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The Strategic Management Implications of Understanding Fair Trade through Organizational Economics

- Learnings from the Coffee Industry

by

Erik Holte Nilsson & Adam Vulovic

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Supervisor: Ulf Ramberg
Examiner:

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Erik Holte Nilsson

Adam Vulovic

Abstract

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Authors: Erik Holte Nilsson, Adam Vulovic

Supervisor: Ulf Ramberg

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Purpose: The purpose of this study is to analyze the contractual relationships associated with the fair trade concept by applying organizational economics theory in order to contribute with theoretical and practical strategic management insights. The purpose stems from the underlying research problem concerning a lack of supplementary theoretical perspectives and development informing strategic decision-making in sustainability literature related to supply-chains.

Methodology: A qualitative exploratory study with a multi-sourcing approach to research design has been employed to fulfill the purpose of the study. Data collection has been performed through semi-structured interviews and relevant secondary data. It was then analyzed with the deductive content analysis method, where both pattern matching and explanation building were used.

Theoretical perspectives: The study is based on a developed theoretical framework incorporating agency theory, transaction cost economics theory and property rights theory. The theories are organized according to their contractual problems and focus using both classic and contemporary work. The framework also connects to other strategic management theories such as the resource-based view, Porter's generic strategies and stakeholder theory.

Empirical foundation: The study presents empirical data on the strategic decisions made concerning contractual relationships by involved organizations to meet customer demand for sustainably produced coffee. The primary data was collected from interviewing Swedish buyer organizations, researchers and a Fairtrade representative, complemented with secondary data.

Conclusions: The findings illustrate how the involved organizations make use of ex-ante and ex-post contracting with the aid of Fairtrade in order to secure that quality and sustainability attributes are acceptable to meet customer demand. The study highlights the applicability, complementarity and limitations of organizational economics theory in a sustainability supply-chain setting in generating strategic management insights that can help improve managerial decision-making. A widening of the theoretical frame using the resource-based view, Porter's generic strategies and stakeholder theory can be used to combat some of the discovered limitations, which further increases the strategic management insights.

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1. Introduction

1.1 Background

Sustainability issues are increasingly permeating the international debate in the light of the economic, social and environmental challenges facing societies around the globe. Alarming reports show the potentially catastrophic effects of climate change (United Nations, 2019a), while social issues related to poverty and working conditions continue to be persistent (United Nations, 2019b). Meanwhile, economic prosperity is a powerful source in securing an adequate standard of living (United Nations, 2019c). The Brundtland (1987) report was instrumental in popularizing sustainability by showing the need to address these challenges jointly. It further highlighted the role of private industry in contributing to an unsustainable development (Wilson, 2003). Skepticism has also been directed against the notion that private organizations could constitute a solution to the very problems they have partly caused (Fleming & Jones, 2013; Margolis & Walsh, 2001). However, the Brundtland (1987) report promoted the importance of both private and public action to ensure a more sustainable development. In this vein, the concept of Corporate Social Responsibility (CSR) has emerged, where corporations are seen to bear responsibility in addressing these broader issues of sustainability due to their impact and role in society (European Commission, 2001).

Whether or not private organizations can represent a viable solution to sustainability issues, it has become increasingly important for companies to integrate a CSR-perspective in their strategic outlook for competitive reasons (Adams & McNicholas, 2007; Chandler, 2016). A central tenet is that important stakeholder groups increasingly demand sustainable behavior from companies, wherein economic incentives to act upon these needs emerge (European Commission, 2001). Consequently, there is an argument to be made that the famous division between Friedman's (1970) shareholder view, that a business' sole social responsibility is to increase its profits, and Freeman's (1984) stakeholder view of managing organizations in the interest of stakeholders, has diminished. A stakeholder can be defined as: *"Any entity who is affected by the organization (either voluntarily or involuntarily) and possesses the capacity to affect the organization."* (Chandler, 2016, p. 74). The intention behind stakeholder theory has been to highlight the strategic implications of managing stakeholder relationships beyond short-term profit maximization (Laplume, Sonpar & Litz, 2008). Adopting a stakeholder perspective

can therefore be seen as essential in order for companies to be able to integrate CSR into their strategies and motivate strategic management decisions accordingly (Chandler, 2016). As a result, stakeholder theory has been the dominating theory used in academic literature to address issues related to sustainability (Chandler, 2016; Carter & Easton, 2011; Garriga & Melé, 2004; Kudla & Klaas-Wissing, 2012; McWilliams & Siegel, 2001; Wilson, 2003).

1.2 Problematization

A problematic aspect is the descriptive roots of stakeholder theory that offer very little practical guidance for making strategic management decisions (Donaldson & Preston, 1995; Laplume, Sonpar & Litz, 2008). The early criticism on the absence of a normative foundation made stakeholder authors seek an ethical core based on moral theories motivating right and wrong (Freeman & McVea, 2001; Garriga & Melé, 2004; Laplume, Sonpar & Litz, 2008). However, the limited liability corporation was not constructed to incorporate other goals at the same parity as economic profit in line with Chandler (2016). This is why movements in this vein, for instance “caring capitalism”, can be deemed unrealistic as a large-scale solution due to limited appeal for corporations. CSR instead recognizes that the primary purpose of a corporation is to generate profit, while continuously working with environmental and social goals that are consciously integrated into strategy (European Commission, 2001). Hence, the study highlights the consideration of economic, environmental and social issues into strategic decision-making processes and the underlying strategy, connecting sustainability to the discipline of strategic management, adopting the view of Engert, Rauter and Baumgartner (2016). This by helping to position a firm against competitors in terms of doing things differently or better that meet customer needs, which is what strategic management is about (Barney, 1991; Chandler, 2016; Engert, Rauter & Baumgartner, 2016; Porter, 1985).

In contrast to an ethical approach to strategic management, organizational economics theory constitutes a fundamental part of the theoretical core of strategic management, which has provided valuable knowledge based on an economic foundation (Kim & Mahoney, 2005). Three of the major theories associated with organizational economics are agency theory, transaction cost economics theory and property rights theory (Williamson, 1985). Agency theory tries solve the problems related to the principal-agent relationship, typically between shareholders and executives, due to the different objectives, risk preferences and difficulty in controlling agent behavior through strategic decisions related to incentives (Eisenhardt, 1989).

Transaction cost economics theory seeks to minimize the transaction costs associated with a transaction by the strategic decision to use different governance structures (Williamson, 1985). Property rights theory suggests that decisions related to property rights in the light of allocating scarce resources affect both economic performance and behavior, which entails strategic implications (Barzel, 1997; Kim & Mahoney, 2005).

More importantly, organizational economics theory has connections to both the shareholder and stakeholder orientation (Kim & Mahoney, 2005), underlying CSR literature (Chandler, 2016). The agency and transaction cost economics theories focus on finding the comparatively most efficient contractual solutions to strategic management decisions from a shareholder perspective (Williamson, 1985), more directly following Friedman's argument. Jointly, these theories build on the underpinnings of property rights theory that adopts the stakeholder orientation in finding the comparatively most efficient contractual solutions (Barzel, 1997; Kim & Mahoney, 2005). Further strengthening the case for its applicability to CSR is the view of Donaldson & Preston (1995), in that property rights theory could provide the normative foundation that stakeholder theory has been looking for.

However, the use of organizational economics theory as a theoretical perspective to understand sustainability issues is currently scarce, which is surprising given its high potential for generating valuable knowledge (Carter & Easton, 2011; Clegg & Amaro de Matos, 2017; Pitelis, 2013). Consequently, this thesis answers calls for research utilizing economic and complementary theoretical lenses in relation to sustainability (Carter & Easton, 2011) to enhance strategic management knowledge by applying agency, transaction cost and property rights theory. Potential insights generated therefrom can show how the inclusion of sustainability can impact strategic decision-making related to contractual relationships, both theoretically and practically.

Research into sustainability issues with a strategic management perspective also tends to neglect that managers are making decisions about CSR policies in a context of global supply-chains (Acquier, Valiorgue & Daudigeos, 2017). In the light of increasing stakeholder demands, working successfully with sustainability issues to be strategically competitive, requires that responsible behavior permeates the entirety of the supply-chain (Ashby, Leat & Hudson-Smith, 2012). Many of the sustainability scandals that emerge stem from upstream supply-chain activities performed by distant suppliers often in impoverished communities (Acquier,

Valiorgue & Daudigeos, 2017). This is not surprising given that the strategic market reward for acting in line with sustainable behavior might not be as strong for all companies, especially for distant suppliers, who do not face as strong stakeholder pressures (Chandler, 2016; Vogel, 2005). The associated challenges with this development have given rise to the academic discipline of sustainable supply-chain management (Ashby, Leat & Hudson-Smith, 2012), which can be defined as the “*strategic, transparent integration and achievement of an organisation’s social, environmental and economic goals in the systemic coordination of key inter-organisational business processes for improving the long term economic performance of the individual company and its supply chains*” (Carter & Rogers, 2008, p. 368). In this context, environmental issues have also been the dominant area of academic inquiry where the social dimension of CSR presents an intriguing gap to investigate (Ashby, Leat & Hudson-Smith, 2012; Carter & Easton, 2011; Kudla & Klaas-Wissing, 2012).

In terms of social sustainability issues in sustainable supply-chain management, fair trade has been an area of interest in the otherwise scarce literature (Ashby, Leat & Hudson-Smith, 2012). Fair trade is probably the most commonly known contractual arrangement to address social sustainability issues, aiming to improve pay and working conditions for commodity producers and workers in developing countries (Moore, 2004). The fair trade movement grew in the 80s as a counter-movement to the perceived injustices of freer global trade and has seen significant growth since then (Maseland & De Vaal, 2002), most recently reaching over 8 billion euros in total sales for 2017 (Fairtrade International, 2019a) and almost quadrupling since 2007 (Fairtrade International, 2008). Nevertheless, the total market share of Fairtrade products is relatively low with around 1% for select countries (Lernoud & Willer, 2017). The fair trade concept has also received its share of criticism from neoclassical economists for violating free-market principles and from social activists for the lack of improvement for the producers (Chandler, 2016). The theoretical relevance is thus strong given the calls from researchers to use agency theory (Fayezi, O’Loughlin & Zutshi, 2012) and transaction cost economics theory (Carter & Easton, 2011) in collaborative settings like fair trade to increase trust and transparency in a context of supply-chain uncertainty. The less used property rights theory can also offer insights when applied to new business phenomena (Kim & Mahoney, 2005). Therein, the concept of fair trade represents an interesting avenue for research aimed at discovering strategic management insights.

Theoretical contributions include generating theoretical insights for strategic management by exploring how the organizational economics theories can generate understanding in the under-researched domain of sustainability. The complementarity of the used theories can further enhance understanding due to common underpinnings, which sets the stage for showcasing theoretical boundaries and extensions. Strategic management insights can also be gained by connecting the findings generated from using organizational economics theory with mainstream strategic management theories like the resource-based view and stakeholder theory (Kim & Mahoney, 2005; Laplume, Sonpar & Litz, 2008; Mahoney & Pandian, 1992). The inclusion of the otherwise neglected property rights theory could further strengthen the normative core of the influential stakeholder theory (Donaldson & Preston, 1995). The practical contributions follow the theoretical by providing guidance for more informed managerial strategic decision-making related to contracting in sustainability issues, supply-chains and fair trade. As a result, this thesis aims to add to the scarce theory advances and managerial implications for sustainability issues (Ashby, Leat & Hudson-Smith, 2012; Carter & Easton, 2011).

1.3 Purpose and Research Question

Thus, the purpose of this study is to analyze the contractual relationships associated with the fair trade concept by applying organizational economics theory in order to contribute with theoretical and practical strategic management insights.

The purpose is to be fulfilled by answering the following research question: *How can the contractual relationships associated with the concept of fair trade be understood using organizational economics theory?*

1.4 Research Delimitations

In order to conceptualize the study's purpose more readily, the following boundaries are set with the objective of helping the reader's understanding, while simultaneously allowing a more in-depth analysis as a result of a specific perspective in line with Simon and Goes (2013). This study primarily focuses on three actors relayed by Moore (2004) as central in fair trade: (1) the buyer organization, such as coffee roasters (2) the producing organization, that is the coffee farmers and (3) the dominant umbrella body, that is Fairtrade International. Along these lines, Fairtrade International will serve as the vehicle representing the broader fair trade movement

due to its historic position and contemporary wide usage (Moore, 2004). This will also aid the research as it provides a clear direction for empirical investigation with the associated methodological choices described in the next chapter, while reducing ambiguity.

Furthermore, end consumers are not directly studied given the extensive research into customer behavior in relation to fair trade products (e.g. Basu & Hicks, 2008; Didier & Lucie, 2008; De Pelsmacker, Driesen & Rayp, 2005). Rather, consumers are indirectly considered through the buyer organization and its strategy, aligning with the focus of organizational economics. The purpose and research question especially seek understanding through the field of organizational economics theory, which emerged to enhance knowledge about the decisions made by organizations performing economic activity (Gibbons & Roberts, 2012). Decomposing the research further, this study will analyze the concept of fair trade as it relates to the coffee industry, using the industry as the method for analysis. Coffee was the first product to be certified by Fairtrade International (FLO) and is today the most sold of all Fairtrade products, accounting for 25 percent of retail sales (Fairtrade, 2019b). Accordingly, the coffee industry is often touted as the precursor to sustainability certifications and standards (Bello & Westerberg, 2014; IISD, 2014). Consequently, it makes coffee an apt venue of investigation, considering its central role for fair trade while making the study more feasible and comprehensible to fulfill the purpose.

1.5 Outline of the Thesis

Chapter 2 – Methodology: In this chapter, the methodological choices behind the conducted study are accounted for. The study's research strategy and design, data gathering and literature review methods are presented. Motivations are also provided for the choice of theoretical framework and discussions are held on validity, reliability and ethics.

Chapter 3 – Theoretical Framework: The third chapter presents the theoretical framework that underlies the study. The theoretical framework is made up of agency theory, transaction cost economics theory and property rights theory associated with organizational economics theory within strategic management. Each theory is described in its own section followed by a wider discussion on strategic intent.

Chapter 4 – Empirical findings: The fourth chapter summarizes the findings of the conducted empirical data collection. First, an overview of the fair trade concept as it relates to the coffee industry is presented. Then the empirical material is presented and categorized in accordance with the developed theoretical framework in order for the reader to more easily grasp the following analytical chapters.

Chapter 5 – Analysis: In this chapter, the theoretical framework set in chapter three is used to analyze and discuss the empirical findings, with the objective to answer the research question. The analysis constitutes the foundation for the ensuing conclusions and discussion derived from the study.

Chapter 6 – Conclusions, Discussion and Contribution: In the final chapter, the conclusions generated from the analysis are presented and discussed along with the study's theoretical and practical contributions, alike. Lastly, suggestions of avenues for future research are offered and discussed.

2. Methodology

2.1 Research Strategy and Design

With an open-ended research question that holds no predetermined hypothesis, the deeper data and flexibility commonly associated with qualitative research methods is best suited for the study (Bryman & Bell, 2015; Creswell & Creswell, 2018). Research into sustainability issues in supply-chain settings have also been dominated by the use of quantitative methodological approaches (Carter & Easton, 2011). Moreover, quantitative methods are significantly more limited in their ability to investigate context and capture nuance (Bryman & Bell, 2015). While environmental sustainability dimensions open up a better potential for measurable benefits (Banerjee, 2010), this study focuses mainly on the practice of social sustainability through investigating the contractual relationships associated with the fair trade concept. Thus, the “human side” that is central to the social sustainability issues in sustainable supply-chain research favors qualitative research methods over quantitative according to Ashby, Leat and Hudson-Smith (2012). It includes the need to capture relationship building taking place between actors, which aligns well with the purpose and research question incorporating aspects related to contractual relationships. The lack of studies into social sustainability issues and their greater ambiguity has resulted in a lack of impact on managerial practice (Ghoshal, 2005). Consequently, our qualitative study tries to address the stated practical contribution of providing insights helping to inform managerial decision-making in the light of sustainability challenges.

The value of a qualitative approach is further highlighted through the identified research gap, whereupon this study is preliminary an investigation intended to generate ideas and hypotheses for more rigorous empirical testing at a later stage. As such, the objective of studying the concept of fair trade through organizational economics aligns well with that of an exploratory study, where new insights are sought and a phenomenon is typically assessed in a new light (Saunders, Lewis & Thornhill, 2009). In particular, exploratory research is aided through interviewing experts in the subject as well as analysis of secondary sources and literature (Saunders, Lewis & Thornhill, 2009; Cooper & Schindler, 2013). Accordingly, our study employs a multi-sourcing approach to research design in order to broaden the empirical material with the aim of improving the generalizability of our findings. Each respondent from a buyer organization represents an embedded case by providing their employed contractual

relationships within with the fair trade concept. The use of secondary data will also help us overcome a potential lack of access we might have otherwise faced, especially internationally on the producer side. It also opens up the potential to use secondary data produced with quantitative methods to further increase generalizability. Together, this will be operationalized through semi-structured interviews with relevant parties to the research topic along with utilization of secondary data analysis, further detailed in section 2.4. Overall, this will aid us in capturing the wider consequences of fair trade needed to evaluate the organizational economic propensities and better answer the research question.

However, by utilizing a predisposed set of theories, theory will be used to understand the findings with the goal of producing theoretical generalizations, implying explanatory elements to the study as well (Scapens, 2000). In the same vein, the theoretical framework will thereby guide the empirical data gathering through the focal aspects raised by the chosen theories. For instance, the theoretical implications assist us in devising questions for interviews and in searching for subject-relevant secondary data. Consequently, by applying a new theoretical lens and evaluating the concept of fair trade, the aim is to yield generalizable results applicable across a broader spectrum of industries and situations. This can be illustrated by the stated theoretical contributions of displaying applicability, complementarity, limitations and connections to more mainstream strategic management theories, which can be used to inform practical managerial decision-making not only related to the fair trade concept or the coffee industry. With this in mind, we identify both exploratory and explanatory elements in our study, confirming the oft-occurring ambiguity between the two (Scapens, 1990).

