

RESEARCH ARTICLE

# Dynamics of Social Capital Among Fair Trade and Non-Fair Trade Coffee Farmers

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**Abstract:** Fair trade (FT), a movement that aims to set fair prices for products, alleviate poverty, and assist producers marginalized by the traditional economic model, lends itself to investigation through social capital (SC) lens as SC sits within the network theory area of management literature. The primary contribution of this paper is the analysis of whether FT impacts the dynamics of the different SC dimensions. This study used both quantitative and qualitative techniques. I surveyed 97 farmers from Atok (fair trade supplier) and 96 farmers from Tublay (non-fair trade supplier). Also, I conducted focus group discussions of 8 to 10 members from each group and in-depth interviews with formal and informal leaders and key-informants (buyer and local government leaders). The t-test revealed that the farmer cooperative that supplies to FT organization has a significantly higher tendency to ask support from non-government organizations (NGO) and financial institutions. Likewise, they have a higher score in collective action and perceived economic performance. Additionally, regression analysis showed that trust in local government unit (LGU), empowerment, and cooperative classification are positive predictors of perceived economic performance while trust in NGO and membership expansion have negative effects on perceived economic performance.

**Keywords:** Social capital, Fair trade, Linear regression, Coffee farmers, Perceived economic performance

**JEL Classification:** Q13

The widening income gap among countries prompted a discussion on ways to properly distribute wealth. Socially responsible citizens launch various movements to remedy this alarming scenario. Among the movements that gained massive support is fair trade (FT; Bautista, Amora, Anicete, Estepa, & Alversado, 2016).

The FT movement originated from the concept of encouraging community development in some of the most deprived areas of the world (Brown, 1993). It is achieved through the “application, monitoring and enforcement of a FT supply agreement and code of conduct typically verified by an independent

social auditing system” (Crane & Matten, 2004, p. 333).

Moreover, FT promotes equitable pay for products, helps the poor, and aids farmers who are disadvantaged in the current trading model (De Pelsmacker & Janssens, 2007; Raynolds, L., 2000). Thus, FT accreditation supports farmers from developing countries to improve their social, economic, and environmental conditions (Raynolds, Murray, & Heller, 2007). Given the promise of FT, many producers from underdeveloped countries joined the certification program (De Pelsmacker, Janssens, Sterckx, S. & Mielants, 2006). Under the FT, producers are certain of improved trading conditions such as higher price, stable income, and a better working environment (Raynolds, Murray, & Taylor, 2004).

FT movement can potentially benefit the Philippines, which is likewise a developing country. Based on the report of National Statistical Coordination Board (2010) the country is the 45th largest economy in the world and is set to become the 14th largest economy in the world by 2050. The country has recently been transitioning from an agricultural to services and manufacturing economy. In spite of this industry development, recent data suggest that 39 million workforces are mostly employed by the agriculture sector. Around 32% of the workforce works in the agriculture sector, yet the sector has experienced a decline in GDP share, contributing only 13.8% in 2009.

A closer look at the low-income class in the Philippines, NSCB (2010) estimated that 27% (3.7 million families) belong to the poor population. Fisherfolks, farmers, and children comprised the poorest three sectors in 2006 with poverty incidences of 49.9%, 44.0%, and 40.8%, respectively. Focusing on the farmer group, CAR (Cordillera Autonomous Region) registered one of the highest increases in poverty incidence at 5.1% across all regions in 2006.

In response to the current economic situation, several companies, which recognized their social role in the country, have started employing FT practices that have benefited many of their suppliers; most of whom are small-scale farmers who are FT certified. In the Philippines, Bote Central, a family-owned corporation, is focused on the joint production and consumption program of Philippine coffee, rationalizing the supply chain and embedding FT principles to promote the Philippine coffee industry’s sustainability.

The primary goal of FT is to help alleviate poverty among farmers. Although many types of research focused on the economic outcomes (Bacon, 2005; Imhof & Lee, 2007; Levi & Linton, 2003; Lyon, 2007; Murray, Raynolds, & Taylor, 2003; Sick, 2008) of FT certification for producers, there has been less thorough attention to the social impacts of FT’s cooperative and non-discrimination standards despite the increasing amount of evidence that states that “social networks and the reciprocities that arise from them” (known as social capital) can improve a number of human well-being aspects (Schuller, Baron, & Field, 2000, p. 21). The theoretical arguments and empirical evidence have shown that there are positive effects due to social capital in areas like health, markets, and government administrations (Grootaert, Narayan, Jones, & Woolcock, 2003; Putnam, 2001; Woolcock, 1998). Therefore, the social capital theory can be used in the study of the FT impacts.

