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Raising the Bar: Values-Driven Niche Creation in U.S. Bean-to-Bar Chocolate

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Abstract. We examine how entrepreneurs might build a viable, values-driven niche. Extant templates for niche creation typically employed in moral markets depend on instrumentally rational logics that privilege economic ends such as profitability and efficiency. Entrepreneurs seeking to construct a nascent niche whose purpose and objectives include the amelioration of social ills, however, may find such templates inadequate. Using the emergence of the U.S. bean-to-bar chocolate niche, through which entrepreneurs attempt to address the social and environmental shortcomings of conventional chocolate production, we demonstrate that constructing an alternative model for niche creation is feasible. Most bean-to-bar entrepreneurs deliberately opted out of extant private regulation initiatives, developing instead alternative encompassing, values-driven sourcing and cooperative relationships, which we term collaborative governance. This is enacted throughout the niche by promoting shared values, best practices, and transparency and is supported by strategic meaning-making work to cultivate customers. Together, these three values-driven strategies form a novel template of niche creation based not on cognitive repositioning or exploiting exogenous change within existing structures and institutions, but on a reconceptualization of how markets might work to support the implementation of nonmarket goals. Based on our mixed-methods analysis, we find that, instead of hoping to accomplish nonmarket goals through established market structures, entrepreneurs built a niche centered on the achievement of specific social goals. Our findings suggest that to understand the strategies supporting emergent socially oriented markets, researchers must explore the intersections of values, entrepreneurial motivations, and operational complexities.

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Keywords: niche creation • market formation • entrepreneurship • value rationality • craft markets

> I want to get to the place where we don't compete on who's hurting people the least. —Bean-to-bar chocolate entrepreneur

Although new niches typically emerge in response to changes in consumer needs, technological advances, or competitive differentiation, some are built by entrepreneurs seeking to use their businesses to help alleviate social problems. Niche creation has almost become routinized in templates that are adapted to local conditions and prevailing trends (e.g., Cattani et al. 2013, Durand and Khaire 2017). This may be, in part, a matter of convenience—why reinvent the wheel?—but it also suggests that most entrepreneurs hew to instrumentally rational logics, reasoning, and assumptions (Weber 1978): efficiency, means–end relations, profit maximization, and competitive advantage (Kalberg 2012, Rindova and Martins 2018). Even niches organized around social goals tend to employ existing templates and institutional arrangements (e.g., York and Venkataraman 2010, Sikavica and Pozner 2013). In contrast, entrepreneurs who approach their work through a primarily value-rational lens, privileging subjective, values-based motivations over economic ends (McInerney 2014, Child 2015, Adler and Heckscher 2018, Rindova and Martins 2018), may find such templates inadequate to their needs.

Although literature investigating markets that combine economic exchange with social objectives has grown, how entrepreneurs build a viable niche driven by value rationality is still underexplored, a gap we address with this study. An array of moral markets—in which market exchange and identity rely upon normatively virtuous behavior to create social value (Fourcade and Healy 2007, Georgallis and Lee 2019)—has emerged in the last few decades to meet consumers' expanding preferences for products and producers deemed environmentally and/or socially responsible, such as organic food (Sikavica and Pozner 2013, Haedicke 2016), fair trade coffee (Raynolds 2002, Raynolds et al. 2004, Jaffee 2007), wind energy (Sine and Lee 2009), and anti-sweatshop apparel (Bartley 2003, Esbenshade 2012). Even moral markets, however, have largely employed one of two instrumentally rational templates for niche creation: a cognitive positioning relative to existing market elements or an exploitation of opportunities arising from exogenous environmental change (Luksha 2008, Cattani et al. 2013, Durand and Khaire 2017, Giorgi et al. 2019).

The enactment of these templates is often supported by cooperation with nongovernmental or independent regulatory organizations that call attention to social goals (Reinecke et al. 2012, Busch 2017). Private regulatory schemes—nongovernmental systems of norms and rules that accredit, govern, and monitor parameters of production and commerce (Raynolds 2004, Auld and Gulbrandsen 2013)—have become hallmarks of such efforts. Although private regulation has produced social and environmental benefits (Conroy 2007, Shamir 2011), it has been critiqued for inadequate enforcement, excessive costs, and bureaucratic burdens and its reification of existing power structures (Baron 2009, Barham and Weber 2012, Ingenbleek and Reinders 2013). The most popular of these schemes—voluntary third-party certification—has seen the standard-setting process coopted and compromised by conventional incumbents (Guthman 2007, Jaffee and Howard 2010, Lee et al. 2017), leading some to view it with skepticism. Organizational research, however, has yet to explore the role that alternative strategies for market governance might play in niche creation.

To address the question of value-rational niche creation, we examine the development of a 21st century, U.S.-based moral market: bean-to-bar chocolate. Entrepreneurs in this niche produce high-quality, craft chocolate with the goal of ameliorating some of the unpalatable externalities of conventional chocolate production: structural poverty (Fold 2002, Fountain and Hütz-Adam 2015), environmental degradation (Ntiamoah and Afrane 2008, Bateman 2009), and child and bonded labor (Bales et al. 2000, Off 2006, Asamoah and Owusu-Ansah 2017). We find that most bean-to-bar entrepreneurs perceive existing means of addressing those ills as not only inadequate, but also conceptually misaligned with their own prosocial orientations and missions. In response, they developed an adaptive strategy for market governance, grounded in their value-rational goals, to support niche creation—what we term *collaborative governance*. We conceptualize collaborative governance as a substantive effort to disintermediate supply chains and redefine market infrastructure through a system of multiplex relationships among entrepreneurs and raw material suppliers who, together, develop standards for activity informed by shared socially oriented goals. Entrepreneurs' espoused values around farmer well-being, social justice, environmental sustainability, and community building proved more influential in guiding the establishment of market practices than did instrumental concerns such as profit and efficiency. Buttressed by intraniche cooperation and explicit efforts to cultivate consumer demand, collaborative governance became the central strategy underpinning a new, value-rational template for niche creation based on a rethinking of how markets might work to enhance and support the implementation of nonmarket goals.

