will seek to imitate and substitute competitive resources. Arguably it will be challenging for some companies to develop the type of network shown in Figure 20, this would require strong performance across all three inter-related components of 'social resources' and this aspect could be important in helping FT social enterprises to maintain a competitive position. The findings in this thesis also provide support to the work of Golding (2009), who suggests five approaches to protect the integrity of the FT movement in the mainstream (see section 2.1.1). The development of 'social resources' could assist in preserving the links to social movements, encouraging producer equity and maintaining strong advocacy and political elements to FT.

The appeal of 'social resources' also demonstrates that some downstream stakeholders are interested in addressing the equality of exchange and power discrepancies between the developed and developing worlds. The work also shows the importance of the inter-related nature of 'social resources'. Ethical and social commitments developed across a value network with business and other partners sharing these commitments are necessary but not sufficient conditions for the development of 'social resources'. Continually demonstrating that all elements of the network demonstrate these commitments is vital. It follows that any competitive strategy based on 'social resources' must provide a sustained and continuous commitment to ethical and social standards. This thesis appears to show that the pursuit of social objectives, rather than being a consequence of achieving profitability by more self-interested business practices can in fact provide an organisation with the competitive resources to develop effective marketing strategies to deliver profits.

Currently there is a move by market leaders such as Cadburys to switch to FT, this potentially displays evidence of reactive innovation, whereby firms will try to imitate the resource of an advantaged competitor or create an equivalent/superior resource (Hunt 1997). With this move by mainstream competitors to build their own 'social resources' both case organisations will need to continue building the complexity and specificity of these intangible resources. Using resources strategically implies four managerial requirements (Bharadwaj, Vaadarajan and Fahy 1993, Day and Wensley, 1988 and Hunt and Morgan, 1995):

1. Resources must be efficiently acquired or developed
2. Combined skilfully to create complex resources
3. Deliberately applied to competitive situations, and
4. Carefully maintained and protected to ensure on-going availability

To build further the 'social resources' identified, Divine could learn from Cafédirects' development of their *Gold standard* and PPP programmes and brand its own social programmes. In addition, Cafédirect could learn from the way that Divine has positioned farmer ownership as an integral part of their brand. Both companies could investigate further ways of reconfiguring their supply chains with moves to add value in country of origin for both cocoa and coffee. This will no doubt involve discussions with external policy makers including DFID, overseas governments, NGO's and international donors. Due to their established connections already with these external partners, combined with their credibility and trust, both companies could be well placed to develop further innovation in this area. These moves would increase the strength and complexity of the 'social resources' developed by Divine and Cafédirect. In order to apply them to a competitive context Divine and Cafédirect would need to develop further sustainable marketing communications to raise awareness of these additional ethical and social commitments. This work would be maintained and protected by continuing to work with NGO's such as Twin Trading and to maintain links with FT town groups and organisations such as CA to ensure awareness of these differences are understood. It will be important that both Cafédirect and Divine continue to display consistency of behaviour to maintain the perceptions of credibility, trust and integrity. However preventing imitation is not as straight forward for FT companies as they are part of a wider movement, which is involved in persuading its mainstream rivals to switch to FT certification. It is therefore important that FT pioneers continue to develop the depth of 'social resources' as explained above.

The author has found using Eisenhardt's (1989, 1991) approach to building theory from multiple case studies to be both an interesting and appropriate research approach in organisational research. The engagement with rich empirical evidence from a variety of data sources has been vital in helping the author to achieve the research objectives set-out in this thesis. This study has provided further support to Eisenhardt and Graebner (2007), who identify a number of important elements to research design when building theory from case studies including; careful justification of theory building, theoretical sampling of cases, interviews that limit informant bias, rich presentation of evidence in tables and appendixes using the four-step procedure of Miles and Huberman (1994), and clear statements of theoretical arguments. The author has found these elements invaluable throughout this research process. The author would also like to add some recommendations for carrying out case study research in downstream distribution channels. Particularly with regard to Eisenhardt's (1989) eight-step procedure of building theory from case study research (see table 6), in step three, crafting instruments and protocols, multiple investigators are recommended. This can be challenging when accessing informants such as supermarket buyers, who can successfully refuse access to researchers. Ostrander (1993) describes this type of group as an elite setting. The familiarity of the author with the supermarket buyers and other key industry informants proved invaluable in gaining access and displays what Lofland (1996) describes as "deep familiarity" with the subject area. Therefore finding a further research investigator with a similar level of access could prove challenging in such studies on downstream distribution channels.

This thesis will now look at the application of these findings in other contexts in order to discuss their generalisability.

6.2 Generalisability

This section will discuss the generalisability of the research findings in this thesis for a number of different contexts including; Divine and Cafédirect in other geographic territories, other FT social enterprises, other forms of social enterprise, ethical companies, small medium sized enterprises and corporations.

The research provides the resource underpinning to the marketing strategies of both FT social enterprises and potentially other social enterprises. The model of 'social resources' could be applied by both Cafédirect and Divine to their own international expansion. Both companies have recently launched operations in the US and this model of 'social resources' could provide a useful starting point in strategic discussions. Obviously, some of the partners in the network will be different but it will be important in the first instance to identify these and cultivate strong relationships to build the structural element of 'social resources'. There is a growing movement of FT certified community groups in the US, with ten FT towns already certified and many more working towards this status (Fairtrade Towns USA, 2009). Both Cafédirect and Divine should link with these groups in the first instance. In fact, there are also fledgling FT town movements in other countries such as Belgium, Holland, France, Sweden, USA and Australia (site visit P04, Table 7). It will be important for both UK FT social enterprises considering international expansion and also other FT social enterprises based in these geographic territories to make links with these FT certified groups.

The findings are also important for other FT social enterprises, which are hoping to develop a mainstream position. The relatively new FT companies, AgroFair (FT fresh fruit company) and Liberation CIC (Community Interest Company that works with nut farmers in Malawi), organised with significant levels of farmer ownership could also develop their own 'social resources' to build a competitive advantage in their own respective market sectors. Development of their own 'social resources' and other threshold capabilities such as product quality, appealing packaging etc will support their future growth. The model of 'social resources' and the network model provide useful templates for their own strategic discussions (see figures 20 and 21). It is clear that both Liberation CIC and AgroFair should build strong relationships with not only producer groups but also UK supporter networks, particularly certified communities such as FT towns. It is also recommended that FT social enterprises and other social enterprise types should employ good networkers to build-up partnerships. It is also worth considering here the nature of the products in this thesis. Coffee and chocolate are to an extent symbolic and visible purchases, it would be interesting to investigate if competitive advantage could be generated by those FT companies producing products such as FT dried fruits or rice.

For other new start-up UK FT social enterprises the findings in this thesis show the value of working with NGO's such as Twin Trading, to incorporate producer organisations into the governance of the business and to build strong differentiated social programmes such as Cafédirects PPP. Secondly, they should develop links with FT certified communities. Thirdly, FT social enterprises need to demonstrate consistent ethical behaviour by being 100% FT and going beyond the FT minimum standards and giving a voice for farmers. This reconfiguration of supply chains and increasing the information flows between consumers and producers is changing people's perceptions of small-scale farmers in developing countries. Also the value of the 'alternative high street' for FT companies is also demonstrated in this thesis. FT social enterprises should in addition to the mainstream consider sales distribution via these unique ways to market. Due to the nature of these networks it is very difficult for mainstream competitors to develop sales through these routes. For new FT social enterprises adhering to the above recommendations should be rewarded with a reputation of trust, credibility, integrity and loyalty by important downstream stakeholders including consumers.

The findings in this study are also of value for both other social enterprises and ethical companies. Social enterprises due to the primacy of their social aim are well placed to develop their own 'social resources'. Social Enterprises are in a good position to make connections with partners, particularly community groups as social enterprises are often rooted at the local community level. This is perhaps the reason for the social enterprise sector currently considering the concept of *Social Enterprise Towns*, along similar lines to the FT town concept. Due to the social missions of social enterprises they also demonstrate ethical and social commitments. Some forms of social enterprises such as *Social Firms*[15] do have assurance marks to guarantee companies of their ethical and social commitments. Also the social enterprise sector is currently considering its own identity mark to classify organisations as social enterprises. In addition, the ethical and social commitments of some social enterprises are captured in their social reports, where they measure their own social/environmental impact. Capturing this data from social programmes within annual social reports will help develop the values element of 'social resources' for social enterprise. It will be important for social enterprises to communicate this added value to its key stakeholders, particularly their own customers. Also social enterprises will need to develop consistency of behaviour through good governance and ethical standards of behaviour. These proposals can also be applied to social enterprises internationally.

There are also important lessons from this study, which can be applied to other ethical companies across other market sectors. First of all, regarding ethical and social commitments, the value of certification and consumer labelling is identified in this study. Currently there is a growing interest in ethical fashion; however one of the barriers to growth identified by a range of authors is the lack of an independent consumer label to inform consumers of the standards in the supply chain (Dickson and Eckman 2006, Joergens 2006). There has been interest in the FT label, particularly in the area of FT cotton; however this does not certify the remainder of the production process beyond the cotton farmer, which for clothing involves factory production often in developing countries. Therefore the development of a recognised ethical fashion label could be advantageous to ethical fashion companies. There also appears to be value in ethical companies also considering the structural (connections with partners) and behavioural element (consistency of behaviour) in building their 'social resources'. This research has also shown that mainstream channels of distribution (e.g. supermarkets), ethical wholesalers and ethical retailers also value these resources. The value of connections with partners and the strong networks created within FT in the UK has assisted the sales and marketing of FT products. This will also be important in other countries following in the footsteps of UK and moving towards more commercial mainstream approaches to FT. Also the extent

[15] Social Firms have their own assurance mark, which is based on being a market led business that are specifically set-up to create employment for those people disadvantaged in the labour market (Social Firms 2009).

to which these contributions on connections with partners and other elements of 'social resources' provide insight for other social enterprises is tentative without further research. Certainly it appears that other ideologically driven networks could provide similar benefits to network participants as proposed by Davies (2009).