On the other hand, the social capital theory has been widely used to study relationship-related phenomena in both policy and academic research. In a similar vein, social capital can be understood as a set of informal norms and values that are a commonality between the members of specific groups that allows cooperation amongst them. As such, social capital is a component of the social theory that is being studied as a major component of human and economic development (Macke & Dilly, 2010). Due to its research applications, the present study utilized social capital theory in analyzing the differences between the social capital of two farmer cooperatives in CAR.

I endeavored to shed light on the impact of supplying produce to FT-certified organizations on farmer cooperatives’ social capital and perceived economic performance.

### *Theoretical Background*

The present study adopts the World Bank Social Capital Integrated Questionnaire (SCIQ) like recent studies on FT and social capital (Elder, Zerriffi, & Le Billon, 2012). The questionnaire consists of the following dimensions:

**Dimension 1: Groups and networks.** An important concept of social capital is how shared goals are attained through groups and networks that enable people access to resources and collaboration.

Informal networks are unpremeditated and unfettered exchanges of information and resources within communities. These types of networks also help the utilization of available resources by collective efforts within communities at cooperation, coordination, and mutual assistance. Informal networks are formed by an assortment of environmental factors such as market, affinity, and friendship.

**Dimension 2: Trust and solidarity.** Trust and solidarity dimension is the degree to which people feel assured and confident that the people they interact with are able to assist them or do them no harm. To understand the intricacies of human relationships, one must sufficiently define the meaning of “trust” in a specific social context. Trust can be a choice while sometimes it considers the necessary dependency based on conventional contacts or accustomed networks. These two ends of the spectrum have to be differentiated to understand the extent of people’s social relationships and the resilience of these relationships.

**Dimension 3: Collective action and cooperation.** This dimension of social capital is complementary to the prior dimension. The difference of this dimension is that it probes deeper on the synergy between the people and their community regarding joint projects or crisis/problem response. Furthermore, it weighs the effects of participation in an unorthodox way. Interviews with formal leaders in the cooperatives and a focus group discussion amongst farmers were conducted to understand this dimension of collective action and cooperation.

**Dimension 4: Information and communication.** Improvements in information access are increasingly acknowledged as a central mechanism for assisting less privileged communities; the improvements would also strengthen their voice in matters that affect their welfare (Grootaert & Bastelar, 2002). This dimension intends to investigate the methods by which households transfer information with each other regarding issues about the whole community, market conditions, and public services, as well as the magnitude of their communications infrastructure access.

**Dimension 5: Social cohesion and inclusion.** This dimension focuses specifically on the persistence of social bonds and their dual potential for inclusion and ostracization. It can be exhibited through community events or through activities that increase unity, strengthen social cohesion, improve communication,

trains transition services, promote philanthropic and altruistic behavior, and grow a sense of shared awareness.