Moreover, the use of predetermined theories corresponds with a more deductive research approach (Creswell & Creswell, 2018). Such an approach is important to fulfill the expressed purpose, which explicitly includes the usage of organizational economics theory to analyze the contractual relationships associated with the fair trade concept. The motivations behind the choice of this specific theoretical framework will be described in section 2.2 below. The deductive approach is key to this study's contribution given the lack of theoretical advancements related to sustainability issues in a supply-chain setting (Carter & Easton, 2011). Overall, the sustainable supply-chain management setting offered by the fair trade concept has been driving research towards understanding practical concepts of organizing products and processes rather than theoretical development (Ashby, Leat & Hudson-Smith, 2012). The existing sustainable supply-chain management literature also displays a lack of deductive

research, which further adds to the contribution of this study, following Ashby, Leat and Hudson-Smith (2012).

Collectively, this study aims to provide analytically generalizable claims that will help illuminate the broader topic at hand and further theoretical development within the chosen field as called for by Ashby, Leat and Hudson-Smith (2012) and Carter and Easton (2011). We intend such a preliminary investigation to showcase the topic's appropriateness and contemporary relevancy for further research and help generate ideas and hypotheses for more rigorous empirical testing.

2.2 Theoretical Framework

A theoretical departing point is necessary in a deductive approach (Creswell & Creswell, 2018) where organizational economics theory has been chosen. The viability of using organizational economics theory to draw strategic management conclusions through the fair trade concept was expounded upon in the problematization. Agency theory, transaction cost economics theory and property rights theory share the common characteristic of being concerned with guiding strategic management decisions towards efficient contractual arrangements (Williamson, 1985).

In terms fulfilling the expressed purpose of analyzing contractual relationships associated with the fair trade concept, agency theory offers explanations of how the cost of opportunistic behavior in the buyer-supplier contractual relationship can be limited through contracting (Eisenhardt, 1989). The review made by Fayezi, O'Loughlin and Zutshi (2012) states the suitability of applying agency theory in informing strategic management decisions in a supply-chain setting. Further, they suggest that there is a gap in understanding in relation to inter-organizational relationships where the fair trade concept involves at least three contractual organizational parties (Moore, 2004). Thus, agency theory can be powerful in offering understanding on its own, but its insights are enhanced when coupled with complementary theories (Eisenhardt, 1989). Agency theory has been identified as complementary to transaction cost economics theory (Williamson, 1988). In a supply-chain setting like fair trade, transaction cost economics theory often focuses on the transaction itself but in that also overlooks the potential agent problem of minor suppliers further down the supply-chain having significant leverage against the buying firm (Fayezi, O'Loughlin & Zutshi, 2012). The unit of analysis in

agency theory is the principal-agency contract, which opens up the opportunity to incorporate the consideration of individual actors (Kim & Mahoney, 2005). Agency theory is also focused on ex-ante contractual alignment of incentives while transaction cost economics theory focuses on ex-post governance mechanisms (Williamson, 1988).

Transaction cost economics theory can instead offer insights on the matching of contractual governance mechanisms depending on transaction variables in order to minimize transaction costs (Williamson, 1985). Thus, it can be used to also explore the fair trade concept with contractual relationships. Key is the notion of opportunistic behavior that can impact strategic sourcing decisions in the light of lacking transparency, which makes it an ample theory in trying to discern the fair trade concept due to distant suppliers that make sustainability claims about the products they supply (Carter & Easton, 2011). Still, both agency and transaction cost economics theory have a lack of emphasis on social, political and legal dimensions (Fayezi, O'Loughlin & Zutshi, 2012), that the less applied property rights theory can offer (Kim & Mahoney, 2005; Williamson, 1996).

Property rights theory is therein rather focused on the institutional arrangements such as contracts, in terms of their effect on social welfare by minimizing efficiency losses, which addresses societal costs not present in agency or transaction cost economics theory (Kim & Mahoney, 2005). It has both an ex-ante perspective in how property rights are allocated and an ex-post perspective on the following distributional conflicts with its effects on social welfare (Kim & Mahoney, 2005). It also adds multidimensional notions of property rights and shared ownership that can enhance understanding in relation to hybrid contractual structures (Hennart, 1993) such as fair trade. Property rights theory also leaves more room for inefficient contractual arrangements, why it has a more evolutionary perspective on how these arrangements are emerging, write Kim and Mahoney (2005). In sum, the calls for research with complementary theoretical lenses (Carter & Easton, 2011) could be answered by the use of organizational economics theory to enhance contributions.

Other theoretical frameworks like institutional theory, stakeholder theory and resource-based theory can all offer alternative strategic management insights, but have been studied extensively (Amaeshi, Osuji & Nnodim, 2008; Carter & Easton, 2011; Kudla & Klaas-Wissing, 2012; Simpson, Power & Samson, 2007). This study's formulated purpose is directed at analysis from a new perspective, rather than replicating research. In addition, organizational economics

theory holds connections to both stakeholder theory (Donaldson & Preston, 1995; Kim & Mahoney, 2005) and resource-based theory (Kim & Mahoney, 2005), why the results gained from this study can be positioned against the dominant theoretical perspectives previously researched. Thereby, we believe that the theoretical framework of this study most adequately matches the purpose and can serve to contribute both theoretically and practically.

2.3 Literature Review

A search in the literature is a necessary first step in exploratory research (Cooper & Schindler, 2013; Saunders, Lewis & Thornhill, 2009) and gives the researchers an introduction to the current academic knowledge on a given topic. By systematically reviewing the existing research, we were able to more easily identify gaps, contentions and opportunities as it relates to the topic of fair trade in building the theoretical framework necessary in the deductive approach. Correspondingly, literature was reviewed through the online databases of LUBSearch and Google Scholar, making use of the following search words and/or combinations:

Sustainability

AND/OR Corporate social responsibility (+ the acronym CSR)

AND/OR Supply-chain

AND/OR Fair trade (or Fairtrade)

AND/OR Strategic management

AND/OR Organizational economics theory

AND/OR Agency theory

AND/OR Transaction cost theory

AND/OR Property rights theory

Accordingly, appropriate literature related to the study's subject matter was filtered for. For improved replicability (Bryman & Bell, 2015), peer-reviewed journals written in English were prioritized. The abstract and conclusion provided the chief method for scanning articles to be included. Moreover, the snowball principle was employed by reviewing reference lists of relevant literature, resulting in the inclusion of additional literature. Nevertheless, it is important to note that no literature review is free of its limitations. Business research is constantly evolving, making it difficult and unfeasible for such reviews to be truly exhaustive (Bryman &

Bell, 2015). For example, relevant literature might have been excluded from the above search words or forgone by having unclear or seemingly unrelated titles. Likewise, other works might have been neglected if there were published in languages other than English or Swedish or overlooked if published in mediums not captured by the chosen databases. Finally, while useful in the search for additional literature, the snowball principle introduces its own set of limitations caution Bryman and Bell (2015), noting the risk of researchers intentionally omitting referencing to studies that conflict with their own findings. However, with an open-ended research question and exploratory approach, the review becomes less narrowed and specific, thus limiting the risk of preconceptions and steering of data.

2.4 Data Collection Method

By conducting a qualitative and exploratory study, qualitative interviews were deemed the most suitable source of primary data to help answer the research question. This aptness is highlighted through qualitative interviews being flexible by design and for allowing for more detailed, tailored data (Bryman & Bell, 2015), helping us better achieve complementarity with existing secondary data for whichever direction necessary. For instance, qualitative interviews offer room for impromptu questions and for the interviewee to answer in their own words. They are often broken down into two categories, unstructured or semi-structured (Bryman & Bell, 2015). Semi-structured interviews hold predetermined guidelines to the questions, topics and themes to be covered, providing overarching structure. Bryman and Bell (2015) propose structure in this context to be particularly useful when the researcher has an idea of how data will be analyzed. With operationalization on the account of organizational economics theory, such structure will help reign in the research scope and improve depth, while also saving on time. Accordingly, semi-structured interviews will be employed as the chief method of primary data collection, as is common with sustainable supply-chain literature due to its emphasis on rich and descriptive data (Ashby, Leat & Hudson-Smith, 2012; Reuter et al., 2010).

In line with this, interview guides (appendix A-C) were prepared to provide a structural summary of the study's theoretical framework but reframed for the interviewees and their job description in order to better facilitate understanding and subsequent data. Emphasis was made on capturing the theoretical elements from the perspective of the interviewee, meaning questions were revised for each individual interview, consistent with Bryman and Bell (2015). In combination with a semi-structured approach, this also allowed for an increased breadth of

data. Moreover, the interview guide was emailed in advance to allow the subjects to familiarize themselves with the theme of the study and the scope of the interview, while also limiting surprises. However, potential prompting questions were prepared in advance to aid the researchers should responses be insufficient, as advocated for by Creswell (2007).

Interviewees were selected on the basis of the research purpose, wherein the theoretical framework employed emphasizes contractual relationships between organizations. Consequently, we aimed to interview subjects (see table 1) with adequate insight into the firm's purchasing activities and external interactions. This point is stressed by Bryman and Bell (2015), who point to the selection of participants as those able to offer relevant data with the research purpose and question in mind. As such, in line with the exploratory ambitions of the study, we targeted individuals with purchasing and sourcing insights employed in coffee roaster buyer organizations of different sizes as well as Fairtrade representatives and researchers with experience in the subject matter.

| Company/Institution | Name | Description | Function | Interview-type | Date | Duration |
|--------------------------|--|--|---|----------------|----------|----------|
| Zoegas | Minette Rosén Sofia Anderhall Hans Nilsson | Second largest coffee roaster in Sweden. Owned by multinational conglomerate Nestlé. | Purchasing Manager, Channel & Category Sales Development Manager, Marketing & Value Stream Manager | Telephone | 25.04.19 | 50m |
| Aavid Nordquist | Jean-Charles Mattei | Mid-size player with fourth largest market share in Sweden | Purchasing Manager | Telephone | 06.05.19 | 55m |
| Egale | Jens Bagooe | Small niche coffee roaster with 100% Fairtrade-certified coffee | CEO | Telephone | 01.05.19 | 40m |
| Fairtrade Sweden | Elisabet Lim | | Key Account Manager and Product Manager, Coffee and Cotton | Telephone | 26.04.19 | 1h |
| University of Gothenburg | Dick Durevall | | Professor, Department of Economics | Telephone | 29.04.19 | 45m |
| Lund University | Helena Johansson | | Policy Officer, Swedish Institute for Food and Agricultural Economics | Telephone | 07.05.19 | 45m |

Table 1. Overview of interviewees.

Moreover, secondary data was used to fill empirical gaps or strengthen existing findings. Secondary data analysis of qualitative data has in recent time become a growing topic of interest (Bryman & Bell, 2015). Cooper and Schindler (2013) explain secondary data as studies made by others for their own purposes, highlighting its usefulness for exploratory studies. They contend further that it is often inefficient to discover certain data anew when sufficient relevant research exists. In particular, it enables the provision of benchmarking and additional context to help triangulate the results of a study (Greener, 2008). Moreover, having research done for other purposes presents less of an issue as this study attempts to shed new light on an already

existing phenomena, fair trade, and thus can easily make use of information on the broader topic. Saunders, Lewis and Thornhill (2009) describe how secondary data may be of higher quality than what original research can provide due to publication criteria, why it is utilized to gain access to quality data for distant producer organizations to strengthen our study. As coffee is a global commodity, with production centered into few southern countries, such data is certainly relevant but also expensive to attain through original research. They further highlight the time savings can allow the researchers to spend more of their time and effort in analyzing data, which also made it possible to focus on the primary data collection from the buyer and umbrella organizations as well as experts. Additionally, secondary data often presents opportunities to analyze large data sets (Saunders, Lewis & Thornhill, 2009), for instance those conducted by governments or NGOs, which allowed the study to make use of studies conducted on a larger scale, especially important for substantiating wider societal and economic effects.

In sum, having broader and legitimized data also stands to help the study's generalizability, as the risk of skewed contextuality and bias stemming from original research subsides. Combined with interviews allowing for deeper, research-specific data, it enables us to triangulate our results and ultimately improves reliability (Bryman & Bell, 2015; Saunders, Lewis & Thornhill, 2009), along with the chain of evidence becoming more sophisticated, following Yin (2018).

2.5 Data Analysis and Processing

The data collected in the research was analyzed by way of content analysis, an increasingly popular method of analysis in business (Elo & Kyngäs, 2008). This type of analysis precipitates the use of theory to enhance the understanding of data, which is indeed central to the study. Elo and Kyngäs (2008) stipulate that such a method is intended to bring forth valid inferences from data to their context, with the purpose of providing new knowledge and insights. Ultimately, the end-goal is a condensed, yet broad description of the chosen phenomenon, where the final outcome of analysis results in a conceptual system, which is also what this research set out to do.

By having a specific theoretical outset in mind, this study will make use of the deductive content analysis approach, meaning the structure of the analysis is operationalized on previous knowledge (Elo & Kyngäs, 2008), namely the field of organizational economics. As it is based on earlier theories, a deductive approach moves from the general to the specific, which in the

scope of this study is highlighted by applying the general learnings from organizational economics to the specific case of fair trade. Additionally, deductive content analysis is in particular useful when existing data is being used in a new context (Elo & Kyngäs, 2008), as will be the case with our secondary data analysis. Within this approach, we will adopt the unconstrained perspective described by Elo and Kyngäs (2008), allowing additional flexibility within the theoretical bounds, akin to that of more inductive research methods. The novelty of the study speaks for added flexibility, allowing us to more broadly explore and assess the fair trade phenomenon. This is illustrated in how this study aims to connect back to more mainstream strategic management theories. In contrast, a structured approach would exclude any data not corresponding to predetermined categories set by the researchers. As a result, it is important to note that no study is purely inductive or deductive (Bryman & Bell, 2015), a dynamic which is certainly captured in our study as it is exploratory but yet deterministic in regards to theory.

Yin (2018) offers us further guidance in data analysis, wherein we see the techniques of pattern matching and explanation building as apt complements to our overarching use of a deductive content analysis. Pattern matching will serve useful as we attempt to connect the contractual relationships associated with the fair trade concept and organizational economics, since it involves the comparison of theoretical anticipations and empirical findings. In a way, we can draw parallels between pattern matching and exploratory research in that we want to build broader themes encompassing multiple theories and cases. Explanation building, on the other hand, goes more in depth as the data gathered is analyzed with the purpose of explaining the “why’s” about a case, for instance assessing the buyer organizations’ strategic intent. Thus, unlike pattern matching, this technique does not state the final explanation at the outset, rather evidence is examined and re-examined. This iterative process finally yields a revised explanatory proposition that is likely more encompassing than what could be provided through merely pattern matching (Yin, 2018). Overall, this points further to the usage of both deductive and inductive elements in the study, as is commonly the case with qualitative research (Bryman & Bell, 2015).

2.6 Validity and Reliability

Being mindful of the validity and reliability of a study constitutes an important part in ensuring the trustworthiness of a study (Bryman & Bell, 2015). In this context, validity refers to the

strategy and accuracy of a study and its subsequent findings, while reliability concerns the research design and execution in terms of consistency (Cresswell & Cresswell, 2018). To evaluate the validity and reliability of a qualitative study, we make use of Bryman and Bell's (2015) four dimensions of consideration; transferability, credibility, dependability and confirmability.

Transferability parallels external validity (Bryman & Bell, 2015; Yin, 2018), meaning the extent of generalizability of the findings. As the study set out to investigate the general state of the coffee industry within primarily the boundaries of sustainable supply-chain management, it did not require tailored data. By applying alternative theoretical anticipations on an existing phenomenon, we argue the generalizability of the findings to be fairly high. By using multiple primary sources, encompassing two of three primary actors described in the study's delimitations, in combination with academic experts, data has been triangulated (Bryman & Bell, 2015; Saunders, Lewis & Thornhill, 2009) allowing us to establish a chain of evidence (Yin, 2018), and thus aiding both analytical generalization and internal validity (Schwandt, 2007). Further, secondary data has been utilized in order to either fill empirical gaps or strengthen existing findings, in an attempt to triangulate the data further and add to the chain of evidence.

External validity can also suffer from the predominant focus on the fair trade concept rather than taking on the broad notion of sustainability in supply-chains that could provide a more holistic view. Still, the focus remains on the contractual effects of third-party labeling and certification, consistent with the notion of analyzing a specific area or practice within sustainable supply-chain research in order to not obtain a unfeasible scope ultimately limiting the ability to draw valid conclusions (Ashby, Leat & Hudson-Smith, 2012). A similar reasoning applies to the delimitations of choosing the specific Fairtrade International certification, coffee industry and Swedish context, which all can be argued to be the front-runners in their respective domains setting the stage for deeper insights. Consequently, we have taken steps to clarify which conclusions that are context specific as a result of the collected data recognizing its impact on analytical generalizability. Lastly, while studying an individual buyer organization and its supply-chain would undoubtedly allow for deeper data, the different intricacies faced depending on firm size, location and strategy would be omitted, thus reducing generalizability.

Credibility relates to internal validity and relates to the integrity of a research's findings and conclusions. With different accounts of a social reality common, the adequacy of a study depends on the credibility of the final interpretation the researchers arrive at (Bryman & Bell, 2015). As elaborated upon above, the conscious effort of interviewing multiple respondents and broadening the data has been done with the ambition of strengthening the credibility. In this vein, corroborating sources of evidence help increase the trustworthiness and quality of the research (Bryman & Bell, 2015; Yin, 2018). While the research would be aided further by additional interviews, in particular on the producer side, time and resource limitations were recognized, partly why the decision to make use of secondary data was also made. For credibility, the ability of the researchers to make inferences for casual relationships matter, writes Yin (2018), who recommends appropriate data analysis techniques in establishing internal validity. Here, he specifically goes on to suggest pattern matching and explanation building for qualitative studies, both of which are utilized in this study. This becomes important for the credibility of the final conclusions as they are highly dependent on an accurate understanding of the data, especially when working deductively in an attempt to develop theory further. For further accuracy, interviews were recorded and transcribed, allowing us to present a rich narrative with direct quotes and thus giving the reader an opportunity to make personal judgements on the credibility of the analysis (Cresswell & Cresswell, 2018).

