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Governing the Fairtrade Premium: A Case Study of Fairtrade Premium Decision-Making in Indonesia

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Abstract

Smallholder farmers are central to global agricultural supply chains, yet many continue to face structural barriers that limit their economic resilience and ability to engage in long-term sustainability efforts. Fairtrade certification—particularly through the Fairtrade Premium—is intended to help producer cooperatives invest in social, environmental, and organisational development. However, evidence shows that the effectiveness of the Premium varies widely, largely depending on a cooperative's internal governance capacity. This qualitative case study focuses on a Fairtrade-certified coffee cooperative in Indonesia that experienced governance crises, decertification, and later restructuring due to Premium mismanagement. Using interviews with farmers, delegates, board members, supervisory board members, and Premium Committee representatives, along with document analysis, the study explores how capacity gaps, financial pressures, and social expectations shape Premium decision-making. The findings show that although the cooperative's governance structure is democratic on paper, it operates in practice as a technocratic system in which those with greater information and procedural skill influence how funds are allocated. Decision-making is further shaped by uneven representation, transparency issues, and chronic financial stress. As a result, Premium allocations often prioritise short-term needs, while long-term investments—especially those related to sustainability and climate resilience—receive limited support due to immediate economic pressures and differing perceptions of risk. Although leadership has taken steps to rebuild legitimacy after past crises, underlying vulnerabilities remain. The study concludes that improving decision literacy, strengthening transparency, and fostering organisational learning are critical for realising the transformative potential of the Fairtrade Premium.

Keywords: Cooperative Governance, Decision-Making Processes, Fairtrade Premium, Smallholder Farmers

1. Introduction

Global agrifood systems are experiencing growing scrutiny due to their environmental fragility, social inequities, and the persistent vulnerability of smallholder farmers. Arulingam *et al.*, (2022) similarly argues that small-scale producers remain structurally constrained within global agrifood transformations, as widening sustainability demands often outpace the support available to farmers to adapt. Although small-scale producers contribute significantly to global food supply, they continue to face interlocking constraints related to low incomes, limited access to services, and structurally unequal market relationships. As industrial agriculture expands, sustainability

gaps widen, making it increasingly challenging for farmers to maintain livelihoods while complying with evolving market standards.

In response, voluntary sustainability standards such as Fairtrade have gained prominence as mechanisms to improve producer welfare, enhance bargaining power, and strengthen community development. Loconto *et al.*, (2021) show that Fairtrade's governance model is embedded within a broader socio-technical imaginary that relies on standards to organise responsibilities, participation, and accountability within producer organisations. Fairtrade's model operates through two core instruments: the guaranteed minimum price and the Fairtrade Premium, a collective development fund decided democratically by members of Small Producer Organizations (SPOs). The Premium is intended to finance long-term socio-economic and environmental improvements, such as training, infrastructure, organisational strengthening, risk management, and quality enhancement.

However, Fairtrade's actual impact varies considerably across contexts. Recent evidence mapping also highlights wide variation in Premium effectiveness across SPOs, largely influenced by governance capacity and participation (Jodrell and de Bruin (2025)). Research increasingly shows that the effectiveness of the Fairtrade Premium depends not only on market access but also on the internal governance capacity of cooperatives, the distribution of decision-making power, transparency, and the alignment of collective priorities (Loconto *et al.*, 2021). Cook (2018) emphasises that cooperatives frequently face control-rights and information problems arising from ill-defined property rights. Issues such as agency costs, influence activities, and information asymmetries shape decision outcomes and can increase ownership costs, thereby affecting organizational effectiveness.

This study focuses on a Fairtrade-certified coffee cooperative in Indonesia—referred to pseudonymously as the Kopi Coffee Cooperative—which experienced a severe governance crisis, lost its certification due to Premium mismanagement, and later underwent restructuring followed by recertification. This turbulent history provides a unique opportunity to examine how governance processes shape Premium decisions and how cooperatives recover from credibility challenges. Comparable dynamics are observed in other Fairtrade-certified producer organisations, where organisational restructuring and revised decision-making processes have been required to strengthen accountability and participation (Loconto *et al.*, 2021).

