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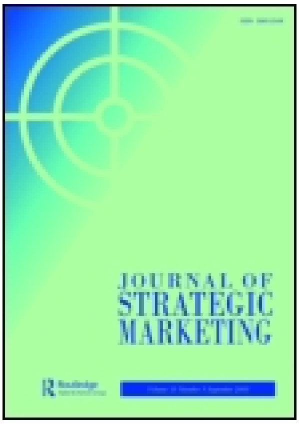

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Resource advantage theory and fair trade social enterprises

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This paper will investigate 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 K.A. Eisenhardt's approach to building theory from multiple case studies, this four-year study aims to identify the resources that enable FT social enterprises to compete. This research draws on recent developments in competition theory such as resource advantage theory (R-A theory), termed a general theory of competition. The paper 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 R-A theory. S.D. Hunt and C. Derozier argue that 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. 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.

Keywords: fair trade; resource advantage theory; social enterprise; social resources

Introduction

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 & Matten, 2007; Low & Davenport, 2005a; Moore, 2004; Nicholls, 2009). In 2008, UK sales of fair trade (FT) products have grown to £700m at retail value, a growth of 46% on 2007 (Fairtrade Foundation, 2008; Mesure & Bloomfield, 2008). It is worth noting that UK fair trade sales in 1999 totalled £16m. A number of authors (Golding & Peattie, 2005; Low & Davenport, 2005a, 2005b; Nicholls & 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 companies Cafédirect and Divine (Nicholls & 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 & Defourny, 2008; Nicholls, 2006; Westall, 2001). In fact, Divine was awarded the prize for best UK social enterprise (SE) of the year at the Enterprise Solutions awards 2007 (Purvis, 2007). Huybrechts and Defourny (2008) propose that FT's core

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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 (FTOs).

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 & Defourny, 2008). Low 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 has 45% share ownership in Divine (Wiggins, 2007).

The aim of this paper is to examine critically how FT social enterprises can compete in sectors dominated by larger rivals. This research will aim to analyse both the impact and performance of the case organisations and 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 their respective markets. This research aims to contribute to R-A theory developed by Shelby Hunt and Robert Morgan (Hunt, 2001; Hunt & Morgan, 1995). 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 & Morgan, 1995; Vargo & 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 SE, sustainable development, corporate social responsibility (CSR), business ethics and FT (Crane & Matten, 2007; Golding & Peattie, 2005; Hart & Milstein, 2003; Lafferty, Goldsmith, & Newell, 2002; Meehan, Meehan, & Richards, 2006; Nicholls & Opal, 2005; Schwartz & Carroll, 2003). Therefore, this research will take FT and look at this through the new lens of R-A theory to try and explain the progress of both Divine and Cafédirect.

The justification for this study is that according to Nicholls and Opal (2005) 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. Importantly Hunt and Derozier (2004) argue that R-A theory can ground theories of business and marketing strategy. 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. Overall this paper falls into several sections. Firstly the paper will provide a brief review of the literature associated with the mainstreaming of FT and then move on to review the literature regarding the general theory of competition, namely, R-A theory and its intellectual foundations (Hunt, 2001; Hunt & Morgan, 1995). 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. Secondly, the paper will consider the research methodology for this study. Thirdly, the paper will then present and analyse the two case studies and critically evaluate which distinctive resources help explain their competitive success. The final section will provide a set of conclusions about the research. Important consideration will be given to the development of the concept of 'social resources' and its components.

Literature review

Fair trade in the mainstream

For the purpose of this paper this review will focus on the mainstreaming of FT (for a review of the literature associated with the emergence, philosophy and mechanism of FT, please see Barratt Brown, 1993, 2007; Crane & Matten, 2007; Low & Davenport, 2005a, 2005b; Moore, 2004; Nicholls, 2009; Nicholls & Opal, 2005; Strong, 1996, 1997).

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; Page & 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). Low and Davenport (2005b) 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. (Low & Davenport, 2005b, p. 499)

The FT 'movement' or 'sector' is evolving rapidly, both in terms of sales and of public awareness. FT has become one of the major initiatives using (and adapting) market mechanisms to pursue a social purpose, that is, poverty alleviation for small-scale producers in the South (Moore, 2004; Raynolds, Murray, & Wilkinson, 2007). 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 co-operatives in southern production.

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's, Tesco, Asda, Co-operative Food Group and WM Morrisons) even having their own-label FT products (Nicholls & Opal, 2005). Both Tesco and the Co-operative Food group (CF) have published their strategic aim to be the UK's leading FT retailer (Co-operative Food, 2000; Tesco, 2004). 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). In addition, in 2007 Sainsbury's launched their own FT Development Fund, which commits £1m over four years to support marginalised producers enter the FT system (Fairtrade Foundation, 2008).