Dependability in turn refers to reliability and aims to assess whether other researchers can repeat the study and reach the same findings and conclusions (Bryman & Bell, 2015; Yin, 2018). Consequently, adequate documentation of methodological choices and procedures is necessary to improve dependability. Thus, the chosen research design and strategy has been documented and motivated throughout this chapter, giving the reader insight to the considerations and choices taken. Nonetheless, qualitative research is subject to many internal and external circumstances, why even with an identical approach, results and findings may differ.

Lastly, confirmability involves the objectivity and if the researchers have acted in good faith, not allowing personal values and biases influence the findings (Bryman & Bell, 2015). As per previously, following Yin's (2018) suggestions for objectivity, triangulation and chaining evidence were utilized to permit verification, cross-referencing and further transparency of the data. However, similarly to dependability, we recognize that complete objectivity is unattainable in qualitative research (Bryman & Bell, 2015).

2.7 Ethics

As qualitative research mostly centers around people as participants, ethical issues must be considered (Orb et al., 2001). For the empirical data and methodological choices we consulted Bryman and Bell (2015) who stipulate four ethical principles of business research: lack of informed consent, invasion of privacy, harm to participants and deception. Each interview subject was contacted in advance, with an email detailing the purpose and scope of the study. Upon agreement, the questions were sent well in advance to allow for preparation and ensuring informed consent. No question or information was requested to be left out, nor did any respondent wish for anonymity, both of which otherwise would have been honored. Harm was also taken into consideration. Therefore, confidential information was not requested of the interviewees and participation was purely voluntary with agreement of recording. In addition, transcripts were sent to the interviewees upon request for approval. Lastly, deception was also avoided through being open about the research purpose and scope beforehand and worth noting is that we hold no affiliation or other conflict of interest as it relates to the topic or interviewees, as noted by Bryman and Bell (2015).

3. Theoretical Framework

3.1 Agency Theory

Agency theory has its roots in the separation of ownership and control that arises in publicly traded firms (Berle & Means, 1932; Fama & Jensen, 1983). The underlying agency dilemma occurs “*whenever the owner of wealth (the principal) contracts someone else (the agent) to manage his or her affairs.*” (Tricker, 2015, pp. 59). Scholars describe the relationship between the principal and agent as a contract where the agent, for example an employee, should act in the interest of the principal (Jensen & Meckling, 1976; Klein, 1999).

Agency theory has progressed to be applicable also outside the boundaries of a single firm according to Eisenhardt (1989). Agency theory’s applicability arises whenever contracting problems are difficult. As such, a more general theory has emerged that can be applied to the contracting complexity associated with buyer-supplier relationships (Harris & Raviv, 1979) evident in the fair trade concept. In particular, scholars have been interested in seeking answers to how agency theory can help inform strategic decision-making related to risk management, incentives, information and relationships in supply-chain management (Fayezi, O’Loughlin & Zutshi, 2012).

3.1.1 Contractual Problems: Agency Costs

Two problems are specifically important in the principal-agent relationship that imposes agency costs on contracting. The first problem is the conflicting goals of the principal and agent, accentuated further when it is difficult and/or expensive for the principal to control the behavior of the agent (Eisenhardt, 1989). Principals want to maximize the differential between the value produced by the agent given the incurred payments and the costs of controlling agent behavior (Eisenhardt, 1989; Fleisher, 1991). Subsequently, the principal will seek to minimize agency costs, such as, specifying, rewarding, monitoring and policing the agent’s behavior (Fleisher, 1991). Meanwhile, the agent wants to maximize the difference between the payments received and the cost of participating in the relationship, while reducing control (Fleisher, 1991).

From the perspective of the buyer-supplier relationship in the fair trade concept, this leads to a situation of hidden information where it is difficult to select suppliers (Bergen, Dutta & Walker,

1992). The supplier might choose to not reveal their true skills or abilities to the buyer, which gives rise to pre-contractual opportunism as the agent has private information hidden from the principal (Milgrom & Roberts, 1992). This leads to adverse selection in the principal-agent relationship, making it costly for principals to ensure that the agent possesses the right skills and abilities (Fayezi, O'Loughlin & Zutshi, 2012).

Hidden action is another issue as agents can be able to hide actions due to information asymmetries amplified by significant distance between the buyer and supplier in the supply chain, which can lead to sustainability scandals (Fayezi, O'Loughlin & Zutshi, 2012; Wilhelm et al., 2016). This can entail moral hazard issues where there is a lack of effort from the agent (Eisenhardt, 1989). As a result, the sustainability attributes of products and services are subject to traditional agency information asymmetries in terms of hidden action and information according to Kudla & Klaas-Wissing (2012). Consequently, increased demands on sustainable behavior in buyer-supplier relationships are linked with agency problems, which is further enhanced by social sustainability issues being harder to detect than environmental issues.

The second problem is the different risk attitudes between principals and agents, given the fact that agents cannot diversify away their risk exposure in contrast to principals, which leads to different preferred actions (Eisenhardt, 1989). This is best illustrated by the fact that an agent cannot diversify his/her employment, thus shying away from riskier but potentially more lucrative opportunities. Some criticism has been directed towards this proposition, why the risk averse assumption has been relaxed (Harris & Raviv, 1979; MacCrimmon & Wehrung, 1986). Bergen, Dutta and Walker (1992) argue that agents sometimes are prepared to accept greater risks than the principal prefers, with power relationships and risk profiles fluctuating over time. This seems to be especially applicable in a supply-chain setting where the supplier might not be as restricted in choice due to having multiple prospective buyers (Fayezi, O'Loughlin & Zutshi, 2012).

The problems outlined above could be adequately dealt with between the parties if complete contracts were available (Kim & Mahoney, 2005). This is prevented by assumptions of human behavior like self-interest, bounded-rationality as well as the aforementioned risk aversion in the context of hidden information and action (Williamson, 1988).

3.1.2 Contractual Focus: Ex-ante Incentive Alignment

The focal unit of analysis is the principal-agent contract (Eisenhardt, 1989; Kim & Mahoney, 2005). Agency theory is focused on finding the comparatively most efficient contractual solution to the principal-agent relationship ex-ante (Fayezi, O'Loughlin & Zutshi, 2012). This is also the reason behind agency theory being oriented towards the shareholder approach, focused on the lowest residual loss (Kim & Mahoney, 2005; Williamson, 1988). The residual loss is the irreducible agency cost that remains when all cost-effective monitoring costs of the principal and the bonding costs of the agent, for example reports provided by the agent, have been exhausted (Jensen & Meckling, 1976; Klein, 1999; Williamson, 1988).

The solution proposed by agency theory is to create the right incentives through ex-ante contracting (Kim & Mahoney, 2005; Klein, 1999; Williamson, 1988). Outcome-oriented contracts link rewards to the achievements of the agent such as offering bonuses or commissions, aligning the goals of the agent with that of the principal as they strive for the same outcomes (Eisenhardt, 1989). However, outcome-based contracts transfer the risk to agents to achieve targeted outcomes, why it only may be a viable option when outcome uncertainty is comparatively lower (Eisenhardt, 1989). Relaxing the risk assumptions to recognize that the agent can be less risk averse than the principal has shown to increase the viability in using outcome-based contracts (Eisenhardt, 1989; Harris & Raviv, 1979; MacCrimmon & Wehrung, 1986).

Further, agency theory has offered insights into how information systems can be used to uncover agent behavior through behavior-oriented contracts like salaries, rules, supervision and hierarchical governance (Eisenhardt, 1989). When a principal has the information necessary to verify agent behavior, agents will to a greater extent act in the interest of the principal. The degree of difficulty in monitoring tasks, defined as task programmability, determines if it is possible to specify desirable agent behavior, which affects the choice of contracting type in line with Eisenhardt (1989). As such, there is a central trade-off between the monitoring costs of behavior and the transfer of risk to agents in conjunction with the cost of monitoring outcomes. Further, high task programmability favors behavior-oriented contracts, while high outcome measurability favors outcome-oriented contracts.

Research within supply-chains using agency theory has suggested that the buyer (the principal) tend to control the behavior of the supplier (the agent), as in the case of the fair trade certification, rather than employing buffers to protect against opportunistic behavior (Zsidisin & Ellram, 2003). In a setting with sub-suppliers, the heightened information asymmetries with the associated opportunism risks warrant increased focus on transparency enhancing measures (Wilhelm et al., 2016). Further, screening, signaling and self-selection can reduce agency costs due to adverse selection in buyer-supplier relationships (Bergen, Dutta & Walker, 1992).

Another important proposition is that principals over time will learn about agent behavior the longer the principal-agent relationship proceeds, which then increasingly favors behavior-oriented contracts (Eisenhardt, 1989). Thus, a longer-term relationship stands to lead to both reduced information asymmetry as well as enhanced trust. A lack of trust in a principal-agent relationship can be compensated with changing incentives through costly contracts, as described above. Instead, trust can be built through repeated transactions where the involved actors understand that it is in their own interest to honor the trust as they otherwise will lose out on future transactions (Miller, 1992).

Reputation is another element to consider and its role extends to both one-time purchases as well as long-term relationships. Reputation can serve as an effective check on opportunism with a bad reputation reducing future opportunities for profitable transactions and introduces a cost offsetting the short-term gains from opportunistic behavior (Milgrom & Roberts, 1992). The incentives to build and maintain a reputation are positively related to “... *the frequency of similar transactions, the horizon over which similar transactions are expected to occur, and the transaction's profitability.*” (Milgrom & Roberts, 1992, p. 139).

In supply-chain operations, factors relating to trust, commitment and knowledge often outweigh contractual relationships (Fayezi, O’Loughlin & Zutshi, 2012). Nevertheless, Norrman (2008) stipulates that agency relationships which address both contractual and relational concerns are more likely to be effective. In sum, agency theory displays how structure, contracts and trust provides prerequisites for successful collaboration when responding to risk outside of your own control (Cheng & Kam, 2008).

3.2 Transaction Cost Economics Theory

Transaction cost economics theory centers on minimizing transaction costs to determine the comparatively most efficient contractual solution according to Kim and Mahoney (2005). This is made from the perspective of the shareholders, why the theory can be said to align better with the shareholder-orientation. Transaction costs can be operationalized as the “*costs of carrying out any exchange, whether between firms in a marketplace or a transfer of resources between stages in a vertically integrated firm*” (Hobbs, 1996, p. 17). Typically, transaction costs are divided into three main categories (Hobbs, 1996): (1) information costs, for example the cost of finding business partners (Shelanski & Klein, 1995) or information about products, (2) negotiation costs, for example the cost of drawing up a contract and (3) monitoring costs, for example the cost of monitoring quality or enforcing compliance.

Transaction cost economics theory is used to guide strategic decision-making in make or buy decisions (Williamson, 1985). Therefore, transaction cost economics theory can offer insight to sustainable supply-chain related concepts like fair trade (Carter & Easton, 2011). Similar to agency theory, transaction cost economics theory recognizes the presence of incomplete contracting, bounded rationality and opportunism (Williamson, 1988), which are present in a supply-chain setting due to communication and information problems related to sustainability issues (Carter & Easton, 2011). Further, trying to implement sustainable policies in a supply-chain will impose transaction costs on chain members as new contracts need to be stipulated in terms of responsibilities and monitoring (Acquier, Valiorgue & Daudigeos, 2017).

3.2.1 Contractual Problems: Transaction Variables

For transaction cost economics theory, the transaction is the unit of analysis (Kim & Mahoney, 2005). The choice of different contractual governance structures is dependent upon the characteristics of the transaction, namely the three fundamental variables of asset specificity, uncertainty and frequency (Williamson, 1985).

Uncertainty relates to the time horizon of transactions. Typically, the lengthier timeframe, the more contingencies requiring contractual adaptation are introduced (Milgrom & Roberts, 1992). This opens up for opportunism and given bounded rationality among the actors, it becomes impossible to foresee all disturbances beforehand, giving way to revised contractual

arrangements (Williamson, 1985). Similarly, Milgrom and Roberts (1992) note that the more complex a transaction, the more uncertainty is introduced, ultimately yielding less determinate contracts. Frequency refers to the number of transactions over a specific time period among parties. More frequent transactions set the stage for costlier governance structures and asset specific investments, with costs easier to motivate if the transaction is repeated rather than only performed sparsely (Williamson, 1985).

Nevertheless, the focal dimension of transaction cost economics theory is asset specificity (Kim & Mahoney, 2005). Asset specificity is defined as “*durable investments that are undertaken in support of particular transactions, the opportunity cost of which investments is much lower in best alternative uses or by alternative users should the original transaction be prematurely terminated*” (Williamson, 1985, p. 55). In other words, it relates to the degree of relation-specific investments required in order to maximize the value of a transaction. Asset specificity is typically divided into four categories: site asset specificity, physical asset specificity, human asset specificity as well as dedicated asset specificity (Acquier, Valiorgue & Daudigeos, 2017). These are the types of relation-specific investments that should entail cost savings if contracts are fulfilled but cannot be re-deployed outside the relationship without incurring significant costs (Williamson, 1985). By implementing sustainability policies, relation-specific investments are needed, such as suppliers changing their production processes or training employees in socially sustainable work practices (Acquier, Valiorgue & Daudigeos, 2017; Huq, Stevenson & Zorzini, 2014).

The shorter a contractual arrangement is, the more likely it is for a contracting solution to be satisfactory (Milgrom & Roberts, 1992). The risks associated with unexpected changes that make the original contract ineffective can lead to maladaptation costs, in line with Klein (1999). A central problem is a hold-up situation that can emerge due to asset specificity. A hold-up is common in the presence of high costs associated with terminating the transaction for one party, as a result of their investments, and with the other party being aware of it. In such cases, the abusing party can extract temporary value through leverage until the transaction meets its end. In terms of relation-specific sustainability investments, transaction costs will rise as the chain member undertaking the investments wants to make sure they are adequately compensated (Acquier, Valiorgue & Daudigeos, 2017; King, 2007). Consequently, it becomes important to reduce asset specificity in such supply-chain relationships. Other sources of contractual issues can come from, for example, bilateral dependence, measurement difficulties, a weak

institutional environment and over-searching problems (Williamson, 1996). The problems are enhanced in a supply-chain due to the distance between the suppliers and buyers and different actors making claims related to sustainability that are hard to verify given the lack of transparency (Carter & Easton, 2011), which fair trade aims to solve.

3.2.2 Contractual Focus: Ex-post Governance Mechanisms

Rather than an ex-ante perspective, transaction cost economics takes an ex-post approach to contracting (Williamson, 1988) by choosing the governance structures that minimize transaction costs given the type of transaction (Williamson, 1985). These governance structures intend to protect the transacting parties from the different contractual problems described above (Klein, 1999). Frequent transactions, in particular those over a long time frame, incentivize governance mechanisms and structures that are specialized towards the transaction and thus less reliant on traditional dispute mechanisms, for example courts, explain Milgrom & Roberts (1992). Therefore, high frequency may warrant more costly governance structures like long-term contracts or vertical integration (Williamson, 1985).

Contracting through a market mechanism may be suitably used in transacting basic commodities where transactions are relatively simple, characterized by low uncertainty and specificity in line with Klein (1999) and Williamson (1985). In contrast, the vertically integrated firm can be more suitable for transactions with high asset specificity and greater uncertainty given the ability to coordinate efforts internally while protecting the asset specific investments. Still, these vertical structures can provide diminished profit maximization with additional bureaucratic costs, why internal transactions are typically not subject to the same profit incentives as competitive market transactions (Klein, 1999). In-between are the hybrid structures where transaction costs are not minimized by either the market or hierarchical governance mechanisms if the transaction is characterized by average asset specificity and uncertainty (Williamson, 1985). Examples of such hybrid structures range from complex longer-term contracts to partial ownership arrangements like joint-ventures (Klein, 1999). Most global supply-chain arrangements are a form of hybrid contracting in-between market and hierarchy (Acquier, Valiorgue & Daudigeos, 2017).

As bilateral dependency for value creation is built up in a supply-chain relationship, more complex governance structures are required, transitioning away from market to hybrid

contracting with vertical integration as a last resort (Williamson, 2008). However, commodities such as coffee beans are typically non-strategic and can be purchased through a market-based structure in line with Pagell, Wu and Wasserman (2010). Meanwhile, sustainability features can introduce additional policing and enforcement costs, like the certification in fair trade, as well as search costs for commodities with the desired sustainability features. In turn, this could lead to under-investment where vertical integration or long-term contracts might be a solution to undertake the more effective relationship-specific investments given uncertainty (Williamson, 1985). Contracts tend to be longer when more asset specific investments are required to give more protection (Crocker & Masten, 1988). A common contract is the “take-or-pay” contract where the party undertaking relation-specific investments are guaranteed to get compensated for a certain minimum level of quantity (DeCanio & Frech, 1993). However, contractual length is shorter when uncertainty rises given the inability to strike efficient contracts (Klein, 1999).

Still, there can also be informal arrangements minimizing transaction costs building on long-lasting relationships and reputation, as in agency theory (Klein, 1999). Chiles and McMackin (1996) expound on trust as constraining opportunistic behavior, contending the value of reputation can make parties forego short-term outcomes through opportunism. They note that a reputation can also decrease search and contracting costs with future exchange partners. Thus, hybrid governance structures could prove more cost effective with trust, than hierarchical vertical governance structures in reducing opportunism (Chiles & McMackin, 1996). In summary, the insights generated from transaction cost economics theory shows how adversarial relationships increase transaction costs, while cooperation and information exchange can help reduce transaction costs that can lead to competitive advantages (Hobbs, 1996).

3.3 Property Rights Theory

Property rights theory is the least applied theory of the three in a supply-chain setting like fair trade. Property rights theory promotes comparative efficiency in assessing different institutional arrangements like contracts (Coase 1937; 1960). In contrast to agency and transaction cost economics theory, the comparative assessment is based upon a stakeholder orientation with societal costs taken into account (Kim & Mahoney, 2005). Thus, the definition, allocation and protection of property rights constitute a fundamental societal issue and a central

part of human rights and capitalism (Alchian, 2008). This is noteworthy given the fair trade movement's background in the perceived injustices of the capitalist system (Moore, 2004).

