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HIP (Hybrid Integrated Profit-sharing) Social Enterprise Models: A Novel Approach to Value Sharing in the Coffee Sector and Beyond

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Hybrid Integrated Profit-sharing Models (HIPs)

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ABSTRACT

Global supply chains have long been the site of hybrid organizing and social entrepreneurship, often aimed at supporting marginalized smallholder farmers and, more broadly, sustainable development. Thus, it is at once exciting and unsurprising to encounter fresh business innovations in this context. In this article, we argue that several social enterprises each previously characterized as unique from one another may, in reality, have much in common and collectively constitute a novel model of value distribution. Drawing on an analysis of two cases of coffee companies that display many similar core features and one key difference, we present a new social enterprise model of value sharing: Hybrid Integrated Profit-sharing (HIP). HIPs are *Hybrids*--simultaneously pursuing profit and social mission--that *Integrate* these objectives into a singular business model by *Profit-sharing* with suppliers. The model is defined by seven core features: profit stabilization and maximization; value sharing; tiered profit distribution; marketing of both quality and story; hierarchical governance; freedom of exit; and commitment to incumbent beneficiary groups. This constellation of priorities and tradeoffs is distinct from the well-studied value-sharing models of solidarity trade, fair trade certifications, and direct trade. We argue that HIPs are not only capable of distributing value but may also be uniquely versatile: while some HIPs scale up to increase the number of beneficiaries, spread to new regions, and disrupt business as usual, others scale deep to deliver additional benefits to the original target beneficiary community. We show how this model may be more likely to emerge when the entrepreneur is embedded within the target community and has a vested interest in its long term wellbeing. The article concludes with a research agenda for the HIP model.

HIP (Hybrid Integrated Profit-sharing) Social Enterprise Models: A Novel Approach to Value Sharing in the Coffee Sector and Beyond

Introduction

Coffee supply chains have long been the site of hybrid organizing and social entrepreneurship, often aimed at supporting marginalized smallholder farmers in gaining market access and capturing a greater share of the value they create (Bacon 2013; Borrella et al. 2015; Davies et al. 2010; Davies and Doherty 2019; MacDonald 2007; Matzler et al. 2013; Minten et al. 2018; Schuler and Christmann 2011; Wilson and Wilson 2014). Thus, it is at once exciting and unsurprising to encounter fresh business innovations in this context.

In this paper, we examine the recent emergence of a model we call ‘Hybrid Integrated Profit-sharing’ or ‘HIP.’ HIP offers a fresh answer to several enduring challenges, including: uneven profit distribution in global value chains (Johannessen and Wilhite 2010; Miller and Williams 2009; Vagneron and Roquigny 2011); using market forces to pursue social objectives (Taylor 2005; Mair and Marti 2006; Doherty and Huybrechts 2013); and eschewing mission drift in hybrid organizational contexts (Castellas et al. 2018; Ebrahim et al. 2014; Santos et al. 2015). By putting the goal of revenue generation and distribution at the core of its exchange relationships, the HIP model allows entrepreneurs to balance traditional trade-offs in innovative ways while uncovering new areas where compromises are needed. Given the broad applicability of HIP beyond the coffee sector, our comparative case analysis makes both empirical and theoretical contributions to the literature on social enterprises, ethical supply chain models, fair trade, and international development.

‘Hybrid organizations’ or ‘social enterprises’ aim to achieve a social mission through market mechanisms (Santos 2012; Mair et al. 2012). Social missions have included, but are not limited to: providing previously inaccessible goods or services (e.g., financial services, Battilana and Dorado 2010), researching and developing products that address a social problem (e.g., human-powered tools, Gupta et al. 2015); or providing employment or market access to marginalized groups (e.g., women handicraft producers in rural areas of developing countries, Hutchens 2010). Hybrid organizations may be for-profit, not-for-profit, or, where legally available, limited profit (Ebrahim et al. 2014), and combine multiple institutional logics in a variety of ways (Battilana and Lee 2014). ‘Differentiated’ hybrids distinguish between commercial activities and their social mission. They primarily leverage market activities as a strategy to fund social programs, identifying profits as a means to a social end and not the end in itself (Alvord et al. 2004). ‘Integrated’ hybrids, on the other hand, aim to achieve their social objectives through the profit-seeking activities themselves (Battilana et al. 2012). Fair trade social enterprises, such as Divine Chocolate and Cafédirect, which integrate suppliers as beneficiaries, are examples of integrated hybrids (Mason and Doherty 2016; Davies and Doherty 2019).

Integrated hybrid organizations that aim to shift value down the supply chain have been particularly common in the coffee sector, where farmers and processors, often located in the Global South, have historically retained very little of the value added (ITC 2011; Ponte 2002; Slob 2006; Talbot 1997). Extant organizational models include goodwill selling and alternative/solidarity trade (Fridell 2007; Reynolds 2002; Renard 2003), fair trade labeling (Bennett 2012; Reynolds 2009, 2012), and direct and relationship trade (Borrella et al. 2015; Hernandez-Aguilera et al. 2018; MacGregor et al. 2017). Although these models have been successful in some ways, they have also faced enduring challenges in tackling the problem of value capture in consuming countries at the expense of producing-country actors (Borrella et al. 2015; Johannessen and Wilhite 2010; Valkila 2014; Valkila et al. 2010; Zehner 2002). We add to the substantial body of literature on this issue by identifying a new business model that aims to overcome the limitations of its predecessors. We describe its core features and tradeoffs, contrast it with existing hybrid organizations, and share insights on how this model may evolve over time and expand to non-coffee sectors.

The empirical component of this research draws on two in-depth case studies of HIP coffee supply chains to outline the model’s core features, describe potential strengths and challenges, and identify similarities and differences from other modes of hybrid organizing. Theoretically, we draw on and contribute to understanding of how various business models may exacerbate or relieve the tensions that challenge hybrids (Battilana and Lee 2014), and understand how value sharing may be part of sustainable business models (Davies and Chambers 2018). We further extend the notion of profit sharing - which has long existed in the context of employer-employee relationships (Shipper et al. 2013) - to the social enterprise context. The model and its examination are timely given the recent emphasis (among practitioners and within the literature) on facilitating a pro-social orientation within for-profit firms and leveraging business to address issues of income inequality (DiLorenzo and Scarlata 2018) and wealth distribution (Auld et al. 2015).

In this article, we first engage the literature on value sharing in social enterprises, profit-sharing in other contexts, emergence of new hybrid organizations, and scaling for profit social enterprises. We then draw on secondary literature to examine how previous hybrid organizational models have aimed to transfer value down the coffee value chain, focusing on solidarity trade, fair trade certification, and relationship trade. Next, we introduce our case selection, data collection, and analytic methods and present two case studies: Catracha Coffee Company and Thrive Farmers International, Inc. Through comparative analysis we identify similarities and differences between the models, the conditions under which they emerged, and their approach to scaling.

In the discussion and conclusion sections we argue that the HIP model is a distinct form of hybrid organizing in commodity value chains that sets itself apart through seven features: A balance between profit stabilization and maximization; a value sharing mission; a tiered profit distribution; a consumer value proposition based on both product quality and storytelling; a hierarchical governance structure; respect for the freedom of exit of all participants; and commitment to incumbent communities. Variations on the model include scale, quality, and buyer relationships, all of which seem to hinge directly on the mission to either serve a single community or disrupt a sector. This model seems most likely to emerge when the entrepreneur is embedded in the beneficiary group. We conclude that while this model overcomes several challenges of previous coffee hybrid organizations (especially the maintenance of benefits for participating producers) and domestic profit-sharing models (notably the exposure of employees to downside risk and income volatility), it brings forth a new compromise: namely, between high beneficiary material outcomes and their involvement in the business governance structure. These findings expand insights about the ways in which various hybrid models may be well suited for or challenged to address specific types of goals.

Sharing Value Through Profit Distribution: Models, Emergence, and Scaling

Value Sharing in Social Enterprises

How for-profit integrated hybrids navigate the potential tension between profit maximization and value creation is a topic of great interest in the literature on hybrid organizing (Battilana and Lee 2014; Davies and Doherty 2019).¹ One perspective is that a defining characteristic of social entrepreneurship--in fact, what sets it apart from traditional commercial ventures--is a focus on value creation (see Hockerts 2015) *at the expense of* value capture (retention). Thus, social enterprises by definition limit their profit-seeking activities to what is required to reinvest in the venture, rather than maximizing profit for distribution to shareholders (Santos 2012). In the international context, this means that social entrepreneurs pursue “the pivotal objective of creating societal value *rather than* shareholder wealth in the overseas territories where the enterprise functions” (Tukamushaba, Orobia, and George 2011, p. 286, emphasis added). From this perspective there is an inherent trade-off, conflict, or paradox between profit and mission (Pache and Santos 2013). Profit maximization at best indicates mission drift and at worst entirely precludes social orientation (Kurucz et al., 2008). Alternatively, some scholars argue that hybrids can indeed aim to maximize profits if they capture value for the purpose of distributing it to the target beneficiary group, a process sometimes referred to as value devolution or *value sharing* (Agafonow 2014, 2015; Dees and Anderson 2003; Mair and Marti 2006; Porter and Kramer 2011). Value sharing may take place through the distribution, reallocation, or exchange with stakeholders and/or society (Hlady-Rispal and Servantie 2018).²

Profit Sharing in Other Contexts

One method of value sharing is profit sharing. Profit sharing is “a pay system...that makes [some or all] employees ‘residual claimants’ in the firm by entitling them to a portion of enterprise profits” (Fakhfakh and Perotin 2000, p. 94). Typically, employees receive shared profits on top of a fixed wage or base pay. Profits may be paid out in cash, invested into trusts, or issued in shares, either immediately or at a future date (Blasi et al. 2010). Profit sharing may be restricted to top managers, extend to a broader group, or include the entire workforce (Nightingale 1982). Profit sharing is similar to the ‘employee share ownership’ in that pay reflects firm performance, yet distinct in that losses

¹ On the concepts of value creation and capture see Lepak et al. 2007.