By examining the emergence of the bean-to-bar chocolate niche we develop theory about how entrepreneurs might build value-rational niches and how value rationality—which orients actors to search for innovative solutions by focusing on the logic of their own values—can influence organizational activity beyond the boundaries of an entrepreneurial firm. Our work shows that values can do more than guide individual attention and action (Gavetti and Rivkin 2007, Higgins 2016, Rindova and Martins 2018); in fact, they can shape collective decision making in an entrepreneurial community and the larger supply chain around a common purpose. This study contributes to research on niche emergence, moral markets, and entrepreneurship by analyzing the challenges and opportunities associated with cultivating a value-rational niche. It also connects to recent work on emancipatory entrepreneurship by demonstrating how entrepreneurial activity can be conceptualized as an engine of social change (Rindova et al. 2009, Jennings et al. 2016, Laine and Kibler 2020). We contribute to research on moral market creation by questioning a reliance on taken-for-granted templates and extant market structures in line with recent work exploring the role of strategic agency in creating and shaping markets (Engler et al. 2020, Pontikes and Rindova 2020, Struben et al. 2020). Finally, we explain how drafting a new template for niche creation can enable entrepreneurs to transform values into core product attributes.

Theoretical Background

New niches do not emerge fully formed, but require intentional entrepreneurial action (Rindova and Fombrun 2002, Hiatt et al. 2009, Sonenshein et al. 2017). Research in this vein coalesces around two primary templates for niche creation: some niches are crafted through the redefinition of existing market elements within an extant category system to differentiate and position new products and others are built in response to exogenous changes, such as shifts in customer tastes, new technology, or institutional change (Pozner and Rao 2006, Navis and Glynn 2010, Durand and Khaire 2017, Giorgi et al. 2019).

The first template engages cognitive meaning-making, processes of reinterpreting or redefining existing market characteristics or attributes. It is used by entrepreneurs in nascent markets to deploy strategic discursive and promotional efforts (Luksha 2008, Cattani et al. 2013), either relative to established market categories, as in the cases of minivans (Rosa et al. 1999) and certain software categories (Pontikes and Kim 2017), or in contrast, as in the cases of whisky distilleries (McKendrick and Hannan 2014) and craft beer (Verhaal et al. 2015). Because this template involves attaching new meanings to existing market elements without challenging or changing the underlying logics of instrumental rationality, it is unlikely to satisfy entrepreneurs seeking to make explicit progress on alleviating social ills.

Other niches employ a template by which entrepreneurs implement substantive changes to existing market systems in response to exogenous changes to the environment or consumer demands that generate opportunities (Durand and Khaire 2017, Engler et al. 2020). The U.S. soft drink industry, for example, emerged from entrepreneurs' opportunistic responses to the early 20th century temperance movement and the U.S. 18th Amendment, which prohibited the production, transport, and sale of alcohol (Hiatt et al. 2009). Similarly, the microbrewing niche emerged in the 1970s and 1980s in response to shifting consumer preferences and concurrent legal changes that re-enabled small-scale beer production (Swaminathan 1998). Endogenous changes, such as technological or process innovations, can stimulate new niches as entrepreneurs proactively build demand for a new product as in specialty coffee (e.g., Rindova and Fombrun 2002, Levy et al. 2016). Finally, some niches, such as synthesizers (Anthony et al. 2016) and recycling (Lounsbury et al. 2003), are created by entrepreneurs deploying both templates concurrently.

Recent niche creation efforts have relied on familiar market structures and practices regardless of the template employed. Instead of rethinking how market elements—such as systems of supply chain governance—might be used to achieve specific goals related to their principles, entrepreneurs often replicate or adapt extant structures. Moreover, even those in moral markets tend to adopt existing templates (e.g., Raynolds 2002, Sikavica and Pozner 2013, Lee et al. 2017). For example, the early fair trade coffee movement strove to reorganize global supply chains around socially responsible trading agreements while imbuing a sense of duty in coffee consumers (Jaffee 2007, Wilkinson 2007). Raynolds (2002, p. 405) notes, however, that, although fair trade coffee involved "progressive ideas and practices related to trust, equality, and global responsibility," it was also "intertwined with traditional commercial and industrial conventions in alternative commodity networks." Thus, even entrepreneurs with sincere nonmarket goals typically adhered to the implicit logic of instrumental rationality underlying market conventions. This suggests that social goals are usually accommodated only to the extent that they do not interfere with concerns about profits and efficiency (Baron 2009) and not the other way round.

Recent research on value rationality, however, suggests that an alternative is possible and that values—collectively recognized standards of importance based on fundamental beliefs (Gellermann et al. 1990)—can shape entrepreneurial attention, decision making, and activity in important ways (Gavetti and Rivkin 2007, Rindova and Martins 2018). Similarly, work focusing on strategic agency suggests that entrepreneurs may have a more active role in creating and shaping markets than has previously been acknowledged (Engler et al. 2020, Pontikes and Rindova 2020, Struben et al. 2020). Guided by such logic, entrepreneurs might focus first on values and accommodate instrumental concerns only to the extent that they do not interfere with the amelioration of social ills. Instead of redefining categories or responding to exogenous shocks, value-rational entrepreneurs might address social and environmental challenges by substantively changing the way business is conducted in response to the social ills they mean to address, thus drafting a new template for niche creation.

Private Regulation and Niche Creation

In constructing a novel values-driven niche based on prosocial values, entrepreneurs may need to begin with one of the most problematic aspects of a given product's supply chain: raw materials sourcing. Over the last few decades, several private regulation schemes, through which actors establish rules and standards to govern and coordinate behavior within and across a field (Auld and Gulbrandsen 2013, Lee et al. 2018), have become institutionalized as strategies to support the formation of moral markets (Georgallis and Lee 2019). These schemes have the potential to mitigate information asymmetries by monitoring supply chain activities and compliance, supporting social initiatives, and connecting entrepreneurs and consumers (Conroy 2007) while improving accountability for concerns such as product safety, ecological degradation, and worker exploitation (Gulbrandsen 2006, Auld et al. 2008). Private regulation can help overcome the distrust, inequality, and uncertainty inherent in hard-to-observe production systems marked by long, geographically dispersed supply chains (Nicholls 2010, Wijen 2014). In fact, private regulation has been often employed in fields in which an actor's legitimacy rests on claims of social responsibility (Fourcade and Healy 2007, Shamir 2011, Esbenshade 2012).

A system of governance specifically tailored to a market's particular social goals can, in theory, represent the process innovation that defines a new niche. Each form of private regulation was initially developed to resolve specific market shortcomings but has become taken for granted over time. Consequently, most niches rely on a few common schemes rather than developing new, customized forms of private regulation. The best-known form is third-party certification, but self-regulatory institutions, private governance, and relational contracting are also commonly used to create and enforce standards and legitimate market operations (summarized in Table 1).