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). 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. Table 1 shows the retail sales by value and the percentage growth rates of the key FT food and drinks product categories from 2006–2008.

FT has three interlinked aims, which are achieved via a market driven commercial model, rather than a charity or developmental aid mechanism (Nicholls & 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) to support a wider campaign for global trade reform and trade justice to counteract exploitative modes of production which prioritise downstream actors.

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 & 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. The importance of networks in FT is also supported by a recent paper by Davies (2009). 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). Nicholls (2009) appears to agree and 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. Mann (2008) suggests 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, Gibbon, and Slack (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. However academic research so far carried out in the strategic management and marketing of FT does not appear to be grounded in a theory of competition (Davies & Crane, 2003; Golding & Peattie, 2005; Low & Davenport, 2005a, 2005b; Nicholls, 2002, 2006; Strong, 1996, 1997; Welford, Meaton, & Young, 2003).

Another indication of growing consumer engagement with FT has been the emergence of certified community groups supporting the FT model. Since the first FT town certification in 2000, 340 FT towns have been certified across the UK, alongside 4000 FT faith groups and 2000 FT schools (Lamb, 2008). 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 Foundation, 2009). 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). According to Low and Davenport (2005b) FT certified communities are examples of the 'alternative high street'; this is where social action and ethical based consumption are combined together, and can exist in virtual or physical space, thus providing a way to protect the integrity of FT while continuing to develop sales.

Table 1. UK estimated retail value sales of fair trade food and drinks, 2006–2008.

Product category	2006 £m	% growth	2007 £m	% growth	2008 £m	% growth	% change 2006–2007	% change 2007–2008
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

Note: *Sugar, baked goods, nuts, rice, spices, dried fruits and other fruits.
Source: Mintel (2009).

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 & Derozier, 2004, p. 5). For example one school of thought, the 'positioning school' of strategy stresses the importance of industry factors (Montgomery & Porter, 1991; Porter, 1980, 1985). Other schools such as the 'resource-based view' (RBV) and 'competence based (CBT) competition', focus on firm-specific assets and competencies (Day & Nedungadi, 1994; Hamel & Prahalad, 1994; Prahlad & Hamel, 1990; Sanchez, Heene, & Thomas, 1996) and inimitable resources (Barney, 1991; Grant, 1991; Wernerfelt, 1984). The competence-based (CBT) strategy of the firm also recommends firms to develop their dynamic capabilities (Helfat & Peteraf, 2003; Teece & Pisano, 1994) and high order learning processes relative to the firm's competitors (Dickson, 1996; Senge, 1990). By definition dynamic capabilities involve adaptation and change, because they build, integrate or reconfigure other resources and capabilities (Zollo & Winter, 2002; Zott, 2002).

Other schools emphasise the value-creating potential of networks of relationships (Berry & Parasuraman, 1991; Gronroos, 1996; Gummesson, 1994; Morgan & Hunt, 1994). Some schools advocate a market orientation (MO) (Jaworski & Kohli, 1993; Slater & Narver, 1994; Webster, 1992, 1994), while others focus on 'first mover' innovations (Leiberman & Montgomery, 1998) and brand equity (Aaker, 1991; Keller, 1993).

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.

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.

The resource advantage theory of competition (R-A theory)

Hunt and Derozier (2004) propose that when firms have a comparative advantage in resources they will occupy market place positions of competitive advantage for some market segments. R-A theory has been developed in the literatures of marketing, management, economics, ethics and general business (Hunt & Arnett, 2005; Hunt & 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. Schlegelmilch (2002) argues that R-A theory is a treasure chest for promising research avenues and it rejects the silo approach of many theories. Hunt and Arnett (2005) also acknowledge Wroe Alderson's[2] 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. The key assumptions of R-A theory are outlined below (Hunt & 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 endogenous innovation

RBV defines resources as both intangible and tangible (see P6 above), 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 firm's resources are not just land, labour and capital, as in neoclassical theory but include as in the RBV of the firm (Barney, 1991) the following resources:

- financial (cash resources, access to financial markets);
- physical (e.g. plant, raw materials and equipment);
- legal (e.g. trademarks, licences);
- 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). 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. 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 provide them with a powerful motivation to innovate. In fact, R-A theory permits competence-based strategy to be successful.

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 & Morgan, 1997). R-A theory rejects the notion that 'choosing industry' as in the industry based strategy is the key factor for strategic success.

However pertinent to this study, Hunt and Morgan (1995) argue that social objectives can only be entertained when such superior financial performance has been achieved and argue that financial performance can be constrained by the morality considerations of managers, that is, the deontological component. This is in contrast to the proposal by Nicholls and Opal (2005), who argue the ethical element is the core product for FT companies and also suggest that FT is in a Kantian analysis, deontological. However, Morgan and Hunt (1994) stress that a firm's reputation for trustworthiness can become economically advantageous.