The cooperative consists of over 1,000 members, represented by delegates who formally serve as the highest decision-making authority through the General Meeting (GM). Additional governance actors include the Supervisory Board, the Executive Board, and the Premium Committee, each with distinct roles defined in statutes and Fairtrade requirements.

Preliminary observations and interviews reveal that despite having a formal democratic structure, actual decision-making is significantly shaped by capacity constraints, uneven literacy levels, informational asymmetries, and the influence of commercial actors such as collectors. Delegates, while normatively positioned as the “owners” of the cooperative, often lack the knowledge, confidence, and procedural literacy needed to engage effectively in budgeting or strategic planning. As Simon's (1972) explains, when individuals face complex decisions under limited information, they tend to satisfice—accepting proposals that appear adequate rather than analysing all alternatives. Supervisory Board members likewise struggle with unclear mandates and limited access to information, weakening oversight. This aligns with Simon's (1972) argument that real-world decision-makers operate under bounded rationality, constrained by limited information, cognitive capacity, and time. These gaps create conditions where Premium allocations tend to prioritise short-term tangible goods, such as household necessities or farming tools, over long-term resilience investments.

Further complicating matters are external pressures such as the EU Deforestation Regulation (EUDR), environmental degradation, market dependency, and financial instability. Chronic liquidity shortages and reliance on a single buyer constrain strategic decision-making, often turning the Fairtrade Premium into a de facto liquidity buffer rather than a development fund. These realities raise questions about the cooperative's ability to balance immediate member needs with strategic investment, manage risk, and maintain governance legitimacy.

- Against this backdrop, the study addresses five central questions:
- How is the Fairtrade Premium allocated within the cooperative?

- How do allocation decisions reflect trade-offs between short-term benefits and long-term investments?
- How do cooperative actors interpret sustainability and risk, particularly regarding climate and market volatility?
- How do different actor groups justify Premium decisions?
- How do governance structures and processes shape Premium outcomes?

By addressing these questions, the article contributes to scholarship on cooperative governance, smallholder sustainability, and development standards, offering insights into how democratic ideals meet practical constraints in organisational contexts. These findings resonate with global trends documented by Jodrell and de Bruin (2025), who show that Premium effectiveness is strongly mediated by governance capacity, participation, and transparency.

2. Methods

2.1 Research Design

This study employs a qualitative single-case study design to examine the internal governance dynamics of a Fairtrade-certified coffee cooperative in Indonesia. This approach is appropriate because the research seeks to understand complex social processes, specifically, how governance structures, decision-making routines, and actor interpretations shape Fairtrade Premium allocation. The selected cooperative presents a unique case because it experienced governance crises, decertification, and subsequent restructuring. These events create a rich empirical setting to examine how cooperatives rebuild legitimacy and negotiate organisational change following institutional failure.

2.2 Units of Analysis

The case study incorporates embedded units of analysis, including farmer members, village delegates, the Executive Board, the Supervisory Board, and the Premium Committee. This structure allows exploration of the interactions and misalignments between actors positioned at different layers of the governance architecture. The study situates their narratives within the procedural requirements of Fairtrade, thereby illustrating how global sustainability standards translate into everyday decision-making. This multilayered structure reflects what Cornforth (2004) identifies as inherent role ambiguity in cooperative governance systems.

2.3 Data Collection

Twelve semi-structured interviews were conducted in Bahasa Indonesia, lasting 90–120 minutes. Interviewees represented all governance units. Interviews explored understanding of the Fairtrade Premium, perceptions of roles, participation in GM and Pre-GM processes, views on transparency and accountability, interpretations of sustainability and climate risks, and Premium allocation priorities.

Document review included Fairtrade Development Plans (FDPs), GM minutes, statutes, Premium Committee proposals, and audit reports.

2.4 Data Analysis

Data analysis combined:

- Thematic analysis, to identify recurring governance patterns.
- Narrative analysis, to explore how actors justify decisions and construct meaning.
- System-thinking synthesis, which identified five reinforcing loops: low decision capacity, transparency–trust cycles, short-term preference dynamics, buyer dependency pressures, and climate-risk normalisation.