The external perceived nature of these 'social resources' is also worth further consideration for all companies whose aim is to develop strong partnerships with key stakeholders. The importance of reputation is strongly implied in the findings and this is something that managers would probably find easier to relate to, particularly with respect to corporate branding. These resource elements are clearly are of interest to a number of important distribution channels, not least multiple supermarkets. Recently via the Business Development Centre at LJMU, the author was asked to present at a training day for a range of small/medium sized regional food companies engaging with major supermarkets for the first time, under the supermarkets new local sourcing agenda. The author presented not only the practicalities of supplying major supermarkets (margin negotiations, quality requirements, delivery schedules etc) but also discussed the value of 'social resources', such as linking with those campaign groups focused on local sourcing, looking at particular systems of farm assurance and developing communications around any existing links with farmers. The sharing of resources between Divine and CF illustrates the value of these resources in the CF's marketing communications. The provenance of local food is also of interest to other supermarket retailers.

The work in this thesis on 'social resources' identified in this FT context could also provide support to those scholars who are framing CSR as a competitive resource for corporations who are socially committed (Branco and Rodrigues 2007, Geva 2008, Hart and Milstein 2003, Meehan *et al.* 2006). These authors have been calling for tested models that can bridge the gap between CSR definitions and strategy, that offers guidance to managers on how to connect socially committed organisations with the growing numbers of ethically aware consumers, in order to achieve both economic and social objectives. Hence, 'social resources' could be of value to those private sector corporations, who are focused on the triple-bottom-line. The 'social resources' model presented in figure 21 could deliver a competitive strategy for corporations, whilst also delivering on social performance.

The author recently presented a paper from this research at the ESRC, *'Uniting Research, Policy and Practice in Fair Trade Fair Trade Knowledge Exchange Workshop'* at the Centre for Business Relationships Accountability, Sustainability and Society (BRASS) at Cardiff University. This workshop was attended by major corporations such as large food retailers. A number of these organisations had recently made significant strategic moves in the FT area. Key findings from this study were presented. The feedback on the paper demonstrated the importance of the key elements of 'social resources'. A number of the attendees commented on the important contribution of the work and particularly acknowledged the value of 'social resources' to themselves. One workshop attendee, who is a senior executive at large branded manufacturing company, commented:

> *"With our switch to FT combined with our extra financial fund, we will have a direct quality relationship with farmers, which are similar to Divine, Cafédirect and Equal Exchange. This is different from some supermarkets, who are just buying FT ingredients from the FT register and not having any true dialogue with farmers. They do not look at the base of the supply chain; it is more about the consumer for them and not the farmer. We are going to provide farmers with a large scale opportunity to scale-up and be sustainable". (PO5, see table 7).*

There is evidence here that corporations are attempting to imitate the credible links FT companies have developed with producer groups. This company appears to be going beyond the minimum standards of the FT agreement and demonstrating their ethical and social commitments to producers. There is an obvious attempt here to imitate this values element of 'social resources'. These workshop attendees did acknowledge the greater challenge to their organisations of achieving consistent behaviour across their complex array of international supply chains and also trying to make credible connections with campaign groups such as certified community groups. Therefore, some elements of 'social resources' maybe more difficult to imitate than others. Hence, the author will return to this in section 6.4 on further research.

Both the contribution to theory and practice of this thesis could also have potential in the teaching and learning of business management and marketing strategy courses. The model of 'social resources' could be useful to students in showing the value of intangible resources based on ethical and social commitments, connections with partners and consistency of behaviour. Hence, the author will be developing the case studies in this thesis to publication for teaching purposes.

6.3 Limitations

As with many empirical studies the work in this thesis relies on the opinions of others. In this case the informants are senior executives in the confectionery, hot beverage and FT sectors. While these respondents are likely to be in a very good position to answer the questions about resources and firm impact and performance, other senior executives may have different, equally valid perspectives. For the semi-structured in-depth interviews conducted for this thesis independent verification of the opinions have been sought giving confidence that the views are valid representations. Also the empirical work has been conducted in one cultural setting (the UK) and a limited set of industry contexts (hot beverage and confectionery). No claim can be made therefore for the generalisability of the findings beyond these contexts. Further research is now being conducted (see section 6.4) in a number of other countries and sectors. However, despite the limitations noted above the relationship between theory and the empirical results presented in this thesis give confidence that similar findings will be found in these other contexts.

6.4 Further research

This thesis has tested the conceptual model of 'social resources' as a potential route to competitive advantage. However, it would be valuable in future research to develop a scale for 'social resources' that scores a companies performance with respect to the three interrelated components: ethical and social commitments, connections with partners and consistency of behaviour. This will require a more quantitative study. The work by Carmel (2004) discussed in section 3.4.6, who carried out a quantitative study on assessing the core intangible resources of companies in Israel, using his *Strategic Analysis Technique* (SAT) could offer some potential in this area. Carmel's study involved a structured questionnaire mailed to chief executive officers (CEO's) to rank the resources of firms as: most valuable, rare, inimitable and non-substitutable. The author can see the value in an adaptation of this approach for a future more quantitative study on both Divine and Cafédirect. However, this author in section 3.4.6 explained some of his reservations with Carmel's approach and would recommend that in any future quantitative study that a face to face structured questionnaire is used rather than a mailed out survey. Firstly, a mailed-out structured questionnaire to buyers could result in a low response rate. This is because supermarket buyers can successfully refuse access to researchers and are what Ostrander (1993) describes as an elite setting (see section 3.5.3). The author of this thesis suggests you should aim for face to face access to this type of key informant. Secondly, the author also proposes that terms such as non-substitutable, would require further explanation.

Also central to building theory from case studies is replication logic (Eisenhardt and Graebner 2007). Yin (1994) argues that multiple-case studies typically provide a stronger base for theory building. Hence, further research could also investigate the competitive resources of other 100% FT companies including AgroFair and Liberation CIC. Also Graebner and Eisenhardt (2004) recommend investigating 'polar types' of case studies, where you have low and high performing case studies to observe contrasting patterns in the data. This sampling approach can lead to a very clear pattern recognition of the central constructs and relationships. Hence a study looking at 100% FT companies compared with those competitor companies, who have no FT products could prove interesting. In addition, it is clear in this research that both case companies have found it difficult to establish distribution in the independent newsagent sector. Further research to assess which resources are more valuable in this sector would assist FT companies to understand what resources and competencies are important in this distribution channel.

Divine launched in the US chocolate market in November 2007 (Washington Time's 2007). A similar comparative investigation of downstream stakeholders in the US could also contribute further to the nature of 'social resources' in different international contexts. This research could provide cross country comparisons, which could prove interesting for those researchers who are investigating the reasons behind differing growth patterns for FT across different nation states (see forthcoming special edition of *Journal of Business Ethics* on FT Country case studies).

The work of TWIN Trading in developing and incubating new FT companies is illustrated by the impact made by both Cafédirect and Divine. The importance of TWIN's work in building relationships with upstream producer groups has been highlighted by this thesis. Investigating the lessons learnt from their work developing FT social enterprises and how they can continue in the future to develop supply chains that add value for both producers and consumers is a potential area for further study.

There appears to be a potential link in this study between the FT schools/universities movement and the increasing sales of FT products via wholesalers who supply these distribution channels. The author is aware that sales of FT chocolate in certain schools have declined in recent months due to the *Healthy Schools*[16] initiative. However, it does appear there is potential for education in schools on consumer issues can lead to consumer citizenship in young people? The Comic Relief (2003) *Fair Trade Measures Survey,* which investigated young people's attitudes towards FT has yet to be interrogated for academic purposes. The author has already started working with Comic Relief on a joint academic publication using this data. Such a paper would partly answer the call by Nicholls and Lee (2006) for more research to investigate whether educational work on FT can influence the purchasing habits of young people. This would be worth further investigation and would be particularly useful for those involved in developing the concept of *Climate Change* Schools[17]. These are schools who have signed-up to both lowering their own carbon footprint and to raise awareness amongst pupils and parents on how to lower their own carbon usage.

In this study, it is clear that a number of downstream actors understand the value of ethical and social commitments beyond the FLO minimum standards. It would

[16] The Healthy Schools initiative is the opportunity for UK schools to achieve National Healthy School status by achieving a set of quality assurance criteria involving embedding health education, healthy eating, physical activity and emotional health and well being in schools (Healthy Schools 2009)

[17] Climate Change Schools is an educational programme to put climate change teaching at the heart of the curriculum to empower young people to become critical thinkers and engaged citizens to lead action towards tackling climate change (Climate Change Schools 2009).

be interesting to carry out research with consumers to investigate the level of understanding with regard to different approaches and commitments to FT. The perceived nature by key stakeholders of social resources producing credibility and integrity is worth exploring further. Reputation is also implied in the findings, investigating this further from a branding perspective could also develop our understanding of the competitive nature of these FT pioneers further. This aspect would also develop the work of Smith (2008), who suggests this knowledge is not well developed in consumers.

Connections with partners and networks are of clear importance to FT social enterprises. A study of network capital in respect of FT social enterprises would also potentially make an important contribution. This research has shown that 'social resources' do reside in the firm's external network; therefore a study looking into more depth on the nature of these connections would contribute to knowledge in this area and add to the recent work by Davies (2009). The important role of FT certified communities is worth further investigation as there is a significant lack of empirical research in this area. In addition, the nature of both Divine's and Cafédirect's relationships with partners should also be the subject of further research. They both appear to illustrate an ethical basis to RM and could therefore provide Murphy *et al.* (2007) with examples of such an approach. Looking at FT in more depth through the lens of RM could prove very interesting. This shared aspect of 'social resources' is also worth exploring further. This would be useful with regard to RBCA. Collaboration with those academics studying *Social Exchange Theory* could prove useful in developing theoretical explanations in this area. In addition, the application of these 'social resources' to competitive conditions will also be interesting to research in more depth. A key finding in this study has been the importance of the relationship between CF and Divine in the mainstreaming of FT in the UK. A more in depth critical study of retailer engagement with FT, carrying out a comparative study on their ethical and social commitments to FT would also be useful for ethical consumers, campaigners and policy makers.