² A third perspective, somewhat tangential to the aims of this paper, contends that in the contemporary socio-political context, marked by corporate social responsibility and expectations of environmental stewardship, *no* firm is able to pursue pure profit maximizing behavior (Dobson 1999; Campi, Defourny, and Grégoire 2006).

are not shared and employees are not necessarily entitled to participate in governance (Poole and Jenkins 1990/2011). Profit sharing, as a broad category of strategies, is neither new--as evidenced by the convening of an International Congress on Profit Sharing in Paris in 1899 (Nightingale 1982)--nor unusual--almost half of American private-sector employees' incomes are somehow tied to workplace or firm performance (Blasi et al. 2010).

Studies of collective entrepreneurship (Dufays and Huybrechts 2014), international cooperatives (Reed and McMurtry 2009), and employee ownership (Fridell 2009; Shipper et al. 2013) in the social enterprise context touch on themes relevant to profit sharing in the context of global value chains, but do not address the topic head-on. Likewise, the literature specific to profit-sharing models focuses almost exclusively on the context of firms and employees and for-profit enterprises, without directly addressing buyer-seller relationships or hybrid organizations. In the for-profit firm context, research shows that profit sharing may enhance a company's performance, improve distribution of wealth, alter the relationship between managers and employees, reduce conflict in the workplace, improve morale and motivation, shift the nature of attitudes around work, improve loyalty to the firm, generate a sense of ownership, and foster norms of reciprocity among workers (Blasi et al. 2010; Fakhfakh and Perotin 2000; Poole and Jenkins 1990/2011). On the negative side, profit sharing can expose workers to significant income fluctuation, be designed in ways that are arbitrary or unfair, and increase stress because determinants of income are external to a worker's control (Poole and Jenkins 1990/2011; Blasi et al. 2010). Overall, extant research suggests that profit sharing may be a strategy through which for-profit integrated hybrids can capture profits and share value, though this has not been examined in the context of social enterprises, buyer-seller relations, or non-participatory firms.

The first aim of this paper is therefore to analyze how the model works in practice in the examined case studies, and draw out its defining features. In addition, we are interested in two more conceptual questions: what are the conditions that make hybrid integrated profit-sharing (HIP) social enterprises likely to emerge; and what conditions may facilitate or impede scaling of the enterprise at hand.

Emergence of Hybrid Organizations

Here we follow the strand of literature that considers social enterprises as products of individual entrepreneurial behaviors (Bacq et al. 2016; Jones and Casulli 2014). In the context of supply chain innovations such as the two case studies, this turns our focus on the experiences and processes of international for-profit social entrepreneurs--those who "discover, enact, evaluate and exploit opportunities to create social value through the commercial exchange of future goods and services across national borders" (Marshall 2011, p. 185). Pushing back on the notion of social entrepreneurs as essentially predispositioned 'ethical' actors, we examine social entrepreneurship as a critical and creative process (Bacq et al. 2016; Dey and Steyaert 2016), informed by individuals' experiences and how they have made sense of those experiences through constructed identities and personal narratives (Korhonen and Leppäaho 2019; Krueger 2007).

Studies suggest that international for-profit social entrepreneurship is more likely to emerge in the context of three sets of factors: mindset, networks, and experiences. First, the founders of such enterprises typically accept risk, are committed to a social issue, believe in market-based approaches, and see an opportunity to improve on or leverage forces (Marshall 2011; Tukamushaba, Orobia, and George 2011). They also value personal satisfaction and social progress more than profitability or financial wealth (Bacq et al. 2016; Germak and Robinson 2014). Second, the emergence of new businesses is more likely when social entrepreneurs have social networks and social capital, which can facilitate access to intellectual capital, local knowledge, skill sets, role models, business advice and support, and scarce resources, as well as facilitate trust and cooperation (Arenius and Minniti 2005; Bhatt and Altinay 2013; Marshall 2011; Seelos and Mair 2005; Tracey and Jarvis 2007). Third, such business models tend to emerge when an entrepreneur has close ties to a community and/or a social problem (Germak and Robinson 2014); when they have related formative experiences (Waddock and Steckler 2016); when they receive entrepreneurial training, social responsibility development, and character education (Nga and Shamuganathan 2010); and when they have the resources required to support themselves--often paid work--through the early phase of their ventures (Bacq et al. 2016; Harding and Cowling 2006). Research specific to the emergence of international for-profit social enterprises additionally suggests that the entrepreneur possesses in-depth knowledge about the source country's cultural, social, and economic conditions; takes a collaborative approach to working with multiple, often different communities; and is able to successfully communicate the social mission being carried out in the supplier country with consumers making purchases in another country (Marshall 2011).

Scaling Social Enterprises

Finally, whether and how social enterprises may scale is a crucial question to evaluate their transformative potential. We follow Dees (2008, p. 18) in defining scaling as “increasing the impact a social-purpose organization produces to better match the magnitude of the social need or problem it seeks to address” and Davies et al. (2018), in highlighting three categories of factors that may facilitate, challenge, and/or shape the ways in which HEPs scale and grow: individual, organizational, and institutional (Davies et al. 2018). Individual level factors include: entrepreneurs’ perceptions of the success of their enterprise in addressing their objective (Marshall 2011); conflicting notions about ethical values and orientation around growth (Davies et al. 2018); understanding of and orientation around power (de Vries 1985); and, in some cases, initial vision (Waddock and Steckler 2016). Studies of entrepreneurship, in general, also suggest that individuals who are minorities (Edelman et al. 2010) or inexperienced entrepreneurs (Parker 2004) may be less likely to focus on growth. Organizational level factors include: accountability and governance challenges that lead to mission drift (Ebrahim et al. 2014); accessibility to finance, human capital (Davies et al. 2018); questions about the changing nature of the enterprise’s authenticity and identity (Davies et al. 2018); ability to embed the founder’s ethics of care into the organization itself (André and Pache 2016); and continued knowledge transfer from stakeholders and partners to the social enterprise beyond the start-up phase (Phillips et al. 2019). Finally, institutions in which the enterprise operates, such as consumer culture and business norms, may facilitate or inhibit scaling (Davies et al. 2018). These factors may combine not only to constrain or facilitate growth but also to shape its contours. As Taylor et al. (2002) illustrate, social entrepreneurs may ‘scale up’ by replicating existing activities in new geographic areas or ‘scale deep’ by bolstering impact where activities already exist (e.g., by improving penetration of the current target population or expanding services to existing participants). Smith and Stevens (2010) argue that social entrepreneurs are more likely to scale up if they aim to address a more universal problem and more likely to scale deep if they are deeply embedded in a specific community, where participants’ demands may be more focused on local impact.

Value Sharing Among Coffee Social Enterprises

Social entrepreneurs have long been concerned about the difficulty of small-scale coffee producers to capture profits within the global value chain. For decades, new organizational models have emerged to facilitate the goal of helping farmers to capture value, often by reducing the gap between consumer and farmer prices, improving quality, increasing processing at origin, and bolstering market access. This section examines three approaches to value sharing that have dominated the coffee sector: alternative and solidarity trade; fair trade and social labeling; and direct or relationship trade.

Alternative and Solidarity Trade

The first generation of social entrepreneurship in coffee emerged in the mid-1950s when NGOs engaged in relief and development work began helping handicraft, coffee, and tea producers to gain market access (Fridell 2007; Jaffee 2014). In this way, the international entrepreneurs served as non-profit middlemen, allowing a greater share of the retail value to be passed on to producers. Building on these experiences, alternative trade organizations (ATOs) emerged to facilitate more direct trade relationships between Southern producers and Northern consumers (Tallontire 2000). They launched catalogues and specialty retail shops in which prices were high, operating costs were low, and producers received a large portion of value (Raynolds, 2012). These practices often emerged in relation to the fair trade movement, which “works to transform international trade from a vehicle of exploitation to an avenue of empowerment” by “fostering higher prices and wages, stable markets and employment, better work conditions and environmental sustainability” in the Global South and “bolstering more equitable trade policies, business models and consumption practices” in the Global North (Raynolds and Bennett 2015, p. 3).

Over several decades, many initiatives shifted away from charity-based solidarity toward mutually beneficial trade relationships. They emphasized consumer needs, product development quality considerations, and marketing (Tallontire 2000), and ATOs developed close collaborations with producer organizations, facilitating market research and access (Bacon 2013; Tallontire 2000; Taylor 2005). Today, alternative trade coffee models, such as Equal Exchange (US), Cafédirect (UK), Gepa (Germany), and CTM Altrromercato (Italy) continue in this tradition (Doherty et al. 2013). As one founder (Dean Cycon, of Dean’s Beans) explains, their model is to “buy high, sell low” by paying prices that are as high as possible, keeping operational costs low, using profits for community development, and building consumer demand (Manz et al. 2013, p. 7). While this model has succeeded in redefining the terms of trade

for participating producer organizations (Tallontire 2000; Manz et al. 2013), scalability remains a challenge, as ATOs rely on networks of dedicated retail outlets for distribution, and demand has grown slower than supply, diluting the financial benefits felt by producers (Bennett 2012; Moore 2004; Renard 2003). Furthermore, success in value distribution on the ground relies disproportionately on the dedication, professionalism, and reliability of producer organizations (Tallontire 2000).

