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How can sustainable business models distribute value more equitably in global value chains? Introducing "value chain profit sharing" as an emerging alternative to fair trade, direct trade, or solidarity trade

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Abstract

Global supply chains often distribute value inequitably among the Global North and South. This perpetuates poverty and contributes to indecent work in raw material-producing countries, thus creating challenges to sustainable development. For decades, corporate social responsibility, social entrepreneurship, and sustainable business model innovations have aimed to distribute value more equitably across global value chains, for instance via fair trade, alternative trade, and direct trade. This article examines a novel and hitherto understudied innovation for equitable value distribution in global supply chains: "value chain profit sharing." We draw on interview and archival data from two cases of social entrepreneurs working in the coffee sector to develop a generalized model. One of the model's key features is that the entrepreneur pays suppliers in multiple installments that reflect market conditions (as opposed to a single lump sum based on prediction). We show how this can increase value creation, appropriation, and equitable distribution. Although our research suggests that this model may be highly contingent on leaders' skills, resources, sense of place, and accountability to suppliers, we find no evidence that its applications are limited to specific countries or sectors. Our research further extends extant theory by showing how "value chain profit sharing" may relieve some of the tensions often associated with sustainable business models, including distributing value to suppliers while maintaining financial solvency; creating value while pursuing a social mission; providing benefits to suppliers without curtailing their market opportunities; responding to market conditions while maintaining commitments to suppliers; and scaling without diluting benefits. It thereby contributes to the literatures on sustainable business model innovations, equitable value distribution in global supply chains, novel application of revenue-sharing contracts, and innovative methods of profit sharing. It furthermore provides actionable guidance for social entrepreneurs, corporate social responsibility practitioners, and supplier cooperatives aiming to achieve more equitable value distribution and sustainable supply chains.

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KEYWORDS
coffee, fair trade, social entrepreneurship, sustainable business models, sustainable supply chains, value distribution

1 | INTRODUCTION

Global value chains (GVCs) often contribute to poverty and global inequality, two of the problems targeted by the United Nations 2030 sustainable development goals. One way they do this is by unevenly distributing value: GVCs often deliver *less value* to suppliers, who are more likely to be in the Global South, and *far more value* to lead firms, investors, and retailers, who are more likely to be in the Global North (Brewer, 2011; Daviron & Ponte, 2005; de Bakker et al., 2019; Raynolds & Bennett, 2015). Several sustainable business model innovations have emerged as potential solutions: Fair trade certification focuses on price floors and premiums; direct trade emphasizes short supply chains with few middlemen; and solidarity trade aims to provide market access to traditionally marginalized groups. A substantial interdisciplinary literature bridging business and the social sciences theorizes how these innovations operate, when they are likely to be effective, and their limitations (Bennett, 2016; Borrella et al., 2015; Fridell, 2007; Grabs, 2020b; Hernandez-Aguilera et al., 2018; Jaffee, 2007; MacGregor et al., 2017; Tallontire, 2000; Valkila, 2014; Vicol et al., 2018).

Unfortunately, empirical studies suggest that fair trade certification, direct trade, and solidarity trade often fall short of their distributive goals or achieve them at the cost of other priorities (Borrella et al., 2015; Grabs, 2020b; Johannessen & Wilhite, 2010; Valkila, 2014; Valkila et al., 2010). Thus, novel sustainable business model innovations aimed at equitable value distribution are very welcome.

This article examines a new innovation that has emerged to distribute value more equitably in global supply chains. In the 2010–2020 decade, several social entrepreneurs claimed they could distribute more value to coffee growers through a business model they loosely referred to as "profit sharing" (Catracha, 2021; LaPorte, 2013). A cursory examination of their supply chains revealed that although they shared some features with fair trade certification, direct trade, and solidarity trade, they actually functioned quite similarly to "revenue-sharing contracts," a business model popular among video rental franchises in the 1990s (Altug & van Ryzin, 2014; Cachon & Lariviere, 2005). Given the importance of improving value distribution in global supply chains, the utility of revenue-sharing contracts in other contexts, and the limitations of fair, direct, and solidarity trade, this appeared to be an exciting innovation. Despite its potential importance, our review of the literatures on coffee supply chains, agricultural value chains, revenue sharing, and profit sharing suggest that this approach to equitable value distribution has not yet been theorized.

In this article, we examine two instances of this model emerging in the coffee sector. Drawing on interviews with entrepreneurs, financial records, internal archives, public data, and site observations, we describe these two cases, develop a theoretical model of "value chain profit sharing," and identify the model's potential and limitations. Finally, we compare it to existing innovative models.

Our analysis suggests that the new "value chain profit sharing" model has the potential to distribute more value to suppliers than conventional value chains. It can also stabilize supplier incomes without precluding other market opportunities. Although our data suggest the model may be best suited for entrepreneurs who have particularly relevant skills, access to discounted resources, a strong sense of place, and informal (social) accountability to suppliers, more research is required to understand how it may function in other contexts. *Overall, we find value chain profit sharing to be a significant new development in supply chain value distribution*.

This article answers a call for sustainable business studies to offer more specific, actionable insights into the ways in which firms can promote economic equity and social change (Davies & Chambers, 2018; Ind et al., 2020; Marens, 2018). In doing so, it contributes to the broader discussion of whether and how social responsibility can be implemented in global value chains (Oldham & Spence, 2022; Van Buren III & Schrempf-Stirling, 2022; Winstanley et al., 2002).

2 | LITERATURE REVIEW

2.1 | Business models and equitable value distribution

Businesses *create* value by acquiring, combining, and exchanging stakeholders' resources to generate something the market will value; *appropriate* that value by minimizing the costs of production and maximizing the prices received; and *distribute* it to those who provided the resources. Business models describe the structures of relations that will carry out these activities. They typically include a value proposition to consumers, a method for creating value, and a plan for distributing rents to the entities generating that value (Schaltegger et al., 2016).

2.1.1 | Corporate social responsibility and creating shared value

A sizeable literature is concerned with the question of whether, and to what extent, business models need to be modified to ensure companies' corporate social responsibility (CSR). It is not uncommon for CSR to be somewhat divorced from companies' value-creating activities and the institutions, contexts, and communities in which they occur (Kim, 2022). In contrast, the "Creating Shared Value" (CSV) approach argued that it is necessary to redefine *where* and *how* value is created and collectively reduce inefficiencies and resource consumption

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across a value chain in order to increase the profits of multiple stakeholder groups (Porter & Kramer, 2011). While CSV may improve value creation and appropriation for stakeholders, it may generate even greater benefits to corporations, limiting its capacity to address inequality along the value chain (Crane et al., 2014; Voltan et al., 2017; Westermann-Behaylo et al., 2016), a common critique of the broader CSR approach (Bapuji et al., 2020; Kim, 2022; Tsutsui & Lim, 2015).

2.1.2 | Sustainable business models and social entrepreneurship

Some companies move beyond CSR and CSV by aiming to simultaneously generate revenue while creating economic, social, and/or environmental value. The sustainable business model (SBM) literature examines how companies describe, analyze, manage, and communicate their value proposition; plan for creating and delivering this value; and strategize how they will both capture value and contribute to natural, social, or economic capital formation beyond their organizational boundaries (Schaltegger et al., 2016, p. 6). The social entrepreneurship literature examines how businesses or non-profits use market tools to achieve social goals (Santos, 2012). "Integrated" social enterprises achieve the social mission and generate revenue with the same activity while "differentiated" social enterprises deliver benefits and generate profits with different activities (Ebrahim et al., 2014). For some social enterprises, equitable value distribution is an objective in and of itself (Santos, 2012). For example, in the context of global value chains, some social enterprises aim to distribute more value to producers of raw commodities located in the Global South, who tend to receive low shares of the final product value due to asymmetric bargaining power, access to information, ability to act, cost of substitutions, and perceived dependencies (Civera et al., 2019; Grabs & Ponte, 2019).

There is a great deal of overlap between these fields of inquiry. SBMs are often studied with a social entrepreneurship lens because they are innovative (Anand et al., 2021). On the other side, social enterprises often generate sustainable business models innovations in order to address conflicting norms or logics that emerge when pursuing their goals (Davies & Chambers, 2018; Gomez-Alvarez & Morales-Sánchez, 2021; Smith et al., 2013). This article extends research at the intersection of integrated social enterprises and sustainable business models by examining extant, potential, and novel innovations for distributing value more equitably in the context of value chains.