Also the reactive moves by mainstream companies such as Cadbury's to imitate the resources developed by both Divine and Cafédirect will be interesting to evaluate. This could be a further application for a more quantitative approach (see above discussion regarding Carmel's work), which would utilise an instrument to measure the strength of 'social resources'. This would test the potential of 'social resources' in providing long-term SCA and could provide an indication on how complex 'social resources' are to build for companies.

Finally, the perceived nature of 'social resources' in the eyes of key stakeholders gives these resources value and validity. The author proposes that credibility, integrity and reputation could provide useful resources to develop both brand equity and image for FT companies (see section 2.1.1). A study of FT branding could therefore make a significant contribution to both theory and practice if you consider the evidence provided by Hooley *et al.* (2005) linking brand reputation and credibility to enhanced market performance.

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APPENDIX

APPENDIX ONE- PUBLISHED PAPERS

Academic Journals

Doherty, B. and Tranchell, S. (2005), 'New Thinking in International Trade? A case study of The Day Chocolate Company'. *Sustainable Development*, 13, p: 166-176.

Doherty, B. and Meehan, J (2006) ' Market entry based on social resources: The Case of Day Chocolate Company in the UK confectionary sector', *Journal of Strategic marketing*, Volume 14, Issue 4, p: 299-313

Doherty, B. and Thompson, J.L (2006), The diverse world of social enterprise: a collection of eight social enterprise stories. *International Journal of Social Economics*, Volume 33 Number 5/6, p: 361-375 (this includes Cafedirect)

Doherty, B. and Tranchell, S (2007), 'Radical mainstreaming' of fair trade: the case of The Day Chocolate Company, *Equal Opportunities International, special edition Equality and Diversity in Marketing*, Vol. 26, Issue 7, p: 693-711

Doherty, B. (2008) "A truly co-operative venture: the case study of Co-operative Food, a retailer response to Fair Trade", *Journal of Strategic marketing*, Vol. 16, No. 3, p: 205-221

Parliamentary Reports

UK Parliament written evidence to House of Commons International Development (2007) Select Committee for Fairtrade and Development, Volume 1, evidence titled Monitoring and Evaluation of Divine Chocolate in UK confectionery industry available at:

http://www.publications.parliament.uk/pa/cm200607/cmselect/cmintdev/ucfairtrade/123421.htm

Government Report

Contributed to:

Twin Trading (2008),*The impact of the Divine Chocolate Company on the UK Chocolate Market and on farmer's Livelihoods in Ghana, 1997-2007*, a report for the Department for International Development, Twin Trading, London.

New Text Book

Doherty, B., Foster, G., Mason, C., Meehan, J., Meehan, K., Rotheroe, N. and Royce, M. (2009), *Management for Social Enterprise*, SAGE Publishers

Forthcoming Paper

Davies, I., Doherty, B. and Knox, S. (2009), The Rise and Stall of a Fair Trade Pioneer: The Cafédirect Story, paper re-submitted in January 2009 to *Journal of Business Ethics*. Accepted on May 6th 2009, **DOI** number is: 10.1007/s10551-009-0145-6. This article will be published on-line by September 2009, DOI: 10.1007/s10551-009-0145-6.

APPENDIX TWO INTERVIEW GUIDE

What do you think are the main reasons that retailers/wholesalers are stocking Divine Chocolate and/or Cafedirect?

In your experience how do the products Divine and Cafedirect perform if at all?

What is the extent of the distribution of Divine Chocolate and Cafedirect products in your business?

What has been Divine Chocolate's and Cafedirect's impact on their respective markets, if any at all?

In your experience how does Divine/Cafedirect manage to compete, if at all?

In your opinion what resources do Day and Cafedirect use to compete, if any at all?

APPENDIX 2a CATEGORIES AND CODING FROM MAIN PHASE INTERVIEWS

CATEGORY CODE	CATEGORY	SUB CATEGORIES	CODES	SUB-CODES
INDS/IMP	Impact	Cadburys buying Green & Blacks	**A1**	
		Impact on Co-op and other retailers	**A2**	**A2.1** Coop own label FT strategy
		Impact on other manufacturers	**A3**	**A3.1** Second tier manufacturers **A3.2** Nestle launching partners blend
		Impact on consumers	**A4**	**A4.1** Campaign groups **A4.2** School children
		Very competitive	**A5**	**A5.1** Price discounting **A5.2** Difficult to get position on shelves
		Raising FT awareness	**A6**	**A6.1** Consumer education
		Innovation	**A7**	
		Catalyst for Change	**A8**	
PERF	Performance	Selling well	**B1**	**B1.1** Dark Divine excellent performance **B1.2** Cafedirect Roast & Ground coffee strong performer **B1.3** Own label coop **B1.4** Teadirect doing well **B1.5** Good at PR
		Mainstream	**B2**	**B2.1** Getting product listings in supermarkets **B2.2** Mainstream branding **B2.3** FT Pioneer **B2.4** Good communications

		Product	B3	**B3.1** Dark Divine excellent performer **B3.2** Matches UK palette **B3.3** Premium quality **B3.4** Appealing packaging **B3.5** Packaging tells you its Fair trade- FT Mark key part **B3.6** Taste
		Do not perform	B4	**B4.1** independent newsagents
ETH/SC	Ethical and social commitments	Fairtrade Marked	C1	**C1.1** FT Mark/Logo Guarantee **C1.2** Gold Standard **C1.3** Fair price **C1.4** Consumer loyalty **C1.5** PPP programme **C1.6** Farmer ownership
		Farmer ownership	C2	**C2.1** strong link to cooperative **C2.2** more than just making money
		Good Ethics	C3	**C3.1** Supporting third world farmers **C3.2** Doing good in the world **C3.3** Consumers demand
CONPT	Connections with partners	Fairtrade relationships with producers/farmers (Supply chain)	D1	**D1.1** Strong partnerships with links back to producers & communities **D1.2** Quality relationships **D1.3** Benefits to producers **D1.4** Benefits to women
		Links with consumers (supply chain)	D2	**D2.1** consumers connect with FT, brings producers and consumers closer **D2.2** consumers feel they are doing some good
		Partnership with Co-op (supply chain)	D3	**D3.1** impacted on other retailers
		Links with supporter networks	D4	**D4.1** Fairtrade Town groups

				D4.2 Ethical consumers **D4.3** Comic Relief **D4.4** Christian Aid **D4.5** Schools
CONSIST	Consistency of ethical behaviour	100% Fairtrade	**E1**	**E1.2** Trust **E1.3** Consumer confidence
		Profit back to farmers not shareholders	**E2**	**E2.1** Credibility **E2.2** integrity from ethical credentials
		Credibility	**E3**	
		Influencing other groups	**E4**	**E4.1** Politicians **E4.2** NGO's

APPENDIX 3- CODED SITE VISIT REPORT TO CAFEDIRECT ANNUAL GENERAL MEETING, MARCH 27TH 2009, LONDON.

Site Visit Notes	Coding
Early discussion with John Nuwagaba (General Manager) from Ankole Coffee Producers Cooperative Union Ltd in Uganda, I asked him what he thought of Divine and Kuapa Kokoo, he replied;	
"Divine has meant the farmer is nearer to the consumer, ownership bridges the gap for the farmer, KK has shown how we can rise-up to the next level"	CONPT D1.1 D2.1
Geoff Tudhope (Chair of CD) argued that CD had been a catalyst for change and had persuaded others to come with the company and join in. He called CD a true social and economic relationship with farmers, exemplified by 33 out of 39 producer groups being present at the AGM. This financial year CD has again delivered significant social impact and the brand has also held up well in a competitive market. This is the second year in a row we had paid a dividend and also reminded the AGM of CD Producers ltd who has 5% shareholding in the company and two seats on the plc board.	INDS/IMP A8 CONPT D1.1 INDS/IMP A5 ETH/SC C3.1, C1.6
Anne MacCaig (MD) talked about CD being a unique business and described CD as social enterprise in action and being a real catalyst for change. Anne emphasised the product quality of CD and the true partnerships with farmers as being the essential asset in the way CD do business. However she argued that CD needs to work in three key areas to strengthen the business including:	INS/IMP A8 PERF B3.3 CONPT D1.1
• Strengthen even further the partnership with producers by ensuring 260,000 farmers are more incorporated into our business by adding value at origin	D1.1
• Make the operations even more direct to this end I am announcing today that our multiple supermarket sales operation will be brought in house and our relationship with the Broker Bridgthorne will be terminated at the end of June 2009. We are currently building an in house sales team	D2.1
• Increase the awareness of the brand as our own research shows only 5% spontaneous awareness of the CD brand amongst the UK population and the figure is even lower at 2% for Teadirect. To this end we will launch our products in new packaging at the end of April 2009. There will also be new products including two new teas and a new freeze dried coffee and also new ways of raising awareness such as at Food fairs using experiential marketing	A6.1
Tough trading conditions illustrated by Sainsbury's who have	INDS/IMP A5

recently been discounting FT tea which has led to a 40% reduction in Teadirect sales. Also we are suffering on the exchange rate with the weakening of the £ and with CD buying in $ this means rising costs. We need a louder voice and need to be better at advocacy. It is what has made CD successful up until now.

CONPT
D4

Richard Scanlon (Finance Director)

This year we have delivered a stronger set of financial results delivering greater benefits to producers. Despite losing sales in the retail sector our sales have been maintained at the same level with 33% growth in Out of Home sector. This sector now represents a quarter of CD's business with key distributor being Peros. Our aim is also to reverse the trend in the retail sector with rebranding and in house sales operation.