Fair Trade and Social Certification Programs

When the United States refused to renew its commitment to the International Coffee Agreement in the late 1980s, fair trade social entrepreneurs began considering new ways to increase consumer demand for alternatively traded coffee (Bennett 2012; Renard 2003). Two innovations emerged. First, ATOs began selling their products in mainstream retail outlets (Barrientos and Smith 2007; Le Velly 2015; Brown 2013). Second, ATOs began offering their imported beans to conventional brands, who would mark products with fair trade labels and sell them to consumers at a higher price (Renard 2003; LeVelly 2015). Many fair trade labels emerged for this purpose, and in 1997 they merged to create Fairtrade International, which is now a global third party labeling organization (Bennett 2012).³

Today, Fairtrade International's "Fairtrade" certification is one of many fair trade, social, and sustainability certification programs. Collectively, they have profound market penetration and global reach (Grabs 2018). Their unique governance structures (Bennett 2017), standards (Ruben and Zuniga 2011), and strategies (Jaffee and Howard 2016) make it challenging to generalize their capacity to shift value down the supply chain (Bray and Neilson 2017). Here we focus on the Fairtrade International model because of its global presence, high volumes of coffee, and reputation for maintaining more rigorous standards and offering more economic benefits than others (Bacon 2010; Bennett 2018; Commerce Équitable France et al. 2019; Ruben and Zuniga 2011). In coffee, Fairtrade International sets a minimum price per pound-to be paid to the farmer-and a premium per pound, which is paid to the cooperative and often used for education, health, and economic development as the cooperative sees fit (Nelson and Pound 2009). In times of low market prices, the minimum can be several times higher than market value, providing price stability (Murray et al. 2003; Nelson et al. 2016; Slob 2006). When market prices are higher than the Fairtrade minimum, the national Fairtrade organizations (located in importing countries) advocate that traders continue to purchase products under Fairtrade terms, so that producers continue to receive the premium (Raynolds 2012; LeVelly 2015). Yet certification schemes have also affected ATOs' capacity to shift profits down the supply chain: trade relationships are more standardized and less personal (Jaffee 2014; Raynolds 2009; Taylor 2005), traders frequently circumvent rules on long-term contracts and pre-financing (Raynolds 2009), and the politics of standards-setting and verification may create new layers of hierarchy (Loconto 2017; Lyon 2011; Renard and Loconto 2015). Given a persistent oversupply, by some estimates, only 20% of certified coffee sells under Fairtrade terms (Cole and Brown 2014), and producers face a risk by paying an auditing fee without a guarantee of receiving higher prices (Ortiz-Miranda and Moragues-Faus 2015). In addition, minimum prices have not kept up with inflation or costs of sustainable production (Bacon 2010), and minimums are seldom above market price (Grabs 2018), which limits profit transfer to producers (Bray and Neilson 2017; Johannessen and Wilhite 2010; Valkila 2014, 2009). Indeed, Valkila et al. (2010) show that, compared to conventional trade, a larger share of the retail prices remained in the consuming country. Overall, non-profit benefits, such as women's empowerment, democratic governance, and reduction of child labor, seem to overshadow value distribution (Mook and Overdevest 2017).

Direct and Relationship Trade

³ "Expressed as two words, 'fair trade' refers to the concept, the movement, or products/organizations/businesses promoting the general fair trade vision. This 'fair trade' includes the original direct trade model and practices that were developed first in handicrafts and persist in this and to a lesser extent other commodity areas. However much of fair trade's recent growth has been through the certification of products by Fairtrade International, a non-profit membership organization which defines fair production and trade standards, establishes auditing procedures and promotes the sale of labeled products. Spelled as one word and capitalized, 'Fairtrade' refers to this specific certification system, as governed by its member organizations: national labeling organizations in countries where Fairtrade products are consumed, and producer organizations in countries where Fairtrade products are produced. Certified products currently account for—by far—the majority of fair trade sales, particularly in agriculture and food products." (Raynolds and Bennett 2015, p. 5-6)

In the early 2000s, partly in response to shortcomings of previous models (Cole and Brown 2014), many social entrepreneurs working in the high-quality coffee market began thinking about new ways to capture the benefits of fair trade and avoid its shortcomings. Many of them did this by connecting producers and consumers more directly, aiming to minimize value capture by middlemen and foster long term connections. Though each of these initiatives is organized differently, they are often referred to as *direct trade* or *relationship coffee*. Typically, their focus is on purchasing ‘microlots’⁴ from a single farmer or small number of farmers located near one another (rather than aggregated cooperatives), high quality (versus greater volumes), and radical transparency about pricing (versus trust in the NGO) (Grabs and Ponte 2019; MacGregor et al. 2017). Although entrepreneurs support quality improvement projects, such as better processing techniques, farmers often make substantial financial investments, even though only a small share of each farmer’s coffee is high enough quality to sell via direct trade. The remainder of the crop remains subject to market prices (MacGregor et al. 2017; Wilson and Wilson 2014). Because direct trade coffee retails at a higher value, even though farmers receive higher prices, the share of retail value transferred back to farmers may not be significantly different than in the mainstream market (Borella et al. 2015). In a matched sample of smallholder farmers participating in relationship trade, Hernandez-Aguilera et al. (2018, p. 192) furthermore find no significant difference in farm-gate prices, the prices farmers receive for their harvest, compared to non-participants. They point out that “the allocation of price premiums remains a crucial challenge” for these models, and that their effectiveness in sharing value can vary greatly depending on the details of their organization (see also Vicol et al. 2018).

Other Arrangements of Value Sharing

The categories above capture many but not all of the ways in which social entrepreneurs aim to shift value down the supply chain. The fair trade, international development, and social entrepreneurship literatures occasionally describe other innovative approaches. Low and Davenport (2007), for example, highlight how Trade Aid, an NGO in New Zealand, launched a model that pays coffee producers dividends from operating surplus. They also describe how Progresso, a partnership between Oxfam UK partnered and coffee cooperatives in Honduras, Ethiopia, and Indonesia, distributes profits to Oxfam, the cooperatives, and a community trust through a shareholding arrangement. Similarly, Lloyd (2003) shows how Pachamama, a non-profit cooperative coffee roaster, in California, is fully owned by small-scale farmers in Peru, Nicaragua, Guatemala, Mexico and Ethiopia, who share profits among themselves. And Wilson et al. (2013) describe how Thrive Farmers Coffee extended farmers’ ownership of their coffee into the processing stage, allowing them to profit from value added, similar to the logic behind vertical integration. Additionally, media outside of the academy and self-marketing highlight ways in which individual initiatives are innovating in this way. The documentary *The Way Back to Yarasquin*, for example, shows Catracha Coffee returning all profits to participating producers (Gerber 2013). Overall, this literature suggests that some modes of value sharing may fall outside of the solidarity trade, fair trade certification, and direct trade models. However, studies have not yet evaluated whether these initiatives are fundamentally distinct from extant models, if they have enough in common to constitute a new form, and how their efficacy in distributing value compares to more common forms. This study aims to address these issues.

METHODS AND DATA

Case Selection

To examine whether and how some innovations in profit-distribution may be distinct from extant models and constitute a new form of organization, we selected two cases that seemed quite similar to one another, yet distinct from other models: Catracha Coffee Company and Thrive Farmers International Inc. (hereafter ‘Catracha’ and ‘Thrive,’ respectively). Both are born-global (Knight and Cavusgil 2004), integrate the social mission into economic activity (Battilana et al. 2012; Ebrahim et al. 2014), bridge the needs of distinct client and beneficiary groups (Santos et al. 2015), and are international earned income (for-profit) social enterprises (Defourny and Nyssens 2012; Marshall 2011). We talked with industry experts to triangulate our impression and to gather more information about how their models are similar to one another and different from solidarity, fair, or direct trade models. Several readily apparent features--such as organizational form, legal structure, objectives, strategy, and outcomes--appeared similar, suggesting they may be variations of a single model. However, two immediate differences--the background of the social entrepreneur and approach to scaling--suggested these cases may provide insight into features related to emergence

⁴ Microlots aim to provide exceptional taste experiences to consumers and recognize individual coffee growers that produce extraordinary quality, often at or above a score of 90 (Popish and Ionescu 2012).

and growth (see Table 1). This method--inductive selection of similar cases with a few key differences--follows the comparative case study method used across the social sciences, including in international business research (Eisenhardt 1989; Eriksson and Kovalainen 2015; Ghauri 2004), to identify and define a new phenomenon of interest. As typical in extensive case study research, the goal is to map “common patterns, mechanisms and properties in a chosen context for the purpose of developing, elaborating or testing theory” (Eriksson and Kovalainen 2015, p. 136; Eisenhardt 1989, 1991). Case selection is based on fit with the phenomena and variables of interest in the research problem (Bartlett and Vavrus 2017, Eisenhardt 1989), the accessible population (Ghauri, 2004), and the ability to conduct a cross-case search for patterns that allow us to abstract from the case to the phenomenon in question (Eisenhardt 1989). Pattern-searching can then be enriched by iterative comparisons across three axes: horizontal (contrasting cases with each other and tracing influences across cases), vertical (which traces phenomena across scales), and transversal (which traces phenomena and cases across time) (Bartlett and Vavrus 2016). This approach is particularly suited for theory building as its focus on phenomena “directs us, first, toward something like a policy or a program and then, as it comes into focus, it leads us to ask what is unexpected about it, and why and to whom does it matter” (Bartlett and Vavrus 2017, p. 6).