2.1.3 | Challenges to business models for equitable value distribution

Although many social enterprises and sustainable business models aim to distribute profits equitably, empirical studies review that it is common to struggle with questions about how to distribute value among three groups: First, the business itself (e.g., reinvestment); second, those who contribute to it (e.g., payments to suppliers), and third, benefits to those it aims to serve (e.g., community contributions) (Davies & Chambers, 2018). While sustainable business model theory suggests that holistic business models *can* address such tensions head-on through creative design and appropriate decision-making architecture (Davies & Chambers, 2018), social entrepreneurship theory also notes that such efforts typically require making trade-offs among value distribution, value creation, and value appropriation (Battilana & Lee, 2014; Davies & Doherty, 2019; Pache & Santos, 2013). Research also suggests that strategies for distributing more value to supplier-beneficiaries are likely to conflict with other objectives for those same beneficiaries, such as maximizing prices, stabilizing incomes, facilitating choice, and including them in decision-making (Hernandez-Aguilera et al., 2018; Mook & Overdevest, 2018; Sen, 2001; Wilson, 2013). Research on scaling furthermore suggests these shortcomings are likely to be exacerbated when scaling up (to include a greater population) or scaling deep (to improve benefits the incumbent population) (Palomares-Aguirre et al., 2018).

2.1.4 | Evaluating innovations for equitable value distribution

Drawing on these accounts of the challenges facing businesses that aim to distribute profit equitably, we assert that an evaluation of a business model's capacity to distribute value equitably would include an assessment of its capacity to do the following: (a) balance value distribution, creation, and appropriation while avoiding compromises related to income stabilization, (b) permit freedom to exit, (c) avoid exclusion from governance, and (d) leave open possibilities for scaling. Using this assessment framework, the following section reviews the literature around three well-theorized innovations aimed at achieving equitable value distribution. We describe each business model's value proposition, creation, appropriation, and distribution strategies; the resulting beneficiary outcome, including suppliers' share of value, income stabilization, freedom to exit, and inclusion in governance; and scalability. We then draw on our empirical data and conduct a comparative case study to examine the value chain profit sharing business model in greater detail.

2.2 | Innovations for equitable value distribution

The three most thoroughly theorized innovations for equitable value distribution in global value chains are solidarity trade, fair trade certification, and direct trade. Many theoretical accounts are based on the study of coffee value chains, which have been the site of significant innovation (Bird & Hughes, 1997; Borrella et al., 2015; Civera et al., 2019; Davies & Chambers, 2018; Gielissen & Graafland, 2009; Potts, 2020).

2.2.1 | Solidarity trade

Solidarity trade aims to support international development projects and political movements by developing moral markets for the

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products (e.g., handicraft, coffee, or tea) that beneficiaries generate (Gendron et al., 2009). The novel value proposition is adding moral attributes to daily consumption goods, and value is added by providing non-profit services connecting producer and consumer populations (Anderson, 2015; Jaffee, 2007). Early practices were scaled through catalogs and specialty shops, which allowed them to appropriate greater value by reducing overhead costs and eliminating margins, and transfer a greater share of retail value to suppliers (Doherty et al., 2013; Raynolds, 2012; Tallontire, 2000). Value distribution relies heavily on the resources and capacities of non-profits, and scaling beyond the small specialty market is challenging (Tallontire, 2000). When supply outstrips demand, prices can fall, compromising income stability (Bennett, 2016). Although producers tend to be free to find other buyers, their marginalized status often means they have limited choices (Fridell, 2007).

2.2.2 | Fair trade certification

Fair trade certification developed in response to the challenges of scaling up solidarity trade. Its value proposition is making ethical products widely available (Bennett, 2016). Fairtrade International and other organizations[1] generate value by codifying "fair trade" practices and verifying that suppliers and brands follow them (Raynolds & Bennett, 2015). Standards related to equitable value distribution include minimum prices for individual suppliers and social premiums, long-term contracts, and pre-financing for cooperatives (Le Velly, 2015; Raynolds, 2012). Verified products are labeled as fair trade and sold to conventional processors, brands, and retailers (Barrientos & Smith, 2007; Bennett, 2016), which dramatically expanded their market penetration and global reach (Grabs, 2020a). Certification brought solidarity trade to scale and provided early participating cooperatives with some price stability and improved livelihood (Mook & Overdevest, 2018). Yet, its less relational approach compromises value distribution because long-term contracts and pre-financing are challenging to enforce, auditing fees increase overhead, and prices can be lower than the cost of production and not adjusted for inflation (Grabs, 2020b; Jaffee, 2007; Taylor, 2005; Valkila, 2014). In coffee, oversupply results in only 25%–30% selling under Fairtrade terms (Grabs, 2020b). Efforts to increase prices are contentious and constrained by fears of demand collapse (Bacon, 2010; Grabs, 2020b). While producers are included in governance forums, their influence can be limited by traditional North–South power and resource asymmetries (Bennett, 2017; Keahey & Murray, 2017; Lyon, 2010).

2.2.3 | Direct (relationship) trade

Aiming to improve on the other models, social entrepreneurs working in high-quality coffee developed *direct trade* or *relationship trade* (Cole & Brown, 2014). The value proposition to consumers is extremely high quality of coffee and "knowing one's farmer"—evoking the farmers' market model in the Global North. To deliver that value, coffee roasters purchase small quantities of extraordinary quality coffee from individual farmers at a transparent price through auctions or specialized brokers (Borrella et al., 2015; Grabs & Ponte, 2019; MacGregor et al., 2017). Value is created by reducing middlemen and fostering tailored, long-term contracts. Despite the benefits of transparency, there are several limitations. Although direct trade coffee typically retails at a very high value, the *share* of value growers receive may not be significantly greater (Borrella et al., 2015; Vicol et al., 2018). The costs of high-quality production are also higher, though only the best coffee is likely to sell for direct trade prices (Hernandez-Aguilera et al., 2018; MacGregor et al., 2017; Wilson, 2013). It is not clear when and to what extent direct trade improves farmers' profits and income stability, or whether the model is scalable beyond high quality markets (Vicol et al., 2018). It is also possible that a focus on individual sales may undermine models based on cooperation, hollowing out institutions set up to mitigate risk (Fischer et al., 2021). Additionally, individualization, long-term contracts, and grower exclusion from social enterprise leadership collectively mean that growers can be reliant on buyers (to define and assess quality) and brokers (to be linked to specialty markets), and less able to take advantage of other opportunities (Grabs & Ponte, 2019). In particular, while long-term contracts allow farmers to lock in future prices and thereby hedge against price declines, they also curtail their flexibility in taking advantage of market upswings by selling their crop to the highest bidder in the spot market or at times when their cash need is highest. Indeed, in areas with high buyer competition, opportunistic contract-breaking and side-selling is a regular occurrence irrespective of formal contracts (Macchiavello & Morjaria, 2021; Mujawamariya et al., 2013). These identified limitations (summarized in Table 5) motivate our exploration of the new business innovation of profit sharing along the value chain.

2.3 | Potentially applicable business innovations

This section examines two business innovations that can generate more equitable value distribution. The first, firm-level profit sharing, is often used by firms to motivate employee productivity. The second, revenue-sharing contracts, are often used by buyers and suppliers when negotiating whole sale pricing in the context of unpredictable consumer demand. The first is not typically applied to value chains. The second is not typically used when suppliers lack bargaining power or buyers add value. These sections describe the two models, their potential benefits and limitations, and the conditions under which they are theorized to generate more equitable value distribution without significant shortcomings.

2.3.1 | Firm-level profit sharing

Some companies aim to distribute value more equitably among actors *within* the firm (as opposed to those who supply it) in order to motivate productivity, increase loyalty, or address unequal income

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or wealth accumulation between workers and managers or labor investors and capital investors (Blasi et al., 2013). Profit sharing can take many forms including employee share ownership, employee stock options, employee profit sharing, and employee gain sharing (Blasi et al., 2013). Each of these offers employees a share of company profits in addition to their wages or base salary. The shared profit may be paid in cash, invested into trusts, or issued in shares, either immediately or at a future date (Blasi et al., 2010, 2016). It may be distributed to top managers, a broader group, or the entire workforce. In the "employee share ownership" model of profit sharing, payments reflect company performance but do not share losses (Poole & Jenkins, 1990).

Profit sharing is typically studied at firm level. Drawing on empirical research, this model is theorized to improve corporate performance, distribution of wealth, creativity around value generation, manager–employee (or buyer–supplier) relations, morale and motivation, a sense of ownership, and firm capacity for environmental stewardship, and generate positive spillover effects for social sustainability (Blasi et al., 2018; Fakhfakh & FitzRoy, 2018). Because this more equitable distribution of profits at the firm level can improve income and wealth inequality at a broader, society level, some governments have adopted public policies to encourage firms to adopt this strategy (Blasi et al., 2013). However, firm-level profit sharing is also theorized to generate stress for potential recipients because it renders some determinants of income variable, outside of individual control, and potentially arbitrary and/or unfair (Blasi et al., 2010; Fakhfakh & Perotin, 2000; Poole & Jenkins, 1990).

To the authors' knowledge, empirical examinations of profit sharing have been limited to the firm level of analysis, focusing on benefits to employees—as opposed to suppliers. Thus, more research would be needed to understand whether and how it could be adapted for use in global value chains. In particular, it is important to learn whether smallholder commodities farmers would face challenges similar to those reported by employees in profit sharing firms.