3. Results

3.1 Governance Architecture, Authority, and Decision Dynamics

The cooperative's governance architecture reflects a layered system in which statutes assign formal authority to member bodies such as the General Assembly and elected boards, yet real authority frequently lies with professional managers who initiate and implement decisions. As shown by Chaddad and Iliopoulos (2013) cooperatives allocate control rights between decision control and decision management, and this separation—combined with information asymmetries and increasing organizational complexity—enables managers to shape decisions before members exercise their formal approval powers.

A board member illustrates this structural imbalance by noting that the cooperative effectively “stands on two legs”: the delegates and the collectors. While “the collectors are skilled in business, the delegates are not,” he explained (Irwansyah Dika, Board).

Although collectors have no formal role in governance, they exert substantial influence through their control of procurement, cash flow, and everyday relations with farmers. Delegates, by contrast, face significant capacity limitations. Their uneven literacy and limited confidence in public speaking constrain their ability to represent members. As another board member described, “Among the 50 delegates, not all have the same level of knowledge, and not all can speak in meetings” (Fahrul Rizqan, Board).

This imbalance produces voice dominance, where decisions are shaped less by collective deliberation and more by whoever speaks the loudest. As the board member recalled, “Not all delegates are able to speak... in the end there is no voting, and decisions follow the strongest voice” (Fahrul Rizqan, Board).

3.1.1 Pre-GM as Agenda-Setting, Not Consultation

Although the Pre-GM is framed as a democratic forum for reviewing village proposals, interviews show that it functions mainly as an agenda-setting and filtering stage. Proposals are screened according to cost, strategic relevance, and whether they introduce something new. As one board member explained, the criteria begin with budget considerations, and if last year's activity was basic-goods distribution, this year they look for a different activity (Fahrul Rizqan, Board). This process concentrates decision authority in managerial hands and limits delegates' ability to meaningfully challenge proposals.

3.1.2 GM as Ratification Rather Than Decision-Making

By the time proposals reach the GM, the Fairtrade Development Plan (FDP) is already close to final. A board member noted that the FDP essentially takes shape in the Pre-GM, complete with preliminary figures, and the GM simply reviews and formalizes it (Fahrul Rizqan, Board).

Delegates rarely alter the structure; instead, they endorse what has been prepared. Despite claims of majority rule, formal voting almost never occurs. Another board member recalled that decisions are not made through voting but follow the loudest or most assertive voices (Fahrul Rizqan, Board).

A significant structural gap also emerged: delegates did not know that Fairtrade Standards require them to approve the entire Premium budget. In practice, they only discuss the portion shown to them, while major expenditures—such as operational costs or buyer-initiated programs—enter the FDP without their scrutiny. This produces a governance pattern that appears participatory but is substantively pre-determined before reaching the GM.

Taken together, these dynamics reveal a governance system that is democratic in form yet technocratic and dominated by voice and agenda control in practice.

3.2 Role Clarity, Capacity Gaps, and Representation Weaknesses

3.2.1 Premium Committee: Low Clarity and Basic Understanding

Premium Committee members frequently describe their understanding as minimal. One member explained that, to her knowledge, the committee is simply “responsible for ensuring the Premium is realised” (Rahmawati Hanim, Premium Committee). Another noted that, even after a month in the role, she was “still confused,” despite knowing the task was to ensure transparency in Premium spending (Halimah Safitri, Premium Committee).

3.2.2 Delegates: Limited Capacity to Represent Members

Delegates likewise face constraints in literacy, information access, and confidence, which weaken their ability to convey community needs. As one board member recalled from his own experience as a delegate, many had limited information and did not fully understand the cooperative (Fahrul Rizqan, Board).

This results in structurally weak representation, exacerbated by procedural ambiguity. This reflects (Cornforth's (2004) representation–expertise paradox, where democratic legitimacy requires broad participation, yet practical decision-making often depends on a smaller group with greater expertise.