Third-Party Certification. Voluntary third-party certifications, systems of standards created and enforced by independent organizations (Bartley 2011), have been the dominant form of private regulation since the 1990s. They are used to convey environmental and social responsibility across supply chains and have been shown to be valuable signals to consumers (Conroy 2007, Reinecke et al. 2012, Bartley and Child 2014, Bartley 2018). Certification attempts to promote nonmarket goals while reducing the information asymmetries present in opaque supply chains that erode consumer trust (King et al. 2005, Christmann and Taylor 2006, Chen and Chang 2013), particularly when production is geographically distant or difficult to observe (Nicholls 2010, Wijen 2014). Originally developed as a solution to social and ecological concerns and failures of governmental regulation (Guthman 2007), third-party certification has proven useful for expanding the reach and impact of moral food and drink markets, especially through programs such as organic (Sikavica and Pozner 2013, Lee et al. 2017), geographical indication (DeSoucey 2010), and fair trade (Jaffee 2012, Ingenbleek and Reinders 2013, Levy et al. 2016), in which it confers value and credibility (Terlaak and King 2006, Lanahan and Armanios 2018), reduce firms' monitoring costs (Montiel et al. 2012), and differentiates them from competitors (York and Lenox 2014).

Although third-party certification has been called "one of the most innovative and startling institutional designs of the past 50 years" (Cashore et al. 2004, p. 4), it has recently lost its luster. Specifically, certifications have been critiqued for increasing farmers' costs and workload without providing sufficient opportunities for voice, agency, or significant financial gain (Guthman 2007, Barham and Weber 2012) and for proving vulnerable to cooptation, political contestation, and industrialization (Jaffee and Howard 2010, Sikavica and Pozner 2013). Third-party certifiers have been accused by critics of weak governance, flawed compliance requirements, and disregard for farmers' local ecological knowledge (Bennett 2017, Ballet et al. 2020)—in other words, for giving consumers the illusion of producer agency while reinforcing structural controls over behavior and standards design.

Self-Regulation. Industry self-regulation—the collective adoption of voluntary, industry-wide norms and standards (Gupta and Lad 1983, Kolk and van Tulder 2002, Haufler 2013)—is a long-historied alternative to third-party certification. Self-regulation is predicated on competitors agreeing on appropriate conduct, institutionalizing constraints, and monitoring others' opportunistic behavior (King and Lenox 2000, Lenox 2006, Baron 2010). Seen as an efficient way to resolve market failures while forestalling state regulation (Baron 2010, Dorobantu et al. 2017), self-regulation takes various forms from trade associations with formal rules (King and Lenox 2000, Barnett and King 2008) to groups with voluntary disclosure norms (Bansal 2005, Reid and Toffel 2009) to peer networks (Zuckerman and Sgourev 2006). It is particularly useful in markets suffering from a problem of the commons in which one firm's opportunism can harm competitors (Hardin 1968, Barnett and King 2008). Although often marked by defections and free riders (e.g., Rivera and deLeon 2004), users prefer self-regulation to unregulated or publicly regulated markets (Dorobantu et al. 2017). Self-regulation has been used in the U.S. chemicals field (King and Lenox 2000, Lenox 2006, Barnett and King 2008), forestry (Steelman and Rivera 2006), hospitality and recreation (Rivera and deLeon 2004), nuclear power (Rees 2009), and maritime shipping (Furger 1997). Nevertheless, it is seen widely as inappropriate to resolving deep-rooted social or environmental problems in which defection can compromise the market (Kolk and van Tulder 2002).

Private Governance. Private governance is a firm-specific form of private regulation that uses contracts to determine how financial, human, and physical resources flow across geographically dispersed supply chains (Gereffi 1994). For example, in the 1990s, several UK supermarket chains implemented proprietary food safety standards designed in-house and initiated extensive exclusive contracting with African farmers to source fresh produce (Dolan and Humphrey 2000). Similar privately designed schemes have been used in retail coffee (Perez-Aleman and Sandilands 2008), fisheries (Gulbrandsen 2006), and footwear (Schmitz and Knorringa 2000) as well as by major corporations such as Wal-Mart, McDonald's, and IKEA (Christopherson and Lillie 2005). To capture market share, some mainstream firms adopt specific nongovernmental organizations' standards as a marketing tool for some of their products (e.g., Unilever adopted Rainforest Alliance standards for its tea) (Busch 2017). Costly and requiring significant investment in monitoring (Dolan and Humphrey 2000), these programs increase the

Table 1. Models of Private Regulation

	Third-party certification	Self-regulation	Private governance	Relational contracts (relational governance)	Collaborative governance
Definition	A system of standards created and enforced by an organization outside of the focal industry that certifies compliance (Bartley 2011)	Collective subscription to voluntary industry-wide standards and rules (Barnett and King 2008)	A system to manage geographically dispersed supply chains through strong contracts that determine the flow of resources along a supply chain (Gereffi 1994)	Socially defined, norm-driven, informal agreements and codes of conduct designed to guide the behaviors in between organizational partners through power and social capital (Baker et al. 2002, Sarkar et al. 2009)	A system of multiplex relationships wherein producers and raw material suppliers collectively set informal standards and guidelines for activity in light of shared social, economic, and environmental goals
Scope	Sector	Industry	Organizational dyads	Organizational dyads	Community wide
Motivations and advantages	- Reduce challenge of geographically distant suppliers - Reduce challenges with opaque supply chains - Reduce monitoring costs - Build legitimacy and consumer trust - External adjudication of disputes - May erect entry barriers protecting incumbents	- Resolve the problem of the commons - Reduce opportunistic behavior - Alternative to government regulation	- Ensure quality and safety of supplies - Direct resource flows - Stabilize supply - Material benefits to retailers who control and enforce standards	- Mitigate challenges of environmental, task, and behavioral uncertainty - May reduce transaction costs as compared with formal contracts	- Reduce challenges associated with lack of governing institutions - Reduce influence of lack of trust - Make progress toward socially oriented goals
Orienting logic	Instrumental rationality	Instrumental rationality	Instrumental rationality	Instrumental rationality	Value rationality
Enforcement	Independent certifying agency	Collective self-enforcement	Contracts	Dyadic self-enforcement	Self-enforcement
Interaction	Transaction-based	Transaction-based	Transaction-based	Repeated engagement	Collaborative relationship
Disadvantages	- Increases input producers' costs and workload with uncertain benefit and little agency - Subject to political contestation and cooperation - Not amenable to social goals attendance	- Vulnerable to defections, free-ridership, and opportunism - Focus on resolving problem of the commons, which is incompatible with value rationality	- Few benefits to suppliers who are locked into exclusive distribution agreements - Reifies existing supply chain power dynamics - Costly and intensive monitoring	- Requires long-term, embedded relationships to prove effective - Risk of reneging - Subject to opportunism	- Costly and time-intensive - Benefits do not necessarily redound to those making investments