Data and Analysis

Data were collected to learn more about the model and the decision-making process that generated it. We gathered data from multiple sources including semi-structured and unstructured interviews with founders and stakeholders, internal records, public documents, and media coverage, over several years. Our approach to data collection and analysis begins by following the tradition of narrative analysis, in which attention is paid to an individual’s account of a specific event (in this study, the launching of a HIP) by collecting stories and artifacts generated by that individual, about that time of transformation or change, with the objective of understanding the *experience* of an event, rather than the event itself (Clandinin 2006, 2007; Wells 2011). We then depart from this method by collecting empirical data on the event itself--such as other individuals’ perspectives, quantitative records, and media coverage, in an effort to not only complement the entrepreneur’s narrative but also challenge or triangulate it with potentially conflicting data (Hollingsworth and Dybdah 2007).

In the case of Catracha, Author 1 met the entrepreneur at the Specialty Coffee Association of America (SCAA) annual conference in 2012 and engaged in conversations with the entrepreneur and Catracha stakeholders at SCAA 2013, 2014, and 2015. Author 1 attended and took field notes at a meeting and potluck event of Catracha Community, the non-profit arm of the company, in the fall of 2015 (Alameda, CA), and interviewed two members of the Catracha Community Fund board in fall 2015 and spring 2016. In January 2016, a 6-day field visit to Santa Elena, Honduras allowed Author 1 to tour farms, farmers’ homes, the community, the local Fairtrade cooperative’s mill, the government quality lab, the Catracha storage facility, the sites where the youth conference is held, and the community center (which was at that point in its early stages). During that three-year period, Author 1 conducted semi-structured and unstructured interviews with stakeholders including: the founder, two additional members of the Catracha Community Fund Board, farmers working with Catracha since its inception, farmers new to Catracha, the mayor, the cooperative director, the Catracha processing facility manager, and other members of the community. Author 1 recorded fieldnotes during and/or after each interaction. Fieldnotes were supplemented with data from internal records provided by Catracha, Catracha’s website (CatrachaCoffee.com), a documentary film about Catracha (Gerber 2013), and industry media coverage, especially the Royal Coffee blog (RoyalCoffee.com).

In the case of Thrive, Author 2 met and interviewed the entrepreneur in Costa Rica in 2015, visiting the coffee-producing community and its mill in the process, then conducted two follow-up interviews with the entrepreneur as well as the head of the not-for-profit ThriveWorx by phone in 2015 and two more in 2019. All interviews were recorded and transcribed. Further informal exchanges occurred during the 2017 SCAA meeting and 2019 SCA (Specialty Coffee Association) meeting.⁵ Additional data comes from internal documents and records, an existing business case study (Wilson et al. 2013), Thrive and Chick-Fil-A websites, the 2018 ThriveWorx impact report, and news coverage of the company.

⁵ In 2017, the Specialty Coffee Association of America (SCAA) and Specialty Coffee Association of Europe (SCAE) merged to constitute the unified Specialty Coffee Association (SCA), with all subsequent events held under the latter name.

The researchers identified several themes and sub-topics related to the research questions, and each compiled data from all sources on their case into this outline, noting the source of all data. The researchers then read each other's documents, discussed the cases, asked clarifying questions, and returned to the entrepreneurs for additional data. In a recursive, iterative process of switching between the theoretical literature and the empirical data, the researchers organized the cases into the framework presented below: origin, development, model, profit sharing, community investment, impact, and scale. The researchers again read each other's studies, posed clarifying questions, revised their own cases, and gave the case study write up to each entrepreneur to confirm accuracy. In analyzing the resulting case studies, researchers focused on: similarities and differences between the two cases; comparison to previous innovations, especially in terms of success in distributing value; conditions of emergence; and facilitation and nature of bringing the model to scale. The result of these efforts is a description of a new model, in comparative context, and questions for further research. In describing the case studies, we use the following terms interchangeably: company, firm, hybrid organization, social enterprise, and organization; producers, farmers, and suppliers; buyers, roasters, and importers.

HIP Case Studies: Catracha and Thrive

- TABLE 1 AROUND HERE -

Case 1: Catracha Coffee Company

Origin - Mayra Orellana-Powell grew up drinking and cultivating coffee in Santa Elena, a community of about 400 small coffee-producing family farms in the mountains of Honduras. Always maintaining a commitment to her home community, Mayra married Lowell, an American Peace Corps volunteer, moved to the United States, and completed a BS degree in business administration and international business. After working in human resources for nearly a decade, she launched Catracha as part of her intention to return home. Her goal is to empower people in Santa Elena to believe in themselves, learn new things, take risks, and work together as a community. Mayra believes that by incentivizing and facilitating quality improvements and access to specialty markets, she will increase farmers' profit per pound of coffee, enhance willingness to learn new things, generate self-worth, build community, and improve the range of choices that families have in their daily lives. Catracha is explicitly focused on improving profits for Santa Elena farmers via quality improvement and market access. Lowell describes Catracha as a "model of rebellion"-- "it would be perfectly normal to take more and give less. But we don't" (Lowell Powell, October 2019, email correspondence).

Development - In 2010, Mayra launched Catracha by importing 500 pounds of coffee from a handful of farms. Mayra's skillset, the company, and the Catracha network grew quickly. In 2011, she imported 9,000 pounds from 13 farms, learned to roast, and began delivering coffee to neighbors in California by bike. In 2012, she invited a documentary filmmaker to capture her story, began attending the annual SCA (then SCAA) Expo, and landed a new job as the Director of Marketing and Outreach for Royal Coffee, Inc., a specialty importer. By 2015, Catracha coffee was featured at Blue Bottle (a very high end chain), Mayra delivered the keynote to coffee executives at SCAA, and her family launched a Catracha coffee cart in Portland, Oregon. Catracha is a for-profit social enterprise that works in tandem with Catracha Community, a 501(c)(3) nonprofit directed by Mayra's husband and governed by a board of family and friends.

Profit-sharing model - Today, Catracha works with 80 Santa Elena farmers. The model, as Mayra describes it, is capitalist yet empowering; profit-driven yet developmental. Every farmer is "for themselves" and is assumed to "always follow the money" (Mayra Orellana-Powell, January 2016 fieldnotes, Santa Elena, Honduras). Each harvest season (January-March), farmers in Santa Elena are invited to sell their high quality coffee to Catracha. To participate, farmers must first attend a year (8-10 meetings) of training, own or have access to a wet mill for processing, and have space dedicated to drying coffee. Catracha occasionally provides loans and technical assistance so infrastructure requirements are not a barrier to entry. Catracha purchases 500 pounds in year one and (if quality is high) more in subsequent years. Farmers who sell to Catracha are considered "members" and must continue attending quality training. However, they are never obligated to sell to Catracha. Catracha is explicitly a "quality project," buying only catuai, bourbon, and tipica varieties scoring 85 or above on a 100-point quality scale. Farmers sell lower quality coffee elsewhere, usually to a less discriminating buyer in town, allowing them to maintain multiple income streams. After paying the highest price that Mayra feels confident she will receive from roasters, Catracha oversees the final stages of drying, contracts the Fairtrade certified cooperative to dry mill the coffee, and exports green beans as distinct microlots. The bags have farmers' names printed on them and some roasters (such as Blue Bottle) feature farmers'

names in marketing materials. After the coffee is sold to roasters, typically in July, Mayra distributes additional profits to the farmers, each receiving an amount that reflects the price their microlot received.

Catracha's system of profit sharing emerged organically in 2012, when Mayra made US\$10,000 in profit and felt the only appropriate action was to return it to the farmers, as a mid-year "bonus." Since then, Catracha has offered a conservative initial payment at harvest and a second payment once payments from roasters are received. The second payment is the price received from roasters (FOB), minus Catracha's costs (e.g., dry milling, insurance, and transportation, a few part-time employees) and a contribution to the community fund (described below). Catracha's overhead costs are quite low because Mayra and Lowell do not take salaries, but instead are supported by Mayra's employment with another company. The financial benefits have been significant. Currently, the first payment is comparable to the price offered by the local Fairtrade cooperative. The second payment is thus an addition to what the farmer would have otherwise received. Together, the average total price received by farmers ranges from \$2.10-2.50 per pound, depending on market prices and quality. The model has not always operated as planned. In some years, not all of the coffee sold before July, when Catracha delivers second payments. Instead of delaying payments or assuming the remaining coffee would be sold at a loss, Mayra made payments based on hopeful estimates and incurred substantial losses, which were covered by her personal savings. Aiming to prevent this from recurring, Catracha began sending samples to roasters immediately following the harvest, which has helped facilitate pre-sale of about 80% of the coffee. Another deviation from the typical model occurred when prices were particularly volatile during the harvest season. Because producers received significantly different initial prices for similar qualities of coffee, the second payment was adjusted to make prices more fair.