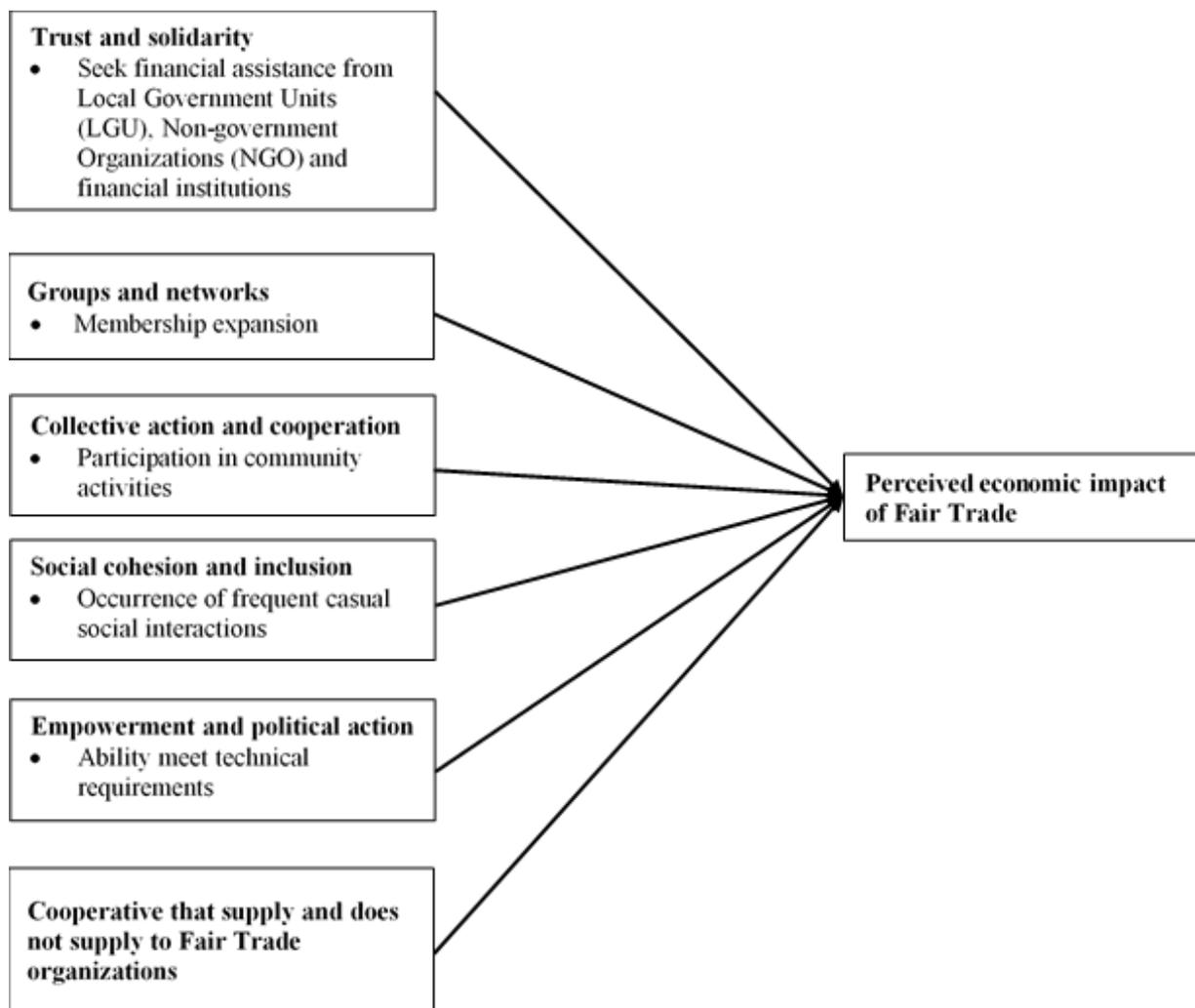
**Dimension 6: Empowerment and political action.** Empowerment and political action delve into the perceived satisfaction, personal capability, and capacity of network and group members to influence both local events and considerable political outcomes. This dimension transpires in a small neighborhood association or at broader local, regional, or national levels. Each of the levels is individually important and should be exclusively considered. In addition, because of the level’s explicit characteristics, their effects on each other should also be considered. Empowerment and political dimension also consider social splits that can be related to gender, ethnicity, religion, regionalism, or other factors.

**Dimension 7: Perceived economic performance.** The present study will look at the perceived economic performance of farmer cooperatives in addition to the questions included in the SCIQ. Majority of global studies regarding social capital indicates its positive effects on the lives of the farmers. Figure 1 shows how the dimensions of social capital are contextualized and operationalized in this study.

This study aims to provide insights on the dynamics of social capital between a farmer cooperative that supplies to FT-certified organization compared to those of a farmer cooperative that does not supply to an FT-certified organization. The major contribution of this research is to add to the scant studies on the impact of social capital on farmer cooperatives, specifically those that supply FT-certified organizations in the Philippine context.

While there are studies conducted on the impact of fair trade on the lives of farmers, there are limited studies that used social capital as the theoretical lens. Furthermore, previous studies employed non-social capital variable such as age, gender, and level of education as predictors of economic performance. Limited studies comparing FT and non-FT farmers were conducted using field data (Ruben, 2008). These researches focused on prices and productivity and not on social capital (Becchetti & Costantino, 2008; Ruben, 2008).

This study contributes in two ways. Firstly, the levels of the different dimensions of social capital were



*Figure 1.* Operational framework on the impact of social capital dimensions on the perceived economic performance of FT and non-FT cooperatives.

compared between the farmer cooperatives. Secondly, actual social capital dimensions are used to analyze the impact of FT on the perceived economic performance of the farmer cooperatives. Figure 1 displays the operational framework of the study.

### Hypotheses of the Study

Baron, Field, and Schuller (2000) defined social capital as “social networks, the reciprocities that arise from them and the value of these for achieving mutual goals” (p. 21). Gootaert and Bastelaer (2002) stated that social capital has both cognitive and structural manifestations such as trust in others, favorable expectations of return of benefits for benefits, and

voluntary involvement in organizations. Szreter and Woolcock (2004) established that social capital could bond people together and connect people in influential positions with explicit or institutionalized power gradients in society. On the other hand, linking social capital refers to one’s ties to people in positions of authority, such as representatives of public (police, political parties) and private (banks) institutions (Woolcock, 1999). In analyzing social capital, cognitive and structural dimensions are used as indicators in determining the presence and strength of the different levels (bonding, bridging, and linking) of social capital.