To understand this, a key distinction in property rights theory is between economic and legal property rights, with economic property rights being the area of interest (Barzel, 1997). Economic property rights are defined as the "*rights an individual has over a commodity (or an asset) to be the individual's ability, in expected terms, to consume the good (or the services of the asset) directly or to consume it indirectly through exchange.*" (Barzel, 1997, p. 3). Pivotal is that the use of economic property rights needs to be approved by society through compliance with law and social conventions in order to reach its maximum potential value (Alchian, 2008). Further, the value of property rights is affected by governmental protection, people's own protection efforts and others' capture attempts (Barzel, 1997). However, a property right owner is not protected from other owners offering better exchange deals, where voluntary exchange bids are key to competition (Alchian, 1965; Demsetz, 1966).

3.3.1 Contractual Problems: The Transaction Costs of Property Rights

Following the work of Coase (1937; 1960), transaction costs make up a fundamental part of property rights theory. Transaction costs are here defined as "*the costs associated with the transfer, capture and protection of rights.*" (Barzel, 1997, p. 4), which reflects that the focal dimension is property rights and not the transaction in itself as in transaction cost economics theory (Kim & Mahoney, 2005). This relaxes the restrictive assumptions of neoclassical economists (Klein, 1999) by acknowledging that the transfer and protection of property rights come at a cost, which can prevent the full utilization of economic property rights that would require perfect knowledge of the attributes of the exchanged asset (Alchian, 1969; Barzel, 1997; Furubotn & Pejovich, 1972).

This is especially important to the concept of fair trade where commodities, such as coffee beans, are the central asset exchanged (Moore, 2004). In this respect, even simple commodities have many different attributes that can vary with high costs of gaining hold of information for the buyer, such as the social conditions of production, environmental impact and quality, which the seller does not receive additional compensation for (Barzel, 1997). This follows the assumption that economic actors are maximizing net gains of an exchange where some

attributes might be put in the public domain open to capture attempts as they are too costly to obtain information for (Barzel, 1997).

In the context of environmental sustainability issues, Coase (1960) explained that in a world without transaction costs, private bargaining could solve problems related to, for example, pollution if property rights were specified, which would give the actor extracting the most value incentives to compensate harmed parties. However, the collective action problem and the massive transaction costs associated with negotiating with all parties affected by pollution can stifle exchanges of property rights to adequately compensate for environmental damages failing to bridge the gap between private and social costs (Coase, 1960). This does not neglect the fact that governmental arrangements like regulation, taxes and subsidies suffer from transaction costs and vested interests might capture the legislative process given the high transaction costs faced by less organized tax-payers (Pennington, 2015).

In this respect, transaction costs are not as high in social sustainability issues as the involved contracting parties are generally fewer, often between the employer and employee (Demsetz, 1966). The comparative assessment based on social welfare in the stakeholder approach (Kim & Mahoney, 2005) also warrants that benefits and costs are evaluated together why a less pristine environment or lower quality working conditions might be desirable if the alternative is poverty impoverished communities (Pennington, 2015).

3.3.2 Contractual Focus: Ex-ante Allocation and Ex-post Distributional Conflicts

The purpose of contracts within property rights theory is to allocate property rights among individuals that specify ownership and control ex-ante (Barzel, 1997). In this vein, the transaction costs related to property rights can warrant the use of supporting mechanism to facilitate the exchange of property rights by lowering the associated transaction costs (Ferris, 1982). Minimized transaction costs can be a strong source for competitive advantage by making exchanges of property rights possible that otherwise would not occur in line with Foss & Foss (2005).

Examples of such supporting mechanisms are labeling and branding, which are two ways of selling information through the exchanged property rights of an asset following Demsetz's (1964) example of canned goods. Labeling contributes with decreased transaction costs as it

enforces responsibility for guaranteeing the underlying attributes of the exchanged goods like certain ingredients. Otherwise, it would be easy for other producers to capitalize on the inseparability of the underlying attributes in the eyes of the customer, why some goods would be left in the public domain and subject to underinvestment due to the mentioned capture attempts. Barzel (1997) complements with examples of how government regulation impacts the exchange of economic property when it comes to the different attributes of the underlying asset. One attribute of an asset is its price. If the attribute of price is regulated, then other attributes could be scaled back in order to maximize the gains from the seller's perspective. Barzel (1997) uses the example of price restrictions on fuel that in the light of high demand made gas-station owners draw back on service and fuel quality. Moreover, prices can also be maintained due to property rights restrictions and transaction costs, limiting the perfect free market dynamics proposed by neoclassical economists (Alchian, 1969).

Owners of property rights might also use contracting to transfer only a subset of the attributes of an asset, which leads to divided ownership (Alchian, 1965; Barzel, 1997; Kim & Mahoney, 2005). This is evident in wage, rent and share contracts where the ultimate ownership of the exchanged asset does not change hands. Pure unified ownership has its own drawbacks in terms of transaction costs through a lack of specialization and mismatch between the most productive human and non-human assets even in commodity production (Barzel, 1997). Thus, a central reason behind the existence of firms is that team production can lead to a larger output by coordinating different input owners such as suppliers (Alchian & Demsetz, 1972). Further, this interpretation of the firm suggests that contracting is based on mutual agreements, meaning the firm is not some type of dictatorial mechanism forcing input owners, even impoverished workers, to engage with the firm (Alchian, 1965; 2008; Alchian & Demsetz, 1972).

Property rights theory promotes comparative assessment when it comes to the efficiency of different institutional arrangements like the firm or other contractual mechanisms (Coase, 1960). Nevertheless, property rights theory recognizes that vested interests can make comparatively inefficient institutional arrangements persist that can lead to ex-post distributional conflicts (Kim & Mahoney, 2005). In the context of environmental regulation, the collective action problem and the massive transaction costs associated with negotiating with all parties affected by pollution can render public action necessary (Coase, 1960). However, transaction costs do not constitute the same obstacle for employees or suppliers in negotiating away harmful work tasks or receiving compensation in ex-ante contracting (Demsetz, 1966).

Communities that already have few job opportunities tend not to benefit from additional regulation like minimum wages at least from a property rights perspective (Alchian, 1969), which otherwise could be used to screen away unacceptable offers (Ferris, 1982).

3.4 Organizational Economics Theory and Strategic Intent

As mentioned, the theories differ in their strategic intent with agency and transaction cost economics theory aiming to guide the strategic management decisions in achieving the comparatively most efficient contractual solutions from the perspective of the shareholders (Kim & Mahoney, 2005). Before stakeholder pressure began to mount in warranting a economic case (Chandler, 2016), investments into CSR-activities by firms were viewed as agency problems, in the words of Friedman (McWilliams & Siegel, 2001). It was an expression of how managers used shareholder capital to further their own political and social ambitions. Capital that could have otherwise gone into increasing the company's efficiency, which would benefit society with increased tax revenue. Still, Friedman argued that corporations should follow the law and established social conventions (Chandler, 2016).

The stakeholder orientation within strategic management suggests “*organizations should be managed in the interest of all their constituents, not only in the interest of shareholders.*” (Laplume, Sonpar & Litz, 2008, p. 1153). The idea behind this approach is that organizations will benefit financially from taking a longer-term perspective to management as organizations are dependent upon their stakeholders for continued success (Freeman, 1984). Common stakeholders include organizational, economic and societal stakeholders (Chandler, 2016). The stakeholder view has traditionally been seen as an alternative to shareholder-based theories, which agency and transaction cost economics theory are examples of by relaying the fundamental objective of maximizing shareholder wealth (Laplume, Sonpar & Litz, 2008). This conflict has also dominated the perspectives put forward in CSR-literature (Chandler, 2016). Property rights theory builds on the stakeholder strategic intent by being concerned with evaluating the comparative efficiency of contractual arrangements based on social welfare (Kim & Mahoney, 2005).

The organizational economics theories used in this study share their objective of better explaining the existence of firms than neoclassical economists with the widespread resource-based view strategic management theory (Mahoney & Pandian, 1992). Barney (1991) argued

that strategic resources possessed by a firm help explain their existence and why certain firms could achieve a competitive advantage. Parallels can be drawn between the importance of uncertainty that prevents complete contracting in the chosen organizational economics theories (Klein, 1999; Williamson, 1988) and how uncertainty affects the use and value of strategic resources (Mahoney & Pandian, 1992).

There are also natural connections with agency theory in how a firm strategically decides to expend their resources in order to limit agency costs (Castanias and Helfat, 1991). Transaction cost economics theory can be linked in a similar way where transaction costs affect how resources are combined in a supply-chain through make or buy decisions (Mahoney & Pandian, 1992). In terms of property rights, how property rights are actually allocated affects both their value and strategic importance, why they are typically protected and exchanged (Libecap, 1989). Resources have many attributes, just like a basic commodity like coffee (Barzel, 1997), to which attributable property rights can be allocated according to Foss and Foss (2005). This affects the owner's ability to create, appropriate and sustain value in addition to the transaction costs of exchanging, defining, and protecting these property rights. Minimizing transaction costs can, therefore, be one way of creating value that can lead to a sustained competitive advantage (Foss & Foss, 2005). Transaction costs can further explain the need for unique resources that differentiate firms from each other (Mahoney & Pandian, 1992). This internal perspective based on strengths and weaknesses contrast with the external focus of Porter (1985) who focuses on opportunities and threats in gaining a competitive advantage based on the firm's position as either a differentiator or cost leader (Barney, 1991).

3.5 Summary of Theoretical Framework

| | Agency Theory | Transaction Cost Economics Theory | Property Rights Theory |
|-----------------------------|--|---|---|
| Key Idea | Managing the contractual relationships in order to minimize the agency costs of ensuring that the agent acts in the interest of the principal. Strategic Intent: Shareholder | Managing the contractual relationships through the choice of governance structures based on the transaction variables in order to minimize transaction costs ex-post. Strategic Intent: Shareholder | Managing the contractual relationships based on the ex-ante allocation of economic property rights and ex-post distributional conflicts. Strategic Intent: Stakeholder |
| Contractual Problems | Primarily two major problems cause agency costs to appear in the principal-agent relationship: - Conflicting goals between principal and agent, amplified by the sub-problems of hidden information and hidden action making it costly to control agent behavior. In sustainable supply-chain management, sustainability attributes become subject to information asymmetries in terms of hidden action and information. - Differences in risk preferences , where the agent is generally assumed to be risk averse while the principal enjoys a diversified position. Some critique has been directed towards this proposition, where agents sometimes are prepared to accept greater risks than preferred by the principal, especially in a supply-chain setting. | Three transaction variables are key to determine the right choice of governance structures: - Uncertainty increases the need for contractual adaptations as complete contracts do not exist, why it is positively related to the time horizon of the contracts. - Frequency refers to the number of transactions over a specific time period among parties, which is positively related to costlier governance structures. - Asset specificity concerns durable investments supporting the specific transaction but have little value if contractual relationships are terminated. By implementing sustainability policies, asset specific investments are needed entailing that supply-chain members want to ensure that they are adequately compensated. | The value of exchanged economic property rights can be constrained by high transaction costs: - Assets , even simple commodities, have multiple attributes that can be costly to obtain information about. - The transaction costs incurred by the buyer is not something the seller can charge, why some attributes may be placed in the public domain open to capture attempts. - The transaction costs stemming from collective action problems are typically lower for social issues compared to environmental issues given the fewer involved affected parties. |
| Contractual Focus | Agency costs are to be minimized through the ex-ante alignment of incentives through the use of either: - Behavior-oriented contracts that curb agent opportunism by collecting information about agent behavior, which are positively related to task programmability. Within supply-chain settings, buyer organizations tend to control the suppliers through behavior-oriented contracting. - Outcome-based contracts that curb agent opportunism by aligning the goals of the principal and agent through rewarding outcomes that benefit the principal, which are positively related to outcome measurability. - Repeated transactions in longer-term relationships where reputation and trust can curb agent opportunism by offsetting short-term gains of opportunistic behavior. Factors relating to trust and commitment can outweigh contractual relationships in supply-chain settings, where the likely most effective solutions address both contractual and relational concerns. | Transaction costs can be minimized by the choice of governance structure matching the transaction variables: - Simple transactions characterized by lower uncertainty and asset specificity favor contracting through the market in order to utilize its higher efficiency. - Complex transactions characterized by higher uncertainty and asset specificity favor contracting through vertical integration where relationship-specific investments can be protected, given that the frequency warrants this costlier governance structure. - Transactions characterized by average uncertainty and asset specificity favor hybrid contractual arrangements, such as longer-term contracts, to provide safeguards against opportunism. While commodities are typically non-strategic and are largely available through market mechanisms, sustainability features can introduce additional policing, enforcement and search costs for the buyer organizations. - Trust can be a mediating factor limiting the need for costlier governance structures to protect against opportunism. | Contracts are used to allocate economic property rights among individuals that specify ownership and control ex-ante: - High transaction costs might warrant the use of supporting mechanisms to facilitate the exchange of economic property rights. - Labeling and branding can be used to sell information through the exchanged asset to increase the value of the exchanged economic property rights by enforcing responsibility for the underlying attributes. - The regulation of certain attributes like price can have an impact on how economic actors handle other asset attributes. - Vested interests can make comparatively inefficient institutional arrangements, like contractual arrangements, persist that can lead to ex-post distributional conflicts. |

Table 2. Summary of theoretical framework.

4. Empirical Findings

4.1 Overview of the Fairtrade Concept

The fair trade movement began to evolve in the late 80s across Europe and North America and standardized in 1997 as Fairtrade International, acting as a global umbrella organization (Moore, 2004). Fairtrade International tries to accomplish improved conditions for certified producer organizations mainly by two contractual arrangements. The first part is by guaranteeing producers that sell Fairtrade-certified commodities a minimum price, which aims to compensate producer organizations for more sustainable production (Fairtrade International, 2019c). By putting the Fairtrade label on products that buyer organizations provide to consumers, a premium price can be justified covering the potentially higher cost incurred for the commodity (Chandler, 2016).

The second mechanism is used to warrant the higher price, which is the standards developed by Fairtrade International that specifically targets sustainability issues related to production and business development (Fairtrade International, 2019d). The producers in the coffee industry are typically smallholders, described as family producers not structurally dependent on permanent hired labor (Fairtrade International, 2019e). These small producers are organized through cooperatives with equal voting rights in an effort to increase their bargaining power, why the cooperative itself becomes certified by Fairtrade International (2019c). Fairtrade International (2019b) has today 445 certified coffee cooperative producer organizations representing around 800 000 coffee farmers in 30 countries. This can be compared with the around 25 million smallholders producing coffee around the world. In addition to the minimum price, the cooperative also receives a Fairtrade-premium based on their sales to invest in community and productivity improvements (Fairtrade International, 2016). In turn, Fairtrade receives compensation from the buyer organizations paying a licensing fee based on the sold volume of Fairtrade-certified products (Fairtrade International, 2019f).

4.2 Agency Theory

4.2.1 Contractual Problems: Agency Costs

A central reason behind the choice of selling sustainably produced coffee for buyer organizations is the value created by meeting the customer demand for socially sustainable products (Löfbergs, 2018; Mattei; Baagøe; Rosén, Anderhall & Nilsson, 2019). Studies show further that these consumers are willing to pay a market premium (Hainmueller et al., 2015). This development is in part due the surge in public acknowledgement on the role of corporations in society and how they stand to impact poverty and sustainability more broadly (Utting, 2009). The demand has increased from not only private consumers but also from commercial and governmental consumption. This value addition is further confirmed by the researchers interviewed (Durevall; Johansson, 2019). The respondents unitedly express a belief that Fairtrade and certified coffee in general will increase as a result of heightened social awareness and stakeholder demands. Fairtrade Sweden's coffee product manager Lim (interview, 2019) describes the competitive benefits:

“Coffee roasters need to launch Fairtrade products in order to compete ... seeing mutual reinforcement of doing good and being good for business when working strategically with Fairtrade in addition to enhancing their brands.”

A Fairtrade certification also gives farmers in cooperatives access to an export market they otherwise would not have, with higher prices than if coffee beans were sold locally (Bello & Westerberg, 2014; Lim, 2019). The fact that producers involved in fair trade certifications generally receive higher prices and income than conventional producers is confirmed by numerous economic impact studies (Bacon, 2005; Bacon et al., 2008; Méndez et al., 2010; Weber, 2011). Researcher Durevall (interview, 2019) relays similar positive effects for producer organizations:

“[Fairtrade producers] can get paid more, but it is primarily about the support. They receive connections, it is easier to export and the premiums paid are partly used to improve productive technology, schools and the local community at large.”

However, in order to sell sustainable coffee products, the risks evident in the supply-chains need to be managed. A significant factor to take into account are the different cultures and differing attitudes towards risk along the supply-chain, which is why it is imperative to demand explicit minimum standards before entering into contractual relationships, explain Zoegas representatives Rosén, Anderhall & Nilsson (interview, 2019). They further highlight the industry price volatility as augmenting the importance and difficulty in choosing suppliers, stressing that suppliers must hold the same long-term perspective and values. Further, quality has been presented as the primary parameter in the purchasing of coffee beans by all respondents in order to achieve a desired taste profile for the product reaching end-consumers. The quality of coffee beans can significantly vary between suppliers and harvests according to researcher Durevall (interview, 2019), which further increases the importance of supplier selection.

Once a supplier has been selected, respondents describe the complex task of ensuring that the coffee beans have been produced sustainably. Some of the mentioned risks include child and forced labor, low salaries, unregulated working hours, discrimination and dangerous working conditions (Arvid Nordquist, 2018; Mattei, 2019). Researcher Durevall (interview, 2019) points to this complexity by highlighting the problem associated with information gaps in global supply chains. Fairtrade Sweden coffee product manager Lim (interview, 2019) believes that it is almost impossible for buyer organizations to control sustainable aspects of production even though you visit the producers regularly, why an external certification can be necessary as conventional coffee does not offer any guarantees. This is a view shared by all interviewed respondents given the difficulties of ensuring sustainable conditions in an industry characterized by fragmented supply and large quantities.