Community investment - In 2017, Catracha began adding a 25 cent donation to the FOB price of microlots to support the Community Fund, which is a non-profit that finances several projects for participating farmers and the broader community. For example, the Coffee Quality Project conducts research on variables that impact the quality of Santa Elena's coffee, such as drying temperatures and moisture levels during transport. The results are used to help farmers make their own decisions about which investments of time and/or money make the most sense for them. The goal is to keep quality scores (which range from 1-100, with 80 or above considered "specialty" grade) over 86, get a higher percentage into the 87-89 range, and aim to be over 90, which can substantially increase price premiums. Catracha's annual youth conference trains young people to think about community problems and solutions, builds self-confidence and community, and provides business and entrepreneurship training. The youth drive the agenda by requesting speakers and topics, which have ranged from cell phone repair to horticulture. The food security program helps improve access to nutritious food through agricultural training, access to vegetable seeds, and cooking demonstrations in the Catracha-funded community kitchen. 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). Finally, Catracha's weekly art workshop, led by two Honduran artists, attracts children aged 7-16 (some walking 40 minutes) to learn about diverse art forms and celebrate cultural identities.

Impact - Catracha's shared profits and community fund have facilitated a number of changes. At the farm level, families have made substantial upgrades to processing equipment and improved processing practices. At the household level, more families have vegetable gardens and micro-businesses that diversify their sources of food and income. One farmer, for example, was finally able to buy equipment to harvest honey from their bees. Families are spending more money on food and education and less on high interest predatory loans for agricultural inputs. Catracha members are solving collective action problems and taking initiative in ways they previously had not. One couple used their bonus, along with loans from other Catracha families, to build a health clinic. Others brought in volunteer Honduran doctors to provide services. The mayor, himself a Catracha farmer, organized a seed bank. Women handicraft makers formed the "Catracha Colectivo" to improve collaboration and support one another. After only a few years, Mayra said she noticed an increased sense of good will, generosity, confidence, pride, trust, and social capital; better treatment of coffee pickers; and the ability and willingness to learn new things and take risks. Mayra and Lowell have been actively pursuing opportunities to have social scientists conduct an impact assessment to evaluate impact and provide verification to external stakeholders.

Scale - For Catracha, "scaling" is about buying greater volumes and increasing prices for farmers in Santa Elena. Mayra would like to add more members and buy more volumes, but hesitates to do so when it is already challenging to sell all of the coffee purchased from existing participants. The greatest challenges to selling more coffee is improving quality and developing consistent relationships with roasters. Lower quality coffee (around 85) is about a third of Catracha's volume and it is challenging to sell. Higher quality coffee (87 or higher) 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 producers to adopt best practices for processing, quality scores have increased and plateaued. The next step is to train and financially incentivize hired pickers to adopt best harvesting and sorting practices, and help farmers understand how and when to invest in agricultural inputs. Moreover, roasters challenge scalability when they “cup” (coffee lingo for “taste”) and select different lots each year, introducing uncertainty about purchasing volumes and prices. When roasters develop relationships with individual producers and purchase their coffee year after year, however, Mayra can focus her outreach on recruiting new buyers. This is critical because Catracha’s harvest is later and prices higher than other Honduran communities. Roasters say Catracha’s price point requires them to explain (to consumers) the value added at origin. This is easier in cafes and with online consumers, where margins are more flexible and there is space for communication. Although Mayra’s savings allowed Catracha to gracefully weather two years of excess volumes and low market prices, the goal is to be consistently profitable. For this reason, Catracha does not identify access to capital as a barrier to scale.

Emergence - Mayra’s leadership, vision, business background, cross-cultural communications skills, and long term commitment to Santa Elena were critical. Also essential were her investments in educating herself about the specialty coffee sector, which she did by working at Royal, participating in SCA events, permaculture training, networking, learning to roast, and consuming relevant research. Her charismatic personality facilitated the development of a deep network that provided substantial volunteer support at a low cost (e.g., having a documentary made about Catracha). Purchasing coffee, attending training events, and traveling to/from Honduras required an initial investment, but similar costs are now built into the model. Several contextual factors may have supported Catracha’s success, including the emergence of third wave (high end) coffee culture, increased interest in micro lots, and Honduras as SCA Expo’s featured country in 2012. Finally, Mayra was able to leverage infrastructure in and around Santa Elena at relatively low costs: she dry milled microlots at the Fairtrade coop, developed a drying and storage space at her mother’s home, built a community kitchen at her home, used the IHCAFE (Honduran export support service) coffee lab to calibrate equipment, cup coffee, and host trainings, and earns an income by working for an international coffee importer.

Case 2: Thrive Farmers International Inc.

Origin - Ken Lander’s original goal in moving to a coffee farm in Costa Rica was an active retirement from his life as a US trial lawyer. But after the 2008 financial crisis decimated his investments, his income became reliant on his five hectares of coffee. This is when Ken realized how little of the consumer dollar reached coffee farmers. In 2010, Ken and his neighbors founded the San Rafael Sustainable Coffee Initiative, which roasted coffee and sold it in Monteverde’s tourist-saturated cafes. Soon, they became the largest mail-order micro-exporter in Costa Rica, sending their coffee all over the world. Today, Thrive sources from eight countries and moves millions of pounds of green coffee into the United States, but its mission has remained the same: to “empower farmers to thrive by taking them to market as partners” (Ken Lander interview in 2019). Thrive operates a demand-driven revenue sharing model that 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. As a result, farmers’ net profits have increased almost threefold since 2013.

Development - In 2011, Atlanta-based entrepreneur Michael Jones reached out to the San Rafael Sustainable Coffee Initiative to replicate the model. The group decided to take farmer-based vertical integration to scale, and the gross revenue-sharing model of Thrive Farmers was born. While Michael raised capital in the United States, Ken and his neighbors grew their network of contacts in Central America. The goal was to expand the idea of ‘farm-to-table’ coffee trading by exporting green coffee to the US and roasting it on behalf of farmers, who would maintain ownership of the beans until sold to the consumer. The first six containers of coffee that Thrive exported in 2011 were consignment-based, with farmers only getting paid after the coffee sold. In return, farmers were assured 50% of the final sales price for roasted and 75% for unroasted coffee, minus transportation costs. However, the six to 12 month time lag in payment did not align with farmers’ cash flow needs. After Thrive was profiled in a 2013 New York Times article (LaPorte 2013), it came to the attention of Chick-Fil-A (CFA), a major fast food chain. Thrive’s quality and reliability quickly enabled it to become a Chick-Fil-A preferred supplier. Thrive and Chick-Fil-A negotiated large-scale, multi-year contracts, which Thrive translated into a revenue-sharing proposition for its farmers that integrated their preferred payment schedules. Today, Thrive sells coffee online to individuals and roasters, has a café in Atlanta, and sells the majority of its volume to Chick-Fil-A and other large buyers.

Profit-sharing model - One of Thrive's central tenets is that farmers are crucial stakeholders in the final sale of their product in the consumer marketplace. This means that Thrive will only enter a new sales agreement if it is clear that they will be able to offer their farmer partners long term, stable prices at the top of regional market peaks. In this way, the model is demand-driven, eliminating the risk of oversupply that could drive prices down. Unlike Catracha, Thrive does not solely operate in the highest-quality segment, but endeavors to match their buyers' specifications with farmers in their networks. This allows for the inclusion of both high-end, single-origin producers of 86-87 point coffee as well as larger quantities of coffee situated in the high 70s and lower 80s. Contracts with farmers that specify final quantities and expected quality are made on a yearly basis. Prices paid to farmers are determined on the basis of the price of roasted coffee, and margins are shared between Thrive and farmers depending on relative risk. In cases where Thrive's buyers agree to fixed contracts (scenario 1), Thrive has low risk and is able to pass down a greater share of the final revenue. When Thrive develops new markets and holds the inventory and supply risks (scenario 2), its margins are slightly higher. To better meet farmers' needs, Thrive began paying out a large share of the final sales price as soon as the green coffee changes hands. Its farmer payment policy specifies that in both scenarios, these first payments always cover production costs and align with regional market prices and local market swings. In scenario 1, a second payment follows at the close of the crop year (which tends to be within the calendar year) to bring the full price paid up to the agreed-upon revenue share. If Thrive's transportation or insurance costs are lower than expected, the savings is passed on to farmers in a third payment. In scenario 2, Thrive calculates a 'margin pool' on a yearly basis by subtracting sales cost from sales revenue. It then redistributes a share of this to producers, weighted by the volumes they had put in, as a second payment. Treating farmers as partners in this way also allows Thrive to balance its own revenue without the need to turn a profit on every single product line.

Community investment - Thrive furthermore aims to use its position as a touchpoint for farmers in producing countries to also address the social and environmental aspects of sustainability. To do this, in 2015 they founded ThriveWorx, a non-profit organization aiming to stabilize and transform communities by bringing additional resources beyond the farmer price into the most underprivileged communities Thrive works with. As of 2018, they are present in 14 communities in Costa Rica and Guatemala and reach over 3000 individuals. ThriveWorx aims to be community-driven by relying on local leaders to develop and implement holistic community development plans that leverage the economic impact from Thrive Farmers for the common good. To date, ThriveWorx has helped in developing projects focused on transformational leadership, school infrastructure improvements, financial literacy, health clinic improvements, and clean water access. 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.

Impact - In order to measure the impact of their model, Thrive has tracked both stock market as well as Fairtrade and 'plaza prices' of their coffee partners in Guatemala and Costa Rica (the two origins used in the CFA model) since 2013. 'Plaza prices' are the prices that farmers would be offered in their micro-region according to the best available information, and in general are higher than stock market or Fairtrade prices. Using this measure as a counterfactual adjusts for farmers' higher overall quality and country differential in order to avoid inflating Thrive's impact by introducing sampling bias. Even so, the numbers show that over three years, Thrive prices were on average 20% higher than farmers' next best option. Thrive furthermore sourced from cooperatives (usually made up of smallholder farmers), small farmers (< 15 ha), medium (15-50 ha), and large (> 50 ha) farmers. Cooperatives and small farmers benefit the most in terms of average price improvements, with cooperatives in Costa Rica gaining 49% higher prices than their plaza price at the time of contract, and small farmers in Guatemala gaining price improvements of 18% while the country average was around 16%. Using average estimated production costs⁶ and weighing by total sourced volumes, Thrive estimates that over the period of 2013 to 2017, Guatemalan farmers in their model were able to make 94% more profits than if they had sold to plaza prices. Costa Rican farmers, in turn, were able to increase their average profits by over 300%.