There are limited studies on the social impacts of FT. However, there are pieces of evidence that FT improves

both cognitive and structural factors of the social capital of producers. Certified producers develop social networks and a sense of community through shared work and routine meetings of their FT cooperative (Pirrotte, Pleyers, & Pncelet, 2006; Moberg, 2005). Reynolds et al. (2004) stated that farmer commitment to FT standards can usually promote broad producer participation in their cooperative and community. Some researcher studies have reported that producer empowerment is attributed to consequent increases in civic participation to FT (Taylor, 2005; Utting, 2009). Others have stipulated that FT encourages women to participate in producer cooperatives (Bassett, 2010; Utting, 2009; Lyon, Bezaury, & Mutersbaugh, 2010). Accordingly, I propose the following hypothesis:

*Hypothesis 1: Farmer cooperatives that supply to FT-certified organizations are more likely to ask technical/financial assistance from other groups/support institutions (local government units, non-government organizations, and financial institutions) compared to those that do not supply to FT-certified organizations.*

*Hypothesis 1a. Farmer cooperatives that supply to FT-certified organizations are more likely to ask technical/financial assistance from Local Government Units (LGU) compared to those that do not supply to FT-certified organizations.*

*Hypothesis 1b. Farmer cooperatives that supply to FT-certified organizations are more likely to ask technical/financial assistance from Non-Government Organizations (NGOs) compared to those that do not supply to FT-certified organizations.*

*Hypothesis 1c. Farmer cooperatives that supply to FT-certified organizations are more likely to ask technical/financial assistance from financial institutions compared to those that do not supply to FT-certified organizations.*

*Hypothesis 2: Farmer cooperatives that supply to FT-certified organizations are more likely to expand membership or collaborate with other farmer groups as compared to those that do not supply FT-certified organizations.*

It has been noted that FT participation positively and unequivocally affects income (Arnould, Plastina, & Ball, 2009). It has also been asserted that FT might positively impact less privileged people by offsetting some of the structural market failures that characterize the primary sector in a number of developing countries (Maseland & de Vaal, 2002). Studies by Reynolds (2002) and Conroy (2005) have found that the benefits of FT are not mainly monetary but also comes in the form of improvements in capacity building, technical expertise, and marketing information contributing to the empowerment of producers. Accordingly, I add the following hypothesis:

*Hypothesis 3: Farmer cooperatives that supply to FT-certified organizations have higher collective action and cooperation tendencies compared to those that do not supply FT-certified organizations.*

*Hypothesis 4: Farmer cooperatives that supply to FT-certified organizations have higher social cohesion compared to those that do not supply FT-certified organizations.*

*Hypothesis 5: Farmer cooperatives that supply to FT-certified organizations are better able to develop their technical capabilities to meet market requirements (empowerment) compared to those that do not supply FT-certified organizations.*

*Hypothesis 6: Farmer cooperatives that supply to FT-certified organizations have higher perceived economic performance compared to those that do not supply FT-certified organizations.*

*Hypothesis 7: Social capital dimensions are significant predictors of perceived economic performance.*

*Hypothesis 7a: Trust in the LGU is a significant predictor of perceived economic performance.*

*Hypothesis 7b: Trust in a financial institution is a significant predictor of perceived economic performance.*

*Hypothesis 7c: Trust in an NGO is a significant predictor of perceived economic performance.*

*Hypothesis 7d: Groups and network (cooperative that supply and does not supply to FT-certified organizations) is a significant predictor of perceived economic performance.*

*Hypothesis 7e: Collective action and cooperation (cooperative that supply and does not supply to FT-certified organizations) is a significant predictor of perceived economic performance.*

*Hypothesis 7f: Social cohesion and inclusion (cooperative that supply and does not supply to FT-certified organizations) are significant predictors of perceived economic performance.*

*Hypothesis 7g: Empowerment and political action (cooperative that supply and does not supply to FT-certified organizations) are significant predictors of perceived economic performance.*

*Hypothesis 8: Farmer cooperative classification (cooperative that supply and does not supply to FT-certified organizations) is a significant predictor of perceived economic performance.*

## Review of Related Literature

### *Social Capital*

The social capital theory has been widely used to study relationship-related phenomena in both policy and academic research. Most empirical studies to date have identified differential levels of social capital with some aspect of a firm's structural position, such as the extent and formation of the network (Adler & Kwon, 2002; Burt, 1992; Powell, Koput, & Smith-Doerr, 1996; Walker, Kogut, & Shan, 1997). However, Portes and Landolt (1996) argued that a structural view of social capital confuses the sources of social capital with its benefits. Therefore, Nahapiet and Ghoshal (1998) and Tsai and Ghoshal (1998) theorized that social capital should also include a relational dimension (assets rooted in the relationship, such as trust) and a cognitive dimension (a shared understanding) that result from successful ongoing interactions between partners. In both cases, they called for an empirical investigation to explore whether the relational and cognitive dimensions of social capital are truly important to the creation of competitive advantage.