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 & Arnett, 2003).

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 Relationship Marketing (RM) should only be practised when it offers, or contributes to, a company's strategy for achieving a sustainable competitive advantage (SCA). These relationship based competitive advantages 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 complementary resources when combined with their own resources, provide competitive advantages, that is RBCAs.

In summary these recent revisions of competition theory do not appear to acknowledge 'social resources' and ethical commitments as a resource (Hunt, 2001) and still therefore support the Friedmanite view, that social objectives must follow rather than precede profit objectives. This demonstrates that the growth of FT social enterprises is still not grounded in a theory of competition. Hunt and Arnett (2003) do acknowledge the influence of different moral codes on economic processes needs to be the subject of further research. Doherty and Meehan (2006) from an initial study of Divine's downstream actors in the confectionery sector identified and proposed the concept of 'social resources' and its three inter-related components: *ethical and social commitments*; *connections with partners*; and *consistency of behaviour*. This study aims to test and validate this concept of 'social resources'.

Methodology

The approach underpinning this research will be building theory from rich case studies. Eisenhardt's (1989) eight-step procedure to building theory from multiple case studies will be used to investigate the research question. Eisenhardt (1989) and Eisenhardt and Graebner (2007) provide a roadmap for developing theory from multiple case studies by synthesising the approaches of authors including Glaser and Strauss (1967) on grounded theory, Yin (1994) on case study research and Miles and Huberman (1994) on data analysis. This paper builds upon an initial study of Divine carried out in 2005/2006 and published in the *Journal of Strategic Marketing* by Doherty and Meehan (2006) to identify the concept of 'social resources'.

Yin (1994) recommends in case study research the use of different sources of highly complementary evidence. This study employs a number of multiple approaches including: sourcing of documentary evidence from published and internal company sources (i.e. sales reports); direct observation of four key events (i.e. shareholder meetings); and participant observation of five key events (i.e. strategic planning workshops). Finally a major thrust of this paper is a series of 40 semi-structured interviews. Exploratory interviews are needed to provide a focus on the case study companies Divine and Cafédirect. Purposive sampling is employed and key informants are selected based on their idiosyncratic specialised knowledge. In summary, the sample covers the main channels of distribution (supermarkets, wholesalers, etc.), key customers of Divine and Cafédirect, market analysts, competitors and other key influences in the respective market sectors. Because of the nature of both the informants' job roles and their associated level of knowledge, 27 of the informants are asked questions pertaining to Divine and 20 of the informants asked questions associated with Cafédirect.

The key themes resulting from the study are analysed in the four-step interactive process of data analysis proposed by Miles and Huberman (1994). This will involve coding (i.e. labelling data into various research themes), categorising, memoing (i.e. theorising ideas about codes and their relationships) and developing propositions (Gill & Johnson, 1991; Glaser, 1978).

Case studies

Competitive context

Both the UK chocolate confectionery and coffee sectors are particularly concentrated between both major manufacturers, who posses long established brands (Mintel, 2008a, 2008b) and major supermarket chains. For example 55% of all chocolate confectionery sold in the UK is purchased via multiple supermarkets, up from 47% in 2001 (Mintel, 2008b) The economies of scale afforded by the international resources of these leading firms make it increasingly difficult for smaller players to compete in terms of price, distribution, range of products and marketing spend (Blythman, 2004; Tiffen, 2002).

According to Golding and Peattie (2005) the commercial success of FT brands such as Cafédirect is being matched by a move by mainstream players to develop social attributes as part of their product offering. For example Nestlé launched their own FT coffee brand, *Partners Blend* in 2006 (The Economist, 2006). In addition, Cadbury announced recently their intention to move all 300m Cadbury's Dairy Milk bars to be FT certified from August 2009 (Wiggins, 2009). Following this decision by Cadbury, 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[3] ethical label (Just-Food.com, 2009). Also in May 2005 Cadbury acquired organic chocolate manufacturer Green & Black's for an estimated sum of £20m (BBC News, 2005). Green & Black's possesses in its range a FT chocolate bar called *Maya Gold* and a FT certified cocoa powder. These developments illustrate the competitive context for both case companies Divine and Cafédirect. The paper will now investigate the market performance and impact of these case organisations.