2.3.2 | Revenue-sharing contracts

Revenue-sharing contracts rose to prominence in the late 1990s. Video rental stores were struggling with the problem of either purchasing *too many* videos (and not being able to rent them enough times to turn a profit) or *not purchasing enough* videos (to keep up with consumer demand and not lose business to other rental stores). Instead of continuing to attempt to accurately predict consumer demand, many video stores instead adopted revenue-sharing contracts with their suppliers (Altug & van Ryzin, 2014; Cachon & Lariviere, 2005). Revenue-sharing contracts typically divide buyers' payment to suppliers into two installments. The first payment is a modest amount in exchange for securing a fixed amount of product. The second takes place after buyer sells the product and reflects the actual sales prices and volumes. Revenue-sharing contracts have also been studied in the Indian mobile phone market (Asis Martinez-Jerez & Narayanan, 2007), the semiconductor industry (Altug & van Ryzin, 2014), and among embedded low-carbon service providers (Dong et al., 2023). To the authors' knowledge, examination of the applicability of revenue-sharing contracts to smallholder agriculture or to farmers selling in markets where prices are typically determined by the global commodities market has been limited (e.g., Ayvaz-Çavdaroğlu et al., 2021).

Revenue-sharing contracts are theorized to benefit buyers who are unable to anticipate sales volumes and per-unit sales prices (e.g., video rental stores). They also work to the advantage of suppliers who risk setting prices too high (losing sales) or too low (losing revenue per unit), and who are essential to the buyer (not easily substituted). Although revenue-sharing contracts can increase the overall value created by the buyer and supplier, they may also increase transaction costs (related to sharing and verifying revenue data), increase risk to supplier (if buyers do not maximize revenue), minimize arbitrage gains available to buyer (since revenue must be shared), and reduce opportunities for suppliers to earn interest on income (since full payment is delayed). Extant research suggests that suppliers should not accept revenue-sharing contracts unless their product is not easily substitutable, so that threat of contract termination can be used to pressure retailers to maximize sales prices and volumes; they can afford a liquidity shortage between payments; and they have the capacity to monitor and evaluate the buyer's efforts to maximize profits and compliance with the terms of the agreement (Altug & van Ryzin, 2014; Cachon & Lariviere, 2005).

Given these theorized scope conditions and potential costs, it is unclear whether revenue-sharing contracts would work well for the purpose of distributing value in global value chains. On the one hand, buyers and suppliers often face the very problem revenue-sharing contracts were designed to address: heterogenous valuation of units and unpredictable sales patterns create problems for up-front wholesale pricing. On the other hand, smallholder commodities suppliers are typically theorized as substitutable, lacking capacity to withstand delays in payment, and unable to monitor buyers' efforts to market and sell product. Furthermore, buyers are typically theorized as aiming to maximize opportunities for arbitrage and leverage the advantages of asymmetric information (Daviron & Ponte, 2005; Grabs & Ponte, 2019). Whether suppliers and buyers interested in collaborating to create more equitable value distribution can navigate these challenges and maximize potential benefits of revenue-sharing contracts remains to be seen. Additionally, it is unclear to what extent the model functions similarly when the buyer is not a retailer (e.g., video store) but instead a processor engaging in wholesale (e.g., coffee exporter selling to roasters). Although a study of olive oil in Turkey provides some insights—it finds revenue-sharing contracts can improve profits in the context of globally traded commodities produced by smallholder farmers but also increase risk—this study examines a cooperative buyer, not an independent firm (Ayvaz-Çavdaroğlu et al., 2021). For these reasons, as suggested in the extant literature (Ayvaz-Çavdaroğlu et al., 2021; Levi et al., 2020), the empirical research undertaken in this study is required to understand

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whether such a model would improve upon existing business models for equitable value distribution.

3 | METHODOLOGY

Our research is based on two exploratory case studies. We took an abductive approach in which we moved recursively between the data and the existing literature (Dubois & Gadde, 2002; Piekkari et al., 2009; Timmermans & Tavory, 2012), engaging both with the literature on value distribution in global value chains and business model innovations more broadly, in order to arrive at our final results. Drawing on mixed method data, we first generated rich descriptions that "made sense" of each instance of an unexamined phenomenon (Stigliani & Ravasi, 2012). Second, we reviewed the literature on equitable value chain innovations and compared extant models to our emergent one, confirming we had found an unexplored GVC model. We then returned to the data to identify patterns within and across cases, aiming to uncover underlying logical arguments (Eriksson & Kovalainen, 2015). In a broader review of the literature, we identified firm-level profit sharing and revenue-sharing models as innovations that shared certain, but not all features of our model, and which had not previously been examined in GVCs. Lastly, we developed a model that addresses previously unanswered "how" questions and elaborates on theories related to but not addressing the research questions (Eisenhardt & Graebner, 2007).

3.1 | Case selection

A case study is a rich, empirical description of a particular instance of a phenomenon, typically based on a variety of data sources (Yin, 2017). Researchers examine similarities and differences among multiple case studies to evaluate which characteristics are idiosyncratic or part of a broader pattern. Cases are selected strategically to allow the object of study to be investigated fully (Patton & Appelbaum, 2003). When the purpose is to extend theory, not test it, the cases do not need to be representative or random. Instead, they are selected purposefully, based on fit with the phenomenon, variables, and questions of interest. The analysis of only two cases is the bottom limit for generalization (Yin, 2017). In this context, generalizability is determined by the strength of the description, which allows the reader to determine the level of correspondence between the cases studied and other, potentially similar, situations (Patton & Appelbaum, 2003).

We selected two cases in the coffee sector in which entrepreneurs claimed to distribute value more equitably through profit sharing: Catracha Coffee Company and Thrive Farmers International Inc. (hereafter "Catracha" and "Thrive"). The coffee sector is a suitable context to study profit sharing for multiple reasons. First, coffee is one of the consumer goods that is highly differentiated at the point of sale, allowing for high value creation along the chain. Second, the relatively low levels of processing mean that much of the value creation in terms of determining final product quality happens at the production level, supporting a moral case for equitable value distribution to farmers. Third, in part due to the previous two reasons, the coffee sector has been where much innovation in terms of value chain sustainability—in particular, solidarity, fair, and direct trade—has originated, providing for more complete experience and previous research on alternative models (Grabs, 2020a). At the same time, many innovations in the coffee sector are adopted across other smallholder-based agricultural value chains such as cocoa, tea, nuts, and cotton, which speaks to the model's potential generalizability.

Both Catracha and Thrive are for-profit integrated social enterprises that aim to achieve the social mission of improving the income and well-being of coffee suppliers by purchasing coffee from suppliers in Latin America and selling it to roasters in the United States (on integrated models, see Ebrahim et al., 2014). An initial query suggested their approaches were more similar to one another than to any of the mechanisms examined in the literature. It also revealed a key difference: one scaled up; the other scaled deep. Variation on this feature is particularly interesting because each of the three mechanisms in the literature tend toward one of the two types of scaling, not both. We triangulated our preliminary impressions by reviewing academic literature, reading industry media, and probing academics, traders, roasters, certification board members, direct coffee managers, NGO executives, business association leaders, suppliers, and others with relevant expertise. Through this research, we identified several cases that shared some features but were overall less similar to each other than the cases we selected (e.g., Trade Aid, Progresso, Pachamama). Table 1 summarizes key characteristics of both companies.

3.2 | Data collection

To learn how profit sharing distributes value and identify potential trade-offs for participating suppliers, we gathered data from interviews, internal records, public documents, and media coverage (see Table 2), triangulating official, public accounts with other lived, documented, and potentially conflicting accounts. We interviewed diverse respondents, asking questions relevant to our understanding of the mechanism, to reduce convergent strategies of impression management (Eisenhardt & Graebner, 2007). We collected both real-time and retrospective data over several years in order to reduce retrospective sensemaking (Eisenhardt & Graebner, 2007), until reaching "category saturation," the stage at which no new evidence appears (Strauss & Corbin, 1998). Because each researcher began collecting data on a case several years before collaborating on this analysis, the timeline, methods, and data for each case are slightly distinct. Names have not been changed, on request of the entrepreneurs. Each individual who provided information was informed of the researchers' intent and permitted to decline participation at any time without recourse. We did not collect identifying information, though the analysis draws on personal accounts sourced from the public domain.

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TABLE 1 Overview of case studies.