3.2.3 Supervisory Board: Persistent Role Ambiguity

Supervisory Board members describe wanting to keep appropriate boundaries but remain unsure of their actual responsibilities. One member emphasised not overstepping management’s role so “each unit stays in its proper lane” (Sulaiman Yusuf, Supervisory Board), yet they also acknowledged needing clearer guidance—indicating incomplete role socialisation.

3.2.4 Cumulative Effect: Weak Oversight and Managerial Dominance

These capacity gaps across governance units limit effective oversight and ultimately reinforce managerial control over decision processes.

3.2.5 System Patterns Shaping Premium Decisions

Combined, the governance structure and capacity constraints create several reinforcing feedback loops:

- Low-Capacity Loop: Limited decision literacy reduces delegates’ ability to scrutinise information, strengthening managerial filtering.
- Transparency–Trust Loop: Irregular information flows erode trust, prompting selective disclosure and further weakening transparency.
- Short-Term Preference Loop: Expectations for annual, tangible benefits drive allocations toward short-term goods rather than long-term development.
- Market Dependency Loop: Reliance on a single buyer and chronic liquidity stress push the cooperative to use the Premium as operational support.
- Climate Adaptation Loop: Farmers’ normalisation of climate shocks lowers the perceived urgency for environmental or resilience-oriented investments.

3.3 Short-Termism, Member Preferences, and Long-Term Planning Challenges

3.3.1 Members’ Mental Model: Premium as Immediate Household Support

Farmers consistently understand the Fairtrade Premium as a direct, short-term benefit. One member described it simply as “like basic goods we receive—that’s the benefit” (Sukri Hermansyah, Member). Such expectations anchor annual demands and make long-term or developmental investments politically difficult.

3.3.2 Leadership Efforts to Redirect Priorities

Board members express frustration that farmers repeatedly request tools or basic goods rather than longer-term investments. One explained that while leadership prefers developmental programs, farmers “want something distributed every year” (Fahrul Rizqan, Board). Efforts to introduce investment-oriented budgets often face resistance because these ideas “were never part of earlier plans” and therefore feel unfamiliar to members (Fahrul Rizqan, Board).

Altogether these narratives highlight how short-term expectations, representational pressures, and limited organisational learning reinforce a difficult-to-break cycle.

3.3.3 Divergent Interpretive Frames Across Actor Groups

Narrative analysis shows clear differences in how actors interpret the Premium:

- Farmers view it as a tangible entitlement and a source of short-term relief.
- Delegates emphasise majority-rule fairness but depend heavily on management for technical interpretation.
- Board members frame decisions in terms of strategy, risk, and organisational sustainability.
- Supervisory Board members focus on transparency issues and farmer distrust.

These contrasting frames explain why some proposals gain traction while others struggle to advance.

3.4. *Financial Stress, Liquidity Constraints, and Buyer Dependency*

The cooperative’s governance issues are closely intertwined with its severe financial vulnerability.

3.4.1 Chronic Capital Shortage

Leaders repeatedly note that the cooperative operates with almost no working capital, often relying on personal funds and buyer pre-financing to stay afloat. One board member explained that they “depend on personal capital so the cooperative does not collapse” (Junaidi Rahman, Board).

3.4.2 Office Closure and Liquidity Crisis

In 2023–2024, liquidity fell so sharply that the cooperative temporarily locked its office due to the inability to pay rent, staff salaries, or audit fees (Junaidi Rahman, Board).

3.4.3 Premium Used as Emergency Cashflow

With cashflow frequently disrupted, the Fairtrade Premium becomes an emergency financial buffer. As one leader noted, “When cash flow is strained... if the Premium is not available, we switch to emergency measures” (Junaidi Rahman, Board).

3.4.4 Dependence on a Single Buyer

The cooperative’s limited capital also prevents market diversification, creating dependency on one buyer and reinforcing financial fragility (Junaidi Rahman, Board).

Together, these financial pressures directly shape Premium allocation, pushing decisions toward low-risk, short-term spending and away from long-term development investments.

3.5 *Transparency Deficits, Trust Dynamics, and Oversight Challenges*

Transparency and trust are widely recognised as central concerns, yet they remain inconsistently practiced across the cooperative.