4.2.2 Contractual Focus: Ex-ante Incentive Alignment

In terms of supplier selection, the larger company Zoegas demands that potential suppliers agree to follow the Nestlé code of conduct for all their purchased coffee (Rosén, Anderhall & Nilsson, interview, 2019). For the smaller buyer organization Egualé, CEO Baagøe (interview, 2019) explains how the exclusive use of Fairtrade makes supplier selection easier as it relates to sustainability issues, knowing the methodology behind the external independent audits conducted throughout the supply-chain. Simultaneously, it narrows the field of potential suppliers, requiring increased attention on securing the quality necessary for the firm (Mattei,

interview, 2019). Arvid Nordquist (2018) motivates the decision of buying exclusively third-party certified coffee as aiding in supplier selection to ensure the expectations and demands they have on their production and supply-chain at large. The long-term perspective is also stressed, where careful selection of and relationship-building with suppliers is necessary in order to ensure that they possess the ability to deliver on future contracts (Löfbergs, 2018; Mattei, 2019).

The representatives of Zoegas also recognize the difficulties but suggest that they have in addition rigorous processes to ensure compliance with their codes of conduct (Rosén, Anderhall & Nilsson, interview, 2019). Introducing own programs is also part of a greater trend in firms seeking to take on more responsibility as it pertains to sustainability (Haight, 2011). In this vein, researcher Johansson (interview, 2019) contends that the power of large corporations enables them to exert more control and demand more from their suppliers, such as having reasonable trading and working conditions. The mid-sized player Arvid Nordquist describes that they cannot by themselves control all coffee beans bought (Mattei, interview, 2019), where certification and control can minimize the risk for unsustainable work practices through the supply-chain (Arvid Nordquist, 2018; Löfbergs 2018). For instance, to achieve certification, producers must adhere to documentation routines, tracking and internal inspections (Bello & Westerberg, 2014). However, the company also employs internal control programs and audits on location for both Fairtrade and other suppliers (Mattei, interview, 2019). Eguale CEO Baagøe (interview, 2019) illustrates this further:

“It [ensuring socially sustainable coffee beans] is only possible in two ways. If you are sufficiently small to know all your farmers and cooperatives and visit them frequently on location, it is doable to conduct direct trade. However, doing anything larger than that requires dependence on external controls and systems with standards. You cannot keep track of all flows without regular audits.”

Producer organizations need to comply with the Fairtrade International Standard for Small-scale Producer Organizations (2019e). This standard explicitly states a number of focus areas to ensure better conditions for farmers in addition to environmental requirements. These include freedom from discrimination, forced labor, child labor as well as freedom of association and collective bargaining. Conditions of employment are also stated regulating wages, subcontracted work, social security and other benefits in addition to occupational health and

safety. There is also a specific standard for coffee mainly regulating how the sales price of coffee beans should be established in accordance with the minimum price requirement (Fairtrade International, 2019e).

Moreover, purchasing manager Mattei (interview, 2019) describes how the risks are much greater when purchasing uncertified coffee beans depending on how much control you have in your supply-chain. The representatives from Zoegas (Rosén, Anderhall & Nilsson, interview, 2019) suggest that a third-party certification is validation of that the sustainability work is compliant with acceptable criteria when a company works on a wide array of sustainability issues. Researcher Johansson (interview, 2019) agrees on third-party certifications being able to unburden some of the control needs of the purchasing firms, noting however that it is difficult even for the certifiers themselves to control the conditions of suppliers. If certifiers can keep their promises more reliably, then it is a great tool for the purchasing firms to make use of, she adds. Fairtrade Sweden product manager Lim (interview, 2019) argues:

“One of our strongest points are our criteria and the independent audit conducted by Flocert. In essence, firms outsource some of the risk and control through certifications. That does not mean it is flawless and bad things happens, but we have systems in place for that.”

She explains further that if transgressions are found, you can be suspended as a producer and have three months to present an action plan, whereupon there will be new audits and visits.

Longer-term relationships established through Fairtrade and other certifications also increase the importance of trust between the contracting parties. For instance, the problems associated with low-quality coffee from certified producers can be mitigated through trust, where the parties need to employ less formal measures to secure the desired quality beans (Baagøe; Mattei; Rosén, Anderhall & Nilsson, 2019). Consequently, the relationship is of mutual importance (Rosén, Anderhall & Nilsson, interview, 2019). Fairtrade Sweden product manager Lim (interview, 2019) describes a past situation in which spot market prices soared above the Fairtrade minimum price for certified coffee. This led to contractual breaches from producers who did not deliver agreed quantities to Fairtrade buyer organizations, but rather sold their coffee beans to other buyers at the current market price. Thus, building trust is crucial within the industry explains purchasing manager Mattei (interview, 2019). He describes further the way Arvid Nordquist works on building trust with suppliers:

“What we have tried to do, especially with Fairtrade cooperatives, has been to move away from the opportunistic way of purchasing, especially with the world markets prices being as low as they currently are. We have seen the effects of long-term relationships as positive for both parties and made a conscious effort to buy from the same cooperatives, year after year.”

He also highlights this commitment as helping the producers plan their crops much better and ensure a larger portion being sold as certified, wherein a certain volume is necessary for all the farmers in a cooperative. Similarly, Löfbergs, another large Swedish coffee roaster, has previously helped cooperatives reach certification through knowledge and co-financing, while also committing to purchase the first produced certified coffee (Bello & Westerberg, 2014).

4.3 Transaction Cost Economics Theory

4.3.1 Contractual Problems: Transaction Variables

A central area to consider is the transaction variables characterizing the transaction of coffee beans. The frequency of contracting to purchase coffee beans is typically done on a harvest to harvest basis once a year, explain the respondents. Rosén, Anderhall and Nilsson (interview, 2019) point out how supply differs depending on the countries. CEO Baagøe (interview, 2019) then describes that rolling contracts are put in place as to how the contracted quantity is supposed to be delivered. This is supported by purchasing manager Mattei (interview, 2019) who suggests that Fairtrade coffee beans are special in that sense. As you are dealing with cooperatives exporting their certified beans, they need to more or less have the quantity on hand in order to be able to contract, why longer time horizons might not be possible. Rosén, Anderhall and Nilsson (interview, 2019) go on to explain:

“There are few that would want to contract beyond the current harvest, why the normal situation is that you contract from one harvest to the next.”

A variable behind this frequency is the significant uncertainty evident in the transaction of coffee beans. Price volatility is a factor that is brought up by every respondent as essential to take into consideration. This volatility impacts in particular the producer side, with large fluctuations making revenue forecasting difficult (Bello & Westerberg, 2014). Researcher Durevall (interview, 2019) describes the vulnerable situation for producers who might be

subject to extensive damages from weather and diseases, undercutting supply and potentially making the price rise sharply. Rosén, Anderhall and Nilsson (interview, 2019) further explain how political conditions, as well as oversupply and undersupply introduce uncertainties when contracting. A high price can then induce other producers to plant more, but it takes several years for plants to actually start generating sufficient quantities of beans (Durevall, interview, 2019).

The third variable to consider is the need for the transacting parties to make investments. In contrast to conventional coffee bean production, stricter sustainability standards regulating the transaction require additional investments to be made (Bello & Westerberg, 2014). For example, Fairtrade works actively with producer organizations to ensure that they invest in basic healthcare, education and general welfare in the local producer communities (Baagøe, interview, 2019). Purchasing manager Mattei (interview, 2019) argues that certain investments might be necessary, like expanding delivery capacity and segregating production based on different certification and conventional beans. Human capital investments are also required with knowledge in production, quality and sustainability (Baagøe; Rosén, Anderhall & Nilsson, interview, 2019).

4.3.2 Contractual Focus: Ex-post Governance Mechanisms

The current situation in the coffee industry has resulted in different contractual solutions. The conventional coffee market is highly spot-market driven as confirmed by all respondents. Rosén, Anderhall and Nilsson (interview, 2019) and purchasing manager Mattei (interview, 2019) illustrate how quality determines if a premium is paid above the market price in contracting. Still, neither the buyer nor producer organizations need to be tied to each other in longer term contractual relationships:

“You can buy coffee on the spot market where it [long-term relationship and trust] practically does not matter. You simply purchase it. The type of story you want to build towards the consumers depends on what type of company you are and how much value you place on quality.” (Johansson, interview, 2019).

The fact that the quality of coffee beans is measurable, and the sustainable side is not, makes conventional coffee possible to buy in the spot market (Johansson, interview, 2019). On the

other hand, Fairtrade-certified coffee beans are regularly bought from the same producer organizations year after year in order to let the cooperatives plan ahead explains manager Mattei (interview, 2019):

“It is worth trying to establish long-term relationships with our suppliers and buy from the same cooperatives year after year. Of course, they have to deliver on their part. We see that it makes a huge difference as they get an opportunity to plan ahead. For example in Fairtrade, it is quite uncommon that a cooperative manages to sell all their beans through Fairtrade, a part is sold as conventional too. For them it is important to secure early in their harvest that they can sell a large part of it as Fairtrade. They get a guarantee that the average price will be sufficient for their members and ensure an adequate Fairtrade volume.”

He further describes the challenging process of reaching their goal of 100 % certified coffee beans in general:

“This was really a challenge in the beginning. Together with our suppliers we have been able to look at the countries of origin and build programs for certification from scratch in countries with none or very little certified coffee in order to increase supply.”

This process is further complicated by the need to ensure that the certified coffee beans actually meet the strict quality requirements (Baagøe; Mattei; Rosén, Anderhall & Nilsson, 2019). Therefore, the restricted choice of Fairtrade suppliers incurs additional costs of gaining information and controlling quality, that can be higher than for conventional coffee (Durevall, interview, 2019). However, purchasing manager Mattei (interview, 2019) argues that the minimum price stipulated by Fairtrade limits uncertainty as the world market price is currently much lower. Only premium quality beans reach the prices otherwise established by Fairtrade currently. At the same time, the niche 100% Fairtrade firm Eguale becomes vulnerable as their purchasing prices can be twice as high compared to conventional coffee or from certifications (Baagøe, interview, 2019). CEO Baagøe (interview, 2019) relays the challenges with being early to adopt the strict Fairtrade requirements with its associated costs to secure compliance but believes it showed the viability for larger actors.

Fairtrade Sweden coffee product manager Lim (interview, 2019) argues that the costs associated with getting certified and drawing up contracts are relatively low and the process is

simple. Buyer organizations sign a licensing agreement with Fairtrade where they agree to pay 1,3 Swedish crowns per kilo sold coffee subject to potential discounts based on sold quantity. For this cost, Fairtrade Sweden covers contracting costs, controls and marketing. None of the respondents mentioned that the licensing costs were considered unreasonable. Fairtrade Sweden coffee product manager Lim (interview, 2019) goes on to describe the costs of getting certified by Flocert for buyer organizations, which she estimates to be around 30 thousand Swedish crowns in a year for larger organizations. Producing organizations also need to cover the costs of certification, which can be high but are often shared by a large number of producers in the cooperatives and offset further by the access to an export market. Researcher Johansson (interview, 2019) believes that there are a number of transaction costs associated with certification that tends to be mostly placed on the producer.

As it relates to investments, Fairtrade Sweden coffee product manager Lim (interview, 2019) suggests that the certification provides incentives for producer organizations not only to meet the minimum demands, but also continuously develop themselves:

“In our criteria ... you have to invest [the Fairtrade-premium] in productivity and quality improvements, why it is built into our system that producers not only improve themselves when it comes to social and environmental sustainability, but on the business side as well.”

Researcher Durevall (interview, 2019) also believes that more investments can be made by Fairtrade producers due to the higher price they receive, which partly protects the leverage of producer organizations against big market players. However, both CEO Baagøe (interview, 2019) and Researcher Durevall (interview, 2019) believe that there is a risk of bigger actors exerting pressure on suppliers to get a discount on the conventional coffee if the Fairtrade minimum price is paid for certified beans.

4.4 Property Rights Theory

4.4.1 Contractual Problems: The Transaction Costs of Property Rights

Throughout the supply-chain coffee beans are exchanged between the parties. At the last stage, the buyer organizations trade their roasted coffee with consumers. Well-informed consumers about social conditions is a central aspect of fair trade products in creating awareness and

therethrough demand (Chandler, 2016). The respondents all agree on the importance of certification in order to charge the end consumer for sustainability attributes of the sold coffee product. Researcher Durevall (interview, 2019) explains:

“If Fairtrade did not exist, a coffee producer would not be able to sell a fair trade product in a credible way as there is no external agent controlling that it is done in a satisfying manner. So they [Fairtrade] connect a consumer willing to pay more for coffee produced on fair terms with farmers willing to produce the product. This increases market efficiency, because without Fairtrade you can view it as a market failure. It is important to remember, this is a market-based solution to a problem but many believe that Fairtrade is some type of public intervention on the market.”

Researcher Johansson (interview, 2019) supports this notion by adding:

“It [the certification] is absolutely necessary, we are talking about variables you cannot visibly see, so you have to label it. It would be difficult with the trustworthiness, if firms were to only control it themselves. Thus, the strength of Fairtrade and other certifications is the fact that it comes from an external third party, otherwise you could just claim whatever and it would be difficult to prove. If you have two piles of coffee beans that look the same and you get twice the price for one, then there will be a lot of fraud. It is hard to know what you buy when importing from far away ... creating strong incentives to circumvent required costs and receiving the higher price.”

Meanwhile, too many labels can cause added confusion and complexity for the consumer when weighing different attributes against each other (Johansson, interview, 2019). Such confusion has been shown to ultimately decrease the efficiency of labeling (Bello & Westerberg, 2014; Dragusanu, Giovannucci & Nunn, 2014).

Nevertheless, quality once again is of concern for the respondents as the Fairtrade focus on the sustainable attributes of a product might neglect the importance of quality attributes. Researcher Johansson (interview, 2019) argues that the lack of quality criteria in Fairtrade can be problematic and notes the risk of consumers moving onto other alternatives. It could even be possible for producers to off-load their worst-quality beans through Fairtrade to receive the minimum price and then sell the best quality through the conventional market for which they

can earn a significant premium above the world market price (Durevall, interview, 2019; Haight, 2011). This is a challenge as all respondents note that their customers demand a certain taste profile and the limited supply of certified coffee beans sometimes do not fulfill the quality and variety demands:

“The most important thing is to buy quality coffee which meets our high quality requirements, why all coffee cannot be bought with a specific certification. So, supply and demand play a key role for certifications as certain quality beans that we require do simply not exist as Fairtrade-certified.” (Rosén, Anderhall & Nilsson, interview, 2019).

4.4.2 Contractual Focus: Ex-ante Allocation and Ex-post Distributional Conflicts

Thus, the importance of conveying credible information that separates products based on the characteristics of production have been found to add value for consumers as their demand for sustainable products can be fulfilled (Basu & Hicks, 2008; Dragusanu, Giovannucci & Nunn, 2014). Consequently, studies have found that voluntary certifications increase consumer welfare overall (Podhorsky, 2010 & 2013). Thus, CEO Baagøe (interview, 2019) shares the belief that it is necessary to have an external label to sell sustainable coffee, especially for Swedish consumers. Here, purchasing manager Mattei (interview, 2019) highlights the high consumer recognition that Fairtrade enjoys. Fairtrade Sweden coffee product manager Lim (interview, 2019) believes that the high consumer recognition of the Fairtrade-label in Sweden is key as to why companies want to certify products through the organization:

“Due to the fact that we have 90% recognition today ... we almost cannot get any higher. Everyone may not know exactly what the Fairtrade-label entails, but they recognize it and this creates the possibility for companies to communicate that they work with sustainability through the label on the products.”

CEO Baagøe (interview, 2019) shares the belief that in the current economic system, market forces need to be utilized in order for companies to adapt to customer demand. Accordingly, the Fairtrade mechanism for minimum pricing can establish a price above the market-clearing level that does not follow the macroeconomic factors of conventional coffee (Rosén, Anderhall & Nilsson, interview, 2019). As such, the higher price can motivate producer organizations to continue to produce and meet the requirements of certification. However, researchers Durevall

(interview, 2019) and Johansson (interview, 2019) argue that buyer organizations are the ones capturing the largest share of the higher price charged from end consumers. In his review of the literature, Durevall (2015) found the majority of the price premium enabled by Fairtrade ultimately goes to roasters and retailers (e.g. Claar & Haight, 2015; Griffiths, 2012; Harford, 2012; Mohan, 2010).

Nevertheless, Fairtrade Sweden coffee product manager Lim (interview, 2019) believes that fair trade is still a niche concept and that the coffee industry is a long way from becoming 100% certified. There is more growth to come, but the growth rate will probably not be as steep. A sector that has been important for growth is the public sector in Sweden, where there has been clear requirements put in place for public procurement to buy Fairtrade coffee due to sustainability concerns, as relayed by many respondents. Fairtrade today also experiences significant competition from other labels like UTZ and Rainforest Alliance, which might be less costly and restrictive. Further, CEO Baagøe (interview, 2019) mentions the possibility of brands and companies becoming the safeguard for adequate control of fair conditions in trade, which has been the case in Italy and Germany. Still, the external certification might be more important for Swedish consumers in order to create trust.

As already presented, the importance of trust, long-term relationships and firm control programs also play a significant part in the buyer organizations' work with sustainability. Such a solution could transfer more wealth to the individual producer (Wydick, 2014). However, intermediaries can fill an important role in the supply-chain for coffee as mentioned by Rosén, Anderhall and Nilsson (interview, 2019). Researcher Johansson (interview, 2019) agrees that cutting out intermediaries might not be the solution. Nevertheless, she suggests that to really improve producer welfare, it is essential to allow them to take part in more activities downstream in the supply-chain. She notes further the limited appeal of Fairtrade as a wider solution, due to its scale in addition to the difficulty of selling all beans as Fairtrade.