Table 1. (Continued)

	Third-party certification	Self-regulation	Private governance	Relational contracts (relational governance)	Collaborative governance
Examples	Organic (Sikavica and Pozner 2013, Haedicke 2016), geographical indication (DeSoucey 2010), fair trade (Jaffee 2012, Ingenbleek and Reinders 2013, Levy et al. 2016)	U.S. chemicals (King and Lenox 2000, Lenox 2006, Barnett and King 2008), forestry (Steelman and Rivera 2006), hospitality and recreation (Rivera and deLeon 2004); nuclear power (Rees 2009), shipping (Furger 1997)	UK supermarkets (Dolan and Humphrey 2000), retail coffee (Perez-Aleman and Sandilands 2008), footwear (Schmitz and Knorringa 2000)	Airbus (Baumann et al. 2020), medical devices (Chatterji et al. 2019), drug discovery (Gibbons and Henderson 2012), bridge construction (Holloway and Parmigiani 2016)	Bean-to-bar chocolate
Other key citations	King et al. (2005), Christmann and Taylor (2006), Nicholls (2010), Bartley (2011), Barham and Weber (2012), Chen and Chang (2013), Moberg (2014), Wijen (2014)	Gupta and Lad (1983), Baron (2010), Haufler (2013), Dorobantu et al. (2017)	Gereffi (1994), Humphrey and Schmitz (2002)	Baker et al. (2002), Poppo and Zenger (2002), Grandori (2006), Grandori and Soda (2006), Poppo et al. (2008), Sarkar et al. (2009), Gibbons and Henderson (2012),Abdi and Aulakh (2017)	

power of retailers who set the terms of access, production capabilities, and distribution of rents (Humphrey and Schmitz 2002). This is compounded by the lack of agency and material benefits for participating suppliers, particularly those tethered to exclusive distribution agreements.

Relational Contracting. Some niches use informal, relational contracts (or relational governance)—socially defined, norm-driven informal agreements designed to guide behaviors in interorganizational relationships (Baker et al. 2002, Sarkar et al. 2009). In complex environments in which traditional contracting is impractical—such as aviation (Baumann et al. 2020), medical devices (Chatterji et al. 2019), drug discovery (Gibbons and Henderson 2012), and bridge construction (Holloway and Parmigiani 2016)—relational contracts work by enforcing obligations (Grandori 2006, Grandori and Soda 2006, Abdi and Aulakh 2017). This scheme relies on partner-specific knowledge (Barney and Ouchi 1986), norms of reciprocity, and the expectation of equity across multiple interactions (Ouchi 1979, Poppo et al. 2008). In the presence of trusting relationships, relational contracts induce partners to comply with normative expectations based on the prospect of future interactions (Baker et al. 2002, Poppo and Zenger 2002, Gibbons and Henderson 2012). This can benefit both parties by managing risk but also requires long-term, embedded relationships to be effective.

Finding Value-Rational Alternatives. Because existing private regulation schemes do not prioritize social goals above economic gain, they may not meet the needs of truly values-oriented entrepreneurs, particularly in nascent niches. In practice, third-party certification is burdensome and shifts power away from raw material producers. Industry self-regulation requires significant coordination and tolerance of costly free riding. Private governance reifies power relationships, allocates most benefits to downstream parties, and places costly constraints on suppliers. Relational governance is inexpensive but relies on extant norms and long-term relationships, neither of which may be present in a new niche.

More generally, each of these forms of governance was created to ameliorate concerns specific to particular, temporally contingent supply chain issues and relationships and, thus, may not be appropriate for addressing the unique challenges of others. Instead of driving the realization of desired goals, therefore, adopting an existing governance practice may be little more than a performative act of mimesis. Entrepreneurs whose attention and decision making are sincerely focused on values may, therefore, seek new strategies to support niche construction though organizational research has not yet explored the organizing principles they might use in such an endeavor. To remedy that, we examine how values and nonmarket objectives influenced how entrepreneurs developed the bean-to-bar chocolate niche.

Setting: The Challenge of Chocolate

Chocolate is made from cacao beans harvested from the *theobroma* tree, a crop native to Central America. Vestiges of cacao have been found in Aztec earthenware from 1150 BC, and the words "cacao" and "chocolate" derive from the 15th century Nahuatl word *cacahuatl*. Cacao was a form of currency and a drinkable delicacy in the Mayan and Aztec civilizations (Presilla 2001), diffused globally through colonial trade, and transformed into the confection we now consume in the 19th century (Bernardini 2015). A 2016 survey found that 93% of American adults eat chocolate (Mintel Group Ltd. 2016) with sales in 2017 topping $20 billion in the United States and $100 billion globally (Euromonitor 2017).

Cacao is grown in more than 50 countries within 20° of the equator. More than five million farmers (Statista 2016) cultivate plots smaller than two acres, most earning less than a dollar a day (Fountain and Hütz-Adam 2015). Farmers "at origin" (where cacao is grown) struggle with low yields, difficulty obtaining supplies, and an unpredictable commodity market (Fold 2002). Conventional cacao farming depends on pesticides and fungicides that are prone to overuse (Bateman 2009) and cause health and environmental damage (Ntiamoah and Afrane 2008). Cacao farming is also connected with human suffering and exploitation (Bales et al. 2000, Off 2006, Asamoah and Owusu-Ansah 2017), and the industry has been repeatedly sanctioned and (even recently) sued for forced child labor and human trafficking (Whoriskey and Siegel 2019, Balch 2021). Legislative action has failed to resolve these issues; a 2015 investigation found more than two million children working on cacao farms in Cote d'Ivoire and Ghana alone (Tulane University 2015).