3.5.1 Members Learn Through Rumours, Not Systems

Members often receive only partial information about Premium activities. One member, for example, said he only knew about the distribution of basic goods, indicating that reporting mechanisms are incomplete (Sukri Hermansyah, Member).

3.5.2 Supervisory Board: Limited Access, Unclear Oversight

Supervisory Board members acknowledge the need to monitor management but also note that their access to information is limited and their oversight role remains insufficiently defined.

3.5.3 Historical Non-Transparency Shapes Present Trust

Trust deficits are further influenced by past governance failures. A board member recalled that the founders were removed due to “the non-transparency of the previous management” (Irwansyah Dika, Board). Although new practices have been introduced, rebuilding trust continues to be a gradual process.

3.6 *Divergent Perceptions of Risk and Sustainability*

Risk perceptions significantly influence Premium priorities.

3.6.1 Farmers Normalise Climate Impacts

Farmers rarely articulate climate as a pressing risk; adverse weather is seen as routine. Prospect theory helps explain why slow-moving risks such as climate change may be discounted relative to immediate household needs (Kahneman and Tversky (1979)).

3.6.2 Leadership vs. Member Risk Frames

Board members worry about EUDR, declining yields, and market volatility—risks not widely recognised by members. This mismatch limits support for long-term climate or sustainability investments.

3.7. *Organisational Learning and Post-Crisis Adaptation*

Despite persistent challenges, the cooperative shows signs of emerging organisational learning. Leadership has revised the bylaws to remove founder privileges, addressing past governance distortions, and board members report holding monthly evaluations to prevent a repeat of earlier collapses. Together, these steps signal efforts to address previous governance failures, although the consistency and institutionalisation of these practices remain uncertain.

4. Discussion

The findings of this study reveal a governance system that is structurally democratic yet practically constrained by capacity gaps, financial stress, divergent expectations, and informal power relations. These dynamics collectively shape how the cooperative interprets and allocates the Fairtrade Premium. Although Fairtrade certification assumes that democratic structures, such as delegate representation and General Meetings, can enable development-oriented decision-making, the empirical evidence from this case demonstrates that democratic form alone is insufficient for achieving Fairtrade’s transformative aspirations. Instead, organisational capability, trust, transparency, and structural vulnerability significantly mediate the outcomes of Premium allocation.

4.1 Democratic Form vs. Technocratic Practice

The cooperative's governance structure positions delegates as the highest authority and the primary carriers of members' voices. In reality, however, decisions are strongly shaped by management actors who have greater literacy, contextual understanding, and procedural skill. Because many delegates struggle to speak confidently or analyse proposals, decisions often default to whoever speaks the loudest. As one board member put it, "The decision follows the strongest voice." This dynamic reflects Cornforth's (2004) description of the tension between democratic representation and the influence of expertise, as well as the broader control–support paradox in board–management relations.

Such dynamics illustrate how institutional rules are mediated by actor capacity. Even when processes such as the GM and Pre-GM are designed to be participatory, their effective use depends on actors' knowledge, literacy, and confidence. These narrative differences show how actors' sense-making processes mediate democratic structures, creating mismatches between formal authority and practical influence. Without deliberate capacity strengthening, formal democratic spaces risk becoming symbolic rather than substantive, reinforcing managerial gatekeeping. This structural blind spot further weakens democratic accountability by narrowing the decision space available to member representatives.

The presence of these reinforcing loops indicates that Premium governance challenges are not isolated events but self-reinforcing system patterns. This raises important implications for Fairtrade's model, which assumes that governance structures can compensate for inequalities in member capacity. In practice, without structured investment in decision literacy, democratic processes are quickly overshadowed by informal hierarchies.

4.2 Short-Termism and the Social Meaning of the Premium

A central tension revealed in this study is the gap between Fairtrade's development-oriented intentions and how members themselves understand the Fairtrade Premium. For many farmers, Premium benefits are seen as immediate household support, "like basic necessities," as one member described. This interpretation is understandable: in conditions of economic insecurity, direct distributions offer tangible, visible returns from cooperative membership. These expectations are further reinforced by past practices in Fairtrade cooperatives, where tools and household items were regularly distributed.