	Catracha coffee company	Thrive farmers international Inc.
Legal structure	LLC, established 2010	Chapter C corporation, established 2011 B-corps certified in 2016
Non-profit	Catracha Community Fund 501(c)(3) Established 2015	ThriveWorx 501(c)(3) non-profit Established 2015
Number of employees	2	~30
2019 volume	100,000 pounds	4 million pounds
Location of coffee farms	80 small farms in Santa Elena, Honduras	Presence in all coffee-growing regions of Costa Rica and Guatemala; several communities each in Nicaragua, Brazil, and Colombia; and first partnerships in Ethiopia, Burundi, and Uganda
Cupping score (quality)	Microlots only: 85 and above, most around 86–87, with goal for all participating farmers to reach 90+	High 70s, low 80s, and microlots (85 and above)
Strategy for engaging buyers	Annual micro-contracts with roasters	Multi-year corporate contracts
Key buyers	Specialty roasting companies such as Blue Bottle, Farmers First, Anchorhead	Chick-Fil-A, Gordon Food Service
Mission	Focus on a single community	Disrupt an industry

3.3 | Methods

First, we reviewed our data and developed open codes. As described above and in Table 2, our dataset includes archives (internal documents and business records); public materials (marketing/reporting documents, journalism/media accounts, and academic publications); fieldnotes from in-person interactions (meetings, site visits, and industry events); notes and recordings of interviews (with the founding entrepreneurs and other stakeholders); and emails with the founding entrepreneurs. The open codes were generated inductively, drawing insights from the empirical case related to the research question (Lichterman, 2002; Strauss & Corbin, 1998), and are listed in Appendix A. Second, we organized coded data into themes that reflected the literature, our research questions, and the open codes by copying and pasting data (and their sources) into an outline. These themes are listed in Appendix A. Third, each researcher developed a narrative for each case for each theme (Stigliani & Ravasi, 2012). When we encountered discrepancies or gaps in the data, we requested additional documents, emailed entrepreneurs with follow-up questions, or returned to the original dataset. Fourth, we reviewed and discussed each other's narratives, requested and incorporated additional data from each entrepreneur into the narratives, and invited the entrepreneurs to confirm accuracy. This process generated a 2000-word narrative for each case. Fifth, following the "Eisenhardt method," we then organized our analysis into a table organized around the theoretical framework (described in section 2.2) displaying concise summary points of each case that facilitates comparison (Reay, 2014). Sixth, we drew on the narratives, analytic table, and comparative case analysis to develop a theoretical model of how value chain profit sharing distributes value. Seventh, we compared this model to the three models that are well-described in the literature (described in Section 2.3). Here, we paid special attention to the core challenges identified in the literature (as described in Sections 2.2 and 2.3): The extent to which value is distributed, the degree to which suppliers experience the limitations typical of other models, and contextual conditions that may be required for success. From this comparative analysis, we extend extant theorizing on whether, how, to what extent, and at what cost sustainable business models and social enterprises can distribute value and share profits. Finally, we reflected on this new theoretical contribution and generated questions for future research that include but are not limited to hypothesis testing (Eisenhardt & Graebner, 2007).

4 | FINDINGS

The findings of our empirical research are organized using the theoretical framework developed in Section 2.2, which outlines challenges common among sustainable business models and social enterprises that aim to distribute value more equitably. They are: (1) tradeoffs among value proposition, creation, appropriation, and distribution; (2) compromising other benefits to the target beneficiary group, including income stabilization, freedom to exit, and inclusive governance; and (3) limitations to scaling. The empirical case findings are summarized in Table 3.

4.1 | Business model description

4.1.1 | Development over time

Catracha was established in 2010 by Mayra Orellana-Powell (MOP). Mayra is originally from Santa Elena, Honduras, lived and studied in the United States for several decades, and launched Catracha as part of her intention to return home. Today, she manages Catracha in partnership with her husband Lowell Powell (LP). Catracha purchases high-quality coffee (around 100,000 lbs scoring over 85 points[2] in 2019) from 80 families in Santa Elena, Honduras, and sells it to specialty coffee roasters in the United States. Catracha's model emerged organically in 2012 when Mayra made US$10,000 in profit and felt that the only appropriate

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TABLE 2 Data sources.

	Catracha coffee company	Thrive Farmers International Inc.
Archives		
Internal documents	• Process map (2019) • Email from co-founder to board and friends about concerns and ideas related to transparency (LP, 2019) • 5 pg memo from co-founder to team about transparency (LP, 2019)	• Farmer payment methodology, process, policy document (2016)
Business records	• Price summary spreadsheet (2010–19) • Annual data (2012–18): payments to each supplier and reference prices	• Annual price data for Costa Rica and Guatemala (2013–17)
Public materials		
Marketing/Reporting	• Website • Documentary film (Gerber 2013) and fundraising website	• Website • Chick-Fil-A website
Journalism/Media	• Blogs: Royal Coffee (4 articles), SCAA, Metric Coffee, Patch/Alameda neighborhood, MarketAble Trade and Development	• New York Times article (LaPorte, 2013)
Academic publications		• Case study (Wilson et al., 2013)
Observations		
Meetings/Site visits	• Meeting of affiliated NGO (2015, California) – 3 pages handwritten fieldnotes • Tour of farms, supplier homes, community, Fairtrade cooperative mill, government quality lab, storage facility, conference site, community center (6 days, Honduras, 2016) – 42 pages handwritten fieldnotes	• Tour of community and mill (one-on-one, led by entrepreneur and supplier) (Costa Rica, 2015)
Specialty coffee association meeting	• Observed entrepreneur/founder and NGO director interacting with stakeholders and explaining the model to new professional contacts (2012–15)	• Observed and interacted with entrepreneur/co-founder (2017, 2019)
Interviews/Emails		
Entrepreneur/(Co-) Founder	• Informal exchanges (SCA 2012–15) • 6 in-person interviews with entrepreneur and/or co-founder, 1–4 hs each documented with fieldnotes (2016) • 4 emails from co-founder about transparency (LP, 2019) • 1 email from entrepreneur about community activities (MOP, 2019)	• Informal exchanges (SCA 2017, 2019) • 4 interviews with the entrepreneur/co-founder by phone (two in 2015, two in 2019) – recorded/transcribed
Stakeholders	• In US: NGO board director (2016) and 3 members: anthropologist (2017), applied agricultural economist (2015), coffee scientist (2016); documentary filmmaker (2012, 2013); trader (2015); roaster/retailer (2017)—3 pages typed fieldnotes • In Honduras (2016): 3 supplier households (6 individuals total); Government quality lab manager; Fairtrade cooperative mill manager; Storage/processing director; Supplier community mayor (2016)—fieldnotes	• 4 phone interviews with affiliated NGO director (2015 and 2019)—recorded/transcribed

action was to issue it to the farmers as a "bonus." Catracha now offers farmers a conservative initial payment at harvest and a second payment once payments from roasters are received. In 2017, Catracha added a 25-cent donation to the FOB (freight on board) price of microlots to support the Community Fund, a non-profit Catracha launched to facilitate development projects for its suppliers and the community.

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

4.1.2 | Value proposition, creation, and appropriation

Both companies' value proposition to end consumers is built around providing reliable volumes of high-quality, economically just coffee. They leverage their unique approach to value distribution differently across audiences, depending on how they anticipate profit

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TABLE 3 Empirical findings.

	Catracha coffee company	Thrive Farmers International Inc.
Sustainable business model		
Value proposition	Provide reliable volumes of high-quality, economically just coffee	
Value creation	Supporting quality improvements, disaggregating product by quality, financial incentives for quality, personally marketing the story/model	
Value appropriation	Minimize operating costs (through donations of facilities, time, capital and efficiency improvements)	
	Entrepreneur continues to donate	Entrepreneur phases out of donation over time by building on economies of scale
Value distribution	Distribution among the company, its direct suppliers, and the communities-at-large in which the supplier-farmers live	
	Two payments: The first reflecting best market value at time of purchase, the second distributing additional revenue	The two-payment model or, when long term contracts are in place, a higher than market value first payment and a second payment to complete the contract
Equitable value distribution outcomes and tradeoffs		
Value distributed to suppliers	60% increase over local fair trade price	20% higher than farmers' next best option
Income stabilization	Lower year-on-year price volatility due to demand-driven sourcing strategy and potential to adjust value distribution ratio to stabilize prices; the two-payment model smooths out crop-related incomes over the year	
Freedom to exit	Suppliers are not locked into multi-year contracts, but are offered sales contract each year (subject to attaining minimum quality)	
Inclusive governance	Entrepreneur retains all decision-making power, feels informally accountable to suppliers in home community; NGO board includes suppliers and other stakeholders	
Scaling	When entrepreneur is confident that buyers and above-market prices are secure for incumbent suppliers	
	Deep: maximizing benefits to suppliers (80 farms) and their community in Honduras	Up: extend the model to more communities, additional countries, and suppliers of varied quality

sharing will be valued (KL, personal communication, 2021). They aim to maximize value creation in four ways. First, they support suppliers in improving quality by funding site-specific research, offering training, and providing equipment. Catracha has supported wet mill upgrades, purchased washable shoes for drying patios, and collected data on solar dryer temperatures, humidity, and coffee quality. For several suppliers, these investments corresponded with quality improvements. Second, the companies channel higher quality products into higher revenue streams, as opposed to the common strategy of mixing varied qualities and selling at a lower price. While Catracha only purchases very high quality, Thrive aims to develop full-crop solutions that improve supplier profits by stratifying and improving the price of several quality tiers. Third, the companies reward suppliers with quality-commensurate payouts to incentivize value creation and separation by quality. Fourth, the entrepreneurs personally market the story of value chain profit sharing by speaking at events, meeting buyers, seeking media coverage (e.g., newspapers, industry publications, documentaries), and explaining the model's benefits in simple, accessible terms on their websites. The entrepreneurs report that these direct marketing activities have improved prices, raised demand, and lowered overhead costs. Buyers report that the higher price point requires them to explain (to consumers) the value added at origin and that these marketing resources help them to do so (MOP, fieldnotes, Honduras, 2016).