Some hoped that voluntary third-party certification might attenuate human rights violations and strengthen environmental protections in cacao. By 2016, about 23% of global production was certified by one of four agencies: FairTrade International, Organic, Rainforest Alliance, and UTZ (the latter two merged in 2018) (Lernoud et al. 2018). Farmers pay certifying agents to verify that crops and farming practices meet third-party standards as well as annual administrative fees (Basso et al. 2012). They also shoulder ongoing expenses associated with maintaining shade trees, upholding waste management standards, and assessing risk and environmental impacts. Though these costs are theoretically passed on to consumers, up-front capital investments are typically borne by farmers, many of whom rely on subsidies from nongovernmental organizations. Certification earns growers a price premium of about 10% above the commodity price of uncertified cacao beans, typically between $2,000 and $3,000 per ton. Most cacao farms are small, however, producing less than half a ton of beans annually (Michail 2016), earning a gross premium of about $100, whereas the total cost of certification typically exceeds $1,000. The practice of third-party certification of cacao, therefore, has not lived up to its original promise.

The Emergence of Bean-to-Bar Chocolate in the United States

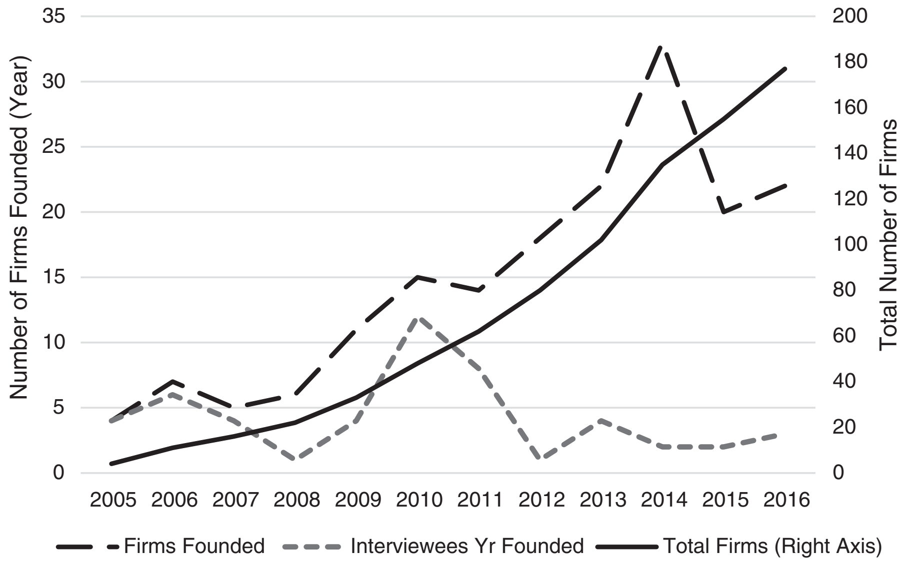
It was against this backdrop that the bean-to-bar niche was built with the express goal of improving the conditions of cacao production. Bean-to-bar chocolate employs craft production methods, using high-quality cacao beans that are grown, fermented, and dried by small-scale farms and cooperatives (Giller 2017). In contrast to conventional chocolate makers that purchase cacao beans on the commodities market and chocolatiers who buy bulk chocolate to produce truffles and bars (Lebovitz 2007), bean-to-bar chocolate makers buy cacao beans either directly from growers or from brokers who specialize in ethical sourcing.

The number of U.S. de novo bean-to-bar chocolate entrepreneurs grew from fewer than five in 2005 to 177 in 2016. Figure 1 shows the steady growth in annual firm foundings and the cumulative number of ventures between 2005 and 2016. Figure 2 shows the geographic distribution of makers, most of which are in California, Hawaii, and the Pacific Northwest. Sales of bean-to-bar chocolate amounted to $100 million in 2015 (Vreeland and Associates 2016). Although a small portion of the $20 billion U.S. chocolate market (Euromonitor 2017), its growth mirrors that of alternative and sustainable food systems (Wright and Middendorf 2008). None of the major conventional, multinational chocolate manufacturers have begun bean-to-bar business lines to date though Hershey acquired two early makers: Scharffen Berger, founded in 1996 and purchased in 2005, and Dagoba, founded in 2000 and purchased in 2006.

Data, Methods, and Analysis

This study originated when the first author interviewed bean-to-bar chocolate makers and noted both common themes among their social missions and that they largely operated without certification. Interested in moral markets and niche emergence, the author team began to examine entrepreneurial niche creation efforts. Because our research question centered on understanding a phenomenon not well explained by theory, we used an inductive approach (Glaser and Strauss 1967, Singleton and Straits 2017) that has

Figure 1. Number of U.S. Bean-to-Bar Chocolate Firms Founded Annually and Cumulatively, 2005–2016

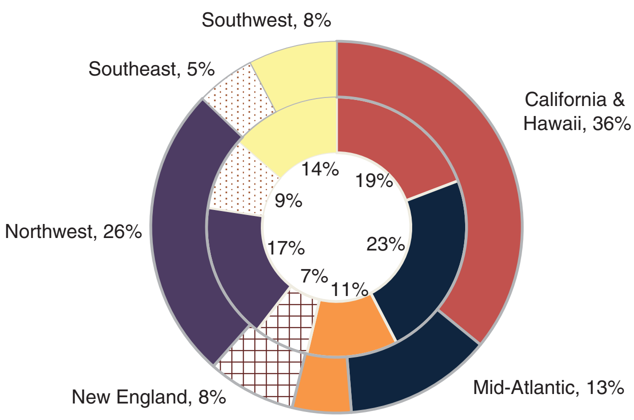


proven useful in organizational theory-building studies (e.g., O'Mahony and Bechky 2008, Sonenshein et al. 2017). We iteratively collected and analyzed several types of data, summarized in Table 2, including semistructured interviews, conference attendance, documentation, and artifacts.

Data

Documentation and Artifacts. We created a database of U.S. bean-to-bar chocolate makers by analyzing more than 1,800 pages of archival data, including industry reports, association data, technical reports, books, news articles, and reports of certifying agencies. We searched Factiva, LexisNexis, and Google and went directly to the organizations and publications they cited to search for additional reports, publications, and directories. Sources included the Fine Chocolate Industry Association, the International Cocoa Organization, SeventyPercent, and the Good Food Awards. We identified 177 bean-to-bar chocolate firms founded between 2005 and the end of 2016 and coded them for location, founding date, business practice, mission, and product characteristics; we collected additional firm-level data from archival sources, including company reports, white papers, and presentations. We focused on de novo bean-to-bar entrepreneurs entering the chocolate business for the first time, excluding de alio chocolate makers who entered the niche after having running businesses that made products from bulk, premade chocolate. It is possible that we did not identify every U.S. bean-to-bar maker though, given the consumer-facing nature of this market and the breadth of documentation we collected, we feel it unlikely.