### *Nexus Between Social Capital and Fair Trade*

Fair trade schemes promote the inclusion of poor farmers in global product markets through a package of benefits that includes anti-cyclical mark-ups on

prices, long-term relationships, credit facilities, and consultancy to build producers' capacity. The distribution channel offered to affiliated producers by FT importers does not intend to be exclusive, since one of the movement's goals is to strengthen these producers' positions in global product markets. Skill advancement and progressive independence are therefore two of the most critical issues in the relationship between FT farmers and affiliated producers (Becchetti & Constantino, 2008).

There are a number of reasons why FT lends itself to investigation through a social capital lens. First, explanatory power: social capital sits within the network theory area of management literature, and Barnir and Smith (2002) considered networks to be of greatest importance for small organizations such as those typically found within FT. Spence, Habisch, & Schmidpeter (2006) brought this into sharper focus where the small organization also has a social or environmental cause. Second, an unusual level of commercial success: the industry is fast growing and in a state of permanent flux, allowing the opportunity to investigate the use of networks in gaining social capital in an evolving market (Kogut, 1996). Third, relevance: FT organizations are principally marketing and logistics companies, which own a series of brands and employ other organizations for importation, manufacture, distribution, and retail (Davies, 2009). As such, they engage in a large number of networks with companies and charities of all sizes, making FT an excellent field for investigating the value of diverse network partners. Beyond this, however, FT is a valuable industry for analysis using the three-dimensional view of social capital because there is an identifiable and tangible set of organizational values associated with the attempt to provide greater standards of living in the developing world. Since shared values are generally intangible and difficult to identify (Mintzberg, 1989; Schein, 1992), the fact that we find identifiable shared value in FT provides a control variable for understanding the cognitive dimension of social capital.

## Method

### *Research Design*

This study is cross-sectional in nature and employs a case study approach. This research focused on indicators used to measure the dimensions of social

capital consistent with the structural/cognitive definition of social capital using questions adapted from the World Bank's Social Capital Integrated Questionnaire (SCIQ). The research instrument has been tested for internal consistency, reliability, and content validity according to past research (Grootaert et al., 2003). This study used mixed methods to gather data. I conducted the survey and focus group discussions among farmers. All of the information gathered was triangulated consistent with the principles of Yin (2009) for data collection.

Finally, linear regression was utilized to establish which among the independent variables, social capital dimensions, and farmer cooperative classification (cooperative that supply to FT organizations and cooperative that does not supply to FT organizations) were the significant predictors of perceived economic performance. The idea behind the regression is to determine whether the identified variables are reliable predictors of an outcome variable as supported by the magnitude and sign of the coefficients. The basic equation of regression is  $y = c + b*x$ , where  $y$  = estimated dependent variable score,  $c$  = constant,  $b$  = regression coefficient, and  $x$  = score on the independent variable. The same principle applies to multiple linear regression except that there are more predictors (implies more  $x$ ); thus, the equation takes the form:  $y = c + b_1*x_1 + \dots + b_n*x_n$  (Statistics Solutions, 2013).

### **Research Participants**

The study included farmers from two cooperatives. The age of the respondents ranges from slightly younger than 20 to older than 50 years old, and the farming experience range from less than 1 to more than 20 years. In terms of highest educational attainment, there is a mix of elementary, high school, and college graduates but the respondents are predominantly high school graduates. During the visit, most of the male farmers were in the field doing agricultural activities such as applying fertilizers, watering the plants, and harvesting vegetables. This explains why majority of the respondents are predominantly female (Total = 57%, Atok = 63%, Tublay = 51%) as they were recommended by the respective cooperatives.

I surveyed 97 farmers from Atok and 96 farmers from Tublay, Cordillera, Philippines. For the qualitative part, I conducted focus group discussions of 8 to 10

members from each group and in-depth interviews with formal and informal leaders and key informants (buyer and local government leaders). Finally, all respondents came from the Cordillera region to control for the spatial variable.

## **Results and Discussions**

I utilized the Focus Group Discussion results to strengthen the quantitative data. Table 1 summarizes the mean, standard deviation, and comparison of social capital dimensions between fair trade and non-fair trade farmer cooperatives using t-tests.