Both companies also aim to minimize operating costs to maximize value available for distribution. For example, Mayra reduces the cost of local infrastructure by using dry mills at the Fairtrade coop, drying coffee in her mother's yard, and hosting trainings, calibrating equipment, and cupping coffee at the public lab. Mayra's outside income and savings allow her to forgo a salary. Catracha occasionally provides loans to growers so infrastructure requirements (such as a wet mill) are not a barrier to entry. Twice, Mayra has temporarily covered losses out of pocket instead of eliminating second payments to suppliers. While Thrive's cofounders initially donated their own time to building the enterprise, today the company does not rely on donated time or personal capital. Instead, it budgets conservatively, and then draws on economies of scale to generate savings in storage, shipping, insurance, and financing.

4.1.3 | Value distribution

Both companies distribute value among the company, its direct suppliers, and the communities-at-large in which the supplier–farmers live. In retaining value to cover their operating costs, allow for reinvestment into the company, and (in the case of Thrive) generate profit for investors, both companies eschew static budgets and formulas, and instead adjust the model annually to reflect market conditions. Typically, the profit sharing mechanism distributes value to suppliers in two payments. The first payment for the raw materials reflects their market value at the time of purchase, while the second payment aims to distribute additional revenue. For Catracha, the

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first payment is high enough to incentivize supplier participation and low enough to mitigate risk to the company (e.g., cover operating costs). It is typically close to the local Fairtrade cooperative's price. The bonus payment is the final sales price, minus the initial payment, operating costs, a contribution to the affiliated NGO, and the company's share of the profit. If Catracha receives low prices, it can reduce profit or NGO contributions to increase payments to suppliers. Together, the payments are always more than what suppliers would have received on the conventional market.

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

To balance the benefits received by individual suppliers and the local community at large, and prevent the fragmentation of cooperative and solidarity values that can occur via encouraging producer-level specialization (cf. Fischer et al., 2021), both companies established and donate to non-profit community development organizations that support suppliers' well-being and efficient production. The Catracha Community Fund hosts youth leadership and art camps and coffee quality training workshops. Additionally, micro-businesses are supported through small loans, entrepreneurship training, and opportunities to work with international visitors (e.g., by preparing food and hosting visitors). ThriveWorx supports local leaders' community development work, such as access to clean water, improved health and education infrastructure, and training in leadership and financial literacy. Projects are funded by their customers, stakeholders, or independent donors. Some are also co-funded with Thrive, which also covers all overhead costs of ThriveWorx.

4.2 | Outcomes from the profit sharing business model

4.2.1 | Value distributed to suppliers

We compared the profit sharing prices with the commodities ("C") market price, local Fairtrade cooperative price, and other local buyers. Both companies follow the prices of other intermediaries (or "plaza prices") to assess what price farmers would receive in their microregion according to the best available information, as well as stock market or Fairtrade prices, and compare their model to the highest alternative price. Catracha data show that from 2012 to 2018, suppliers received 47%–79% more per pound than the local Fairtrade price. Averaged across those years, this is a 60% increase per pound (for coffee sold to Catracha). Thrive's data show that its prices were on average 20% higher than farmers' next best option. The differential was greater for cooperatives and small farmers (<15 ha) than for medium- and large-scale farms. In Costa Rica, cooperatives received prices 49% higher than the next best option. Using average estimated production costs[3] and weighing by total sourced volumes, Thrive estimates that from 2013 to 2017, Guatemalan farmers selling to Thrive made 94% more profits than they would have at plaza prices and Costa Rican farmers increased profits by over 300%. On average, Thrive suppliers' net profits have increased almost threefold from 2013 to 2019. Although we did not systematically gather data about how suppliers spent the additional income from higher prices, our research suggests that several Catracha suppliers invested in coffee processing infrastructure aimed at improving coffee quality and/or made improvements to their homes (e.g., kitchen renovation). Additionally, both entrepreneurs and some suppliers noted that the second payment allowed suppliers to forgo an interest-bearing loan to purchase inputs for the following season.

4.2.2 | Income stabilization

Catracha's strategy for ensuring price stability is to send samples to potential buyers at harvest so that if prices are high in the early season, Catracha can lock them into pre-orders (and if prices are low, Catracha can wait to sell). Thrive achieves price stability through two strategies. First, it only enters a new sales agreement with its own buyers if the contract terms offer suppliers long-term, stable prices at the top of regional market peaks. It then reaches out to its suppliers to increase sourcing volumes and/or add new suppliers to meet this demand. This demand-driven model eliminates the risk of oversupply that could drive prices down. Second, when Thrive purchases coffee outside of a contract, it pools suppliers' risks and rewards of year-to-year sales and ensures that they partake only in potential peaks, but avoid risky valleys. This creates "a model where the farmer doesn't take any risk" with "a higher, predictable, and stable price that allows a farmer to go into business with us and plan their business based upon a long-term relationship with us" (KL, interview, 2019). As a result, Thrive prices in Costa Rica and Guatemala were not only higher than alternative options but also showed much lower year-on-year price volatility. For example, in Guatemala, the average price variation was 1.5% between 2014 and 2017, while C-market prices varied by 30%, Fairtrade prices by 11%, and plaza prices by 10% (see Table 4). In addition to these core strategies, both companies aim to smooth prices over time by altering the portion of value distributed to suppliers (compared to overhead or NGO contributions) when disbursing the second payment. Finally, by splitting the crop-related income into multiple payments over the course of the year, the business models contribute to stabilizing producers' cash flow, which is particularly relevant for cash crop

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TABLE 4 Thrive prices are more stable than alternatives in Guatemala (2014–2017).

Year-on-year price difference	2014–2015	2015–2016	2016–2017
C-Market Price	28%	−41%	20%
Fair Trade Price	14%	−18%	2%
Average Plaza Price	6%	−16%	7%
Thrive Price	1%	−1%	3%

Note: Coffee prices are notoriously volatile, as can be seen in the table, where C-market prices increased by 28% from 2014 to 2015, dropped by 41% the next year, and increased again by 20% from 2016 to 2017. In comparison, Thrive's prices never changed by more than 3% in either direction, allowing producers greater certainty and forward planning ability for their crop incomes.

farmers who frequently rely on a single harvest for the majority of their income.

4.2.3 | Freedom to exit

Both businesses expand farmers' choices instead of locking them into long-term contracts. They encourage suppliers to diversify sales channels and pursue the most advantageous opportunities each year. Catracha expects suppliers to act “for themselves” and assumes they will “always follow the money” (MOP, fieldnotes, Honduras, 2016). Suppliers confirmed that they “go where the money is” (supplier, fieldnotes, Honduras, 2016). Many sell their lower quality coffee to the Fairtrade cooperative or other intermediaries. Catracha identifies its suppliers as “members” and requires them to attend 8–10 quality training meetings per year to continue selling to Catracha. Similarly, Thrive offers contracts annually, around the same time suppliers would be selling to intermediaries. Its multiyear relationships with suppliers are thus based on trust and prices, rather than contract lock-ins: “Our price is so much higher than anybody else in the market for this type of coffee for a volume price that we are taking, these farmers just trust us that we will come back to them each year. And they have adjusted with us when demand has gone up or down based on the client. [...] So the relationship really is built on trust and showing that you are meeting expectations continually in order to build and expand that trust” (KL, interview, 2019). Internal records that track participating farmers over time show high levels of supplier loyalty—as measured by whether farmers return to selling to Thrive year after year—and few instances of defection. In the isolated cases when a farmer group decided to sell to other buyers on the spot market instead of to Thrive, they frequently returned the following year, indicating the comparative advantage of Thrive's terms (KL, interview, 2019).

4.2.4 | Inclusive governance

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

4.2.5 | Scaling

Each company's approach to scaling reflects its mission. In both instances, once the entrepreneur met the objective of increasing the amount of value distributed to participating suppliers, they decided to aim to leverage the business model to create more benefits. In one case (Catracha), the decision was to increase investments and opportunities in the existing supplier community. In the other case (Thrive), the decision was to increase investments and opportunities in additional supplier communities.

Catracha attempted to scale “deeply” by buying greater volumes and increasing prices for farmers in Santa Elena. In 2010, it began buying from a few suppliers. Today, it works with 80 farmers, all from the same community. Mayra hesitates to purchase more coffee from existing suppliers or any coffee from new suppliers unless previous volumes were sold at high prices. She asserts that the greatest challenges to selling more coffee are improving quality and developing consistent

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relationships with roasters. Lower quality coffee (around 85) is a third of Catracha's volume and is challenging to sell. Higher quality coffee (87+) is also about a third of the volume, and those are the lots that seem to attract new roasters. Thus, improving quality is paramount. Since Catracha has helped suppliers to adopt best practices for processing, quality scores have increased and plateaued. Mayra has not identified ways in which additional capital would improve quality and thus does not identify access to capital as a limit to scale.