Figure 2. (Color online) Location of U.S. Bean-to-Bar Chocolate Firms Founded Before 2016



Notes. Outer ring = all firms. Inner ring = interviewed firms.

We also collected packaging and/or website snapshots for all de novo firms to evaluate the symbols, language, and messaging practices they used. We acquired images of the front packaging of 98% and full-product packaging of 83% of makers (for an example, see Figure 3). As websites allow greater description of products and production methods, we downloaded website images for 99% of our database using the internet archive, including snapshots of firms that closed before data collection began.

Semistructured Interviews and Observations. Drawing on our database of bean-to-bar chocolate makers, we held initial conversations with several bean-to-bar founders to develop a preliminary interview protocol. Between 2013 and 2020, we conducted 71 semistructured

Table 2. Data Sources

	Time frame	Number of interviews	Number of firms
Primary:			
Semistructured interviews with chocolate entrepreneurs and executives	2013–2020		
Wave 1 – Firm founded before 2009		22	17
Wave 2 – Firm founded 2009–2013		34	25
Wave 3 – Firm founded 2014–2018		15	15
Total interviews		71	57
Communications with industry experts	2014–2020	4	
Conference and workshop observations	2014–2020	8	
Artifacts:		Percentage of population	
Website snapshots	2016 or last available	99	
Past website snapshots	2005, 2007, 2010, and 2013	93	
Product packaging (front and back)	2007–2016	83	
Archival documents:	1998–2020	1,800+ pages	
Firm reports, white papers, presentations, industry reports, association data, certifying organization reports, scholarly articles, books, media stories, and technical reports			

interviews with 54 founders and six executives of 57 firms. After focusing on the earliest founders in this niche, we used a snowball strategy to secure additional interviews. We also used purposive sampling to obtain variation by geography (see the inner ring of Figure 2) and firm age until we achieved data saturation (Creswell and Poth 2017). Interviews averaged one hour and were recorded and transcribed, subject to agreement; we took extensive notes for the few that were not.

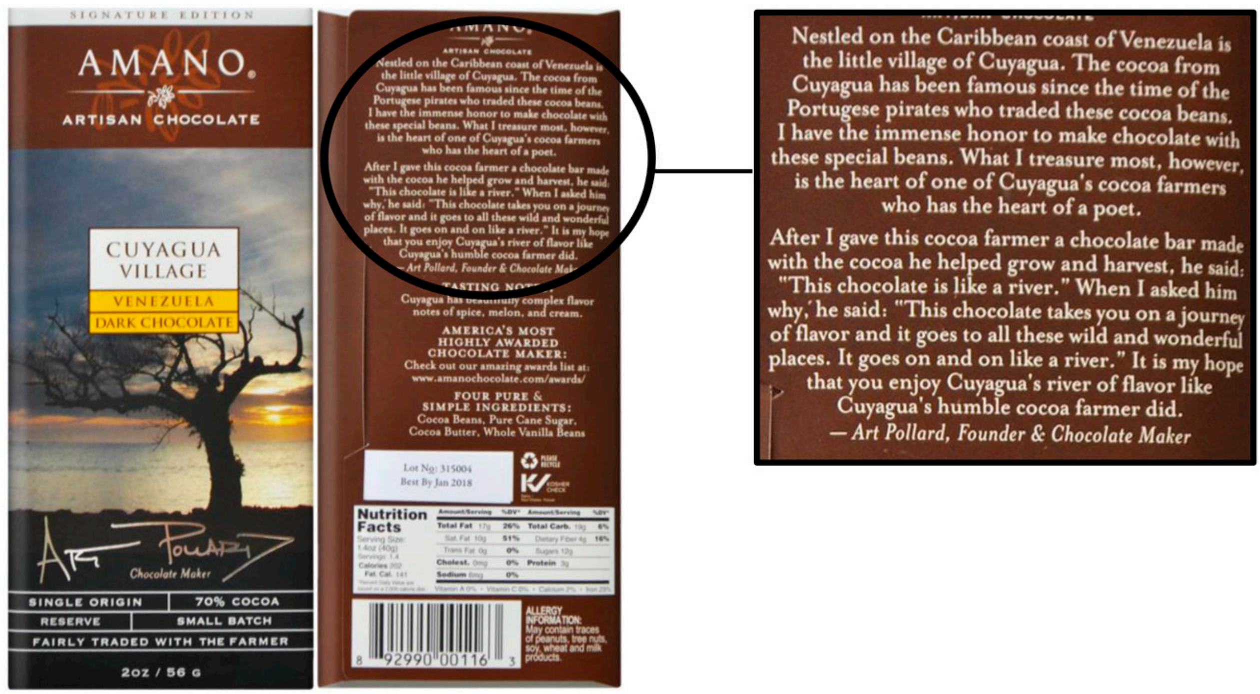
Our interview protocol began with questions about how and why the founder entered the market, the use of third-party certification, customer engagement, community support or lack thereof, and how they viewed their competitors and the market as a whole. After each interview, the interviewers wrote memos to capture observations and relationships with other data (Glaser and Strauss 1967, Locke 2002). As data collection and analysis took place concurrently, later interviews probed themes that emerged through the process. We supplemented our understanding of the overall market by attending eight bean-to-bar industry conferences and community workshops between 2014 and 2020. Following each, we wrote memos to record our reflections and triangulate connections with other data.

Because this niche is relatively small, identifying informants using observables would compromise their confidentiality. We, thus, designate interviewees as members of cohorts based on founding rate trends, visualized in Figure 1. Wave 1 includes firms founded in the niche's earliest days before 2009; wave 2 is defined by an acceleration in the number of annual foundings beginning in 2009; and wave 3 includes firms that comprise a second period of accelerated foundings beginning in 2013. In the following, we identify informants by their founding wave and a randomly assigned, within-cohort identification number (e.g., wave 1-10). For data collected from public sources such as websites, conferences, media, and books, we cite and name the source directly.