Such short-termism is not merely a preference; it reflects structural vulnerability. Farmers experiencing seasonal income fluctuations, climate variability, and market volatility are inclined to prioritise immediate stability over uncertain long-term investments. This behavioural tendency is consistent with Kahneman and Tversky's (1979) description of the certainty effect, where individuals place disproportionate weight on outcomes that provide certain, immediate benefits while underweighting uncertain future outcomes. Delegates, accountable to constituents who expect tangible returns, often advocate for short-term allocations at the GM. Meanwhile, leadership struggles to justify developmental investments, especially when previous long-term programs did not yield visible outcomes or lacked follow-up support. This tendency reflects bounded rationality: under conditions of uncertainty, individuals favour simplified, immediate solutions over complex long-term plans (Simon, 1972).

This dynamic reinforces a self-perpetuating cycle: short-term allocations meet immediate needs but constrain the cooperative's ability to invest in future resilience. As long as Fairtrade Premium is interpreted primarily as a social distribution mechanism rather than a development fund, transformational investments, such as climate adaptation, organisational strengthening, or business diversification, will face resistance.

4.3 Financial Fragility as a Structural Constraint

Financial stress emerged as a central force shaping governance behaviour. Cook (2018) shows that capitalization problems, such as limited liquidity, high risk-bearing costs, and difficulties in defining residual claim rights, increase ownership costs and accelerate cooperative degeneration. When working capital is insufficient, cooperatives face rising frictions, underinvestment, and intensifying short-term pressures, which weaken strategic

focus and long-term capacity. In the Life Cycle Framework, chronic capital shortages are a major force that can push organizations toward degeneration unless they reinvent themselves. As one board member recalled, “We had to rely on our own personal funds just to keep the cooperative from collapsing.”

This financial dependency has three consequences. First, it limits the cooperative’s autonomy. Reliance on a single buyer constrains strategic decision-making, reducing the cooperative’s ability to negotiate better terms, diversify markets, or make long-term operational plans. This pattern is consistent with Chaddad and Iliopoulos (2013) observation that external transactional structures can concentrate control rights outside the cooperative, reducing its bargaining space.

Second, it heightens risk aversion. When financial reserves are thin, decision-makers prioritise projects with immediate returns or low implementation risk, typically short-term physical goods, over more uncertain long-term interventions.

Third, it pressures governance actors to treat Fairtrade Premium as a safety net rather than a development tool, inadvertently undermining Fairtrade’s developmental logic.

Thus, Premium allocation cannot be analysed independently of broader financial structures. Organisational fragility fundamentally influences what decisions are even thinkable.

4.4 Transparency, Trust, and Institutional Memory

Transparency gaps—both historical and ongoing—strongly shape trust and perceptions of legitimacy. The cooperative’s earlier crisis, when founders held disproportionate power and information was not shared openly, continues to influence how people see the organization today. As one board member recalled during restructuring, “We removed all the founders because the previous management lacked transparency.” This shows how past governance failures leave a lasting mark on organizational memory, shaping expectations and caution among current actors.

Although the cooperative has since try to adopt practices such as monthly evaluations, trust remains fragile due to inconsistent communication, limited documentation accessibility, and uneven information-sharing. This dynamic reflects Cornforth's (2004) control–support paradox, where increasing oversight can erode trust, yet too little oversight undermines accountability. Supervisory Board members recognise the importance of oversight yet struggle with unclear mandates and insufficient access to financial data. Members often receive Fairtrade Premium information indirectly or incompletely.

This situation produces a Trust–Transparency loop, where limited transparency fuels mistrust, which in turn makes leadership cautious about disclosure, perpetuating information deficits. Breaking this cycle requires not only clearer reporting systems but also deeper cultural shifts in how information is shared and interpreted within the cooperative.