Scaling - Thrive has aimed to scale up since its inception and has adjusted its business model to accommodate several phases of growth. Initially, for example, Thrive wanted farmers to maintain *ownership* of their coffee until its final sale. However, coffee exporting often necessitates buy-sell contracts. Thus, although farmers sell their coffee to Thrive, they maintain a *stake* in the final price through profit sharing. This is facilitated through the two-payment

⁶ In order to assess Thrive's impact on participating farmers' net profits in the absence of granular farmer-level production cost data, the team uses per-unit production cost placeholders that are extremely conservative (that is, at the upper end of the country-level range of production costs) in order to avoid overinflating their impact. The quoted numbers should thus be read as the lower bound of the likely impact on profit margins, with the true effect likely to be higher, especially for efficient farmers.

system which over time has increasingly relied on the company's improved access to finance, experience, and continued clear communication with farmers. A key challenge to scaling is balancing Thrive's imperative to consistently meet client needs with its mission to scale its impact with small farmers. Thrive works with large and small farmers. When entering a new region, Thrive identifies a 'local hub' from which to expand, such as a skilled coffee exporter, large farm, or NGO, in a relational manner (e.g., word of mouth). Small-scale farmers are then likely to be included through their pre-existing connections with the hub. This illustrates the tension that in this industry "relationships work for those who have the social capital to have and maintain relationships" (Mike Mannina, personal communication, 2019). Also, as Thrive expands in-country volumes, it may have to focus initially on offering portions of larger volume contracts to existing partners to assure a stable and quality supply chain for the contract. Here, "the temptation is to constantly use the guys we really know and we know who can deliver", which tend to be larger producers (Mike Mannina, personal communication, 2019). However, Thrive aims to also provide social capital to its partners and maximize volumes sourced from small producers who previously lacked the social and economic capital to sell to high end markets. To do so, Thrive sets a small-farmer quota for each product line, and actively reaches out to small-farmer communities outside of pre-existing networks. Thus, final sourcing decisions are made as 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, personal communication, 2019).

Emergence - Thrive emerged as a result of a diverse combination of international backgrounds, expertise, skills, and networks, brought together through collaboration among Ken, Michael, and farmers of the San Rafael Sustainable Coffee Initiative. Ken acted as a connector of diverse actors, noting "my forte in life has been in dealing with people that are much smarter than I am in certain focus areas and having to assimilate myself into that and be conversant and communicate" (Ken Lander interview in 2015). Michael's assets included his entrepreneurial vision, network, and access to start-up financing (both own funds and angel investors). Farmers and neighbors brought in important perspectives on the challenges and opportunities of local coffee farmers. As Thrive grew, it added more skill sets to the team, including Tom Matthesen, the current president of the company, who previously worked on funding private equity backed portfolio companies. The ability to access mainstream financing instruments in order to pre-finance green coffee upon delivery at scale was invaluable to move away from the consignment model and become a serious player in the coffee market. Media exposure affirmed the need for innovation and facilitated the Chick-Fil-A collaboration, which in turn offered the proof-of-concept required to scale up.

Comparative Case Analysis

In this section we identify key similarities and differences between the two cases, including features of the model, conditions facilitating emergence, and approach to scaling. We also compare their success in shifting value down the supply chain with alternative models in the coffee sector.

Common Features

The two business models share several features. First, they are firmly profit-driven, committed to profit-sharing, and explicitly aim to increase the prices paid to coffee farmers. As Ken explains, sharing means a farmer's "stakeholdership in the actual value that is generated on the demand side" (Ken Lander interview in 2019). Value is shared by increasing prices paid by the buyer and decreasing the share of that price paid for intermediary services. The companies are not subsidized by charities, and thus the fate of farmers and the enterprises are dependent on one another. Second, both enterprises recognize that small-scale commodity farmers struggle with both low prices and income volatility, and take risk mitigation seriously. They have developed several strategies aimed at sharing the benefits of high prices while mitigating risks of low prices: payment schedules align with farmers' cash flow needs; the first price reflects market dynamics and other intermediaries' offers; and the second payment reflects sales prices of both individual farmers and the broader community, which helps to pool risks. Third, both businesses aim to expand farmers' choices within the market framework instead of locking them into a partnership with a long term contract. They encourage producers to pursue the most advantageous opportunities each year, and to diversify sales channels. Thrive enters the market at the same time as other buyers to make its contracts, aiming to offer producers the best price possible while not precluding other options. Catracha farmers sell coffee to the Fairtrade cooperative as well as intermediaries, which allows them to also earn income from their lower-quality coffee. Fourth, both entrepreneurs have revised their business plans over time and created flexible models to adapt to shifting market forces and stakeholder needs. After initially pursuing the social mission through the for-profit enterprise alone, both subsequently added non-profit entities to deliver additional services to members and distribute benefits to the broader community.

Additionally, payment schedules, first to second payment ratios, and relationships with buyers have been adjusted to stabilize farmer incomes, mitigate risk to the enterprise, and facilitate higher prices.

The histories and leadership also have a great deal in common. First, both founders act as key decision-makers (in the case of Thrive, this has over time expanded to other members of the leadership team such as a Chief Operating Officer). In both for-profit businesses, the entrepreneurs have full legal power to make all decisions. Although farmers, buyers, or other stakeholders are not part of the formal governance structure, the founders express a deep sense of accountability to them. Each year, the leadership team reviews the profit-sharing ratio to address market conditions, accommodate shifts in operating budgets, and respond to changes in buying and selling partnerships. In the case of Catracha, the non-profit entity has a board of directors that represents a broader range of stakeholders. Second, both entrepreneurs are closely involved in the marketing of the model through speaking at industry and grassroots events, scheduling personal meetings with prospective buyers, and seeking media coverage (e.g. newspapers, industry publications, documentaries). They feel this has minimized marketing expenses, bolstered public profile, and facilitated their ability to deliver and sell a credible and compelling story. Both have websites that focus on the ‘farm-to-table’ concept, explain their profit-sharing model in very simple terms, and highlight the benefits of higher prices at origin. Third, both entrepreneurs 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” (Ken Lander interview in 2019). Lowell 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” (Lowell Powell, October 2019, email correspondence). In both cases, a sense of shared fate helps facilitate trust, communication, and honesty.

Key Differences

The models differ in how they approach the question of scale. Taylor et al. (2002) and Dees et al. (2003) identify two variants of scaling social innovations: Scaling ‘deep’ and scaling ‘up’. Entrepreneurs scale ‘deep’ when they aim to increase impact to the incumbent community, adding new services and incorporating more individuals. They scale ‘up’ by identifying similar needs in other geographic markets and expanding the innovation. Catracha scales ‘deeply’ by continuing to increase services and benefits to its members and others in the community while Thrive scales ‘up’ by extending the model to more communities, including large estates, additional countries, and producers of varied quality. Consequently, the companies’ approaches at origin differ: Catracha conducts site-specific research aimed at achieving exceptional quality; Thrive identifies sites in which a large network of farmers and highly functioning processing infrastructure can consistently generate high volumes of good quality coffee. Their strategies for working with buyers also differ: Catracha aims to convince roasters to purchase from specific farmers each year; Thrive develops multi-year contracts with large buyers.

Comparative case analysis suggests that differences in approach to scale, quality requirements, buyer strategies, and transparency are consequences of the companies’ distinct mission statements. Given Catracha’s commitment to a small group, it makes sense to focus on consumers who expect high-end quality and are willing to pay. This segment creates margins that allow for considerable profit redistribution even by small companies with relatively large overhead, benefitting producers who had little access to such markets before (Donnet et al. 2007; Teuber and Herrmann 2012; Wilson and Wilson, 2014). As a small, localized enterprise, Catracha can also minimize overhead by limiting staff and bureaucratic structure. Mayra’s income comes from another job in the coffee industry, and her family’s private funds have twice covered losses. Catracha also limits operating costs by forgoing third party verification of its payment and impact claims. It is working to mitigate the tradeoffs to this approach: Mayra and Lowell maintain careful records, are working to develop an online system that allows farmers to self-report the prices they receive; and are actively seeking an expert to provide a pro bono impact assessment. Given Thrive’s commitment to disrupting specialty coffee at a larger scale, it makes sense to work with both small-scale and larger farmers, and to diversify risk and spread impact by working in multiple countries. This strategy allows the company to offer several quality points, volume, and reliability. Because this strategy requires greater capital for pre-financing, partnerships with the venture capital community are necessary, even though their returns on investment may reduce payments to producers. Although Thrive’s relationship with investors may put it at a greater risk of mission drift than Catracha, its founders have aimed to mitigate this possibility by making the principles and broad methodology that guide pricing decisions more explicit in an internal document that aims to facilitate mutual understanding among stakeholders.