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

The scaling strategy impacts other aspects of the model. For example, Catracha conducts scientific research aimed at helping Santa Elena's suppliers to generate exceptional quality. Its commitment to scaling deeply means Catracha's resources are distributed over a small number of suppliers. This allows Mayra, along with her family, professional contacts, and friends to spend time working closely with suppliers on projects. For example, Catracha worked with several suppliers to install thermometers in their solar dryers and supported them in learning how to record data and manipulate vents to adjust temperatures to the optimal range. Additionally, Catracha helped suppliers to identify potential garden plots, secure seeds to grow food, and develop gardening plans so that food security would be less dependent on coffee income. Thrive's research focuses on identifying coffee-producing communities with a large farmer network and high-functioning processing infrastructure capable of consistently generating large volumes of good quality coffee. Instead of investing heavily in one coffee-growing community, like Catracha, it expands benefits to a greater number of communities. Another difference in approach to scaling is that Catracha aims to convince roasters to purchase from specific farmers each year whereas Thrive develops multiyear contracts with large buyers.

5 | DISCUSSION

5.1 | Value chain profit sharing model and its scalability

5.1.1 | Six features of the value chain profit sharing model

On the basis of our case studies, we define *value chain profit sharing* as a sustainable business model that aims to maximize the amount of value distributed to suppliers by increasing value creation and appropriation, allocating a share of net profits to suppliers, and issuing multiple payments to reflect actual market conditions, without constraining suppliers' opportunities. It is similar to corporate profit sharing in that it entitles labor contributors to a portion of enterprise profits (Fakhfakh & Perotin, 2000; Shipper et al., 2013), but different in that it is applied to global value chains. It is defined by six features:

1. Quality and special contracts increase value proposition and creation—Entrepreneurs aim to maximize prices received by buyers. In our case studies, they often succeeded in increasing prices beyond the conventional market by negotiating special arrangements (often highlighting the way in which profit sharing delivers more value to suppliers and assures reliable volumes for buyers), separating products by quality to secure the highest possible price for each segment, and providing quality enhancement training to suppliers.
2. Minimizing operating costs increases value appropriation—Entrepreneurs minimize operating costs by traditional means and/or hybrid organizing strategies. Both of the entrepreneurs in our study leveraged economies of scale and contracted with affordable vendors when possible. They also volunteered their time, backstopped cashflow with personal funds, provided gifts-in-kind, and/or solicited donations and discounted contributions (e.g., storage space), which are techniques typical of hybrid organizations (Battilana & Lee, 2014). In both cases, these strategies increased the amount of value they could appropriate for distribution.
3. Tripartite value distribution—Entrepreneurs divide net profits among the company, a non-profit community organization, and second payments to suppliers. The amount of the second payment that each supplier receives reflects both their individual contribution to creating value (the volume and quality of product supplied) and the aggregated value created (the company's overall profit), such that individual incentives are balanced against pooled rewards. The companies we studied varied the proportion of profits allocated to suppliers to reflect changing business conditions (at the supplier, firm, and community levels).
4. Multiple payments—Entrepreneurs pay suppliers in multiple installments: The first is based on a conservative estimate of what the entrepreneur will receive from buyers and is greater than or equal to other local alternatives; the second is a share of the profit, reflecting the actual prices received and costs incurred by the entrepreneur. The two-payment system both protects firms from being overextended by offering prices that are too ambitious, and insulates suppliers from losing value by accepting prices that are too conservative. Additionally, it stabilizes producer incomes over the course of the year. The entrepreneurs in our case studies eschewed static formulas and ratios, instead adjusting payments to respond to market fluctuations. When possible, the second payment was issued in time for suppliers to use it to purchase inputs for the following season. Alternatively, the companies ensured that first payment was high enough to cover such investment

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costs upfront. In both cases, the two-payment model alleviated the widespread practice of taking out an interest-bearing seasonal loan.

5. Supplier freedom—Entrepreneurs do not require suppliers to sign long-term contracts, pay up-front fees, incur additional costs, or otherwise constrain suppliers' behavior, although other types of requirements may create barriers to entry. Both companies in the study maintained minimum quality standards and one required suppliers' participation in 8–10 quality improvement training workshops each year after the first year.
6. Option to scale up or deep—This model can be scaled two ways: "up" to expand benefits to additional supplier groups (Thrive) and "deep" by increasing benefits to existing suppliers (Catracha). Both are contingent upon entrepreneurs' confidence in buyer demand.

5.1.2 | Scope conditions for the value chain profit sharing model

The model appears to be contingent on leaders' skills, resources, sense of place, and informal accountability to supplier-beneficiaries (cf. Potts, 2020):

1. Skills—Entrepreneurs have the skills and experience required to both recruit suppliers and negotiate with buyers. Both entrepreneurs in our study had strong knowledge of the realities and priorities of the supplier community, significant personal and professional experience in the buyer community, and were able to communicate with both groups effectively.
2. Resources—Entrepreneurs are able and motivated to minimize operational costs by contributing personal resources to daily operations or supporting the enterprise in times of crisis. The entrepreneurs we studied were motivated to contribute funds, volunteer time, provide gifts in kind, and leverage personal connections in part because they, themselves, are suppliers and wanted to build a sustainable and prosperous financial future for themselves and their neighbors.
3. Sense of place—Entrepreneurs have a strong sense of place and identification with the physical and social environment of suppliers (cf. Guthey et al., 2014; Mazutis et al., 2021). In our cases, both entrepreneurs lived in the supplier community, which allowed them to build effective and long-term networks and increase local trust and commitment. While Thrive expanded to suppliers located outside of the co-founders' home community, they engaged in repeated, in-depth visits and invested in building strong local networks.
4. Accountability to suppliers—Entrepreneurs maintain the mission of delivering maximum value to suppliers while attending to the needs of the company (which may include their own salaries) and community (which may include their friends and family). In our study, both entrepreneurs reported feeling not only interested in maintaining this mission but also informally accountable to suppliers. They also identified two mechanisms of informal accountability. First, suppliers retained the option to exit (sell to other buyers), while entrepreneurs maintained a desire to have local suppliers participate. Second, suppliers were embedded members of the entrepreneurs' home communities. Both entrepreneurs felt this gave suppliers the potential to socially sanction the entrepreneurs or the enterprise, which conflicted with the entrepreneurs' goals of being welcome in their home communities. In this sense, the entrepreneurs' social capital in their home communities gives suppliers more influence than in a more anonymous, less integrated setting (cf. Bacq & Aguilera, 2022). Here, again, the sense of place (scope condition 3) is an important factor.

5.2 | Contributions to sustainable business model and social enterprise theory

Our research on this model contributes to extant academic debates about sustainable business models, social entrepreneurship, and value distribution mechanisms by proposing that the value chain profit sharing model may relax some of the tensions theorized to limit other sustainable business models' efficacy in distributing value to suppliers without trading off priorities. More specifically (and as detailed in the following subsections), it addresses the following five tensions which have tended to constrain previous business model innovations such as solidarity, fair, and direct trade (see Table 5):

1. Increase value distribution and stabilize income versus sustain financial solvency
2. Create (individual) value versus deliver collective benefits
3. Maintain suppliers' market freedom versus ensure benefits
4. Be responsive to market conditions versus pursue inclusive governance
5. Scale impact versus sustain existing benefits.

Next, we present the theoretical contributions in greater detail.

5.2.1 | Increase value distribution and stabilize income (vs. financial solvency)

One of the fundamental challenges that sustainable businesses face is how to balance the mission against financial solvency (Smith et al., 2013). When the objective is value distribution, this tension may be exacerbated because reinvestments in the social enterprise may diminish the value available for stakeholders (Agafonow, 2015; Santos, 2012). In global value chains, entrepreneurs typically purchase goods from suppliers before knowing what price they will receive. Thus, setting a price requires anticipating future market prices, which is a tricky endeavor. Extant theories of value distribution mechanisms present this situation as a double-edged sword: Paying suppliers too

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TABLE 5 Mechanisms for distributing value to suppliers.