4.5 Divergent Risk Perceptions and Sustainability Priorities

The study reveals fundamental differences in how cooperative actors interpret risks, particularly those related to climate change and market volatility. Board members express concern about external regulatory shifts such as EUDR, climate impacts on yield, and the structural risks of buyer dependency. In contrast, farmers often normalise climate-related shocks as routine or unavoidable. While Simon (1972) does not discuss climate risks, he explains that when environments are complex and information is limited, individuals simplify their understanding and focus on more immediate, manageable aspects of a problem. Under such bounded rationality, long-term or diffuse threats receive less attention than immediate needs. This divergence shapes Premium priorities: while leadership views long-term sustainability investments as necessary, members perceive them as secondary to short-term household needs.

Such misalignment is significant because collective action requires shared problem definitions. When actors operate with different understandings of risk, it becomes difficult to mobilise support for preventive or adaptive measures. Climate adaptation, for example, requires both behavioural change and long-term commitment. Without urgency at the member level, such programmes struggle to gain approval in the GM.

4.6 Organisational Learning and Recovery from Crisis

Despite ongoing challenges, the cooperative shows signs of constructive institutional learning. Revising the statutes to remove founder privileges marks an effort to democratize its governance structure. Monthly evaluation meetings also signal a move toward more proactive financial oversight and clearer internal communication. As one board member explained, “We hold evaluations every month so we don’t collapse again.”

These practices suggest the early stages of an organisational learning cycle, where past failures inform present strategies. However, the sustainability of these improvements depends on consistent implementation, reinforcement through training, and alignment with broader organisational norms. Without addressing deeper structural constraints, particularly capacity gaps and financial fragility, these reforms alone may not be sufficient to transform Fairtrade Premium governance.

4.7 Intersections of Governance, Capacity, and Developmental Outcomes

Taken together, the findings highlight that Fairtrade’s developmental promise depends not solely on certification but heavily on internal governance capability. The cooperative’s ability to allocate Premium funds toward long-term resilience is constrained by:

- limited decision literacy among delegates
- unclear mandates across governance bodies
- financial precarity that prioritises short-term expenditures
- weak oversight due to transparency gaps
- competing risk perceptions among members and leaders
- informal power dynamics that shape deliberation

These factors create a system where even well-intentioned governance actors struggle to steer Premium decisions toward strategic development goals. The cooperative’s democratic architecture provides a foundation, but its effectiveness is undermined by structural vulnerabilities and limited organisational capacity.

5. Conclusion

This study demonstrates that the developmental potential of the Fairtrade Premium in smallholder cooperatives depends profoundly on internal governance dynamics. While democratic structures exist, their function is weakened by uneven capacity, financial fragility, informal hierarchies, and divergent risk perceptions. As a result, Premium allocations remain skewed toward short-term benefits, limiting the cooperative’s ability to invest in long-term resilience.

Strengthening decision literacy, enhancing transparency, expanding access to financial resources, and fostering shared understanding of risk are necessary conditions for transformational Premium governance. Without addressing these structural issues, the cooperative, and others like it, will continue to struggle to realise the fuller goals envisioned by Fairtrade.

Author Contributions: This study adds empirical insight into how internal governance capacity shapes Fairtrade Premium outcomes. By examining a cooperative that experienced governance failure and later restructuring, it shows that Premium allocations are driven less by certification rules and more by organisational capacity, financial vulnerability, and informal power dynamics. The study highlights how these factors reinforce short-term spending

patterns and limit long-term resilience investments, offering practical implications for strengthening decision literacy, transparency, and financial stability in Fairtrade producer organisations.

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Conflicts of Interest: The author is employed by Fairtrade. The participants in this study are members of a Fairtrade-certified cooperative. To mitigate potential bias, the research design, data collection, and analysis were conducted with strict adherence to ethical guidelines, and participants were informed that their responses would remain confidential and would not affect their certification status or relationship with Fairtrade.

Informed Consent Statement/Ethics approval: All subjects gave their informed consent before they participated in the study, they were informed the goal of the study, the anonymity of their participation, and how their data will be used and if there are any risks associated.

Declaration of Generative AI and AI-assisted Technologies: AI assistance was employed to help reorganize and clarify the manuscript's wording.

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