### **Groups and Networks**

The social capital dimension groups and networks was operationalized using membership expansion. Based on the t-test, while there is a significant difference between the farmer cooperatives, the hypothesis that cooperatives that supply to FT organization have a higher increase in membership is not supported since Tublay registered higher mean score. The increase in membership of Tublay is significantly better compared to Atok. This is associated with less aggressive recruitment activity. Moreover, according to the business development manager of Atok cooperative, they have become more selective in accepting members as FT organizations demand higher level of quality and productivity from farmers. Some of the produce in the area do not pass the buyer specifications, thus, discouraging them from becoming members of the FT cooperatives.

The benefits derived by the members from the cooperative, such as the increase in income and technical support, among others, enticed Atok farmers to seek membership. Consequently, Atok members are more engaged in meeting people outside their neighborhood including buyers, partners, government agencies, and financial institutions.

**Trust and solidarity.** For many years, respondents of Atok and Tublay lived in the same location; thus, they are familiar with each other. This has led to a high level of trust among farmers as they feel that no one would take advantage of them.

According to the study of Bautista (2016), one villager felt secure in the community, to the point that he can ask his neighbors to take care of his pets when he is not around. Similarly, he is also willing to do the same for his neighbors. Moreover, another farmer

**Table 1.** The mean, standard deviation, and comparison of social capital dimensions between Fair Trade and Non-Fair Trade farmer cooperatives

Hypotheses	Social Capital Dimensions		N	Mean $\pm$ SD	t	df	p-value	95% Confidence Interval of the Difference		Remarks
								Lower	Upper	
H1a	Seek financial assistance from Local Government	Non Fair Trade	96	3.75 $\pm$ 1.25	-1.657	191	.099	-.615	.053	Not supported
		Fair Trade	97	4.03 $\pm$ 1.10						
H1b	Seek financial assistance from Non-government	Non Fair Trade	96	3.29 $\pm$ 1.15	-2.265	191	0.024**	-.708	-.049	<b>Supported</b>
		Fair Trade	97	3.67 $\pm$ 1.17						
H1c	Seek financial assistance from financial institutions	Non Fair Trade	96	3.46 $\pm$ 1.24	-2.601	191	0.010**	-.807	-.111	<b>Supported</b>
		Fair Trade	97	3.92 $\pm$ 1.21						
H2	Membership expansion	Non Fair Trade	96	1.65 $\pm$ 0.82	3.824	191	0.000***	.193	.604	Not supported
		Fair Trade	97	1.25 $\pm$ 0.62						
H3	Collective action and cooperation	Non Fair Trade	96	3.92 $\pm$ 1.40	-2.837	191	0.005***	-.875	-.157	<b>Supported</b>
		Fair Trade	97	4.43 $\pm$ 1.12						
H4	Social cohesion	Non Fair Trade	96	2.93 $\pm$ 1.36	.160	191	.873	-.343	.403	Not supported
		Fair Trade	97	2.90 $\pm$ 1.27						
H5	Meet technical requirements	Non Fair Trade	96	3.44 $\pm$ 1.12	.194	191	.847	-.326	.397	Not supported
		Fair Trade	97	3.40 $\pm$ 1.40						
H6	Perceived economic performance	Non Fair Trade	96	3.52 $\pm$ 0.99	-3.459	191	0.001***	-.720	-.197	<b>Supported</b>
		Fair Trade	97	3.98 $\pm$ 0.86						

\*\*\*significant at  $\alpha \leq 0.01$ ; \*\*significant at  $\alpha \leq 0.05$

mentioned that they also help each other during harvest season. Similarly, a farmer from Tublay assured that mistrust or suspicion in the community was not a common behavior since many people in the place are relatives. The farmer continued “we trust each other so much because almost all of us know each other. Also, there was a minimal migration in the community that is why we remain as close as families” (personal communication, October 6, 2014).

Regarding the perception of whether the farmers get support from the LGU, both cooperatives believe that were given equal opportunities. This was also supported by the t-test (p-value = 0.99). A farmer from Atok shared, “there were several training programs initiated by the Department of Agriculture through the LGU. We learned different techniques, from planting to harvesting, which resulted to increase in our coffee production. All of the coffee farmers from the area were always invited to these kinds of capacity building activities.” (personal communication, October 6, 2014).

On the contrary, Tublay farmers do not feel that the financial institutions and NGOs are willing to help them. This sentiment was consistent in the t-tests conducted, where Atok had a significantly higher rating in terms of assistance afforded to them by both financial institutions (p-value = 0.01) and NGO

(p-value = 0.024). The result implies that Atok farmers think more favorably that the financial institutions and NGOs are willing to extend assistance to them. As the FT organization’s demand for coffee increases, Atok farmers are forced to explore options to increase their production capacity. As such, the cooperative sought support from various organizations and based on their experience, NGOs and financial institutions are open to help them. Citing the study of Bautista (2016), Tublay farmers expressed that financial institutions required them to submit supporting documents if they want to avail of loans while NGOs operate with low funding. These circumstances make it challenging for most of them to secure financial assistance.