PERF

CONPT
D4
D1.3

We have decided to pay in May 2009 a 2p per share dividend to our 1,200 shareholders. You have the option of donating this to the CD Producer Partnership Programme (PPP). This year our monies paid into the PPP programme has increased by 9% to 658k, this has been matched by various funding bodies to give a total potential investment of £1.3m. We have also implement for producer partners with the support of TWIN, price risk workshops.

ETH/SC
C1.5

C3.1

Our volume purchases from producers have increased:

Commodity	Volume (tonnes)	Growth
Coffee	2,847	+16%
Tea	957	+ 0.4%
Cocoa	101	+ 98%
Premiums	886	-9%

Despite volumes increasing the total FT premium paid to producers has declined purely due to lower coffee prices.

C1.4

CD is in a good financial state with a strong balance sheet, having no debt, good amount of cash in the bank and core loyal group of customers. Our sales in the Out of home sector mean we do not have to rely on multiple supermarkets where the recession is being felt the most with over 50% of our competitor brands on promotion. Our sales in this supermarket sector are down by 4%. We are also managing to forward buy currency which has also been helpful. We have also decided to change our financial year end from September to December. This means our AGM will be in May/June and not to close to Fairtrade Fortnight.

PERF B1

Wolfgang Weinmann

Merlin Preza (General Manager of Prodecoop, Mexico)

CONPT
D2.1
D1.3
ETH/SC

Both networks and cooperatives have been key to FT working.

FT is about empowering small holder farmers. CD helps to build capacity and community via its PPP programme which is supported and implemented by TWIN. We benefit from confidence of direct relationships and we are partners and not mere suppliers, it is a two way relationship. I can say that;	C1.5 D1.1 D1.1 D1.2
"True partnership produces true quality of life that produces good environment. FT stimulates high quality craftsmanship in coffee production and delivers economic, social and environmental sustainability"	D1.4
A key part of FT for our organisation has been women's empowerment. We have developed alternative income projects for women and have promoted women into management positions within our coffee cooperative. The quality of life is more than just the FT price, it is the premium as well and the PPP which enables our members to send their children to school and university, support organic production and provide financial support to our most vulnerable producers who are suffering from medical problems. There is family support behind each cup of coffee.	C1.3 C1.5 D1.3 CONPT D1.3
Roger Sima (MD) of Mpanga Uganda.	D1.1
Producer group with 615 farmers in Western Uganda. FT premiums has brought many benefits to our communities including; health care clinics, schools, clean water supplies, quality improvement in our tea, health and safety training, waste management etc. Our relationship with CD is a true long term partnership, even when we are having problems CD are their to support our group.	ETH/SC C3.1 C3.1
Angel Colombino Chalas (Chairmen of Fedecares, Dominican Republic)	
Also talked about CD making a big difference. CD provides vision and hard work and support when times are difficult. During Hurricane George in 1998 80% of our member's farms were destroyed. CD provided financial assistance to rebuild our farms and provided pre-finance to export our first here containers of production after the hurricane.	C1.5 D1.3 C1.2
David McCullough (from Guardian Share Company from original founder members)	D1.1
As guardians we are very pleased to see the increase of 9% in funds directed towards the PPP. Also great to see Cafedirect winning 8 awards for product quality. CD is not only FT but CD is distinctive as a business and that will be the key to competing in the future. It is important for producers that CD maintains its distinctiveness. Guardians believe it is the Gold standard that makes the difference (memo to myself here, implying FT is generic but CD is more than FT mark and is indicating there is something distinctive about the business itself). 50% of profits are	C3.1 C1.5 C1.2 C1.5

used to build partnerships with growers and that is why it is unique.	
Raymond Kimaro (General Manager at KMCU)	
KNCU has loyal farmers at its heart and it is the oldest coop Africa lasting 75 years. It has provided resistance to the conventional market system where the middlemen were cheating farmers. `Working with TWIN has helped us to build export capacity and with CD they have always helped KNCU through difficult times. They are always ready to listen to producers and come out and help as a big team with spirit and solidarity. They have facilitated the empowerment of producers via the PPP programme and we have been able to work on an ongoing improvement in quality, support the conversion of farms to organic certification and provide market knowledge and access for producers. TWIN are now even supporting our tourism project. A very important recent project has been the climate change programme funded by CD to help farmers manage in times of climate change. This is a very big issue for farmers as they just don't understand what is going on.	**C2.2** **C3.2** **C3.1** **C1.5** **C3.1**
Other Comments made in Questions	
Our out of home sales are growing via local authorities, hospitals, workplaces and higher education establishments.	**C3.3** **D2.1**
CD has revised their international strategy to provide more focus on the UK market. We will be mainly working going forward in countries where are producers are based to try and add value for farmers.	**B2.3**
We now have 17,000 friends of Cafedirect signed up on line and we need to mobilise this group. Our difference is our Gold standard PPP programme, our partnerships with farmers, our premiums and prices.	**PERF** **ETH/SC** **C1.2**
CD is a pioneer and the current failure of the current economic system means that organisations like CD are needed more than ever.	**B2.3**
We are going to strengthen our position in hot chocolate by increasing the range of products and we are also looking at other cocoa based products.	**B3**

APPENIDIX 4a CODED INTERVIEW TRANSCRIPT (first phase interview)

Interview with Multiple Supermarket B (first phase interview)
19th April 2006
Venue: Head Office

The key informant is Trading Manager for confectionery, hot beverages plus wines. He has been employed by this multiple supermarket for 17 years and has been Trading Manager for 7 years.

Interview Transcript	**Coding**
INTERVIEWEE *What were the main reasons for stocking Day Chocolate Company products in the first place?*	
INT_DAVID I think the efforts behind it. I said to you before you know it was something really that we hadn't got into but it was something that we felt that we should do and certainly from our customer profile, you know it has worked well.	**ETH/SC** **C3.3** **C3.1**
INTERVIEWEE *And then now obviously they have been in the business for a number of years, how do the products Divine and Cafedirect perform if at all?*	
INT_DAVID Well they are selling very well and I think the quality of both the coffee and the chocolate which has come through has been acceptable, you always do wonder when you bring new products on like that, you know what the reaction is that's going to be of the public, but yeah we've done very, very well with them, very pleased with sales on and off promotion, and that's usually a good sign. I mean if it is selling off promotion and you're not having to give it away all the time, then it's doing well, and I am very please with both these fair trade categories. I mean we've done the Fairtrade Fortnight very successfully and it has grown over the last two or three years that we've done it. Yes taste is very good I mean there is no problem, the quality of the chocolate is very good, Cafedirect's roast and ground coffee is excellent. I think in some cases that people expect a cheaper type of chocolate there and I think they're very pleasantly surprised I think when they actually do taste it to taste what good quality it is it develops repeat purchase. Branding of both companies is also good; you know as far as the packaging is concerned, I think both products are eye catching.	**PERF/B1** **PERF/B1** **PERF/B3.6** **PERF/B1.2** **PERF/B3.6** **PERF/B3.5** **B3.4**
INTERVIEWEE *Good, OK. How do the specific products perform in terms of*	

sales figures?	
INT_DAVID	
Those figures, I really can't give you at this stage. I mean we do very well on, I would say probably in the chocolate category itself, the dark chocolate is the better seller with us because there's a double line with dark chocolate, you can either eat it or use it in the cooking and we've found that a lot of recipes are using dark chocolate and it's followed by milk and then other flavours, but certainly Divine dark chocolate within the category is the best seller.	**PERF/B1.1** **PERF/B1.1**
INTERVIEWEE *And so Dark Divine would out perform Dairy Milk?*	
INT_DAVID Yes	
INTERVIEWEE *And how would the performance say of Dark Divine compare with other plain chocolates within your category?*	
INT_DAVID Well again, if you look at Lindt as a comparison and I believe that the 70% dark is the better seller with us, we have also found that with Green and Blacks as well, we've taken on different types of flavours from Green and Blacks but the dark followed by the milk, I mean it's actually running at the same as the Day Chocolate Dark Divine.	**PERF/B1.1**
INTERVIEWEE *And if you were to compare, you don't have to give me the kind of precise information if you don't have it to hand, but if you compare dark with Divine against dark Green and Blacks and dark Lindt, how would those stack up do you think?*	
INT_DAVID In percentage of sales?	
INTERVIEWEE Yes	
INT_DAVID I would probably think that they're all on a par with the category; I don't know, probably about 65, 60 to 65% of what we're selling. It's very difficult really not to have the figures in front of me. In the block chocolate section, I would say at the moment they're doing a lot better than some mainstream competitors. There's been a lot of block confectionary coming out in the likes of Cadbury's and there's been a lot of hit and miss as far as launches are concerned, there has been a lot of innovation, mainly from Cadbury's, that there's been a lot of	**PERF/B1**

limited type of blocks coming through from Nestlé, so yeah I would say from the launch of what they've done with Day Chocolate you know, it has been very, very successful. Some of the ones that we've brought in from Cadbury's and Rowntrees have been very, very short lived.	**PERF/B1**
INTERVIEWEE *Also what about Cafedirect in coffee and tea?*	
INT_DAVID They are also doing very well, I mean everything that we've done with Fairtrade, the teas and the coffees have done very well. Tea Direct does very well in our network of stores and is in fact now one of our top tea brands we stock.	**PERF/B1** **B1.4**
INTERVIEWEE *What is the distribution of Day Chocolate and Cafdirect products in your store network?*	
INT_DAVID It's probably in most cases it's going to be 100%. We are on a programme at the moment, we've got a new category manager who's started, we are looking at more stocks and suggested stocks but at the moment with the work that we've done with Fairtrade before now it is 100% distribution. Some of the smaller stores might be in and out of stock but I mean I'm not too worried about that, the main stores have got the full distribution.	**PERF/B1**
INTERVIEWEE *And how is that decided?*	
INT_DAVID Through me	
INTERVIEWEE *What criteria do you use David?*	
INT_DAVID Well again if it's selling I will implement full distribution. We get strong sales of FT products in particular locations such as Garstang and Preston because they are fair trade towns and the products get strong support and the fair trade awareness is high in these places. Both companies also provide good support and I think the Fairtrade fortnight has gone from strength to strength, there's a lot more publicity coming through from local press, I probably think more local than national but you don't really seem to see too much awareness through national press and I do think there's a wider audience to target out there. Both companies have also been supportive in terms of promotions in store.	**PERF/B1** **CONPT/D4.1** **INDS/IMP-A4.1** **INDS/IMP-A6**