	Value chain profit sharing Source: Case studies	Solidarity trade Source: Secondary literature	Fair trade certification	Direct trade
Mechanism	Traders pay suppliers market price, then provide a second payment with a portion of the actual profit received from selling it.	Conventional traders and retailers are replaced with volunteers, non-profits.	Traders pay a minimum price to individual suppliers and premium to cooperatives that pay for an auditor to verify compliance with standards.	Buyers and suppliers negotiate a multiyear contract at above market value.
Objectives (often traded off)	**Potential to overcome theorized limitations**	**Limitations theorized in peer-reviewed literature**		
Distribute more value to suppliers	This is achieved through various strategies of value creation, an elastic second payment, and supplier freedom to engage in alternative opportunities.	When charitable traders/services are unavailable, suppliers may lose market access.	Value appropriation can be limited when market prices are high, as the minimum price does not redistribute value. When market prices are low, buyers may be unwilling to pay minimum prices and premiums.	When market prices are above the long term contract price, the additional value is not appropriated by suppliers.
Stabilize supplier incomes	The second payment stabilizes income year-to-year and within the year.	Stable supplier incomes are only possible if buyers offer advanced/multi-year contracts.	Suppliers pay fee for certification before knowing whether it will improve prices and cover production costs.	Incomes are stabilized for the duration of the contract but not over the course of the year.
Allow suppliers to exit	Each year, suppliers may choose to sell some, all, or none of their product to the trader.	Supplier contracts vary. Suppliers may lack alternative market access.	Suppliers decide whether to pay certification fees without knowing market prices or buyer demand. Suppliers may have contracts with cooperatives that discourage side-selling.	Suppliers typically have annual or multi-year contracts with predetermined prices.
Include suppliers in governance	Entrepreneurs must be accountable to suppliers and able to act quickly, which we theorize does not necessitate supplier exclusion.	Although some suppliers are members of inclusive organizations, governance structures do not typically include suppliers.	While Fairtrade International has some producer representation, in decision making processes consuming-country interests often prevail. Suppliers are typically only marginally included in other certifications.	Suppliers directly negotiate with traders but only a few (with the best quality) are able to challenge traditional power asymmetries.
Scale up or deep	There is flexibility to scale up or deep, but both are contingent on demand.	Scaling deep is prioritized and benefits limited by discounted trader services and demand.	Scaling up is prioritized and benefits limited by demand.	Scaling deep is prioritized and benefits limited by buyer expectations of consumer demand.

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much may compromise the company's financial solvency, while paying them too little compromises the mission (Davies & Doherty, 2019; Kannothra et al., 2018). Value chain profit sharing may relieve some of this tension through multiple payments. The first is a conservative estimate (typically market value) that prioritizes the company's capacity to cover costs. The second is based on actual profits and prioritizes the mission of distributing as much value as possible to suppliers. In addition to increasing value distribution, the second payment also stabilizes within-year income flows. In some circumstances, it can alleviate suppliers' need to take out (potentially high-interest) loans to purchase production inputs. Although this model allows producers to participate in the full downstream value appropriation, it does create a tension with the potential aim of providing suppliers the full price of their product upon delivery (in order to fulfill their immediate livelihood and investment needs), which the multiple payment model alleviates, but does not full solve.

5.2.2 | Create (individual) value (vs. deliver collective benefits)

Sustainable businesses and social enterprises are also theorized to face trade-offs between maximizing the value they create (and appropriate) and distributing it to stakeholders (Battilana & Lee, 2014; Davies & Doherty, 2019; Pache & Santos, 2013). In global value chains, one way this tension manifests is entrepreneurs' desire to, on the one hand, incentivize, support, and reward quality improvements that will fetch a higher price, and, on the other, include suppliers who are unable to achieve quality goals and secure high prices (Fischer et al., 2021; Ortiz-Miranda & Moragues-Faus, 2015). Our model shows how entrepreneurs can relieve some of this tension in their approach to issuing the second payment. Unlike the first payment, which is based on value creation (volume and quality supplied), the second payment can pool risks and rewards and balance individual contributions with collective achievements. Our research also illustrates the important role that below-cost resources (e.g., volunteer time, volunteer goods, public services) can play in creating value (Huybrechts, 2010; Westermann-Behaylo et al., 2016). Importantly, while both entrepreneurs volunteered (time or financial) resources at the start, the continuity of this need depends on their scaling approaches. Scaling up allowed Thrive to draw on economies of scale and efficiency improvements rather than donated resources to minimize operating costs. While scaling deep brought other benefits, this strategy did not allow Catracha to do the same, and it continues to draw on personal resources of the entrepreneurs. This may be an important consideration regarding the long-term sustainability of the model.

5.2.3 | Maintain suppliers' market freedom (vs. ensure benefits)

Value distribution mechanisms are often theorized to benefit from requiring producers to sign long-term contracts (Wilson, 2013), cater production to niche markets (Borrella et al., 2015), and pay up-front fees for participation (Mook & Overdevest, 2018). At the same time, these practices are also theorized to inhibit suppliers from taking advantage of market opportunities to maximize (Wilson, 2013) and stabilize (Borrella et al., 2015; Fischer, 2019; Vellema et al., 2015) their incomes. Additionally, constraining freedoms—especially in ways that reflect traditional power asymmetries—may be undesirable in itself (Jaffee, 2007; Sen, 2001). Our model shows how entrepreneurs can pursue distributive goals without constraining suppliers' market behavior. In value chain profit sharing, suppliers make real-time decisions about whether and how much of their product to sell to each buyer. Although quality standards exclude some suppliers, qualifying suppliers are never obligated to participate. Our empirical research shows how this can support suppliers in stabilizing year-to-year incomes in a volatile market (Bacon, 2010).

5.2.4 | Be responsive to market conditions (vs. pursue inclusive governance)

Sustainable businesses and social enterprises sometimes pursue empowerment objectives through worker ownership, cooperative design, or multi-stakeholder governance structures. These innovations aim to include diverse stakeholders, privilege traditionally marginalized voices, encourage virtuous practices, and/or promote self-determination—values at the core of sustainable development and human rights (Bernacchio & Couch, 2015; Civera et al., 2019; Sen, 2001). They can also have positive spillover effects for value creation (Blasi et al., 2016). Yet, empirical studies show that inclusive governance remains the exception rather than the norm (Bennett, 2017). This is often because entrepreneurs anticipate it will inhibit their capacity to react quickly to market fluctuations, maintain a flexible business model, and quietly navigate the conflicts that emerge from competing institutional logics (Davies & Doherty, 2019; Davila & Molina, 2017; Poole & Jenkins, 1990; Westermann-Behaylo et al., 2016). Thus, they often gravitate toward hierarchical models, which may risk sidelining important information, dismissing innovative ideas, limiting diverse approaches to complex problems, diminishing legitimacy, minimizing transparency, compromising accountability to the target beneficiary group, permitting free riding, and, overall, facilitating mission drift (Bennett, 2016; de Bakker et al., 2019).

Our study's results build upon extant research in suggesting that in the absence of formal mechanisms of accountability, entrepreneurs may be more likely to prioritize suppliers' needs when they have strong moral commitments to the beneficiary group (Davila & Molina, 2017), are embedded in the beneficiary group (Kitts et al., 2016), or have maintained beneficiaries' freedom to exit (Ebrahim et al., 2014). Yet, our cases also highlight the highly contingent nature of accountability—relying strongly on individual entrepreneurs' moral commitments—in the absence of participatory governance structures. Given the importance of stakeholder empowerment (Civera et al., 2019), including via participatory

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governance models (Bernacchio & Couch, 2015), future research should be focused on exploring ways to advance the inclusive or participatory governance of sustainable enterprises while maintaining adequate business responsiveness. This question also contributes to the broader debate over to what extent CSR practices and innovations in SMEs should be codified and explicit (as asserted by Perrini & Minoja, 2008) or flexible and responsive (as argued by Fassin, 2008).

5.2.5 | Scale impact (vs. sustain existing benefits)

Extant theory suggests that when sustainable business models or social enterprises scale, the benefits they deliver to incumbent beneficiaries are likely to be diminished. This is well evidenced in fair and direct trade (Grabs, 2020b; Le Velly, 2015; Raynolds, 2009). One reason is that markets for ethical products can be limited by consumer demand (Grabs, 2020a). In these models, one of the factors that depresses benefits to suppliers is oversupply and limited demand (Grabs, 2020a). Although scaling can also jeopardize benefits in the value chain profit sharing model, our research suggests that demand-based decision-making can relieve some of this risk. In profit sharing, entrepreneurs abstain from scaling until they are confident that new quantities will sell at a price that covers increases in overhead costs, sustains existing prices to incumbent suppliers, and offers above-market prices to any new suppliers or communities.

Our study also gives additional empirical insights in the multiple ways in which sustainable business models can be scaled (Kannothra et al., 2018), in particular that decisions on whether to scale up or deep are strongly linked to the internal mission of the company (whether they intend to address local needs vs. universal problems) (Smith & Stevens, 2010). Finally, we find that scaling up or deep may impact other business model decisions or shift the balance between competing logics. For example, the increase in operating costs associated with scaling may alter the equilibrium of conventional cost-saving measures and philanthropic approaches (Battilana & Lee, 2014).