Conditions of Emergence

In both cases, the entrepreneurs themselves were coffee farmers and thus part of the beneficiary group. The idea was generated because they wanted to support their own income and invest in their community's wellbeing over the long term. More than the other farmers in their communities, they were bilingual, bicultural, and had international experience and business training. Additionally, both entrepreneurs are skilled networkers with large, diverse groups of contacts and an ability to attract collaborators. Both had access to capital, the ability to cultivate expertise through conversation and training, access to local industry-specific infrastructure, and attracted media attention. Finally, the companies emerged around 2010, after the specialty coffee industry matured, when a large and growing consumer base could identify good coffee and was willing to pay (Donnet et al. 2007; Linton 2009), and storytelling as a marketing strategy had become popular again (MacGregor et al. 2017).

Success in Sharing Value

Both Catracha and Thrive measure success in terms of both prices paid to farmers (level and stability) and broader community-level developments. At the farmer level, our analysis suggests they are consistently able to offer prices significantly higher than farmers' next-best options, for the qualities purchased. They are also able to offer other benefits related to value, including price stability, quality premiums, and improved market access. Catracha and Thrive's ability to share value is constrained by buyers' willingness to pay, which is a product of market fluctuations, consumer price elasticity, and retailers' expected profit margins; factors over which they have little control. At the community level, success has been evident in the proliferation of sustainable micro-enterprises, improved food security, investments in quality, community organizing, health service provision, investments in arts and culture, and youth empowerment activities.

Discussion: The Hybrid Integrated Profit-sharing (HIP) Model

Drawing on the comparative case analysis, we present a novel model of value redistribution in supply chains: Hybrid Integrated Profit-sharing, or HIP. We describe its seven core features, conditions for emergence, two variants (related to scaling), its potential to distribute value, and where the model may be found or applied. Throughout the discussion, we highlight the ways in which HIP is similar to or distinct from solidarity, fair, and direct trade, and highlight questions that require further research.

Features of the HIP Model

The HIP model is comprised of seven interrelated features (see Table 2). The first four are ways in which the model balances trade-offs (aims to achieve two goals that are in tension with one another). The last three are ways in which the model makes trade-offs (forfeits one goal in order to pursue another). Here, the term 'suppliers' refers to the beneficiary group providing goods or services (e.g., coffee farmers); 'firm' refers to the hybrid organization paying the beneficiary group for goods or services (e.g., Catracha or Thrive), and 'buyer' refers to the purchaser of the hybrid's goods or services (e.g., coffee roasters).

- TABLE 2 AROUND HERE -

First, the HIP model aims to both stabilize *and* maximize prices paid to suppliers. It does so through the double payment, which is typical of profit-sharing models in other contexts. The first or 'base' payment responds to market dynamics, aiming to be high enough to incentivize supplier participation, yet low enough to mitigate risk to the firm. For HIPs, the first payment aims to be comparable to other offers, in order to reduce risks incurred by participation or exclude those unable to wait for future pay. The second or 'bonus' payment is a function of the initial payment and the final sales price and therefore aims to maximize overall payment. This model is distinct from the 'gig' economy model (which is entirely fee-for-service) in that the first payment provides price stability (De Stefano 2016). It is also distinct from fair trade certifications (that use a price floor) in that the second payment adds value even when prices are high (Bray and Neilson 2017; Johannessen and Wilhite 2010; Valkila 2009, 2014).

Second, the HIP model aims to both share profits *and* sustain itself. It does so by dynamically balancing profit distribution (two payments, plus contributions to the non-profit) with operational costs (overhead and investments).

This is possible by eschewing static budgets and formulas, responding to market conditions on an annual basis, revising the business model to reflect new understandings, and minimizing costs by keeping operating budgets to a minimum and making careful, targeted investments. This flexibility is key in navigating paradoxes presented by competing institutional logics (Davies and Doherty 2019). This is distinct from solidarity trade models that may be able to supplement income with charity during challenging times (Tallontire 2000), from certification models that offer a static price floor (Nelson and Pound 2009), and relationship trade models that lock producers into a longer term pricing structure (MacGregor et al. 2017).

Third, the HIP model aims to *balance* the distribution of profit among individual suppliers, all participating suppliers, *and* the broader community. It does so by simultaneously a) channeling higher quality products into higher revenue streams, and rewarding suppliers with quality commensurate payouts; b) pooling risk among participating suppliers such that revenues are somewhat equalized among quality differentials; and c) routing a portion of profits to a sister organization registered as a non-profit community development organization. Thus, the target beneficiaries of this model are participating members, potential members, and the broader community. This is similar to the Fairtrade model, in that not all financial benefits are tied to individual suppliers' quality or volumes, but slightly different in that both the minimum price and collective premium are offered only to participating farmers (Valkila 2014).

Fourth, the HIP model aims to *simultaneously* sell quality and a social story. Entrepreneurs invest in quality through research and development activities, capture added value by marketing products of varying qualities separately, and seek consumers who demonstrate willingness to pay (Donnet et al. 2007; Linton 2009). The social story is promoted directly, by the entrepreneurs themselves, through storytelling, documentary film work, photography, blogging, community events, and other grassroots forms of consumer marketing and education (MacGregor et al. 2017). This is distinct from less personal models, which rely on certifications, marketing agencies, and traders for marketing materials, and more similar to other, more direct and cooperative models. The worker-owners of Equal Exchange, for example, engage in public speaking, organize consumer letter writing campaigns, and go door-to-door (Shipper et al. 2013). Similarly, Dean Cycon, the entrepreneur behind Dean's Beans, reports that the company largely forgoes sales and marketing staff and advertising, relying instead on Dean's community engagement to garner public interest and support (Manz et al. 2013).

Fifth, the HIP model favors freedom of exit over long term contracts. Suppliers are free to sell to any firm, and buyers are encouraged but not required to commit to purchasing in advance. Firms are free to decline any supplier and are not bound to specific payment levels or profit-sharing ratios. This aspect of the model is supported by shared information—advance notice of what principles guide decision making—and trust that the firm will adhere to those principles. This allows the firm to alter its model over time, which is often a necessity among firms navigating competing institutional logics (Davies and Doherty 2019).

Sixth, the HIP model forgoes formal structures of participatory governance, favoring instead the entrepreneur's ability to revise the business model and shift profit distribution ratios quickly. In this way, the HIP model is more focused on provision of material ends than facilitation of democratic means. This approach is buttressed by suppliers' freedom from long term or binding contracts, as described above, as well as a sense of informal accountability fostered by the long-term commitment of the entrepreneurs to live and work within the target beneficiary community. The non-democratic nature of the model is interesting, given the broad consensus in the literature that a fully democratic workplace requires not only profit sharing, but also employee ownership and democratic decision making (Nightingale 1982). And a collaborative workspace requires not only collaboration with consumers, marketing, distribution, leadership, knowledge, and suppliers but also collaborative governance, ownership, and financing (Shipper et al. 2013). In these perspectives, profit sharing alone is considered a weak form of employee participation (Fakhfakh and Perotin 2011). While some argue that generating profits in profit-sharing models may actually *depend* on low employee influence over outcomes (Poole and Jenkins 1990/2011), a more compelling body of evidence suggests that cooperative financing and participatory governance can help overcome free riding and financial risks and improve performance in shared-profit schemes (Blasi et al. 2010). Furthermore, studies of hybrid organizations strongly suggest that when decision power is concentrated in the hands of capital ownership and not distributed among stakeholders in a democratic fashion, the organization is more likely to experience mission drift (see Borzaga and Defourny 2004; Borzaga and Galera 2012; Defourny and Nyssens 2006, 2008). Overall, while HIP's non-participatory governance seems to enhance its ability to react quickly to market forces in setting base pay, bonus pay, and determining an appropriate ratio of investment, overhead, and payout, the literature suggests this may generate

challenges in the long run. Further research, especially studies that aim to account for the producer perspective, would be needed to describe and explain the durability and tradeoffs of this feature.

Seventh, the HIP model privileges ensuring continued support and benefits to existing suppliers over expanding to include new suppliers. Only after firms are able to satisfy primary goals within their supplier populations do they choose to scale ‘deep’ by offering more benefits to existing participants or ‘up’ by adding suppliers (Smith and Stevens 2010; Taylor et al. 2002), an issue discussed in the subsequent section. Firms’ ideas about which goals must be met (and to what degree) before other suppliers can be added may reflect opportunities that emerged for the enterprise early in its establishment (Santos 2012). Given the marketing focus on both quality and social story, new suppliers are not included if unable to meet a specified threshold for quality or skill. This is consistent with profit sharing in other contexts, as participants pressure one another to perform or produce to a high standard in order to maximize profits (Blasi et al. 2010). This is distinct from Fairtrade, where oversupply commonly reduces benefits (Grabs 2018).

Overall, the HIP model is defined by seven features: profit stabilization and maximization, value sharing, tiered profit distribution, marketing quality and story, hierarchical governance, freedom of exit, and commitment to incumbents. We also find similarities in a key condition that facilitated emergence: embeddedness of the entrepreneur.