Divine Chocolate Ltd – market performance and impact

Divine Chocolate Ltd (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 (Cooper, 2009; Divine, 2009). The profit after tax in 2006 totalled £500k (Purvis, 2007). At the 2007 KK Annual General Meeting (AGM) in Ghana, Sophi Tranchell the Managing Director of Divine 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 (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 & Tranchell, 2005; Tiffen, 2002). The cocoa farmers co-operative KK in Ghana is a joint owner in Divine, with a shareholding of 45% and has two seats on the board (see Figure 1). 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

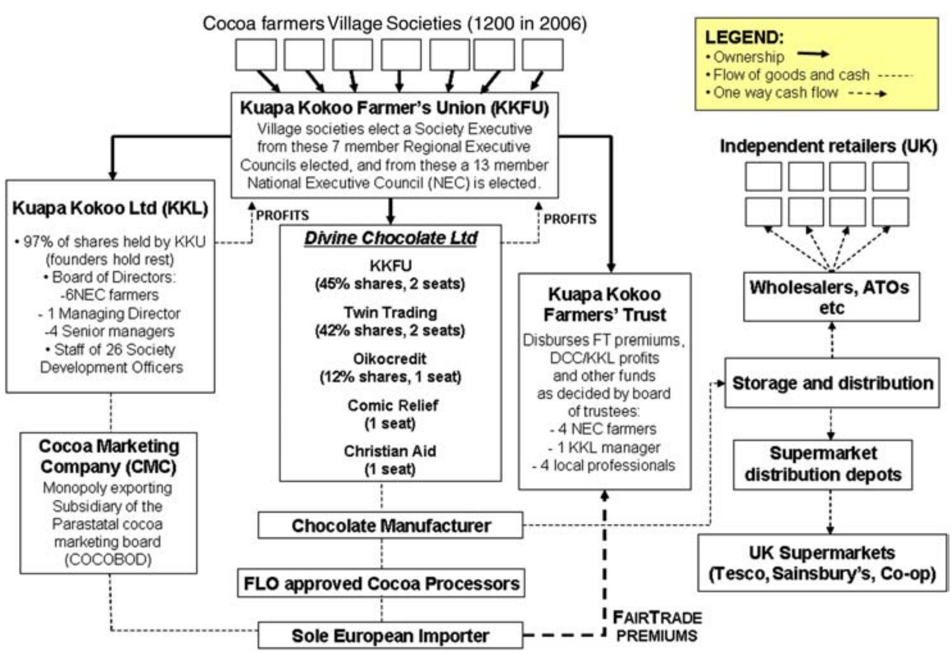

Figure 1. Divine and Kuapa Kokoo structure (adapted from Doherty & Meehan, 2006, p. 304).

KK. Other key shareholders include Twin Trading (42% of shares) and Oikocredit[4] (12% of shares), see Figure 1.

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 fair trade criteria.

According to Mintel (2009), Divine has the largest number of FT chocolate product lines in the UK. Divine's chocolate range includes 28 branded products and 12 own-label products, giving 40 products in total. Divine's two own-label product ranges of FT chocolate are made for both Starbucks Coffee Company and the Co-operative Food (CF) group respectively. The displays of coding and categories relating to market performance and impact from the Divine key informant interviews are presented in Figures 2a and 2b.

The coding displays in figures 2a and 2b appear to support the mainstream position of Divine. This is particularly the case in supermarkets, where all six supermarket informants considered Divine's sales performance as good (Figure 2a). 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.

Currently Divine is available in all key channels of confectionery distribution, including supermarkets, wholesalers, newsagents (to a lesser extent), coffee shops, vending companies and cash and carry's. Also most of the major UK supermarkets appear in Divine's top 10 customers; this illustrates the brands mainstream availability. However, it is worth noting the balance of Divine's major customers, which include not only mainstream channels such as supermarkets but also ethical and FT channels including Oxfam shops and the Traidcraft fair trade network (Divine, 2007). Findings from this

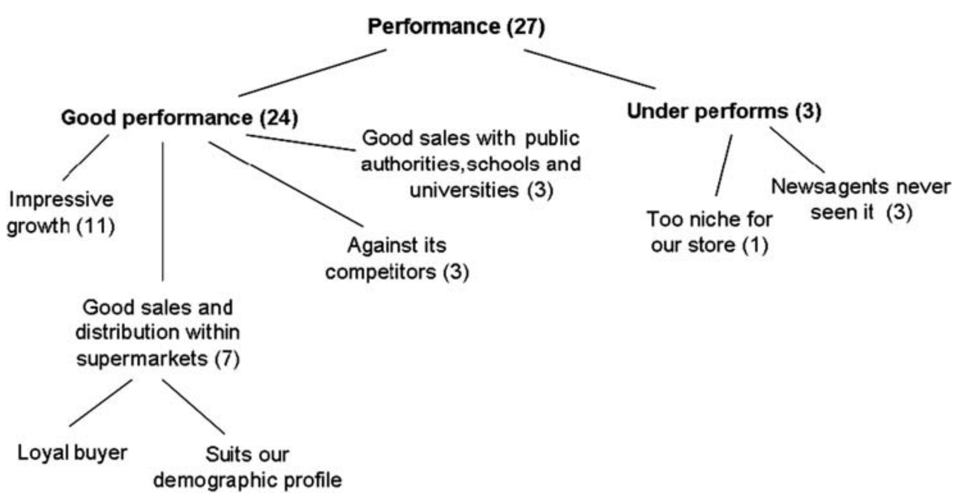

Figure 2a. Display of coding relating to Divine's performance.