Concluding, empirical evidence does indicate a positive impact of Fairtrade, albeit on a modest scale. Fairtrade producers receive on average better prices, more stable economic situations and greater access to financing, found Dragusanu, Giovannucci and Nunn (2014) and Murray, Reynolds and Taylor (2006). However, it is further acknowledged that the evidence is both mixed and incomplete, worthy of further investigation (Dragusanu, Giovannucci & Nunn, 2014; Durevall, 2015).

4.5 Summary of Empirical Findings

| | Agency Theory | Transaction Cost Economics Theory | Property Rights Theory |
|-----------------------------|---|--|--|
| Contractual Problems | <p>The problems facing the involved parties stems from introducing sustainability attributes of products:</p> <ul style="list-style-type: none"> - One problem manifests itself in supplier selection where buyer organizations must ensure that producer organizations have the ability to produce both sustainably and with desired quality. - Once a supplier has been selected, another problem is to secure that the distant producer organization lives up to the sustainability expectations given the difficulties of obtaining information. - Another evident risk arises from different cultures and attitudes towards risk in the supply-chain, why buyer organizations are exposed to the risk-taking of distant producer organizations. | <p>Transactions are characterized by the following variables:</p> <ul style="list-style-type: none"> - The frequency of contracting to purchase coffee beans is typically done on a harvest to harvest basis. However, buyer-supplier relationships typically span longer time-horizons in trading certified coffee. The underlying reason is the significant uncertainty stemming from the industry price volatility for raw coffee beans. - In addition to sustainability risks, uncertainty is characterized by price volatility, amplified by factors like weather, diseases and political conditions. - Conventional coffee production does not entail extensive relationship investments. However, the introduction of sustainability standards increases the need for investments, such as the ones required by Fairtrade as well as logistics, production and human capital improvements. | <p>The potential to exchange assets in the supply chain is affected by the cost of transacting:</p> <ul style="list-style-type: none"> - A coffee bean is a commodity, why it is impossible to separate a conventional coffee bean from one that is produced sustainably, for both buyer organizations and consumers. It opens up the potential for fraud where producer organizations could try to offer conventional beans as sustainable. - This entails that buyer organizations and consumers are generally unwilling to pay a premium if the sustainable attributes are not guaranteed, why producer organizations would not offer such beans to the market. |
| Contractual Focus | <p>The buyer organizations recognize that they are incapable of controlling the entire supply-chain themselves, why they try to ensure sustainable conditions and quality through:</p> <ul style="list-style-type: none"> - Using the Fairtrade concept to specify that producer organizations are paid adequately and that they fulfill the standards developed by Fairtrade subject to regular audits. - The buyer organizations complement the certification process by employing their own control mechanisms such as codes of conduct, regular visits and audits. - Trust is further mentioned as an important parameter, becoming increasingly impactful for long-term relationships as it helps better secure the desired quality. | <p>The transaction variables influence the contractual relationships:</p> <ul style="list-style-type: none"> - The conventional coffee transactions are contracted through the spot-market as the quality of the purchased coffee beans is relatively easy to determine, meaning that buyer organizations are not tied to certain producer organizations. - The Fairtrade-certified coffee beans are instead contracted in a way where the buyer organization often buy from the same producer organization over an extended period of time. - By choosing to buying certified coffee beans, the buyer organizations limit their field of potential suppliers. In turn, this introduces additional costs of obtaining information and controlling quality, this shifts more pressure on producer organizations to invest. - The higher price obtained for the producer organizations incentivizes them to make further investments, giving them improved leverage. | <p>Contracts are used to exchange assets in the supply chain:</p> <ul style="list-style-type: none"> - It is agreed upon that external validation is necessary in order to sell a fair trade product at a price premium. In this way, Fairtrade connects buyers and sellers who would not have transacted otherwise, implying increased market efficiency. Herein, the minimum price mechanism can motivate producer organizations to continue to produce, maintain certification. - In particular, it is difficult for the buyer organizations to instill trustworthiness. The sustainability attributes in question are not visible for the consumer, who turn to the recognizability of third-party independent labels to inform themselves. Public procurement has proved another impactful venue for buyer organizations due to the clear demands put forth by the public sector in Sweden. - Overall, the welfare effects seem to be positive from the fair trade concept although on a very limited scale. Still, there are distributional conflicts as how the premium charged from the consumer should be distributed throughout the supply-chain. |

Table 3. Summary of empirical findings.

5. Analysis

5.1 Agency Theory

The applicability of agency theory within this setting is confirmed by the data showing the importance of information, incentives, risk management and relationships in line with Fayezi, O’Loughlin and Zutshi (2012). This strengthens the notion that agency theory is applicable beyond the original firm boundaries studied by Berle and Means (1932) as well as Jensen & Meckling (1976), which supports the view of Harris and Raviv (1979). It allows for revelatory strategic management insights given the inter-organizational relationships with three different involved parties helping managers deal with agency problems otherwise hard to solve described below, which previously has been a gap in the literature as suggested by Fayezi, O’Loughlin and Zutshi (2012).

5.1.1 Contractual Problems: Agency Costs

The two problems causing agency costs in agent-principal relationships are present in the data. For the first problem, naturally conflicting goals between the producer and buying organizations arise as described by Eisenhardt (1989) and Fleisher (1991). Buyer organizations gain value from producer organizations supplying certified coffee beans by meeting growing sustainability demands. Buyer organizations want to limit the cost spent on specifying and monitoring (Fleisher, 1991), which are used to ensure sustainable agent behavior. Meanwhile, producer organizations want to maximize the buyer organizations’ payments, where the data confirm the higher price received through Fairtrade. Still, producer organizations want to limit certification costs and control. This problem breaks down further into the issues of hidden information and hidden action, detailed below.

The issue of hidden information makes supplier selection central following Bergen, Dutta and Walker (1992). Quality can easily be tested to be taken into account in contracting for conventional coffee. Thus, hidden information has previously not played as large of a role, given the possibility of sorting different tiers of suppliers. This clearly puts limits on pre-contractual opportunism related to concealing true skills and abilities as relayed by Milgrom and Roberts (1992). However, the introduction of the sustainability dimensions changes this dynamic by increasing agency costs. The difficulties in controlling upfront which producer

organizations that are able to live up to acceptable standards lead to adverse selection, in line with Fayezi, O'Loughlin and Zutshi (2012). Given that the agent wants to maximize its utility, producers have every reason to want to receive a premium for sustainability attributes, while shirking away from the associated costs. This disincentivizes buyer organizations to pay extra as they run the risk of contracting with a supplier not able to fulfill their expectations.

Agency costs also arise from hidden action, corresponding with Fayezi, O'Loughlin and Zutshi (2012). The distant producers from the buyer organizations confirm the setting illustrated by Wilhelm et al. (2016). Respondents describe how information asymmetry in the supply chain is heightened by the sustainability dimensions where hidden action leaves room for moral hazard, in accordance with Eisenhardt (1989). The moral hazard in this context would represent the producer organizations shirking by not putting in the required sustainability or quality effort. It is described as almost impossible by many of the respondents to control the entire supply-chain by themselves. The findings of this study support the presence of hidden information and hidden action related to the problem of conflicting goals in the light of sustainability attributes, aligning with the view of Kudla and Klaas-Wissing (2012).

Moreover, the second major problem proposed by agency theory is the difference in risk attitudes (Eisenhardt, 1989). However, the empirical findings run contrary to the original proposition that agents are generally risk averse (Eisenhardt, 1989), in support of Harris and Raviv (1979) as well as MacCrimmon and Wehrung (1986). The major risks for the interviewed buyer organizations are placed in the hands of producer organizations with the buyer organizations' own production subject to Western regulation. Accordingly, the producer might not view sustainability risks as something worth prioritizing given the potential inability of information reaching buyers. The findings suggest that it is principals that act in a risk averse manner due to the potential backlash faced if transgressions are found by stakeholder groups (Freeman, 1984; Chandler, 2016). This supports the view of Bergen, Dutta & Walker (1992) in that there can be other power relationships present as well.

The most viable answer to this finding is the view by Fayezi, O'Loughlin and Zutshi (2012) describing the impact of multiple buyers. The conventional coffee market presents producer organizations with the opportunity of finding buyers if providing quality beans, where information about previous transgressions are difficult to find. This is an added complexity that arises from the sustainability dimensions, but still does not invalidate the claim that agents are

risk averse in other areas. It can be illustrated by producer organizations seeking longer-term relationships to ensure steady prices and sales. This development of the differing risk attitudes proposition needs to be operationalized to illustrate that the risk preferences are dynamic. It helps agency theory become more applicable in supply-chains as the principal does not have a diversified position as originally conceptualized (Eisenhardt, 1989).

The analysis above shows that the fair trade setting is subject to the traditional agency problems but in new forms when adding sustainability dimensions. Correspondingly, all the problems also reflect the presence of opportunism, self-interest and bounded rationality, introducing agency costs in accordance with Williamson (1988) and Eisenhardt (1989), making complete contracting impossible as relayed by Kim and Mahoney (2005). The new challenges presented with conflicting goals, hidden information and actions as well as diverging risk profiles between buyer and producer organizations needs to be acknowledged by managers making decisions within a sustainable supply-chain setting, connecting to a wider strategic management context (Kim & Mahoney, 2005). Consequently, the setting has made managers opt for new contractual relationships involving three parties detailed below, showing how the agency problems add understanding of the inter-organizational relationships as requested by Fayezi, O'Loughlin and Zutshi (2012).

5.1.2 Contractual Focus: Ex-ante Incentive Alignment

The influential propositions put forward by Eisenhardt (1989) can be used to show how the involved parties try to minimize agency costs in the contractual relationships associated with the fair trade concept ex-ante. The empirical material suggests that there is very low outcome measurability (Eisenhardt, 1989) related to sustainability attributes of the purchased coffee beans, which severely hinders the possibility of rewarding suppliers based on output. The low use of outcome-based contracts supports Eisenhardt's (1989) proposition that high outcome measurability favors outcome-based contracts, why there is little possibility to transfer risks from the principal to the agent.

However, this runs contrary to the finding that principals are generally the risk averse party when it comes to sustainability attributes, which would make them want to transfer the risk to the agent producer organization following Harris and Raviv (1979) and MacCrimmon and Wehrung (1986). Thus, the low outcome measurability is likely to override the proposition

making this hard to conduct in a supply-chains setting. This can be complemented with an external strategic perspective not present in agency theory where buyer organizations will be held responsible in the eyes of consumers if transgressions are found. As a result, it is hard to transfer the risk to the producer organization for attributes that cannot be measured in hindsight leaving the buyer organization vulnerable to criticism, an explanation likely not acceptable to consumers, which links back to outcome measurability. More interestingly, it supports the notion that recognizing the dynamic aspects of risk aversion can make the propositions put forward by Eisenhardt (1989) conflict with each other. It has implications on strategic decision-making related to sustainability as managers need to be aware of these tensions in order to minimize agency costs in their contractual relationships. Here the traditional agency theory might not offer the most efficient guidance, why operationalization of these findings can be seen as advancing the theory.

Instead, it is clear from the contractual relationships associated with the fair trade concept that behavior-oriented contracts dominate the efforts to minimize agency costs. This supports the claims of Zsidisin and Ellram (2003) that buyer organizations tend to want to control behavior, rather than outcomes. Task programmability is quite high as it relates to the possibility of specifying desirable behavior, why behavior-oriented contracts are possible to employ, in accordance with Eisenhardt (1989). Fairtrade specifies in their certification that all parties must adhere to the minimum price is fairly straightforward to define and subsequently control, which shows how the third contractual party puts behavioral controls in place. This aims to guarantee a decent standard of living for the individual producers part of the larger cooperatives. In addition, Fairtrade also specifies the minimum standards related to labor conditions for hired labor. Taking into consideration that a single cooperative is to be certified and subject to auditing by Fairtrade, the costs of controlling a basic level of sustainability among producers can be justified given the boundaries it puts on producers to exploit hidden information and action issues.

The certification in itself can thereby act as a screening device where producers not willing to live up to the standards are screened away. With requirements and expectations proactively defined and communicated prior to any contracting, adverse selection in terms of sustainability dimensions is limited, similarly to the suggestion by Bergen, Dutta and Walker (1992). Nevertheless, the buyer organizations also conduct their own behavioral controls, specifying through codes of conduct that act as proactive screening mechanisms and regularly visit many

producer organizations. Ultimately, this helps increase transparency and yields important information that is key to curb further opportunism in a supply-chain setting in accordance with Wilhelm et al. (2016) and Eisenhardt (1989). However, the certification does not screen away suppliers based on their ability to supply high-quality beans even if they fulfill the Fairtrade-certification behavior requirements. Thus, buyer organizations can be left with certified beans that do not fulfill their quality expectations.

This leaves longer-term relationships as a potential solution for buyer organizations not offered by formal contracts, especially considering the more limited supply of certified coffee. Accordingly, the data also suggests an increased focus on relationship building and trust to regulate the principal-agent relationship as suggested by Miller (1992). The presence of future repeated transactions is here key in order for the buyer organizations to convince the producer organizations that they benefit from supplying also high quality beans and not only focusing on the specified sustainability behavior. This plays further into Milgrom and Robert's (1992) notion of reputation, wherein the incentives to build and maintain a reputation, for buyers and producers alike, seem to positively relate to the frequency of similar transactions, the horizon and profitability. As purchases are contracted harvest to harvest and are assumed to continue, with added incentive of minimum pricing, the value of reputation should increase. Notwithstanding, the added complexity of combining attributes of quality with sustainability, reduces the opportunity to use the spot market, further driving the value of reputation within the field of certified coffee in line with Milgrom and Roberts (1992).

Consequently, these findings suggest that trust as well as stipulated contracts play a key role in limiting agency costs in accordance with Fayezi, O'Loughlin and Zutshi (2012), Milgrom and Roberts (1992) and Norrman (2008). Overall, this indicates an increasing role of trust and relationship-building for decision makers, as both stable quality supply and the culpability of sustainability performance in the supply-chain become central to a firm's ability to compete and achieve legitimacy in the long run. The incorporation of trust dimensions into the mainstream of agency theory can be central to gain understanding in a supply-chain setting, which further points to the need for additional theoretical development. A too heavy reliance on strict formal and informal contract arrangement risks leading to inferior decisions from a shareholder perspective. In sum, agency costs are minimized given acceptable costs for the involved parties, aligning with the shareholder orientation promoted in agency theory as described by Kim and Mahoney (2005). It is plausible to argue that agency costs would not be

minimized without a third contractual party like Fairtrade if sustainable attributes are of importance, which illustrates how agency theory can inform strategic decision-making in inter-organizational relationships as requested by Fayezi, O'Loughlin and Zutshi (2012).

5.2 Transaction Cost Economics Theory

The analysis using agency theory displayed how bounded rationality and opportunism apply, which are central elements behind the applicability of transaction cost economics in a supply-chain setting (Carter & Easton, 2011; Kim & Mahoney, 2005; Williamson, 1998). As a result, the fair trade setting can also offer revealing findings by using the theory due to the collaborative setting with sustainability dimensions furthering the need for transparency as called for by Carter and Easton (2011). The three transaction variables are key to analyze in order to draw conclusions on the matching of governance structures to minimize transaction costs guiding strategic decisions (Williamson, 1985), as relayed in the sections below.

5.2.1 Contractual Problems: Transaction Variables

For the transaction variable of uncertainty (Williamson, 1985), the respondents highlighted price volatility as the primary factor, especially for conventional coffee beans. Price volatility was heavily influenced by factors difficult to regulate in contracts due to weather, diseases and political conditions. This illustrates the fact that contracts are incomplete, where the contracting parties cannot stipulate every potential contingency in line with Klein (1999) and Williamson (1988). Thus, the actors shied away from longer-term contracts due to the high risk of needing to make contractual adaptations if the price either goes up or down, as suggested by Milgrom and Roberts (1992) and Williamson (1985). The data also show how additional uncertainty factors are introduced when adding sustainability dimensions related to the conditions of production. In addition, quality becomes an uncertainty given that buyer organizations become more restricted in their choice of suppliers. In the conventional coffee market, a supplier can be simply disregarded if they do not provide the right type of quality beans, which becomes difficult when you also have to secure the sustainability performance of the producer organizations.

There was also an interesting interplay between uncertainty and the second variable of frequency (Williamson, 1985). The high uncertainty meant that transactions were carried out

as repeated single transactions harvest by harvest. This frequency was preferred by both contracting parties given the uncertainty in price and quality that comes with less frequent transactions over a longer time horizon. Transacting coffee beans over two harvests could expose either party to unwelcomed price and quality fluctuations. A high frequency stands to more easily motivate transaction costs, such as those incurred through certification, compared to sparsely performed transactions (Williamson, 1985), likely why there has been a rather quick development towards certified product offerings from the buyer organizations.

The focal dimension in transaction cost economics is the third variable of asset specificity, which represents the degree of relation-specific investments that need to be made to carry out the transaction, with little value outside the relationship (Williamson, 1985). Judging from the empirical material, the transacting of conventional coffee beans does not require extensive relation-specific investments. Much of the investments that both producer and buyer organizations make in for example physical assets can be used to complete other transactions with buyers or producers. However, when adding sustainability dimensions to the transaction, the empirical material confirms the view of Acquier, Valiorgue and Daudigeos (2017) that additional relation-specific investments are required. The human and physical assets mentioned to perform sustainable production are not worth much on the conventional market as producer organizations have little opportunity to receive a premium from these investments, as neither the producer, or later on the buyer, can communicate these attributes reliably. Further, the importance of investments in human assets to produce more sustainably, relayed by the respondents, confirms the view of Huq, Stevenson and Zorzini (2014) who found exactly this as well.

As a result, the empirical material clearly conforms with existing literature in how sustainability dimensions influence the transaction variables in a supply-chain setting. This provides a solid foundation for managers to take into account when evaluating the characteristics in terms of frequency, uncertainty and asset specificity regarding performed transactions.