INTERVIEWEE *What has been Day Chocolate's and Cafedirect's impacts on their respective markets, if any at all?* **INT_DAVID**	
Firstly, Day Chocolate has had a big impact on Fairtrade in the retail sector through its influence on the Co-op. I think from the Co-op coming in on their own label, it has you know, created awareness, certainly from the advertising that they've done on television, it has raised the awareness there's no doubt about that.	**INDS/IMP-A2**
Obviously Day have been key in that conversion to Fair trade own label chocolate. Cafedirect was a real pioneer and has really developed a mainstream position in supermarkets. I think when you're looking around at the consumers now	**PERF/B2**
there's people starting to talk more about it and I think even seeing it on television, the one thing that came back into our office was, did you see that Fairtrade is being advertised by the Co-op and it is word of mouth and I think in a lot of cases but the problem is to get people to try the quality of the	**INDS/IMP A2**
chocolate and the coffee because I think if they do try it then you know, they will get into it, there's no doubt about it because it's not cut corners, the quality of the chocolate is very good but you've still got that consumer who likes Cadbury's and won't buy anything else than Cadbury's. May be sometimes it should be more of a sampling type of tool that could be used in actually getting people to do this. I mean the Fairtrade fortnight in some cases, I mean if we had small blocks of chocolate which we could give out to consumers, I think it's just a matter of giving trial. I mean it's nice to sit down with a brands that you've seen naturally coming through from the start and seeing the development of the brand and I think it's always good that you know, you're not always concentrating on mainstream brands, the Cadbury's and as I say they've got the following but it's nice to bring a brand through that you feel you are doing some good with the world about. **INTERVIEWEE** *Any other impacts?* **INT_DAVID**	**PERF/B3.3**
I think it's had a big impact because you know, a few years ago, seeing any pie charts that were coming through from suppliers, the likes of Green and Black's, Day Chocolate was not actually shown of these and now that you are seeing them, you know appearing on these stats, it certainly makes the people, I'll give you a typical example of what has just	**PERF/B1**
happened, now with Cadbury's you know with Green and Black, don't have as good an effect as what going to happen with the product yet, who's going to be actually handling it, but Cadbury's must be very, very aware that there is a big market	**INDS/IMP-A1**

for this out there and they are suffering where their ordinary lines because of it. So yeah I think there's been a great impact as far as the industry is concerned. It's shaking up I mean the industry as far as chocolate confectionary is concerned, I've got to say is very stale and there's very little innovation coming through, everything that seems to come through has been tried or tested at some stage and there's been a lot of pretty poor launches over the last 5 or 6 years and so I think anything like this, you know to take it forward is great, as far as our company is concerned anyway.	**INDS/IMP-A7**
INTERVIEWEE *And so in terms of what Day and Cafedirect do, how do they manage to compete, if at all?*	
INT_DAVID I think it's behind the name, behind the brand name at the moment and the market consumers are buying into fair trade. Consumers trust the products; both brands have many supporters in fair trade towns and the products taste good.	**CONSIST-E1.2** **CONPT-D4.1** **A4.1** **PERF/B3.6**
INTERVIEWEE *And final question, in your opinion what resources do Day and Cafedirect use to compete?*	
INT_DAVID I think the ethics behind both companies, again I keep coming back to that is what makes the quality different and as I say the consumers do feel that they are doing something for the world outside.	**ETH/SC-C3.2**
INTERVIEWEE *And that comment about ethics what particularly about Day and Cafedirect?*	
INT_DAVID I think going back to the farmers and the countries where it's coming from that they feel that they are giving a fair trade, you know a fair wage out to the people who are actually producing it. These strong relationships give credibility to both companies. Both companies go beyond the fair trade standards	**CONPT/D1.1** **ETH/SC-C1.3** **E2.1**

APPENIDIX 4b CODED INTERVIEW TRANSCRIPT (main phase interview)

Managing Director of Fairtrade Ethical Distributor, 10th July 2008
Interviewer: Bob Doherty
Interviewee: Managing Director for 12 years
Alternative Trade Organisation distributing both their own branded products and the brands of Cafedirect and Divine to the whole food sector. They are sole distributors of Divine into this sector.

The interview is part of a wider study funded by DFID called the Fairtrade Monitoring and Evaluation Project. Due to the informant's unique knowledge regarding Divine and Cafedirect.

Interview Transcript	Coding
BD: *What do you think are the main reasons that retailers are stocking Divine Chocolate and Cafedirect?*	
AG: In our sector I think both products are clearly branded as mainstream, they taste good and because Divine is a farmer owned proposition and Cafedirect have developed the gold standard commitment to producers. I suspect that's well known and I think because people know about it and like the branding and the products are good.	**PERF/B2.2 PERF/B3.6 ETH/SC-C1.6 ETH/SC-C1.2**
BD: Do you think people understand what the branding stands for?	
AG: I think the branding communicates this, this is my perception that it's innovative, it's younger, it's important. Above all it's about quality and respecting relationships with the Farmers. A quality relationship with Farmers.	**CONPT-D1.2**
BD: Quality relationship meaning?	
AG: The Fairtrade branding is also about the communications message. The best Fairtrade in my perspective which is a much broader theme than if we pay a bit more money for your cocoa beans. I think that is the simplistic message.	**B2.2 C1.2**
BD: *And then now obviously they have been in the business for a number of years, how do the products Divine and Cafedirect perform if at all?*	
AG: Both perform well they are good quality mainstream products which are clearly Fairtrade branded. We are a founder member of Cafedirect and it's our leading product in terms of value and volume. It is a quality well established brand. Divine performs well; Divine outperforms the whole food wholesale sector. Though the sector is stagnant Divine is growing at 23%.	**PERF-B3.3** **PERF-B1**

In particular in our sector it's competing against Green & Blacks and Green & Blacks is organic and so actually considering it's not organic it does extraordinarily well. Farmer ownership comes out of the communications message for Divine. They are excellent at PR.	**ETH/SC-C2** **PERF-B1.5**
BD: *To what extent do you feel that Divine and Cafedirect have been successful in achieving distribution of its product within the UK?*	
AG: There's a hell of a lot of chocolate and coffee out there, awful lot of places to sell it. They have done well, particularly Cafedirect in supermarkets, Divine also but needs to get all the range if it can into supermarkets. It is great that both Cafedirect and Divine are in Tescos.	**PERF-B1**
BD: *What has been Divine Chocolate's and Cafedirect's impacts on their respective markets, if any at all?*	
AG: UK Retailers: Well I would say both have made a significant impact on UK supermarket retailers and therefore both have had a real influence on the development of Fairtrade in the UK. Cafedirect is the pioneer in taking fair trade into the mainstream. Divine's work with the Coop has been very important. It has opened the door to everybody across that market; even if the Co-op was only 4% of the UK grocery market other people do look to the Co-op now as an ethical benchmark. It is not particularly as a sales benchmark but as an ethical benchmark and in that respect that's important. Divine has had a major role in that. I think both companies have played a major role in terms of their product supply chain expertise; they are an influence in the market place as an active voice. So whether it's just multiples retailers, whether it's in terms of quality groups, policy issues or whether it's in terms of broader development of Fair trade I think both Divine and Cafedirect have made a significant impact. Also, you tell me why Green & Blacks were bought by Cadbury's? It wasn't for the fact that the chocolate market is increasingly ethical and has a bit of competition going on with at least a couple of brands and that is seen as a growth area and that it gives a branded marking to Cadburys. They have a stake now in the UK FT chocolate market and they can learn how FT works, so yes both companies have been influential. I think both Cafedirect and Divine have contributed much to the fair trade movement. They have shown leadership and support which gives depth and rigour to the movement.	**INDS/IMP-A2** **INDS/IMP-A6** **INDS/IMP-A2.1** **A8** **INDS/IMP-A1** **B2.3**
BD: And so in terms of what Day and Cafedirect do, how do they manage to compete, if at all?	
AG: There's a kind of rigour in their positions, which is I think is vital; I think that it is really important to have rigour. Divine is a farmer owned proposition which is key in our sector. It is also	**ETH/SC-C1.6**

important that fair trade is a clear part of the product brand. The Cafedirect gold standard commitment which is above the fair trade requirements really enables Cafedirect to differentiate itself and this is what appeals to consumers and customers. I think people appreciate if you like the integrity and this is something of real value. The branding of both companies is strong and the public relations is in depth around fair trade and farmer issues which is good. Also the product taste, quality of packaging and marketing communications of both companies are excellent. Also the service levels are good, Cafedirect is nearly 100% service level, Divine good but do have a problem sometimes with seasonal products. *BD: And final question, in your opinion what resources do Divine and Cafedirect use to compete?* AG: I think both companies have got strong integrity. Firstly, Cafedirect's gold standard commitment which is above the fair trade requirements really enables Cafedirect to differentiate itself and this is what appeals to consumers and customers. They have also demonstrated excellent supply chain management. It has got quality relationships with over 30 producer groups around the world. They all feel part of Cafedirect, they spend a lot of time with producers investing and building their capacity. It is also important that both companies are 100% fair trade again this provides enormous integrity. Divine is all about quality and respecting relationships with farmers, in fact a quality relationship with farmers. Divine has given farmers a real voice and has real integrity and consumers trust Divine due to their ethical behaviour. These resources become more important as the fair trade develops and grows. We ought to be planning our differentiation now because in a year's time you are going to have a major brand coming out with fair trade products. You're not telling me that there won't be other major brands, and so Fairtrade companies have got to differentiate themselves. Farmer gives you a head start. BD: Thank you very much.	**C1.1 C1.2 CONSIST- E2.2 PERF- B2.2 B3.4, B3.6, CONSIST- E2.2 CONPT- D1.2 CONPT- D1.1 CONSIST- E1 E2.2 CONPT- D1.2 E1.2**