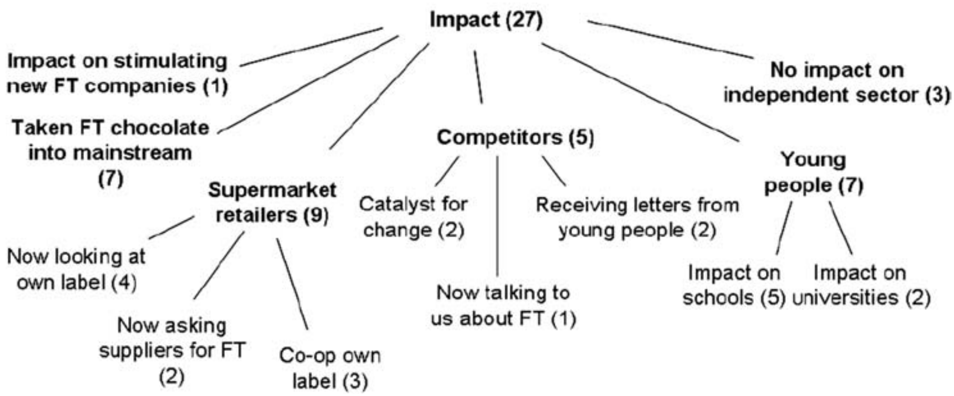

Figure 2b. Display of coding relating to Divine's impact.

study also support the earlier research by Doherty and Meehan (2006) that suggests Divine has been a catalyst for change. An informant at 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 with senior executive at competitor B, 2008).

Two supermarket informants also highlight the impact of Divine on other chocolate manufacturers, attributing the acquisition of Green & Black's by Cadbury 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 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.

Resource analysis of Divine

From the analysis the different elements of 'social resources' are identified in the following coding displays (Figures 3a–3c). These displays demonstrate the importance of 'social resources' and their three components.

Firstly, it is clear that one of the key components of ethical and social commitments is the FT mark itself. A CSR manager at multiple supermarket E cites the importance of the FT label in helping both Divine and Cafédirect to compete: 'The impact and importance of the fair trade label mustn't be underestimated and is absolutely critical. There are lots of other products trying to claim ethical credentials but do not have the guarantees of the fair trade mark' (interview with CSR manager at multiple supermarket E, 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. The importance of the FT mark also supports earlier academic work (Crane & Matten, 2007; McDonagh, 2002; Nichols & Opal, 2005) and market statistics (Mintel, 2009), which identify the importance of the FT mark. 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

Figure 3a. Display of coding relating to Divine's ethical and social commitments.

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 mentions 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 with chief executive of multiple supermarket A, 2007)

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' (Tranchell, in Wiggins, 2007, p. 15). Golding (2006) also concurs and proposes that it is specifically the part ownership of Divine by the farmers' co-operative KK, which is integral to the organisations *raison*

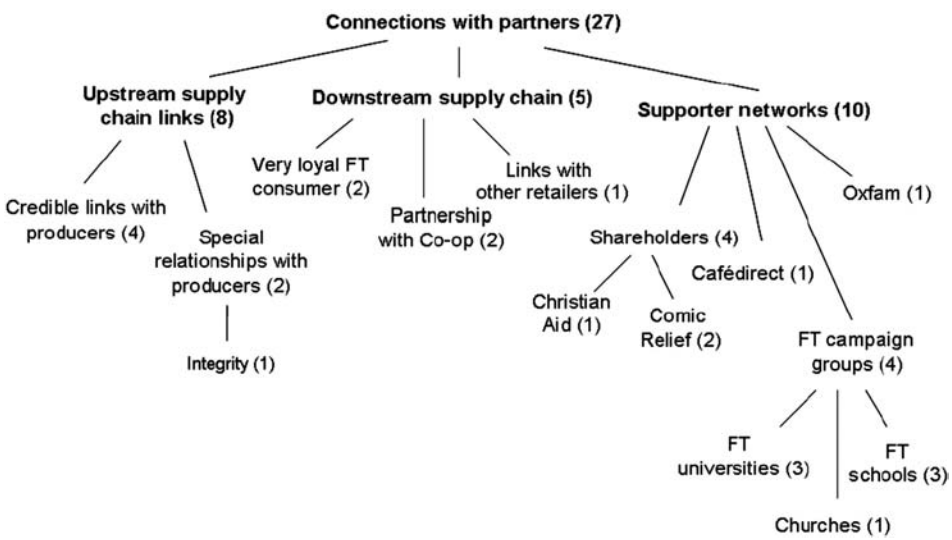

Figure 3b. Display of coding relating to Divine's connections with partners.