5.2.2 Contractual Focus: Ex-post Governance Mechanisms

When the transaction variables are established, an assessment can be made regarding the governance structures (Williamson, 1985). The conventional coffee bean market is characterized by overall lower uncertainty, frequency and asset specificity. Consequently, it is

not surprising why the respondents describe conventional coffee as a spot market for commodities, in line with Klein (1999). The possibility to choose freely among producer organizations brings down the frequency in terms of a shorter time horizon following Milgrom and Roberts (1992). Thus, the shorter time frame does not warrant the costs of establishing costlier governance structures, such as vertical integration or longer-term contracting in accordance with Klein (1999). Such short-term contracts further mitigate the associated uncertainty as the price can more readily be projected and is more so based upon traditional market forces. Asset specificity, the focal dimension, is also low where costlier governance mechanisms are not warranted to protect them, why the market governance mechanisms seem to be the best way to minimize transaction costs for conventional coffee in line with Williamson (1985). This conforms with the view that conventional commodities typically do not have a specific strategic value (Pagell, Wu & Wasserman, 2010), where the strategic challenge for managers is to secure the lowest price for any given quality tier using market forces to minimize transaction costs.

However, the transaction variables take on new characteristics when introducing sustainability dimensions. The general frequency, uncertainty and asset specificity increases, warranting costlier governance mechanism, like the hybrid contracting through Fairtrade and use of other certifications, in line with Williamson (1985) and Klein (1999). The contractual relationships evident in the fair trade concept is a hybrid solution as it is neither a pure market or vertical integration mechanism. Moreover, Fairtrade also increasingly warrants the establishment of longer-term relationships with individual producer organizations in the form of cooperatives. This is further consistent with Williamson's (2008) view that more complex contractual arrangements are necessary when mutual dependence increases. Specifically, the investments into sustainability seems to be key to asset specificity, increasing dependence and why more rigorous contracts might be necessary, along the lines of Crocker and Masten (1988).

The hold-up situations described by Klein (1999) typically common with such asset-specific investments are circumvented by the Fairtrade arrangement and other certifications. This conforms with the view of Acquier, Valiorgue and Daudigeos (2017) that reducing asset specificity can be necessary to incentivize further inclusion of sustainability in supply-chains. In this vein, the producer organization does not lock its investments to a certain buyer organization by instead contracting through the umbrella organization with Fairtrade's certification. Producer organizations are able to carry with them the certification also to

transactions with other buyer organizations if necessary. In turn, this reduces the asset specificity brought on by aforementioned sustainability attributes with a defined and broadly recognized certification bringing an element of standardization for all concerned parties. Furthermore, the producer organizations need to be ensured that they are adequately compensated for their investments (Klein, 1999). Here, the respondents argue that the minimum price guarantees a certain price that aims to cover the investments made, why a buyer organization cannot use their bargaining position leverage on the Fairtrade beans in the same sense as the producer organization's position is strengthened. This combats the risks suggested by Acquier, Valiorgue and Daudigeos (2017) and King (2007) of having too powerful buyers as well as the concerns raised by some respondents.

It was also explained that certification helps promote longer relationships between producer and buyer organizations, enabling trust between the parties involved in the transaction to potentially further decrease the need for additional contractual safeguards, as described by Chiles and McMackin (1996). The need to secure quality beans with suppliers might limit the potential value of a hold-up, wherein transactions would not be repeated thereafter, should producer organizations go back on their commitments. The respondents put weight on trust and not acting opportunistically in order to build longer-term relationships. This can be exemplified by how buyer organizations made purchasing commitments for certified producers, similar to the "take-or-pay" contract described by DeCanio and Frech (1993). Within this context, there is also the added deterrent of certification, in which a producer organization might lose their certification due to transgressions, thus eliminating the benefits that go with it.

As a result, Fairtrade can be said to reduce transaction costs related to negotiation costs and monitoring costs (Hobbs, 1996). It suggests that Fairtrade is a solution that is comparatively efficient from a shareholder perspective, both for producer and buyer organizations, in accordance with Kim and Mahoney (2005). Mentioned remaining transaction costs include information costs to find both business partners and suitable products in line with Hobbs (1996). Especially, respondents argued that the Fairtrade-certification actually increased the need to gain information about producer organizations in the beginning and then ensuring that the quality of the beans were satisfactory. On the other hand, the longer relationships promoted through Fairtrade have been noted by respondents to decrease the costs of finding and contracting new certified suppliers, aligning with the proposition from Chiles and McMackin (1996).

Overall, the empirical material conformed well with the transaction cost economics theoretical framework both when it comes to the classic work by Williamson (1985) and more contemporary work done within the domain of sustainability. The conformance is not surprising given that transaction cost economics theory is the most applied of the chosen organizational economics theories in sustainable supply-chain literature (Carter & Easton, 2011). Still, the ex-post perspective provided by the theory is necessary in order to understand the full picture of the contractual relationships involved in the fair trade concept. The findings show how the collaboration between buyer, producer and umbrella organizations in the fair trade concept helps reduce the important asset specificity through a hybrid contractual solution. Even if the scale of Fairtrade is modest, individual buyer-supplier arrangements would arguably not lessen asset specificity to any meaningful degree, meaning the scope would be less impactful and open up for opportunism. It shows how the collaborative setting could help increase the theoretical domain of transaction cost economics theory beyond individual buyer-supplier relationships through the understanding of the fair trade concept by answering the research calls of Carter and Easton (2011). This adds new dimensions for managers to take into account in decision-making when not only dealing with the suppliers but also certification bodies. In sum, this knowledge becomes important for managers making strategic decisions by having a more complete picture of the contractual relationships.

5.3 Property Rights Theory

Even though property rights theory is the least applied among the theories in a supply-chain setting, it can offer useful insight on the contractual relationships associated with the fair trade concept based on the data, as suggested by Kim & Mahoney (2005). This is highlighted with the fact that economic property rights to coffee beans are allocated through contracting by conforming to Barzel's (1997) definition. There is an underlying commodity in the form of the coffee beans, which at different levels throughout the supply-chain is either indirectly consumed through exchange or directly consumed by consumers. Fairtrade also engages in the indirect exchange of economic property rights by contracting out the service of providing labeling for consumer products to buyer organizations. This exchange then increases the value of the rights for the products that buyer organizations offer consumers. Thus, by fulfilling the definition of economic property rights, it lends credence to the applicability of property rights theory with the ambition to gain strategic management insights within this context.

5.3.1 Contractual Problems: The Transaction Costs of Property Rights

It is noteworthy to establish that the empirics do not contradict the view of Demsetz (1966) in that the contracting related to sustainability issues face less transaction costs than large collective action problems like environmental pollution. The ability for the buyer and supplier to take into account sustainability dimensions is further supported by Alchian and Demsetz's (1972) notion that the firm is made up of contracting parties engaging in voluntary transactions. The fact that local legislation is deemed insufficient to guarantee acceptable sustainability conditions worthy of a price premium for buyer organizations and consumers suggests that the social conventions in developing countries do not disapprove of the exchanges made in the conventional coffee trade (Alchian, 2008). Economic actors in impoverished communities might not have many more attractive propositions, meaning there is no difference between the private costs of the individual economic actor and the societal costs, why local legislation is not warranted (Alchian, 1969; Ferris, 1982). Legislation would potentially experience transaction costs of its own as special interests, such as buyer organizations or unions, could capture the process in line with Coase (1960) and Pennington (2015).

More intriguing is that transaction costs had implications on how economic property rights are exchanged in the coffee industry as shown in the data, in line with Coase (1937: 1960). It ultimately comes down to the multiple attributes that a relatively simple commodity like coffee beans carries, corresponding with Barzel (1997). The data highlights the difficulties associated with not being able to tell a sustainably produced coffee bean from a conventional one, which ultimately affects the ability to maximize the value of the exchanged underlying rights. Consequently, there are costs associated with the transfer of rights (Barzel, 1997), as it is expensive to get sufficient information of the sustainability attributes for the economic actors involved (Alchian, 1969; Barzel, 1997; Furubotn & Pejovich, 1972). Without a credible way to gain the needed information to compensate the other party for sustainability attributes, the value-maximizing actors would not carry out the exchange at a premium to conventional coffee beans. Hence, it entails leaving sustainability attributes in the public domain (Barzel, 1997).

This situation stands in stark contrast to the assumptions of neoclassical theory, such as access to perfect information and the absence of transaction costs (Klein, 1999). One of the respondents characterized the above situation as a market failure failing to connect buyers and sellers in the market, who would otherwise be willing to exchange property rights. Therein,

without the existence of third-party certifications enabling the transfer and protection of property rights, there would be an unmet demand for sustainable coffee, reducing market efficiency. Some respondents go as far to say that it would be near impossible to charge for the sustainability attributes without third-party certification due to expensive information, in line with Barzel (1997). These increasing consumer demands can arguably be considered developing social conventions that will need to be met in order to further the legitimacy of the firm and help the property rights reach its potential value, as per Alchian (2008).

Consequently, the empirical material has generated insightful data on the relationship between societal conventions and transaction costs that ultimately come to affect strategic management decisions within the buyer organizations, previously not explicit in theory. With the increasing attention put on sustainability, managers in buyer organizations need to be aware that they have to bridge an information gap in order to make the exchange of assets with sustainability attributes worthwhile for producer and buyer organization as well as consumers.

5.3.2 Contractual Focus: Ex-ante Allocation and Ex-post Distributional Conflicts

The data shows support for the function of labeling and branding set by Demsetz's (1964) in that it sells the information of the underlying asset. With the Fairtrade-label being the far most recognizable sustainability label in Sweden, firms enjoy the informational benefits that go along with it. The companies' brands are not yet, in Sweden at least, able to convey the same credible information, which otherwise might be a comparatively more efficient solution due to the elimination of contractual parties, following Coase (1960). Still, labeling introduces its own set of transaction costs and also decreases other costs by guaranteeing the underlying attributes (Demsetz, 1964). Seeing as sustainability is an invisible and largely immeasurable attribute for consumers, the Fairtrade label enables firms to communicate their efforts with more trust and less ambiguity. Thus, it would likely be a futile effort for other firms to try and capitalize on the increasing demand for sustainability without using external certifications themselves, preventing the underinvestment and capture attempts described by Demsetz (1964) and Barzel (1997). The certification can be classified as a private protection effort to increase the value of the economic property rights associated with more sustainably produced coffee beans, utilizing Barzel (1997). This protection effort entails a transaction cost that both producer and buyer organizations believe is warranted to capitalize on the demand.

Thus, the labeling minimizes transaction costs required to supply information regarding sustainability attributes, which could provide a potential competitive advantage following Foss and Foss (2005). However, there stands reason to think that a Fairtrade-certification does not necessarily constitute a competitive advantage in Sweden, as every major roaster has it included in its product range. This would indicate that third-party labeling is rather a prerequisite to compete, while in countries with a less prevalent demand for sustainability first movers might enjoy a temporary labeling advantage.

Moreover, the empirics show increasing transaction costs related to ensuring that the Fairtrade-certified coffee beans have the right quality attributes. Judging from the respondents, it is safe to assume that there is significant overlap between customers groups wanting sustainable coffee and quality premium coffee. This can be attributed to a similar scenario with a price restriction that was described by Barzel (1997). Fairtrade imposes a minimum price in the supply-chain, currently above the market-clearing price due to high supply, which the buyer organizations are willing to pay. However, without any criteria stipulating that the certified beans should be of a certain quality, there is a risk that producer organizations decide to sell their worst quality beans through Fairtrade. Due to the comparatively limited number of Fairtrade suppliers, this increases the transaction costs to ensure that the quality attributes of the coffee beans are at a sufficiently high standard. This is a central challenge as the interviewed buyer organizations all employ some type of differentiation by offering roasted coffee, where taste profiles are important. Thus, the buyer organizations that manage to combine lowered transaction costs of ensuring sustainability and quality attributes are the ones that will potentially gain a competitive advantage through minimized transaction costs, in line with Foss and Foss (2005).

The comparative assessment promoted in property rights theory departs from a stakeholder strategic intent (Kim & Mahoney, 2005). Generally, the contractual arrangement of working with Fairtrade-certification have yielded mutual benefits for involved producers, buyers and consumers. Given that the involved parties are assumed to be value-maximizing actors in property rights theory (Barzel, 1997), the above positive effects are likely the reasons behind why the exchanges take place and the recent proliferation of third-party certifications. Still, this does not preclude the possibility of distributional conflicts raised in property rights theory (Kim & Mahoney, 2005), under which the distribution of created value can be perceived as unfair in the supply-chain. In turn, this could lead to an increased formation of interest groups wanting to either sustain or change the allocation of the exchanged rights.

Moreover, other non-Fairtrade producers appear to not be negatively impacted at the current scale, with the sales of both non-certified and certified coffee increasing globally. The local communities in which Fairtrade producers operate receive in addition spillover effects, improving social conditions at large. It is also important to reiterate that buyer organizations are not protected from other buyers offering better exchange deals to producers, meaning total welfare increases as voluntary bids remain central to competition, following Alchian (1965) and Demsetz (1966). Nevertheless, Fairtrade operates on a too small of a scale in order to make any market-wide impact for producer organizations. A steep rise in demand would be necessary in order for more producers to achieve certification. Consideration should also be made whether the certification encourages smallholding rather than larger scale plantations, which would encourage a better match between specialization and productive assets adopting Barzel (1997).

An interesting development noted in the data is the heightened awareness for sustainability issues from governments, leading to stricter criteria for public procurement favoring Fairtrade. Worth noting is the Swedish context, where social and environmental issues are typically higher on the agenda for both government and firms alike. Regardless, the underlying dynamics remain the same and points to an additional consumer group characterized by much less of an collective action problem, compared to that of private consumers, in line with the reasoning of Coase (1960) and Pennington (2015). The social costs of consumption relative to the private costs can be harder to take into account for the private consumer, adopting the terminology of Ferris (1982).

Concludingly, the application of property rights theory in a supply-chain setting with the addition of sustainability attributes has extended the theory's domain. The knowledge gained can be of particular use for managers by showing the importance of labeling where the collaboration between producer, buyer and third-party certification bodies is key. It can also help evaluate the societal costs of contractual relationships in order to predict potential threats stemming from distributional conflicts and forceful regulation, which is of growing importance in the light of increasing stakeholder pressures, as suggested by Chandler (2016). The application of property rights theory also offers a path towards a possible sustainable competitive advantage by looking at the exchange commodity in terms of quality and sustainability using the words of Porter (1985). Thus, the analysis has also answered and confirmed the call from Kim & Mahoney (2005) to use property rights theory on new business phenomena given its ability to offer new insights.

5.4 Review of Organizational Economics Theory

The analysis above showed how the used organizational economics theory can add understanding about the contractual relationships associated with the fair trade concept. The analysis confirms the view of Kim and Mahoney (2005) that agency, transaction cost economics and property rights theory are to a large extent complementary. Agency theory provided the ex-ante perspective, as illustrated by Williamson (1998), by showing the importance of ensuring the sustainability and quality of the purchased beans already in supplier selection and contractual arrangements administered through Fairtrade. The transaction focus of transaction cost economics theory contributed with the ex-post perspective on how Fairtrade can help producer organizations feel more secure in making investments into sustainability, following Williamson (1985). Property rights theory then enabled a wider discussion taking into account societal costs and some of the limitations to the fair trade concept as suggested by Kim and Mahoney (2005). All these elements are central to consider when managers make strategic decisions on how to ensure sustainability in a supply-chain setting.

Property rights theory further proved to be central to understand both the ex-ante and ex-post implications on the contractual relationships, consistent with the view of Kim and Mahoney (2005). Without the multidimensional understanding of the underlying attributes of a simple commodity like coffee beans, it is hard to grasp the implications on contractual relationships. The fact that one recognizes that sustainability attributes of coffee beans are impossible to ascertain from the bean itself influences how the companies utilize ex-ante and ex-post contracting. The heightened information asymmetries, as well as the need to make investments, increase the need for contractual safeguards that managers need to take into account. This is also why it is problematic that the complementary and uniting theory of property rights is so often excluded from organizational economics studies due to its higher abstraction level, supporting Kim and Mahoney's (2005) view of its lacking application. The theories are highly complementary, which provides a remedy for the boundaries that each theory has with its respective focus.

Moreover, the study has shown how the introduction of sustainability attributes also impact how quality attributes are ensured in contracting. This interplay between attributes has implications on how contracts are used from both an agency and a transaction costs economics perspective. These findings are similar to the view of Hennart (1993) that the multidimensional

view of property rights in the theory can enhance our understanding of hybrid contractual arrangements, like the ones associated with the fair trade concept. The difference is the impact that has been shown also on the ex-ante side of contracting with supplier selection and behavioral constraints imposed, consistent with Eisenhardt (1989) in addition to Williamson's (1985) view. The previously rather untroubled quality attributes became real challenges for managers when adding sustainability attributes highlighting the multidimensional impact, which we believe is a central learning to take away from this study for managers. This entailed a heightened attention to building trust and longer-term relationships both ex-ante and ex-post to provide additional safeguards to ensure both quality and sustainability when considering that contracts are incomplete as described by Klein (1999) and Williamson (1988). It strengthens the relevance of our theoretical framework by including factors relating to trust, reputation and long-term relationships as promoted by, for example, Miller (1992) and Chiles and McMackin (1996). It also shows that the exclusion of these theoretical extensions, especially in a supply-chain setting, can limit gained strategic management insights by missing inexpensive, but yet difficult to get right, means to limit opportunism in the contractual relationships.

In sum, the calls for research with complementary theoretical lenses (Carter & Easton, 2011) could be answered by the use of organizational economics theory to enhance contributions within strategic management of sustainability issues. To ultimately expound on a firm's strategic positioning, the findings can help understand the intent behind the decision-making undertaken in the cases. In order to gain a more complete picture, connections will also be made to the other mainstream theories highlighted in the theoretical chapter, which will follow in the final section below.