**Collective action and cooperation.** Interaction with neighbors is significantly linked to the perceived increase in farmer participation (Utting, 2009). Although, for both cooperatives, the majority of the farmers said that they participate in communal activities, Atok farmers indicated higher interaction frequency and willingness to help during a crisis. This is congruent with the result of t-test (p-value = 0.005).

As an exemplar of collective action among farmers, Bautista (2016) noted that one farmer from Atok recalled that after a landslide, people in the community proactively volunteered in the clearing operations of the roads. The inherent community relation drives the

participation of the people in communal activities. However, in terms of the willingness of farmers to cooperate to solve a community problem, Atok farmers registered significantly higher percentage compared to Tublay farmers. The increased interaction brought about by their membership in the cooperative has contributed to the development of their sense of cooperation. This is congruent to previous findings that cooperative organization itself may be more responsible for farmer participation than Fair Trade certification (Elder et al., 2012).

**Social cohesion and inclusion.** Regarding socialization outside their neighborhood, for both cooperatives, most of the respondents said that they socialize several times last September, 2016, which led to high social cohesion. This result was reinforced by the t-test (p-value = 0.873), indicating that there was no significant difference between the two groups. One of the reasons for the high socialization was that most of them are friends since childhood. In the paper of Bautista (2015), a farmer from Atok recalled that during their childhood, they used to play in the backyard during weekends. On the other hand, a farmer of Tublay said that everybody in the community has access to similar services. Although, people with special needs such as senior citizens are the priority (Bautista, 2016).

Consistent with the findings of Elder et al. (2012), farmers in the region develop social networks and a sense of community through shared work and regular meetings. However, the increased interaction with community members plays a better role in achieving this than Fair Trade certification.

**Empowerment and political action.** The primary question for this dimension was whether the cooperatives were able to meet market requirements. The two cooperatives had similar ratings and were validated by the t-test (p-value = 0.847).

A farmer from Atok articulated that the cooperative helped them to increase their production. The improvement in their economic status resulted in a greater sense of happiness and empowerment. Although Tublay farmers expressed contentment with their lives, they recognized the need that, eventually, they have to become self-sufficient with minimal support from various agencies (Bautista, 2016).

One of the major ways in which an organization benefits from group interactions is through accruing

knowledge or intellectual capital (Inkpen & Tsang, 2005; Uzzi, 1997). This can lead to innovation (Tsai & Ghoshal, 1998), improved skills (Powell & Smith-Doerr, 1994), and better capability to forecast customer demands (Uzzi, 1997).

**Perceived economic performance.** Atok farmers registered significantly higher rating on perceived economic performance relative to Tublay farmers (p-value = 0.001). However, the difference in the ratings is not evident in the focus group discussion as both groups feel that they improved economically.

A farmer from Atok, when asked how his harvest was five years ago, shared that his yield had improved. The new planting techniques that they learned and the better seedling variety given to them facilitated this development. However, another farmer from Atok shared that while there was an increase in profits, some farmers were unable to use their money wisely (Bautista, 2015).

In the same manner, a farmer from Tublay recounted that the people in their community were satisfied because they have extra money from their harvest. Although, they are hoping that the selling price of vegetables would increase as this is their other source of income. Male farmers can also earn as laborers during harvest season (Bautista, 2015).

The final analysis employing linear regression using perceived economic performance as the dependent variable revealed that trust in LGU, trust in NGO, membership, empowerment, and cooperative classification (cooperative that supply and does not supply to FT organizations) were significant predictors. The final model is shown by the equation:

$$\begin{aligned} \text{Perceived economic performance} = & 3.314 + \\ & 0.135(\text{trust in LGU}) - 0.136(\text{trust in NGO}) - \\ & 0.246(\text{membership}) + 0.165(\text{empowerment}) + \\ & 0.403(\text{cooperative classification}) \end{aligned}$$

The model suggests that for every unit increase in the rating of trust in LGU, there is a corresponding 0.135 increase in economic performance. Likewise, for every unit increase in empowerment, there is a 0.165 increase in perceived economic performance. Finally, for the cooperative supply to FT organization, there is a 0.403 increase in perceived economic performance. Cooperative classification had the highest coefficient among those variables with positive effects on