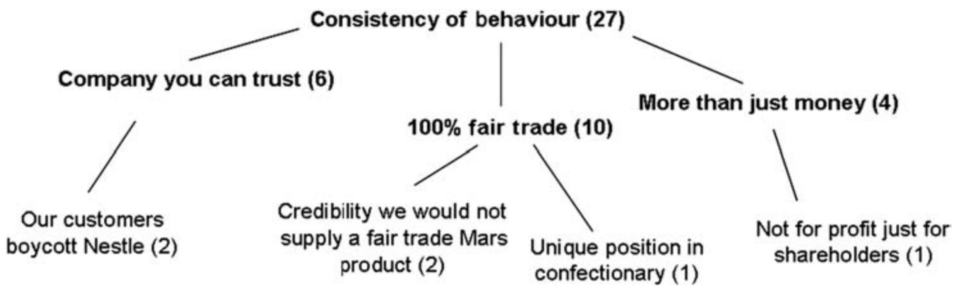

Figure 3c. Display of coding relating to Divine's consistency of behaviour.

d'être and brand meaning. It is this social element that differentiates Divine from its mainstream competitors (Golding, 2006). The second inter-related component of 'social resources' is the *connections with partners*. Figure 3b shows the display of coding for this element.

Clearly connections with supporter networks, downstream stakeholders and upstream stakeholders are key for Divine. Interesting that 10 informants 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. A 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 members, 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. (interview with CSR manager at multiple supermarket A, 2007)

Figure 3c shows the display of coding for the third identified component of 'social resources', namely *consistency of behaviour*.

Consistency of behaviour is important to wholesalers A and D, whose customers appear not to stock Nestlé products on principle. 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 is also identified. Another key category identified in this research 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. Divine performs very well in certain product segments particularly dark (plain chocolate) and seasonal chocolate products. 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.

Cafédirect – market performance and impact

Founded in 1991, Cafédirect is a successful FT social enterprise (Nicholls, 2006). 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. Its 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 of a 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, three tea products and Cocodirect drinking chocolate. Recent developments include organic and speciality coffees (Fairtrade Foundation, 2008). 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 (see Low & Davenport, 2005a, 2005b for definition of 'alternative high street').

In 2004 Cafédirect raised £5m through an initial public share offer (IPO) and is now a public company with 4500 shareholders, including ownership for coffee farmer producer groups of 5% shareholding. Forty per cent 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.

Figures 4a and 4b show the different components of Cafédirect's impact and performance identified by the informants.

Seventeen of the 20 Cafédirect key informants interviewed 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).

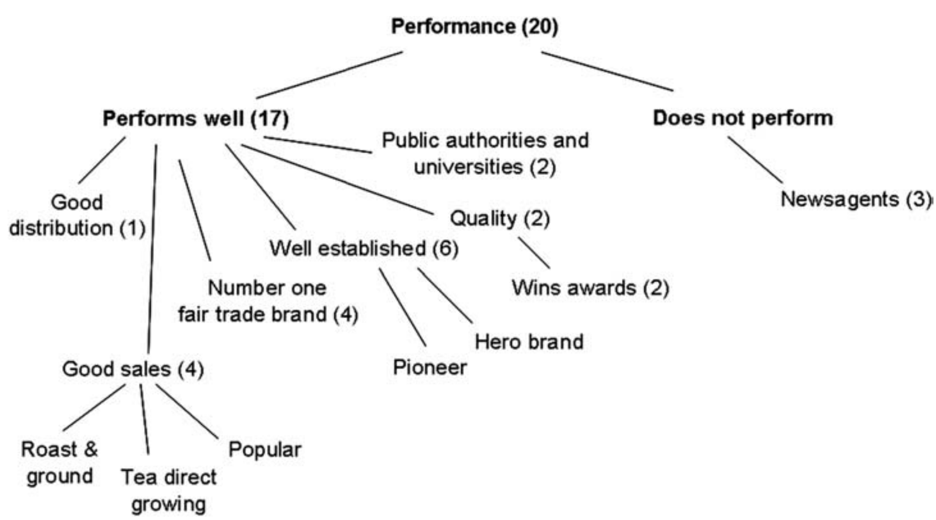

Figure 4a. Display of coding relating to Cafédirect's performance.

Figure 4b. Display of coding relating to Cafédirect's impact.

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.