Analysis

We employed an iterative constant comparative approach to data collection and analysis (Glaser and Strauss 1967), which entailed four concurrent processes: coding artifacts, conducting and analyzing interviews, gathering and reviewing archival documentation, and reflecting on existing theory. We analyzed interview transcripts, packaging, and website snapshots using Atlas.ti and stored firm-level data in Excel. This permitted us to combine information about participants' accounts and reasoning with contextual discursive data (Creswell and Poth 2017) while iteratively examining

Figure 3. (Color online) Example of Bean-to-Bar Chocolate Packaging



relationships between the themes we saw emerging from the data and existing theory.

At the outset of our study, we intended to investigate whether and how firms in this niche converged on particular certifications and language to describe supply chain governance. We started by open coding keywords and phrases about certification and private regulation from artifacts, websites, and archival documentation. Initially, one researcher and two research assistants analyzed 5% of the packages to identify frequently used language regarding themes such as mission, values, private regulation, operations, strategy, and industry. After comparing output, we developed a common coding scheme, which we then used to code all packaging and website images. At each stage of coding, discrepancies between coders were discussed and the data reanalyzed until intercoder reliability was attained. This provided a starting list of salient topics that we then also applied to the first iteration of coding interviews.

In this early analysis, instead of observing convergence toward certification, we saw an explicit lack of engagement with certifications alongside a consistent articulation of values. Social goals in firm missions featured more prominently than we anticipated with 90% of firms expressing missions related to improving welfare such as direct trade, fair trade, organic, farmer welfare, social justice, environmental sustainability, or ethics, and only about 10% of makers utilized any form of third-party certification. Trying to understand this pattern, we turned to the private regulation literature, using its intersections with work on niche creation and moral markets to reconsider our initial codes and themes. We revised our coding structure to identify the governance mechanisms, niche-creation challenges, and espoused beliefs of entrepreneurs in this space and then applied it to our artifacts, documents, and interviews to ascertain common topics and generate first-order codes (see Corbin and Strauss 2014).

The second iteration of data analysis led us to recognize that the approach to niche creation our informants detailed differed substantively from what we observed in the literature. It was clear that the companies we were studying were not acting in accordance with a common identity (e.g., Sonenshein et al. 2017, Lee et al. 2018), collective self-enforcement of governance (e.g., Barnett and King 2008), or private regulatory schemes that are hallmarks of moral market creation (Raynolds 2004, Auld and Gulbrandsen 2013). Moreover, we recognized that a lack of trust in existing governing institutions and a deep desire to make progress toward socially oriented goals underpinned this community, which led us to explore theory on value rationality. We, thus, augmented our coding scheme and reanalyzed our existing data in light of this insight. This round of analysis brought to the fore the values-driven concerns and strategic actions relayed by our informants. We conducted additional interviews including new questions about mission and values, followed by another round of analysis analogous to that employed earlier and generated second-order categories through axial coding

(Corbin and Strauss 2014). All authors examined and discussed the categories that emerged from the data and compared these to extant research. Based on this analysis, three aggregate themes related to collective governance and niche creation emerged, leading us to refer again to contextual documentation of the market and cacao farming to situate and deepen our findings. By iterating between our data and theory, we were able to generate a more synthetic and critical understanding of this domain. We present the data structure that emerged from our analysis in Figure 4.

Findings

In what follows, we examine the strategies used to build the bean-to-bar niche and, in so doing, generate a template for value-rational niche creation. Our analyses of interviews, artifacts, and archival data show that entrepreneurs created a niche not by tweaking or adapting existing market structures to align with their social goals, but by eschewing them in favor of a novel template centered on the enactment of values. This effort began with entrepreneurs identifying the social challenges they wanted to address. Values framed entrepreneurial understandings and activities, both through individual firms pursuing socially oriented goals and through the reciprocal support of similarly motivated competitors.

In the next section, we discuss why bean-to-bar entrepreneurs perceived existing private regulation schemes as inappropriate for their niche in light of their values. Next, we examine the novel strategies through which they built their niche and introduce the concept of collaborative governance, an innovative form of private regulation predicated on founders' values rather than instrumental, means–end relationships. We analyze how collaborative governance was enacted throughout the niche, driven by early movers who promoted shared values, best practices, and transparency. Finally, we discuss the cognitive, meaning-making work entrepreneurs undertook to cultivate customers in their niche formation efforts. Together these three strategies describe a novel, value-rational template for niche creation. We track the proportion of interviewees that engaged each aspect of this niche creation strategy in Table 3.

Opting Out of Existing Models of Niche Creation

The bean-to-bar chocolate niche was built on two innovations: a switch from mass production to small batch, craft methods and a move from commodity cacao to high-quality, responsibly grown beans. Chocolate as we know it derives from the industrial revolution, typically manufactured on a large scale. Craft production methods used by U.S. bean-to-bar makers are products of makers' efforts to build equipment capable of processing small batches of cacao, often by re-engineering machines intended for very different uses, such as toaster ovens, shop vacuums, hair dryers, and chickpea grinders.

The second innovation, ensuring that cacao beans are of high quality and grown responsibly, was essential to entrepreneurs' goals. Although moral markets often rely upon private regulation to accomplish these goals, none quite fit the values ethos of this community. Our analysis uncovered four interconnected values highlighted in makers' social missions and objectives: improving farmer well-being and prosperity (the primary issue for 60% of bean-to-bar makers), ensuring ethics and social justice of the supply chain (highlighted by 40%), promoting environmental sustainability (identified by about 33%), and building community (mentioned by 30%).[1] A full 90% of makers in the niche invoked at least one of these values on their packaging and websites, depicted and grouped by founding waves in Figure 5. This analysis suggests that, although firms identified environmental, economic, and social justice issues fairly consistently, those highlighting farmer well-being and community building tended to decrease over time though no consistent or significant patterns emerge in this data. This suggests that the valorization of specific values may be somewhat idiosyncratic, and the relative consistency across founding waves suggests that they have become central elements of the bean-to-bar model over time.

Indeed, more than performative posturing or advertising, values appear fundamental to most bean-to-bar founders' goals. These values specifically guide entrepreneurs' strategic decision making, which they acknowledge was not always good for business (as viewed through the standards of instrumental logics). The founder of one early entrant (wave 1-10) described his approach: "We knew early on that we wanted to build a company that we were proud to go to work to every day that was in alignment with our values … We weren't trying to turn it over and sell it to General Mills in five years … We see it as one of the things that we do that's pioneering new ground in this industry, which is something that personally excites me. It's not necessarily great business."