Conditions for Emergence: Embedded Entrepreneurs

These cases suggest that part of what facilitates the emergence of a HIP is the entrepreneur’s embeddedness within the target beneficiary group. In many ways, HIP entrepreneurs likely exhibit many of the same characteristics as other social entrepreneurs. They are networked within and across multiple communities, draw knowledge from business associations and networking opportunities, share knowledge across communities, and have had life or educational experiences that foster character development, a sense of responsibility, and commitment to lifelong learning (Dufays and Huybrechts 2014; Nga and Shamuganathan 2010; Smith-Doerr and Powell 2005). However, unlike extant findings, this research suggests that HIP entrepreneurs are profit-driven in ways that are more commonly associated with commercial enterprise (Bacq et al. 2016). At the same time, their embeddedness in the target community emerged as a core feature shared by both case studies. We suggest that this dual orientation may be key to the cultivation of new business models focused simultaneously on wealth generation and value sharing, such as HIPs. In other words, the entrepreneurs’ ‘embeddedness’ (see Shaw and Carter 2007) in the beneficiary group may allow them to navigate competing logics in new ways (Davies and Doherty 2019). Embeddedness may have several benefits, including privileged access to valuable local knowledge, particularly around assets and needs (Shaw and Carter 2007) and building trust in the context of for-profit enterprises, where transactional types of relationships are expected (Kistruck and Beamish 2010). Thus, entrepreneur embeddedness may not only be conducive to HIP emergence, but also a feature that relieves some tendencies toward mission drift, especially with respect to decisions regarding whether and how to scale. Research across additional cases would be required to understand whether the entrepreneur’s embeddedness is *necessary* for emergence or simply *helpful* in overcoming key challenges. These insights would contribute to the broader conversation examining management of tensions among competing logics (Davies and Doherty 2019; Doherty et al. 2014).

Two Variants: Scaled up v. Scaled Deep

Our research suggests that enterprises may share the seven core features yet exhibit variation (see Table 3). Once a HIP achieves its objectives for the original target beneficiary group, entrepreneurs face two options for scaling: up and deep. Smith and Stevens (2010) argue that this decision largely based on enterprise identity. ‘Social Bricoleurs’, which focus on solutions to local problems and want to maintain a local focus, are more likely to scale deep. ‘Social Constructionists’, who search for replicable solutions that can be locally adapted for maximum impact, will tend to scale up to fulfill their mission. In our case studies, Catracha can be classified as a Social Bricoleur, while Thrive is a Social Constructionist enterprise. Smith and Stevens (2010) further note that “an increase in geographic scale and scope [i.e., from Social Bricoleur to Social Constructionist] will often be accompanied by a decrease in the level of structural embeddedness, as finite relationship development and maintenance resources must be spread over an increasing geographic space”. This challenges one of the key characteristics of HIP emergence: the entrepreneur’s embeddedness (Dacin et al. 1999; Elfring and Hulsink 2007; Smith and Stevens 2010). In the scaling up variant, the entrepreneur may develop close partnerships with leaders embedded in additional communities (to mitigate the challenges of disembeddedness) and codify previously implicit principles and guidelines (to mitigate risks of mission drift). In addition, the enterprise may bring additional, locally embedded business partners on board when expanding

the operation into multiple target communities. In the research presented here, we were able to see how these strategies are initially successful. Yet, extant studies suggest an inverse relationship between firm size and commitments to mission (e.g., Howard and Jaffee 2013). Longitudinal research of scaled-up HIPs would be required to understand how targeting communities in which the entrepreneur is not embedded may challenge the HIP model or its capacity to distribute value.

- TABLE 3 AROUND HERE -

Value Distribution

As the case studies illustrate, the HIP model can successfully facilitate value distribution. As summarized in Table 2, HIPs accomplish this through a novel constellation of balancing some competing priorities and trading off others. HIPs have the potential to both deliver high prices and offer price stability, which other models negotiate as a trade-off (Mook and Overdevest 2017; Hernandez-Aguilera et al. 2018). They do this by eschewing long term contracts in favor of encouraging producers to pursue the best opportunities available and by providing entrepreneurs flexibility to increase benefits to producers as markets allow, both of which are relatively unique to the model (MacGregor et al 2017; Nicholls 2011).

Potential Applications and Additional Cases

The HIP model could be (and perhaps already is) implemented outside of the coffee sector. Although the HIP model is based on two cases of born-global, international, South-North coffee supply chains, these characteristics do not emerge as key features. The model could be applied in domestic, regional, or global markets (including South-South—see Doherty et al. 2015). It may also be applicable to other goods or services (including work integration social enterprises—see Mongelli et al. 2018). The model may be best suited for sectors in which captured value is highly concentrated, such as global apparel supply chains, where the need and potential to redistribute value may be most pronounced (Barnes and Greenwood 2006). Given the two options for scaling (up vs. deep), this model could be adopted by entrepreneurs aiming to improve conditions in a specific place, as well as those focused on broader disruption. Some features of the HIP model may limit its emergence. First, it seems to rely on internationally-experienced, socially-minded, locally-embedded entrepreneurs who identify a social need and see a solution potential through profit sharing. Additionally, they succeed through replacing traditional market intermediaries, which in some sectors may require substantial capital investment and/or intensive technical training. The model may also depend on consumer willingness to pay (demand), which can diminish when the supply of similarly novel goods increases (Guthman 2007) and openness to moving away from premiums, which have traditionally been favored over profit sharing (Low and Davenport 2007, p. 346).

Limitations of the Study

The principal limitation of the research design is that the data primarily reflect the perspectives of the entrepreneurs and underrepresent the experiences of suppliers, traders, and buyers. Thus, some aspects of the HIP model—especially shortcomings—may be overlooked, understated, or misunderstood. Additionally, a limitation of identifying the benefits and shortcomings of a generalized model is that many determinants of whether and how a model succeeds (also known as ‘the devil’) are often in the case-specific details (Hudon et al. 2018). Our study did not aim to evaluate whether other ‘novel’ profit sharing enterprises, such as Progresso, Trade Aid, or the Pachamama Coop (cf. Lloyd 2003; Low and Davenport 2007) should be considered further illustrations of HIP. Future research may aim to evaluate these and other cases, and drawing on these empirical findings to refine and extend the model presented here.

Agenda for Continued HIP Research

Throughout the discussion we have highlighted specific points that require additional research. Here we present three sets of interrelated questions that together constitute an agenda for continued HIP research. First, to what extent and in which ways can an entrepreneur’s embeddedness and shared future substitute for formal mechanisms of participatory governance and formal mechanisms of accountability? How does entrepreneurial embeddedness alter the contours of mission drift? What are the limits of informal power sharing in the context of profit sharing? And how do suppliers perceive and experience embeddedness and governance? Second, in what ways may scaling up challenge the informal structures of cooperation and trust facilitated by entrepreneurs’ embeddedness? To what extent can the

model protect against mission drift when scaling up? Third, given the mutually reinforcing nature of many of the model's features, is each feature necessary? Or are some less central than others, such that altering them would create variations on a common theme? Finally, additional quantitative research, perhaps following the strategies developed by Valkila et al. (2010) and Borrella et al. (2015), is needed to better understand how the value and stability of HIP prices compare with other models.

Conclusions: Arguments and Contributions

In this article we have argued that a set of social enterprises previously characterized as unique may, in reality, constitute a novel model of value distribution. Drawing on an analysis of two cases that display many similar core features and one key difference, we present a new social enterprise model of value sharing: Hybrid Integrated Profit-sharing (HIP). HIPs are *Hybrids*--simultaneously pursuing profit and social mission--that *Integrate* these objectives into a singular business model by *Profit-sharing* with suppliers. The model is defined by seven core features: profit stabilization and maximization, value sharing, tiered profit distribution, marketing of both quality and story, hierarchical governance, freedom of exit, and commitment to incumbent beneficiary groups. This constellation of priorities and tradeoffs is distinct from the well-studied value-sharing models of solidarity trade, fair trade certification, and direct trade. We argue that HIPs are not only capable of distributing value but may also be uniquely versatile: while some HIPs scale up to increase the number of beneficiaries, spread to new regions, and disrupt business as usual; others scale deep to deliver additional benefits to the original target beneficiary community. We show how this model may be more likely to emerge when the entrepreneur is embedded within the target community and has a vested interest in its long-term wellbeing.

This research contributes to an ongoing conversation in the social entrepreneurship and international development literatures about whether and how hybrid organizations can advance more sustainable, human-centered markets and societies in an ethical way (Chell et al. 2016; Mongelli et al. 2019). As studies of solidarity economies, fair trade certifications, and direct trade have found, while markets can be challenging and perilous tools for development, at times they succeed in challenging traditional dynamics and delivering more equitable trade (Keahey and Murray 2017). We conclude that HIPs are an existing but thus far unrecognized model of equitable value distribution, and that they, too, may be part of a broader solution.

TABLES

Table 1. Two hybrid integrated profit-sharing models (HIPs) at a glance

	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
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

Table 2. How 7 Features of the HIP Model Balance and Trade Off Competing Priorities

Features 1-4	Balance these priorities	
1. Pricing	Maximizing prices to suppliers	Stabilizing prices paid to suppliers
2. Profit distribution	To suppliers	To the enterprise
3. Target beneficiary	Participating suppliers	Whole community
4. Marketing	Quality	Social story
Features 5-7	Trade off these priorities (choosing the first over the second)	
5. Obligations	Freedom to exit	Contracts
6. Governance	Entrepreneur’s flexibility to revise the model	Participatory governance
7. When to scale*	After ensuring market access for incumbent suppliers	As soon as possible

*Once they choose to scale, some HIPs scale ‘up’ while others scale ‘deep.’

Table 3. Two Variants of the HIP Model: Scaling Up and Scaling Deep

	Scaling Deep	Scaling Up
Type of social enterprise	Social Bricoleur	Social Constructionist
Example	Catracha	Thrive
Mission	Focus on a single community	Disrupt an industry
Beneficiaries	Few	Many
Entrepreneur's relationship to beneficiary group(s)	Fully embedded in target community	Fully embedded in one target community, with dense social networks in others
Benefits	Deep community development, maintain highly personal relationships	Maximize number of beneficiaries, grow network of personal relationships
Challenge	Relevance beyond target community	Mission drift

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