Resource analysis of Cafédirect

Firstly, Figure 5a is the display of coding for the key component of 'social 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. 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 Programmes (PPP). The relationships combined with the social programmes appear in the opinion of the

Figure 5a. Display of coding relating to Cafédirect's ethical and social commitments.

informants to demonstrate Cafédirect's commitment to growers. According to a number of informants (see Figure 5a) this results in trust and integrity towards the company. The ethical and social commitments of Cafédirect are illustrated by Angel Colombino Chalas (Chairman of Fedecares, in the Dominican Republic), who explained how Cafédirect supported his producer co-operative after a natural disaster:

> Cafédirect provides vision, hard work and support when times are difficult. During Hurricane George in 1998, 80% of our members' farms were destroyed. Cafédirect provided financial assistance to rebuild our farms and provided pre-finance to export our first three containers of production after the hurricane. (Data from Direct Observation 4, 2009)

Cafédirect paid nearly £1.0 million more than the market price for its coffee, tea and cocoa raw materials in FT premiums (Cafédirect, 2007b). 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. Cafédirect also provides pre-payments with advances of up to 60% of the minimum price, if requested (Barratt Brown, 2007). 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 its operating profit in PPP.

The display of coding (see Figure 5b) relating to *connections with partners*, again as with Divine shows the importance of the connections with supporter networks (eight informants) including FT town campaigners, NGOs (Oxfam and CA), universities, schools and Divine. Also similar to Divine is the importance of Cafédirect's relationships with producers.

The display of coding (see Figure 5c) above regarding *consistency of behaviour* again as with Divine demonstrates the importance of being 100% FT (nine informants identify

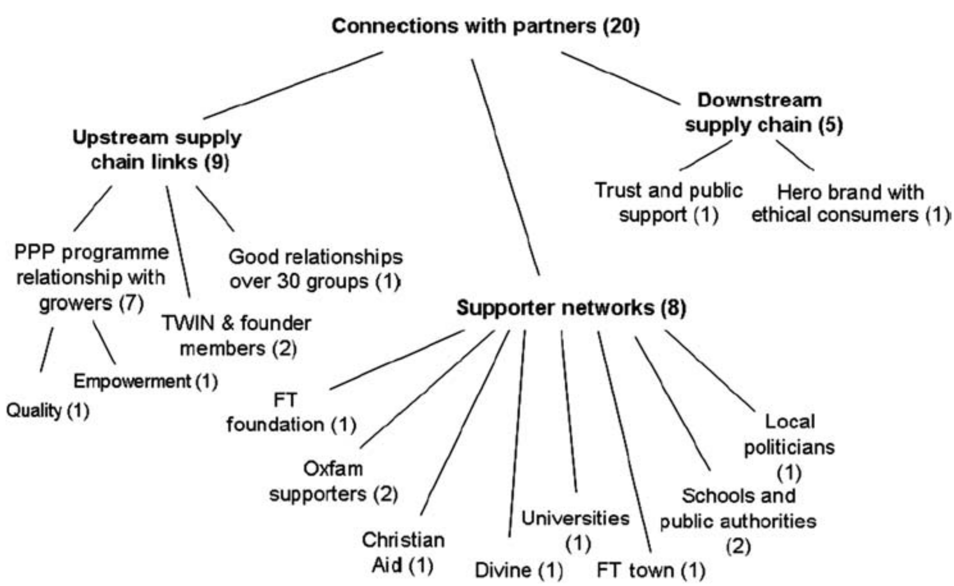

Figure 5b. Display of coding relating to Cafédirect's connections with partners.

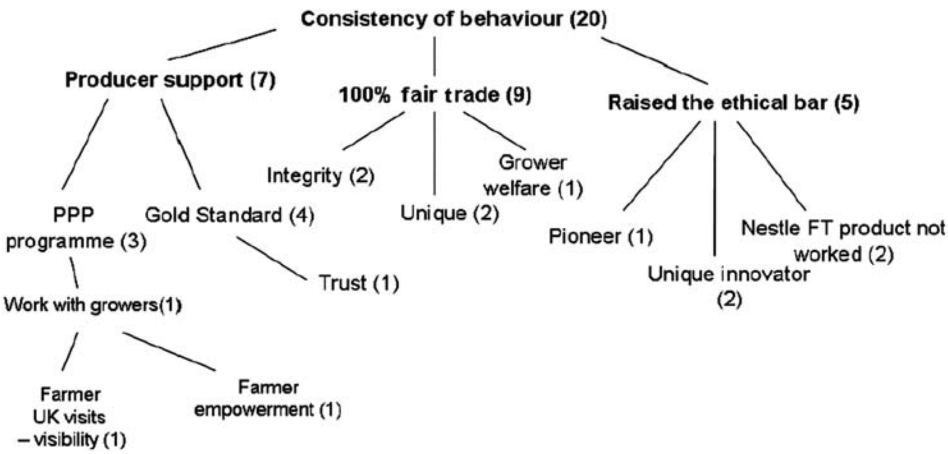

Figure 5c. Display of coding relating to Cafédirect's consistency of behaviour.

this). Also 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 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 mainstream competitors launching FT/ethical brands. However, it is interesting to note that Nestlé *Partners Blend* FT coffee has recently been de-listed in certain multiple supermarket chains (interview with FT marketing manager from supermarket A, 2009). 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 Nestlé fair trade 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). The interviews also highlight as with Divine the importance of Cafédirect's product quality.