APPENDIX 5 DATA DISPLAY MATRIX- IMPACT AND PERFORMANCE OF DIVINE FROM MAIN PHASE INTERVIEWS (SOURCE: CODED INTERVIEW TRANSCRIPTS)

Research Questions

Informants	**Performance**	**Impact**
Multiple Supermarket Representatives		
Confectionery buyer at multiple supermarket D	*"Out of the 69 bars of chocolate it is actually about half way in terms of the block market in composite ranking and that's completely driven by the fact that it has a really loyal buyer. So loyalty is actually, out of 69 bars, they claim like 30 in terms of loyalty so it has got a high loyal buyer"*	*"Divine have proved that you can actually do fair trade at an affordable price so then therefore why shouldn't companies like Nestle, Mars and Cadburys, I would say we receive over 30 letters each week from customers asking why major brands are not fair trade"*
Confectionery buyer at Multiple supermarket E	*"Divine sells well in our estate on a volume basis if you compare it to its peers"*	*"Success of Divine means more suppliers are talking to me about fair trade, even the major brands. Probably why Cadburys bought Green and Blacks"*
CSR Manager at Multiple supermarket E	*"Fair trade sells very well with our demographic profile"*	*"Success of fair trade products like Divine and Cafedirect has made us look at own label fair trade products"*
CSR Manager at Multiple supermarket A	*" Growth has been beyond our expectations, really provided a strong business case"*	*" The commercial success of fair trade chocolate was the catalyst for converting our coffee and tea ranges to fair trade"*
Head of Fairtrade Marketing at supermarket A	*"Divine brands and own label products are in demand from our customers. It provides our membership with a great campaign story"*	*" I am convinced our own success on fair trade has made other retailers develop their own label fair trade offering"*
Chief Executive of supermarket A	*"Growth has been very impressive in fair trade chocolate"*	*" Our relationship with Divine is the kind of own label supplier model relationship, I use it as an example in my own presentations"*

Wholesale channel Representatives		
Wholesaler A Trading Manager (supply vending machines in schools and other public sector customers)	*" They perform, very well, in vending machines in schools, colleges, public authorities they are my top products"*	*" Massive impact in education establishments and local authorities, we receive phone calls every day from customers wanting to stock Divine and Dubble"*
Wholesaler B Trading Manager (national wholesaler to independent newsagents)	*"Divine under performs in our business Fairtrade is currently a niche. Our customers face limited space and stock limited ranges. Don't stock FT".*	*"FT will become more of a feature in the future. Independent sector lags behind supermarkets by several years"*
Wholesaler C Trading Manager (large regional wholesaler supplying both public sector and independent newsagents)	*"Divine performs with public authorities and schools but less well in independent newsagents"*	*" Big impact on young consumers and public authorities in this area"*
Wholesaler D Managing Director (national supplier to higher education establishments including student unions)	*"Divine performs very well as a quality brand offering volume sales".*	*"Very strong impact on young people, universities are a very strong buyer of Divine, Dubble and Cafedirect".*

Senior Executives in Ethical Sector		
Managing Director of Fairtrade ethical distributor (national distributor)	*"Divine performs well; Divine outperforms the whole food wholesale sector. Though sector is stagnant Divine is growing at 23%"*	*"Influential along with Cafedirect in taking fair trade into the mainstream market"*
Marketing Manager of FT/ethical wholesaler (national wholesaler with network of fair trade agents)	*"Excellent growth and it helps our FT agents sell more fair trade products"*	*" Divine have been very supportive with regard to political advocacy work on trade justice"*
Trading manager for ethical retailer (national chain of 750 high street shops)	*" Both fair trade brands Cafedirect and Divine perform very well on sales in our shops"*	*" Both brands have had big impact in the mainstream and also now on mainstream companies themselves"*
Trading manager for Coffee shop chain	"We sell about 750,000 units of fair trade chocolate a year which is very good"	*"Divine have had an interesting impact on our business. As a result we have the opportunity to network and discuss relevant FT issues with other UK licensees. We also get a heads up on FT Foundation campaigns e.g. Fairtrade fortnight and are given the opportunity to input to plans and participate in promotional activity. It has given us the opportunity to engage with the Fairtrade Community and being a part of this broad group is healthy and provides us with the opportunity to understand and contribute to the fair trade debate"*
Department Store trading manager	*" Divine did not perform in this format"*	*" Our stores are the most price competitive with 400g bars selling for a lower price and heavy branded promotions"*

Market Analysts		
Market Analyst A (ethical writer)	*"Both Cafedirect and Divine have done well in supermarkets but not yet in newsagents"*	*"Some influence on changing mainstream practice but not quite mainstream yet as you cannot purchase in newsagents"*
Market Analyst B (ethical writer)	*"I have seen both brands more frequently in shops more often in the past 12 months so must be doing something well. My preference is for organic"*	*" Divine has had a big impact on the Co-op"*
Market Analyst C (confectionery journalist)	*"Divine is increasing its distribution and the size of its product range so developing well"*	*"Divine and has done a great deal to raise awareness for Fairtrade chocolate in the UK. Big influence on retailers particularly the Co-op"*
Market Analyst D (consumer journalist)	*"Done very well I would never buy a bar of Cadburys now"*	*" done very well on press coverage"*
Market Analyst E (young persons magazine editor)	*"Excellent job at raising awareness of fair trade with young people, particularly our readers"*	*"Big impact on schools and colleges"*
Competitors		
Competitor A	*" Both brands Cafedirect and Divine have done a great job in distribution in the mainstream,*	*"Retailers are now asking us for fair trade products"*
Competitor B	*"Done an excellent job regarding distribution in a short space of time"*	*"Frankly provided a mirror image for ourselves and have been a key catalyst in our move to fair trade. That is why our chief executive invited Divine to Berkley Square in the year 2000."*

Partner Organisations		
Partner A (Tea producer cooperative in Uganda)	*"Done an excellent job with Kuapa Kokoo in developing innovative model"*	*"Divine has meant the farmer is nearer to the consumer, ownership bridges the gap for the farmer, KK has shown how we can rise-up to the next level"*
Partner B (Founder member of global Fairtrade company)	*"Divine should feel real pride it has learned how to make a fair trade brand successful in one of the worlds most advanced retail environments"*	*"Divine has paved the way for the next generation of fair trade-farmer owned brands that enable farmer organisations to be owners of consumer brands. Since this is where the majority of the margin in the chain is concentrated, this is a very important step beyond selling raw commodities. This is a great boost for cocoa farmers and other farmer. I must say both Divine and Cafedirect have paved the way for the launch of both AgroFair UK (Fruit) and Liberation (Fairtrade nut company)"*
Trade Associations		
Trade Association A	*" Divine has done an excellent job in communicating the message of fair trade"*	*" Been very pro-active in influencing our members regarding supply chain management"*
Newsagent Buying Group Head	*"Never been asked for FT or Divine products".*	*"FT has low awareness in our customer base".*

APPENDIX SIX DATA DISPLAY MATRIX- IMPACT AND PERFORMANCE OF CAFEDIRECT FROM MAIN PHASE INTERVIEWS (SOURCE: CODED INTERVIEW TRANSCRIPTS)

Research Questions

Informants	Performance	Impact
Multiple Supermarket Representatives		
Hot Beverage buyer at multiple supermarket D	*"Cafedirect performs very well in our stores, particularly the roast and ground"*	*" The original fair trade pioneer therefore has had a big impact in this sector"*
Hot Beverage buyer at Multiple supermarket E	*"The Cafedirect range is very popular and Teadirect is also growing steadily"*	*" Certainly the other manufacturers are looking at ethical brands now"*
CSR Manager at Multiple supermarket E	*" Cafedirect is our number one fair trade brand at present"*	*"Success of Cafedirect has made us look at our own label coffee range closely. They are helping us with the supply chain"*
CSR Manager at Multiple supermarket A	*"Cafedirect has excellent distribution throughout our store network and shows good sales both in coffee and tea"*	*"We now have our own label fair trade coffee range which is partly down to the success of both Cafedirect and Divine"*
Head of Fairtrade Marketing at supermarket A	*"Excellent brand which has shown everyone in the coffee market that fair trade can be a commercial success. In fact Nestle Partners blend has not worked in our stores, we have recently delisted this product which shows consumers did not trust this product"*	*" The knowledge and expertise demonstrated by Cafedirect and others as made us look at our own supply chain very closely, big impact on the way we do business"*
Chief Executive of supermarket A	*" It is now a very well established brand and one of leading hot beverage companies in the UK, just shows what you can do"*	*"Cafedirect has won a number of awards recently for both product quality and innovation in marketing communication, it is making people sit-up and take notice"*

Wholesale channel Representatives		
Wholesaler B Trading Manager (national wholesaler to independent newsagents)	*"Cafedirect also underperforms in our business, our customers do not ask for this product".*	*"FT will become more of a feature in the future. Independent sector lags behind supermarkets by several years"*
Wholesaler C Trading Manager (large regional wholesaler supplying both public sector and independent newsagents)	*"Cafedirect like Divine also performs with public authorities and schools but less well in independent newsagents. It is our number one fair trade brand"*	*" Big impact on public authorities customers and we sell this brand strongly into student unions"*
Wholesaler D Managing Director (national supplier to higher education establishments including student unions)	*"Cafedirect is our number one fair trade brand, it is a high a quality brand"*	*"Very strong impact on young people, universities are a very strong buyer of Divine, Dubble and Cafedirect".*