**Table 2.** Significant predictors of perceived economic performance using linear regression

Hypotheses	Unstandardized				p-values	Remarks
	B	Error	t			
(Constant)	3.134	.458	6.850		.000	
H7a	Trust in LGU	.135	.059	2.269	0.024**	<b>Supported</b>
H7b	Trust in Financial	-.002	.063	-.034	.973	Not supported
H7c	Trust in NGO	-.136	.066	-2.050	0.041**	<b>Supported</b>
H7d	Membership	-.246	.089	-2.777	0.006***	<b>Supported</b>
H7e	Collective action	-.041	.050	-.824	.411	Not supported
H7f	Social cohesion	.115	.070	1.641	.103	Not supported
H7g	Empowerment	.165	.051	3.248	0.001***	<b>Supported</b>
H8	Cooperative classification	.403	.134	3.013	0.003***	<b>Supported</b>

perceived economic performance. This is consistent with previous literature that evaluates the effect of FT (Bacon, 2005; Imhof & Lee, 2007; Levi & Linton, 2003; Lyon, 2007; Murray et al., 2003; Sick, 2008).

On the other hand, trust in NGO and membership both have negative effects on economic performance. That is, for every unit increase in trust in NGO or membership, there is a corresponding decrease in economic performance with coefficients 0.136 and 0.246, respectively. Table 2 summarizes the result of the regression model.

## Conclusion

This study endeavored to determine whether farmer cooperatives that supply to FT organizations have a higher rating on the different dimensions of social capital. Furthermore, social capital dimensions were used as covariates in predicting perceived economic performance. Although some of the hypotheses were supported, there were peculiarities on how social capital and FT operate in the Philippine context. In the case of seeking assistance from the LGU, the region which is primarily a coffee farming site, received numerous government support available to all farmers, hence, explain the insignificant difference. Regarding membership expansion, the need for farmers to upgrade the quality and quantity of their produce as required by the buyer became a significant challenge to farmers. This served as an impediment to become members of FT-supplying cooperatives.

On the other hand, social cohesion is inherently high in the region since the farmers are distant relatives or

childhood friends. This situation weakens the effect of membership to cooperative as a vehicle in enhancing social cohesion. Finally, both cooperatives expressed that they were able to meet the technical requirements of their respective clients. Atok farmers supply to FT organizations while Tublay farmers sell their produce to the local market and consolidators.

Consistent with the seven FT cases reviewed from Latin America by Murray et al. (2003), coffee cooperatives were able to use a portion of the FT's additional price margin to capitalize their organizations. They also concluded that in all seven case studies, FT had improved the well-being of farmers and individuals in situations where highly volatile price fluctuations have ruined the livelihoods of many farmers who have not had the benefit of the FT guaranteed price. The same holds true for Atok farmers as they registered higher perceived economic performance as supported by both t-tests and multiple regression analyses.

Finally, FT cannot deliver complete answers to all the problems that small farmers have (Mun & Seo, 2012). However, given the positive impact of FT on the perceived economic performance of farmers, this suggests that FT could be a potential platform to alleviate poverty among producers. The challenge is how to make FT more all-encompassing to include those who need to hurdle the quality standards of FT buyers.

## Suggestions for Future Research

I recommend that a follow-up study be conducted. This will supply more information on the consequences

of supplying to FT organizations. Inquiries such as whether the impacts are sustainable or other improvements in the organization will be clarified.

To render the results more generalizable, carrying the same research in different locations with diverse products other than coffee is imperative. These researches will validate or refute the results acquired in the current study.

Finally, the use of other research techniques to answer the same problem will render the results more reliable. Quantitative techniques such as the difference in difference (DID) will better quantify the impact of FT in perceived economic variable. Also, other qualitative approaches such as observation or ethnography will provide richer insights on the experiences, feelings, and beliefs of the farmers.

### Limitations of the Study

This study was composed of only two organizations and employed qualitative and quantitative techniques in the analysis. Although the two groups are comparable in many respects such as location, ethnic background, and political and social setting, the difference in number and availability of the respondents exert influence on the results of the study. Broader generalizations cannot be safely made, and the observed trends are limited to the groups under study.

The research relies on the accurate recollection of the farmers to answer the questions. There is no longitudinal analysis conducted that collected data before and after joining the cooperative. The responses of the subjects are primarily based on the recollection of their experiences, feelings, and beliefs that are prone to changes over time since joining the organization. There could be bias in the way they answer the question to show a positive image of their organization to external people.

Regarding the members of the cooperatives, the respondents from Atok were mostly the active members of the cooperatives. The information obtained is limited to the experiences, feelings, and knowledge of those who spent more time in the organization. This might impact the results as the cooperative has around 230 members and only 50% are active members. Perceptions of the non-active members of the cooperative were not extensively analyzed. In addition, the cooperative has been operational for only five

years; the impact of FT involvement might take more time to be highly evident. In general, comparing the two organizations in the similar setting cannot provide power for generalizability, although, the findings necessitate further research on the topic.

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