Conclusions

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). 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 ability to compete is also interesting if you consider the financial resources and consequent marketing budgets of both Cafédirects and Divine's competitive rivals. 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 Co-operative Food (CF) Group as significant in the development of the UK FT market.

Clearly 'social resources' combined with good product quality provide both Cafédirect and Divine with the ability to compete. The research underpinning this paper has highlighted the importance of *the ethical and social commitments, connections with partners and consistency of behaviour*. These three inter-related elements are not currently acknowledged in R-A theory and therefore this theory 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 6), which shows the important components of 'social resources' and their inter-related nature. The *ethical and social commitments* represent the values element of 'social resources', *connections with partners*, the structural element and *consistency of behaviour* is the behavioural element. 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.

This also means that assumption P6 in R-A theory (see literature review on R-A theory) could be extended to include the addition of 'social resources'. The P6 assumption suggested seven elements highlighted in the literature review on R-A theory. This research provides a novel extension to R-A 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 eighth element of the P6 assumption in R-A theory. Social resources appear to be subtly different from the other resources such as money, skills, intellectual property, information and key strategic relationships as they depend on the perception of key stakeholders. It is the external perception which appears to give 'social resources' their value and validity. Also the relationship between 'social resources' and reputation is strongly implied in the findings. This will be the subject of further research.

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'. This is demonstrated by the important role played by FT certified community groups in the

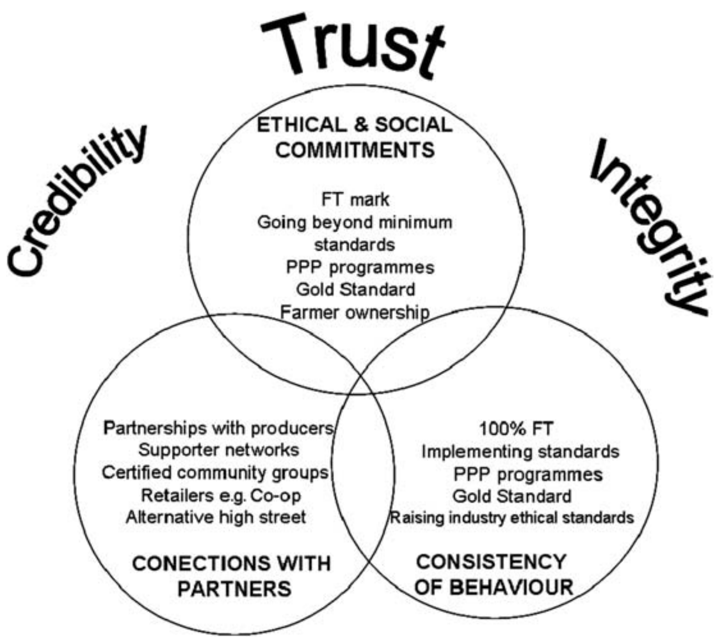

Figure 6. Diagram of social resources for Cafédirect and Divine Chocolate. Source: Author's own.

growth of Divine and Cafédirect. The 'alternative high street' is currently proving very important for Cafédirect, where its sales in the out of home sector are growing at 33% per annum. This is particularly advantageous bearing in mind the increased competition they face in supermarkets from own-label retail products. This shows the value of developing connections with partners in a network. There could also be wider implications for the social enterprise sector from this growing influence of FT towns.

This study also appears to illustrate the value in combining both relational and 'social 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, Varadarajan, & Fahy, 1993; Day & Wensley, 1988; Hunt & Morgan, 1995). The study also goes some way in a FT context to answer those critics of R-A theory (Schlegelmilch, 2002; Wensley, 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.

In summary, this research appears to validate the theoretical concepts from the conceptual model of 'social resources' proposed by Doherty and Meehan (2006). 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. 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.

The findings in this study are also of value for other social enterprises, ethical companies and other enterprises looking to develop their own 'social resources'. Social enterprises, because of 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 level.

Notes

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. Wroe Alderson, thought by some to be the father of modern marketing, wrote the landmark book titled *Marketing behaviour and executive action* in 1957, 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.
3. A labelling scheme for coffee produced without rainforest destruction (used by Kenco and The Eden Project).
4. 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.

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