Senior Executives in Ethical Sector		
Managing Director of Fairtrade ethical distributor (national distributor in whole food sector for Cafedirect)	*"We are a founder member of Cafedirect and it is our leading product in terms of value and volume. It is a quality well established brand"*	*"Cafedirect is the pioneer in taking fair trade into the mainstream market"*
Marketing Manager of FT/ethical wholesaler (national wholesaler with network of fair trade agents)	*"Cafedirect is our number one product, it is the pioneer brand"*	*" We are a founder member of Cafedirect and its success has been crucial to the whole fair trade concept"*
Trading manager for ethical retailer (national chain of 750 high street shops)	*"Both fair trade brands Cafedirect and Divine perform very well on sales in our shops. Cafedirect is a hero brand in hot beverages"*	*" Both brands have had big impact in the mainstream and also now on mainstream companies themselves"*

Market Analysts		
Market Analyst A (ethical writer)	*"Both Cafedirect and Divine have done well in supermarkets but not yet in newsagents"*	*"Some influence on changing mainstream practice but not quite mainstream yet as you cannot purchase in newsagents"*
Market Analyst B (ethical writer)	*"I have seen both brands more frequently in shops more often in the past 12 months so must be doing something well. My preference is for organic"*	*" Cafedirect has shown that fair trade can work"*
Market Analyst D (consumer journalist)	*"Cafedirect is a great brand, excellent quality which is why it wins award after award"*	*" Excellent media coverage and great story"*
Competitors		
Competitor A	*" Both brands Cafedirect and Divine have done a great job in distribution in the mainstream,*	*"Retailers are now asking us for fair trade products"*
Competitor B	*"Cafedirect is a well established brand now in its own right with an excellent reputation"*	*"Cafedirect is a key part of the fair trade success story."*
Partner Organisations		
Partner B(managing director of coffee cooperative in Tanzania)	*"Working with TWIN and Cafedirect has helped us to build export capacity and with Cafedirect they have always helped KNCU through difficult times. facilitated the empowerment of producers via the PPP"*	*"They are always ready to listen to producers and come out and help as a big team with spirit and solidarity. They have empowered our farmer"*
Trade Associations		
Trade Association B	*" Cafedirect is now one of the leading hot beverage brands against all the odds and has won many awards for product quality"*	*" Been very pro-active in influencing our members regarding supply chain management"*
Newsagent Buying Group Head	*"Never been asked for FT products including Cafedirect".*	*"FT has low awareness in our customer base, needs to advertise on TV".*

APPENDIX 7 DATA DISPLAY MATRIX- RESOURCES THAT ENABLE DIVINE TO COMPETE (SOURCE: CODED MAIN INTERVIEW TRANSCRIPTS)

Informants	Key	Categories		
	Ethical & Social Commitments	Connections with Partners	Consistency of Behaviour	Company & Product Attributes
Multiple Supermarket Representatives				
Confectionery buyer at multiple supermarket D	*" Compared to other chocolates Divine has got a very high loyalty, its got a strong repeat rate of purchase because of the fair trade guarantee "*	*"Divine has got a very loyal fair trade consumer""*	*"All its products are fair trade which is why it has managed to get a position in our Easter chocolate range"*	*"Divine is good quality products with appealing packaging"* *"Service levels are good for a small supplier"*
Confectionery buyer at Multiple supermarket E	*"The fair trade element is the key which appeals to those consumers who want to see companies supporting farmers "*	*"Divine's credible links with producers means consumers are confident in its fair trade guarantee"*	*" Its is a brand you can trust*	*"Quality taste very suitable for our consumers"* *"Excellent marketing communications"*
CSR Manager at Multiple supermarket E	*"The impact and importance of the Fairtrade label mustn't be under estimated and is absolutely critical, there are lots of other products trying to claim ethical credentials but do not have the guarantees of the Fairtrade mark"*	*"The Campaign Divine organised with Christian Aid was key to establishing Divine in our stores"*	*"It is important that all Divine's products are 100% fair trade"*	*"Divine milk matches UK taste profile although this is changing"* *"Good marketing on a small budget"*
CSR Manager at Multiple supermarket A	*" Obviously the FT standards but it is the credible links with producers"*	*"Divine screams credibility which we have been able to utilise in our own marketing communications"*	*"We have built a relationship on more than just money, we are doing something much bigger together*	*"It was important that Divine got the recipe's right. Good service levels also""*
Head of Fairtrade Marketing at supermarket A	*"In the first instance it was the fair trade mark which was key but now it we have established a very strong partnership with Divine right through to the producers"*	*"It is the credible links back to producers which are key for us"*	*"We have strong trust with Divine and Kuapa Kokoo"*	*"Very creative marketing communications"*

Chief Executive of supermarket A	*"I believe the key resources which differentiate both Divine and Cafedirect are their enormous integrity, created by their special relationships with producers. These quality relationships deliver quality products. I have been highlighting this to my management team at every opportunity".*	*"special relationships with producers, they have brought us and the farmers together, our buyers even attended the last KK AGM"*		

Wholesale channel Representatives				
Wholesaler A Trading Manager (supply vending machines in schools and other public sector customers)	*"Excellent fair trade company which Is unique in the way it supports cocoa farmers"*	*"It is the fair trade groups in fair trade schools that are behind the growth"*	*" We have a significant number of customers that do not stock Nestle products and they trust Divine so it goes into their vending machines every time"*	*"Divine and Dubble are a taste that people like"*
Wholesaler B Trading Manager (national wholesaler to independent newsagents)	*"Divine despite being fair trade does not have the muscle to compete in our channels yet, maybe one day"*			*"Our consumers do not appear to be aware"*
Wholesaler C Trading Manager (large regional wholesaler supplying both public sector and independent newsagents)	*"Our customers are coming to us asking for fair trade products, they want to do something good. They understand the far price element"*	*" We understand the links back to the growers and farmer ownership and that that our sales benefit other people"*	*"Divine and Cafedirect have got credibility, if Mars came to me with a fair trade product I would not stock it as I would think they were just trying to cash in"*	*"Both Divine and Cafedirect are good quality products, the combination of fair and ethical products is the reason for the success"*
Wholesaler D Managing Director (national supplier to higher education establishments including student unions)	*"Unique business model that is supportive to farmers"*	*"Excellent links with organisations such as Oxfam which are important to students. Fair trade university network is very important group for Divine"*	*"100% fair trade is very important for our customers. A large percentage of our customers boycott Nestle products"*	*"Our customers like the taste of the products"*

Senior Executives in Ethical Sector				
Managing Director of Fairtrade ethical distributor (national distributor)	*"In our sector its farmer owned proposition is key. It is also important that fair trade is a clear part of the product brand"*	*"Divine is all about quality and respecting relationships with farmers, in fact a quality relationship with farmers. Divine has given farmers a real voice and has real integrity"*	*"Consumers trust Divine due to their ethical behaviour"*	*"It is also important that it is clearly branded and it tastes good. They also have very innovative marketing and public relations""*
Marketing Manager of FT/ethical wholesaler (national wholesaler with network of fair trade agents)	*"Fairtrade and farmer owned is the unique resource"*	*"Divine has developed excellent networks with organisations such as Comic Relief, Christian Aid etc"*	*"A company that you can trust"*	*"Great chocolate!"*
Trading manager for ethical retailer (national chain of 750 high street shops)	*" Divine is one of the fair trade champion brands"*	*" Their links with farmers, Comic Relief and our supporters are important"*	*"Divine is one of the two fair trade hero brands and it only does fair trade products"*	*"The taste is just right for the market, good packaging also"*
Trading manager for Coffee shop chain	*" The fair trade guarantee was key which is very differentiated from mainstream competitors"*	*"Divine has strong and genuine links with farmer cooperatives; we have met some of their partners. Our business has also benefited from these links in terms of engagement with the fair trade community"*		*"Products have an excellent flavour. Divine are also professional company that always provide a speedy response to questions"*
Department Store trading manager	*"Are customers have never shown any interest in fair trade they are just interested in value for money"*			*"Divine is to highly priced, We do not really sell dark Chocolate"*
Market Analysts				
Market Analyst A (ethical writer)	*"Its part ownership by Ghanaian farmers shows its commitment to improving the lives of cocoa farmers"*	*" the connection between you and Cafedirect is important, you are a force for showing new business models can*	*"Every product carrying the fair trade mark is crucially important*	

		work"		
Market Analyst B (ethical writer)	*"Divine is unique because it is fair trade and part owned by cocoa growers"*	*"Divine has made a big impact with specific groups such as ethical consumers, churches, fair trade town groups and young people. Its partnership with the cooperative group is very encouraging"*		*"Important they are good tasting products They match the UK taste"*
Market Analyst C (confectionery journalist)	*"Its crucial it is a fair trade product carrying the fair trade logo, I would never buy Cadburys now"*	*"Divine is the only chocolate company in the UK to be part-owned by cocoa growers, that is what makes Divine really stand out"*		*"Divine has a better taste than Cadburys Dairy milk"*
Market Analyst D (consumer journalist)	*"Dubble is more than just a slab of chocolate. Its also the key which opens up the issues of fair trade and globalisation to children with education packs and a website"*	*"Its support of third world farmers is important. Also impressed with its stocking in the Co-op"*	*"Being 100% fair trade is crucial for its credibility"*	*"Inventive marketing communications, get good media coverage"*
Market Analyst E (young persons magazine editor)	*"Divine is a strong brand and young people understand their commitment to fair trade"*	*"Great work with Comic Relief in schools"*	*"Young people also realise Divine's primary objective is to improve the livelihoods of farmers and not just to make profit. There is a lot of goodwill associated with Divine. The company could do so much if they had access to the same advertising budgets as the big chocolate companies"*	*"Great communications, very good partnership with Comic Relief to provide a different message for young people"*