5.5 Strategic Intent and Broadening the Theory

The strategic management insights gained on the decisions made relating to contractual relationships can further be extended to enhance the understanding of more mainstream strategic management theories, using data falling outside the boundaries of the chosen theories. The shared objective of organizational economics theory and the resource-based view in trying to explain the existence of firms better comes in handy, following Mahoney and Pandian (1992) and Barney (1991). The multidimensional attributes of property rights (Barzel, 1997) with the introduction of sustainability and quality attributes combined require companies to deal with uncertainty through contractual relationships, where the uncertainty also introduces the need

for new internal strategic resources in line with the resource-based view (Mahoney & Pandian, 1992).

In this vein, the empirical material showcased how the buyer organizations needed to build strategic resources to handle the necessary ex-ante and ex-post contracting due to the dual attributes of sustainability and quality. From a property rights perspective, the contractual relationships associated with the fair trade concept can be seen as strategic private protection measures employed by the involved organizations to increase the value of the property rights throughout the supply chain, following Libecap (1989). These are vital in order for producer organizations to receive higher prices for their beans, buyer organizations to be able to charge a premium from consumers, the umbrella organization receiving licensing fees and consumers being convinced to extract utility for a quality coffee with sustainable attributes. This is also consistent with how the firms expended strategic resources on ex-ante contracting to try to ensure that both the sustainability and quality attributes were secured in line with agency perspective on the resource-based view (Castanias & Helfat, 1991). A similar connection can be made to transaction cost economics theory where firms secured certain resources like certified quality beans by longer-term relationships, in line with Mahoney and Pandian (1992). Consequently, it was concluded that a potential competitive advantage within the Swedish coffee industry could be achieved if companies can minimize the transaction costs of guaranteeing both quality and sustainability (Foss & Foss, 2005), which ultimately requires the development of internal strategic resources to be able to deliver on this promise, following Barney (1991). It aligns with the internal core of the strategic management discipline by reflecting the strive to being able do things differently or better than competitors in line with Engert, Rauter and Baumgartner (2016), where the resources to handle contractual relationships in global supply-chains is of utmost importance.

As a result, the internal resource-based view of Barney (1991) together with the insights of organizational economics can further help understand strategic management implications from the external Porter (1985) perspective. This is connected to the strategic management strive in positioning the firm to meet a customer need by do things differently or better than competitors, connecting again to Engert, Rauter and Baumgartner (2016). The ability to balance both quality and sustainability through contractual relationships and necessary internal resources becomes key for the positioning of the interviewed firms. The respondents describe how the firms employ at least partially differentiated strategies with a focus on quality, premium coffee. The

market space for sustainable coffee, enabling the buyer organizations to capitalize on this segment, is driven on by the general sustainability trend in Western countries in line with Chandler (2016). These market forces have not come to affect low-cost leaders in the industry to the same extent, neither in terms of quality or sustainability. With a more pronounced consumer overlap, the differentiators face a different challenge throughout their supply-chain, balancing costs and sustainable performance without compromising on quality.

In the Swedish coffee market, the Fairtrade-certification has become a carrier of information for sustainability through labeling, adopting property rights theory (Demsetz, 1964). In contrast, the buyer organizations' brands become the sole carrier of information for quality, which seems to be the attribute sustaining a differentiated position in the market using Porter's (1985) terminology. However, there stands reason to believe this is the case when sustainability labeling does not constitute a competitive advantage itself, as is the case in the Swedish market. As such, the roasters need not niche themselves as sustainability differentiators in order to enjoy the additional value extracted from consumers willing to pay a premium for sustainably produced products. Instead, the basis of competition centers back on quality and brand loyalty. Consequently, this illustrates how the strategic decisions made by Swedish roasters has shifted the basis of competition in the sustainable market segment using the external strategic perspective of Porter (1985). Had the market not been characterized by widespread usage of labeling and certification, the niche actor Eguale might have enjoyed a larger market share and positioning as being a clearer choice for the aforementioned consumers with the brand instead carrying the sustainability information (Demsetz, 1964).

The findings can further be connected to the shareholder versus stakeholder strategic orientations (Freeman, 1984; Friedman, 1970) that has dominated CSR debate, coming down to the underlying motivations of why the organizations engage in these contractual relationships. The simple answer is that it is difficult to tell. The different strategic intents evident in agency and transaction cost economics theory on the one hand and property rights theory on the other can both be argued for following Kim and Mahoney (2005). The limited scale of the fair trade concept and the shown benefits for the participating organizations is consistent with a shareholder orientation. Still, the companies involved have a clear economic case to engage. This can be attributed to the overall bridging of the gap between Friedman and Freeman presented by strategic CSR, as developed by Chandler (2016), where stakeholder demands encourage organizations to find an economic case for acting more sustainably,

benefiting stakeholders. This is further illustrated with Friedman recognizing the need for organizations to follow social conventions (Chandler, 2016), which connects to property rights theory that suggest that the use of economic property rights needs to be approved by society in order to reach their maximum value (Alchian, 2008). Therefore, a normative economic case for how strategic management decisions should be taken with regards to comparative efficiency can be made for the fair trade concept in its current scale benefiting involved parties and the wider communities. This shows viability for the claim of Donaldson & Preston (1995) that property rights theory has the potential to provide stakeholder theory with a more solid normative foundation.

In final, the use of organizational economics theory has been able to connect the lines all the way from the underlying strategic purpose of a firm, customer demand, internal and external strategic management theories and down to the practical setting of the actual contractual relationships employed, showcasing the strategic management insights. It connects to what strategic management is all about, the positioning of the firm and doing things differently or better to fulfill customer needs (Barney, 1991; Chandler, 2016; Engert, Rauter & Baumgartner, 2016; Porter, 1985).

6. Conclusion, Discussion and Contribution

The purpose of this study has been to analyze the contractual relationships associated with the fair trade concept by applying organizational economics theory in order to contribute with theoretical and practical strategic management insights. The analysis conducted using the established theoretical framework has resulted in the following four conclusions based on the purpose. Each conclusion is then explained as it relates to the research question:

- The findings validate the *applicability* of agency, transaction cost economics and property rights theory separately in a sustainable supply-chain setting like the one offered by the fair trade concept, which provided strategic management insights that help guide contracting decisions in such a context.
- The findings support that increased strategic management insights about contracting decisions can be gained by combining and utilizing the *complementarity* of the organizational economics theories.
- Organizational economics theory also has *limitations*, such as its internal and economic focus, restrictive assumptions and lack of previous application, which may hinder it from generating even further strategic management insights.
- The limitations of organizational economics theory hindering further strategic management insights can partly be mitigated through a *widening of the theoretical frame* with the application of complementary mainstream strategic management theories.

The first conclusion highlights the applicability of organizational economics theory on the contractual relationships associated with the fair trade concept, in addition to a wider sustainable supply-chain setting. The application of agency theory shows traditional agency problem in new forms, entailing that involved parties make use of ex-ante contracts to specify and monitor behavior deemed acceptable from a sustainability perspective, with the aid of Fairtrade. In turn, transaction cost economics theory showed how the ex-post perspective resulted in longer-term hybrid instead of market governance mechanisms. This as a consequence of generally higher transaction frequency, uncertainty and asset specificity variables when introducing sustainability attributes. Still, long-term trust and relationship

building showed to be of strategic importance in both ex-ante and ex-post contracting. Property rights offered knowledge into how the fair trade concept seemingly benefits the involved parties, albeit on a limited scale when taking into account societal benefits and costs. It also added an important perspective on how the labeling and certification makes the exchange of sustainable coffee beans possible by guaranteeing the underlying attributes, connecting consumers, buyer organizations and producer organizations.

Together these findings help fulfill the theoretical contribution objective of providing strategic management insights by applying organizational economics theory in the under-researched domain of sustainable supply-chain management. The practical contributions of the conclusion describe the strategic decision-making behind the contractual decisions to ensure sustainability in a supply-chain from an organizational economics perspective previously not present. It provides managers with an economic perspective on the internal strategic decision-making that can help managers faced by such decisions. Worth noting is the contextuality as a consequence of the empirical delimitation, but no significant inconsistencies were found, indicating generalizability of the findings. In this vein, we feel positive in the applicability of these findings also in other industries with widespread usage of third-party labeling and certification or overall challenges in ensuring acceptable sustainability performance within global supply-chains.

The second conclusion makes it clear that increased strategic management insights can be drawn from contractual relationships by capitalizing on the complementary aspects of the organizational economics theories. First off, the findings have illustrated the factors and decisions managers make as it relates both to ex-ante and ex-post contracting, providing a more holistic perspective. Consequently, it was important to include transaction cost economics theory even though it had more extensively been applied in a sustainability supply-setting. Moreover, this is why the lack of use of both agency and property rights theory within sustainability literature is troubling as important aspects might be missed for a manager faced with contractual decisions to improve sustainability. Specifically, the inclusion of the often neglected property rights theory contributed with important dimensions related to the attributes of quality and sustainability. These attributes proved central to grasp in order to understand the decisions the interviewed managers had made regarding the contractual relationships.

As a result, there is reason to believe that the complementarity of the used theories can enhance understanding of strategic decisions also beyond a sustainable supply-chain setting, making the

second conclusion more generalizable. Meanwhile, the practical contribution of this conclusion is important in enabling a holistic foundation for the necessary economic case for sustainability initiatives. The theoretical contribution follows the practical by setting the stage for future research aimed at a holistic base, why the thesis has fulfilled the expressed contribution of generating strategic management insights by finding common underpinnings based on using complementary theories. The theoretical framework is one part of this contribution by showing how the theories can be combined in a sustainable supply-chain setting with the inclusion of contemporary work.

The third conclusion builds upon the limitations in using organizational economics theory to analyze the contractual relationships discovered. A central limitation is that the theories mainly address the internal considerations of organizations when managers make contracting decisions, why a connection to the external customer demand might sometimes become distant. Moreover, the analysis departs from a general economic perspective. This limitation is somewhat combated by the incorporation of property rights theory, which acknowledges wider societal costs along with its stakeholder orientation. Nevertheless, ethical and institutional theories have been readily used within the sustainability literature, where organizational economics theory needs to be viewed as a necessary economic complement.

Organizational economics theory also employs restrictive assumptions as illustrated with the required of risk assumption in agency theory, which this study has identified as an apt avenue for theoretical advancement needed for increased applicability in a sustainable supply-chain setting. This can be considered a consequence from the general lack of application of the theories in this setting, why our developed theoretical framework in addition to the empirical findings can be seen as an initiating step to highlight theoretical shortcomings. Consequently, the study has contributed theoretically by highlighting theoretical boundaries stated in the introduction. In sum, these limitations need to be addressed in order to acknowledge that organizational economics theory mainly contributes with a new perspective, potentially offering more viable practical economic guidance than the previously used theories, consistent with the exploratory approach.

The fourth and final conclusion shows how this study aims to address some of these limitations by connecting organizational economics theory to more mainstream strategic management theories, which was another stated aim of the thesis. This increases the practical contribution

as managers can more readily see how the contractual relationships can actually be connected to a wider discussion about the purpose and competitiveness of the firm, whether driven by demand, institutional, and/or stakeholder pressures. The strategic decisions managers make about contractual relationships can be linked to the internal resource-based view in how they affect strategic resources and to Porter's external perspective in helping to fulfill the firm's desired position. Together, this broader view can aid managers respond to external pressures and the increasingly bridged gap between a shareholder and stakeholder orientation. Overall, the widened theoretical connection strengthens the theoretical contribution of the study by putting the less applied organizational economics theory to use within its overall strategic management context, facilitating its relevance as a necessary theoretical perspective.

In summary, we hope the theoretical contributions will progress and popularize the use of organizational economics theory to understand sustainability issues, which can further help guide practical strategic management decisions related to contemporary sustainability challenges. Just as the fair trade concept does not represent the ultimate solution to the sustainability issues that continue to be persistent throughout the world, it shares the ambition of this study to at least be a part of the solution. Here it represents the supporting role of organizational economics theory within the field of strategic management to generate new insights and ultimately advance knowledge.

6.1 Future Research

The above conclusions can help set the stage for future research within the fair trade concept, sustainable supply-chain management and the wider sustainability literature. It is important to remember that this is an exploratory study aimed to view a practical phenomena from a new perspective. As a result, we believe that future research can use the developed theoretical framework as a departure for further research to find supporting or contrary evidence. The framework can be tested both as a whole, given the importance of complementarity between the theories, but individual elements could also benefit from more rigorous empirical testing, such as from quantitative studies. One such suitable avenue could be to relax some of the restrictive assumptions like the original risk aversion propositions in agency theory in a supply-chain setting to increase its applicability. The discovered dynamic element of risk preferences in this study could help guide such research. A similar assumptional overview of transaction cost economics and property rights theory could also help contribute to theoretical

development. It would also be of theoretical and practical interest to explore how trust and long-term relationships is developed in buyer-supplier relationships, especially considering the increased consciousness of stakeholder management.

Another important addition would be to replicate the research in other settings to validate the findings further, where a natural context would be to study organizations outside of Sweden to find similarities and differences. More interestingly from a strategic management perspective would also be to collect data from buyer organizations pursuing cost-leadership strategies to see if the findings apply beyond differentiation strategies and what potential differences could arise. Such firms might employ other contractual arrangements than certification in order to respond to sustainability pressures from stakeholders or the lack thereof. It could also be extended to investigate alternative approaches to managing sustainability in increasingly global supply-chains. In addition, producer organizations could be interviewed to gain a valuable and more personal perspective on their strategic motivations and further validate claims related to the contractual relationships and longer-term relationships. Overall, these future research opportunities can help organizational economics theory take the next steps in contributing to more informed strategic decision-making related to the sustainability issues faced today.

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Appendices

Appendix A – Interview Guide: Buyer Organizations

1. How would you describe [Company name's] work with Fairtrade today?
2. How can the choice to offer Fairtrade-certified coffee products be described from a strategic perspective?
3. Which percentage does Fairtrade-certified coffee constitute of your total production? Why?
4. Are there other ways to ensure that coffee beans have been produced sustainably?
5. What are the risks associated with producers not living up to your sustainability standards?
6. How difficult is it to control the circumstances under which coffee beans are produced?
7. Are there any challenges with choosing suppliers? Is there any difference compared to contracting for conventional coffee beans?
8. How does the company work with ensuring that producers live up to your sustainability standards?
9. Does the Fairtrade-certification help with ensuring a certain sustainability standard? How?
10. Does established trust play a role for your relationship with producers and other intermediaries? How?
11. Which different costs does the company incur in purchasing sustainable coffee beans?
12. Which uncertainty factors are involved in the purchasing of coffee beans?
13. How often do you purchase coffee beans? How does the typical contract look like?
14. Are relation-specific investments required by either yourself, producers or intermediaries in the contracting of coffee beans? Are Fairtrade-certified coffee beans more demanding in that sense?
15. Does frequency of purchase, uncertainty and relationship-specific investments impact how you work with contracting the purchase of coffee beans? How?
16. Does a Fairtrade-certification help you manage frequency, uncertainty and relationship-specific investments? In what way?
17. Does the fact that it is impossible to tell a conventional and sustainable coffee bean apart affect the possibility of purchasing and selling sustainable coffee? How?

18. Does the Fairtrade-label affect the possibility to purchase and sell sustainable coffee? In what way?
19. Which impact does Fairtrade's minimum pricing have on producers in your supply-chain from your perspective?
20. Are there any disadvantages with Fairtrade from your perspective? Why?

Appendix B – Interview Guide: Certifying Body

1. How would you describe your work within the coffee industry today?
2. What do you think motivates companies to sell Fairtrade-certified coffee products from a strategic perspective?
3. Why do you think that companies only choose to Fairtrade-certify some of their coffee products?
4. What other ways are there for companies to ensure that coffee beans have been sustainably produced?
5. How difficult do you think it is for the companies themselves to control the circumstances under which coffee beans are produced?
6. How can Fairtrade contribute in ensuring producer compliance to acceptable sustainability criteria?
7. How do you convince companies that Fairtrade-certified coffee meets all of the stated criteria? How do you convince producers to become certified?
8. Does established trust play a role in your relationship with producers and/or companies? How do you work with building trust?
9. Which different costs do producers and companies incur in order to sell and purchase Fairtrade-certified coffee beans?
10. How often are Fairtrade-certified coffee beans contracted for? What is the time frame?
11. Which uncertainty factors are involved in the purchase of Fairtrade-certified coffee beans?
12. Are relationship-specific investments required by producers and/or companies in order to obtain Fairtrade-certification? In what way?
13. Does Fairtrade help producers and companies manage purchasing frequency, uncertainty and relationship-specific investments in contracting with coffee beans? How?
14. Does the fact that it is impossible to tell a conventional and sustainable coffee bean apart affect the possibility of purchasing and selling sustainable coffee? How?
15. Does the Fairtrade-label help the possibility to purchase and sell sustainable coffee? How?
16. Which impact does Fairtrade's minimum pricing have in the supply-chain from your perspective?
17. Will companies increase or decrease their share of Fairtrade-certified coffee in the future? Why?
18. In which areas do you believe Fairtrade can improve?

Appendix C – Interview Guide: Researchers

1. How would you describe Fairtrade's impact on sustainability within the coffee industry from your perspective as a researcher?
2. What do you think motivates companies to sell Fairtrade-certified coffee products from a strategic perspective?
3. Why do you think that companies only choose to certify some of their coffee products?
4. Does the Fairtrade-label affect the possibility to sell sustainable coffee? In what way?
5. Do you believe the added value generated from Fairtrade-certified products are fairly allocated throughout the supply chain? Why?
6. Which impact does Fairtrade's minimum pricing have in the supply-chain from your perspective?
7. Which risks are related to sustainability in supply-chains for commodities such as coffee beans?
8. Do you believe Fairtrade to be an effective tool in ensuring that producers live up to explicit criteria for otherwise difficult to measure attributes?
9. Which alternatives do you see to external certification in ensuring that commodities like coffee beans have been sustainably produced?
10. Which different transaction costs do producers and companies incur in order to sell and purchase Fairtrade-certified products?
11. Which uncertainty factors are involved in the purchase of commodities such as coffee beans?
12. Does Fairtrade help producers and companies manage uncertainty and the will to make relationship-specific investments? How?
13. Will companies increase or decrease their share of Fairtrade-certified coffee in the future? Why?
14. In which areas do you believe Fairtrade can improve?