5.3 | Extending theories of firm-level profit sharing (e.g., employee ownership) and revenue-sharing contracts

The value chain profit sharing model shares several features with firm-level profit sharing and revenue-sharing contracts. It is similar to firm-level profit sharing in that it motivates company stakeholders to perform at high levels and improves stakeholder relations and morale by enabling them to partake in the company's financial upsides without exposing them to losses. It is similar to revenue-sharing contracts in that it uses a two-payment structure to suppliers to reflect actual sales conditions in unpredictable market environments. However, the model is also distinct in how it functions, its potential benefits, and its apparent limitations. In particular, while firm-level profit sharing and revenue-sharing contracts are mainly discussed in Global North contexts and focus on employees or suppliers with high bargaining power, respectively, the value chain profit sharing model shows that similar approaches can be used in global value chains that connect Southern suppliers with little bargaining power and low ability to absorb costs or risks to Northern buyers. In this way, it shows that business models that originally aimed to improve productivity and resolve market failures may also have important social co-benefits and can be used to address challenges such as income inequality and poverty by improving equitable value distribution. Our analysis also shows, however, that in the absence of inclusive governance structures, the model relies heavily on informal accountability and entrepreneurs' moral commitments to ensure such social co-benefits. Overall, this extends extant theorizing on firm-level profit sharing (e.g., employee ownership) and revenue-sharing contracts by amplifying the potential use cases and goals of such models and defining scope conditions for their likely success.

6 | CONCLUSION

Sustainable development will require business to undergo significant transformations (Medina-Muñoz & Medina-Muñoz, 2020; Renouard & Ezvan, 2018). One challenge is how to more equitably distribute the value created in global value chains (Renouard & Ezvan, 2018). This article contributes to scholarship on business model innovations for equitable value distribution and lays a foundation for future research.

Overall, this article argues that, under certain circumstances, the emerging "value chain profit sharing" may be an effective tool for more equitable value distribution. In doing so, it explicitly responds to calls in the business and sustainability literature to move beyond answers that focus exclusively on certifications and corporate social responsibility (Hertel, 2019), and think more creatively about how business propositions may be reinvented or reformed to produce more sustainable results (Kim, 2022).

6.1 | Research contributions

This article makes three contributions to a decades-long interdisciplinary conversation on how social entrepreneurs can increase the amount of value they distribute to suppliers in global value chains. First, it contributes to the substantial body of research on price innovations in the coffee sector (Bacon, 2010; Fridell, 2007; Grabs, 2020b; Jaffee, 2007; Lyon, 2010) by closely examining two cases of self-described "profit sharing" in the coffee sector—a model that has yet to be examined or theorized in the academic literature.

Second, it advances the sustainable business model literature by drawing on these two case studies to develop a novel theoretical model of how more value can be distributed to producers. The value chain profit sharing model's value proposition is reliable access to high-quality product that distributes value in a way that is more economically just. Value is created and appropriated by rewarding

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quality, minimizing operating costs, and negotiating unique contracts. It is distributed among suppliers, a community NGO, and the enterprise by issuing a first, conservative payment, and a second payment that reflects market realities. It does not require suppliers to make commitments and (when demand allows) can be scaled up or deep. We theorize that this model is applicable in value chains where value distribution is concentrated and in businesses led by skilled, well-resourced, place-based, and accountable entrepreneurs. Our model shows how this innovation, which we call "value chain profit sharing," may relieve some of the tensions often associated with sustainable businesses, as described in extant literature (Davies & Chambers, 2018; Shipper et al., 2013).

Third, it recognizes the similarities between this model and "revenue sharing" contracts between retailers and suppliers, and draws on the novel model to extend thinking about why and under what conditions revenue sharing may be useful. Although revenue-sharing contracts were previously conceptualized as a tool to protect buyers from over-purchasing and guard suppliers from under-pricing (Altug & van Ryzin, 2014; Cachon & Lariviere, 2005), this research shows how revenue sharing can also be repurposed as a strategy for increasing supplier revenue. And although extent research suggested revenue sharing might be most successful when suppliers can bear risks, incur costs, and wield bargaining power (Altug & van Ryzin, 2014; Cachon & Lariviere, 2005), our research shows that buyers who are committed to equitable value distribution can also use revenue-sharing contracts to support suppliers, even if they have tight margins and limited bargaining power.

Fourth, this research recognizes the similarities between this model and "profit sharing" agreements between firms and employees. It extends theorizing by demonstrating the mechanism's applicability beyond the firm and for purposes other than increasing productivity or morale. It also shows how a flexible arrangement—in which beneficiaries are able to enter or exit the arrangement at will—can allow them to stabilize their incomes while benefitting from the shared value.

Finally, and perhaps most importantly, this article compares the potential and limitations of this model to the well-studied models of solidarity trade, direct trade, and alternative trade. The profit sharing model appears to balance several competing priorities, including distributing value to suppliers while maintaining financial solvency; creating value while pursuing a social mission; providing benefits to suppliers without curtailing their market opportunities; responding to market conditions while maintaining commitments to suppliers; and scaling without diluting benefits. While the model's potential for value distribution is great, its applicability is limited and it in no way alleviates the need for complementary strategies for distributing value.

6.2 | Implications and practical recommendations

This research highlights a new path toward equitable value distribution in global value chains and thus has important practical implications. Social enterprise incubators and business schools should present this model as a potential strategy for meeting distributive goals. Social entrepreneurs, corporate social responsibility practitioners, and supplier cooperatives should consider and experiment with value chain profit sharing and, if possible, partner with researchers to examine its efficacy in new contexts. Business associations (e.g., the Specialty Coffee Association) and multi-stakeholder initiatives (e.g., the Ethical Tea Partnership) should evaluate the potential for this model to shift value in specific sectors. Voluntary sustainability standards (e.g., Rainforest Alliance) and associated organizations (e.g., ISEAL) should consider whether value chain profit sharing may support their living wage objectives, which are largely underdeveloped (Bennett, 2018). If they find potential for synergy, sustainability standards should evaluate how they might support adoption of this model. Similarly, the burgeoning living wage and living income movement (e.g., Living Income Community of Practice) may examine value chain profit sharing as a potential strategy for raising wages and incomes. Finally, policy makers should consider whether and how profit sharing may qualify as corporate sustainability due diligence and what tax structures may inhibit or incentivize this model.

Researchers, of course, should attend to whether and how these recommendations are brought into practice, and with what results. The empirical findings should be brought into conversation with this research to refine our theory of when and how value chain profit sharing delivers optimal results.

6.3 | Limitations and directions for future research

The study's limitations point to potential areas of future research. First, the model presented here is based on two cases in the same sector—constituting the lower limit of generalizability. Research on other cases *within* the coffee sector could evaluate the model's theorized efficacy and capacity to relieve tensions as theorized. Research in other sectors could develop additional scope conditions. In particular, future research could examine whether and how this insight could function in the firm context or be applied to the gig economy or platform work (Tan et al., 2021).

Second, this research relies on mainly firm-internal vantage points. Future research can further triangulate the empirical findings by interviewing participating suppliers or conducting a comparative survey of participating suppliers and other local growers to learn how target beneficiaries experience and interpret "ethical" value chain arrangements (cf. Fischer, 2019; Fischer et al., 2021).

Third, this research was limited to the first decade of each enterprise. Longitudinal, community-level quantitative research could clarify how the model impacts wealth distribution and other variables over time. Future studies may use price tracing (see Borrella et al., 2015; Valkila et al., 2010) along the value chain to clarify when, how, and to what extent distribution improvements are realized.

Finally, this research focused on economic and social aspects of sustainability. While research has shown that economic sustainability is a prerequisite for costly environmental sustainability practices

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(Grabs, 2020b), future research is needed to understand whether and how this model may be engaged to address environmental issues such as soil conservation, deforestation prevention, or biodiversity enhancement.

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CONFLICT OF INTEREST STATEMENT

The authors have no conflicts of interest due to financial support or other relationships.

PEER REVIEW

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DATA AVAILABILITY STATEMENT

The data that support the findings of this study are available from the corresponding author upon reasonable request.

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ENDNOTES

[1] Fair trade certifications are diverse, challenging generalizability. We focus on Fairtrade International because of its historical importance, global presence, reputation for rigor, and high volumes (Bacon, 2010; Bennett, 2018; Ruben and Zuniga, 2011).

[2] Of 100, with 80+ considered specialty-grade.

[3] In the absence of granular farmer-level cost of production data, Thrive uses per-unit production cost placeholders drawn from the *upper end* of the country range (to avoid overinflating impact). Thus, the quoted figures should be read as the *lower bound* of the likely impact on profits. The effect is likely to be higher, especially for efficient farmers.

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APPENDIX A

Interview guide

In interviews and email correspondence, we used the following broad-level interview guide to better understand the respective business model's emergence and functioning:

- Could you describe the business model and all flows of coffee, information, and money in one exemplary case as your model currently functions?
- How has the model changed since its inception to the present day? What lessons learned have you applied?
- Describe, in your own words, the novelty of your model when comparing it to initiatives that existed before.
- What is your business ethos/mission/core company values?
- What is the longevity of the typical relationship? Are all participants still in the system? If not, what were reasons for drop-out/turnover?
- What entry barriers to participation exist? What minimum quality requirements do producers need to comply with for the different product lines?
- How long are typical contracts?
- How do you think your model changes conditions on the ground? What is your theory of change?
- How have recent scaling attempts worked in practice? How are new participants identified? Have there been any set-backs?
- Do you have data that allow you to showcase the difference between your model and the status quo? Can you share that data with us?

APPENDIX B: Codes and themes

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

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

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