Competitors				
Competitor A	*" The Fairtrade mark has been key as it gives the consumer confidence in the claims"*	*"Divine, Cafedirect and Fairtrade Foundation have raised the consumers awareness of both development issues and where products come from , this has influenced our own debates internally"*		
Competitor B	*"Divine has been able to compete because of its commitment to the fair trade mark and its links to producers via farmer ownership, this gives consumers confidence and trust"*	*"Its shareholders have all played a key part plus campaign groups"*		*"Quality is good but not enough in this market"*
Partner Organisations				
Partner A (Tea producer cooperative in Uganda)	*"Great model involving farmers in decision making"*			
Trade Associations				
Trade Association A	*" The Fair trade guarantee is key, consumers understand the message of equity"*	*" Made good links with retailers"*	*" 100% fair trade gives you a unique position in confectionery"*	*"Divine are good at getting the fair trade message across"*
Newsagent Buying Group Head	*"Divine does not compete in the independent sector, the wholesalers only stock those products which are advertised on TV, maybe different in more affluent areas I do not know"*			

APPENDIX 8 DATA DISPLAY MATRIX- RESOURCES THAT ENABLE CAFEDIRECT TO COMPETE (SOURCE: CODED MAIN INTERVIEW TRANSCRIPTS)

Informants	**Key**	**Categories**		
	Ethical & Social Commitments	**Connections with Partners**	**Consistency of Behaviour**	**Company & Product Attributes**
Multiple Supermarket Representatives				
Hot Beverage buyer at multiple supermarket D	*"It was the first real pioneer carrying the fair trade mark with excellent credibility "*	*"Great support from campaigners such as Oxfam supporters and would lobby our stores"*	*"All their products are fair trade, real unique company in the hot beverage sector"*	*"Excellent premium products, top seller in our Roast and ground category. Great packaging, very distinctive"*
Hot Beverage buyer at Multiple supermarket E	*"The importance of the fair trade guarantee is key for our customers "*	*"Cafedirect growers have been to meet me and talk about coffee growing and the impact of fair trade made a big impression on the buying team"*	*"A brand you can really trust, so focused on the welfare of coffee and tea growers"*	*" First class premium products with good service delivery""*
CSR Manager at Multiple supermarket E	*"The impact and importance of the Fairtrade label mustn't be under estimated and is absolutely critical, there are lots of other products trying to claim ethical credentials but do not have the guarantees of the Fairtrade mark"*	*"Cafedirect growers came to meet all our commercial team and we could really see and hear the benefits of fair trade"*	*"Cafedirect has raised the ethical bar in coffee and tea and have got a unique reputation"*	*"Good marketing communications combining the producers behind the products and the quality aspects"*
CSR Manager at Multiple supermarket A	*" The fair trade pioneer, its communication of the fair trade mark via quality products has been key"*	*"Cafedirect have got links to over 30 producer groups throughout the world and expert at supply chain management, great relationships with growers"*	*"Their Producer Partnership programme is really ground breaking other companies could learn a lot from this approach"*	*"Cafedirect has played an important role in changing the consumer perception of fair trade taste, quality products""*
Head of Fairtrade Marketing at supermarket A	*" Again like Divine it was the fair trade mark which attracted us to*	*"Producer Partnership programme is very impressive,*	*"The real fair trade pioneer showing a new*	*"Very good quality products, spend a lot of time on*

	Cafedirect, we were the first retailer in the UK to stock in all our stores"	*unique relationships with growers""*	*way of doing ethical business Its is interesting that Nestle partners blend has been delisted in our estate, people did not trust the brand"*	*getting the quality right. Good marketing campaigns at key events"*
Chief Executive of supermarket A	*"I believe the key resources which differentiate both Divine and Cafedirect are their enormous integrity, created by their special relationships with producers. These quality relationships deliver quality products. I have been highlighting this to my management team at every opportunity".*			

Wholesale channel Representatives				
Wholesaler A Trading Manager (supply vending machines in schools and other public sector customers)	*"The first real fair trade brand that has got real strong relationships with growers"*	*"Great support from local authorities, universities etc, its supporters do a great job campaigning"*	*"All products fair trade"*	*"Excellent quality and good product range"*
Wholesaler B Trading Manager (national wholesaler to independent newsagents)	*"I know Cafedirect is fair trade but like Divine is not doing very well in our channel"*			*"Never tried the products"*
Wholesaler C Trading Manager (large regional wholesaler supplying both public sector and independent newsagents)	*"It is our number one fair trade brand, customers trust the product because of their work with many growers"*	*"The Fairtrade town campaign has really created a lot of interest in fair trade in this region. The local politicians have also got behind the campaign"*	*"People want to support Cafedirect they are a company you can trust"*	*"Strong repeat purchase, good packaging formats for this sector, vending packs etc "*
Wholesaler D Managing Director (national supplier to higher education establishments including student unions)	*" Our number one product and students support Cafedirect, its got iconic status"*	*"Very strong sales in fair trade universities"*	*"Its work with growers is excellent, also bring the growers to the UK to get involved in student campaigns"*	*"Product range is premium and the packaging reflects this"*

Senior Executives in Ethical Sector				
Managing Director of Fairtrade ethical distributor (national distributor)	*"The Cafedirect gold standard commitment which is above the fair trade requirements really enable Cafedirect to differentiate itself and this is what appeals to consumers and customers "*	*"Cafedirect has got excellent supply chain management. It has got quality relationships with over 30 producer groups around the world. They all feel part of Cafedirect, they spend a lot of time with producers investing and building their capacity"*	*" Again like Divine they are 100% plus and have enormous integrity"*	*"Cafedirect is our number one fair trade product. They are excellent quality products and have have a great brand story with the quality and gold standard"*
Marketing Manager of FT/ethical wholesaler (national wholesaler with network of fair trade agents)	*"The work on the Producer Partnership programme is key for us"*	*"Excellent relationships with growers, Twin Trading has played a key role here"*	*"Innovators in their work with growers over many years, really raised the bar"*	*"Good reputation for quality, changed people's perceptions of fair trade products"*
Trading manager for ethical retailer (national chain of 750 high street shops)	*" A real champion brand, our product of choice, excellent work with coffee farmers"*	*" The brand has got enormous support from the public, people trust the company"*	*"It is the real gold standard, They pay above the fair trade price and need to make more of this"*	*"Real quality range with good approach to marketing"*

Market Analysts				
Market Analyst A (ethical writer)	*"Taken fair trade into the mainstream, excellent relationships with growers"*	*"A real hero brand for ethical consumers"*	*"Its gold standard programme is excellent, need to make more of this"*	
Market Analyst B (ethical writer)	*"Fair trade mark is crucial wish more products were organic"*	*" Great support from supporters, Oxfam, Christian Aid etc"*	*"100% fair trade important"*	
Market Analyst D (consumer journalist)	*"Great story, company you can trust, committed to farmers"*	*" Strong relationships with founder members and growers"*	*"Gold standard just says it all, you can trust Cafedirect"*	*"Excellent packaging and good approach to public relations"*
Competitors				
Competitor A	*" Excellent work directly with growers and the fair trade mark has been key"*	*"Divine, Cafedirect and Fairtrade Foundation have raised the consumers awareness of both development issues and where products come from , this has influenced our own debates internally"*		
Competitor B	*"Made sure people take fair trade seriously, gold standard shows their links with growers"*	*"Best case example of how to work with farmers"*	*"Gold standard is a real commitment"*	*"Products also needed to be quality and they are"*
Cafedirect				
Senior Executive	*"The key strength identified was our relationships with producers which demonstrated our values and integrity. The research showed that our stakeholders want us to shout about these relationships"*			*"Our product quality Has been important to Shift the taste expectation Of fair trade products"*
Partner Organisations				
Partner B (Managing director of coffee cooperative in Tanzania)	*"They are always ready to listen to producers and come out and help as a big team with spirit and*	*"The work of Twin in partnership with Cafedirect has been very important. are now even*	*"They have facilitated the empowerment of producers via the PPP*	*"We provide Cafedirect With the best quality beans"*

	solidarity"	*supporting our tourism project. A very important recent project has been the climate change programme funded by Cafedirect to help farmers manage in times of climate change. This is a very big issue for farmers as they just don't understand what is going on"*	*programme and we have been able to work on an ongoing improvement in quality, support"*	
Trade Associations				
Trade Association A	*" Their commitment to farmers has been noticed by many of its competitors"*	*" Strong relationships with farmers"*	*"Producer partnership Programme is what makes them unique"*	
Newsagent Buying Group Head	*"There is low awareness of the fair trade mark in this sector"*			

APPENDIX 9 PRESENTATIONS AT CONFERENCES AND WORKSHOPS

Doherty, B. (2008), The Mainstreaming of Fair Trade: case studies of Divine Chocolate and Cafedirect, presentation at the European Commission Leonardo da Vinci Conference on Social Entrepreneurship, Ljubljana, Slovenia, 19th September, 2008

Doherty, B. (2008), 'The Competitive Resources of Fair Trade Social Enterprises', *presentation to Middlesex University Business School for Welcoming Visiting Research Fellow Lecture*, October 29th, 2008.

Doherty, B. (2009), ' How do Fair Trade Social Enterprises Compete', paper presented at the *ESRC Uniting Research, Policy and Practice in Fair Trade Fair Trade Knowledge Exchange Workshop* at The Centre for Business Relationships Accountability, Sustainability and Society at Cardiff University, April 20th 2009.

Doherty, B. (2009), 'Resource Advantage Theory and Fair Trade Social Enterprises', *presented at the Faculty of Business and Law, Annual Research Conference,* Liverpool, 20th May, 2009.