Several others echoed these sentiments, stating, "I truly believe farmer prosperity is a key ingredient in making great chocolate, so knowing that they are getting paid above-market prices for their work is essential" (wave 3-15); "The farming practices and the premiums paid to farmers are at the core of who we are" (wave 2-9); and "We want to help the community. We're not just money-grubbing people" (wave 2-10).

We were originally puzzled that so few founders pursued third-party certification in light of its ostensible alignment with their own values of enhancing farmer well-being, social justice, and environmental

Figure 4. Data Structure Regarding Collective Governance to Support Niche Creation

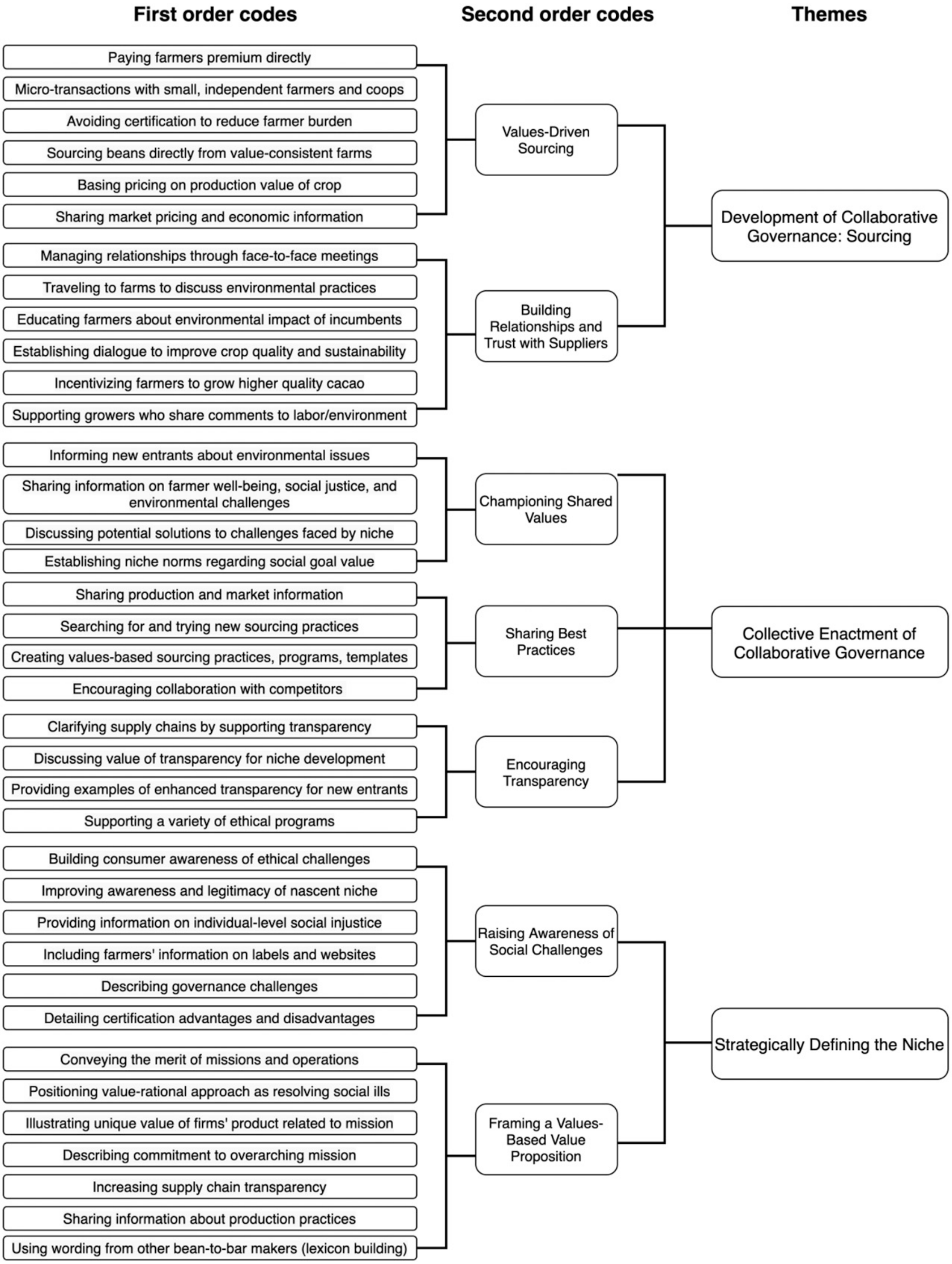


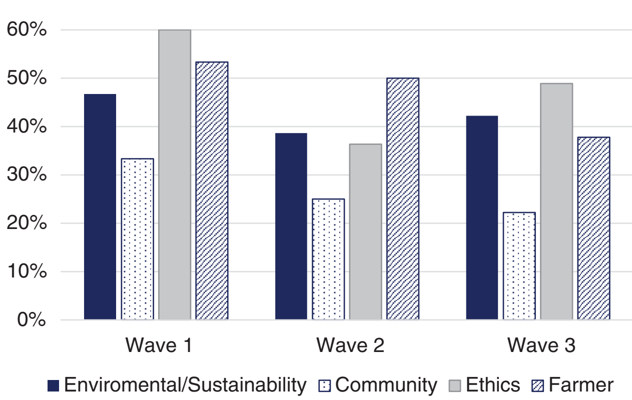
Table 3. Portion of Interviewees Who Directly Supported the Collaborative Governance Model and Niche Creation Strategies

	Year firm founded		
	Wave 1 Before 2009	Wave 2 2009–2013	Wave 3 After 2013
Rejecting existing models of niche creation	●	◑	◔
Collaborative governance of sourcing	●	●	●
Collaborative governance enactment	◕	◕	◑
Strategic redefinition of the niche	◕	◕	◑

sustainability. Almost a third of our informants described their own practices as fair trade–like and more than half mentioned organic ingredients and farming practices outside of certification. This suggests, despite consistency among espoused values, a fundamental tension between the *implementation* of extant models of private regulation and these makers' missions (Bromley and Powell 2012). Indeed, many critiqued the prevailing realities of third-party certification schemes specifically, which they viewed as failing to realize their values. They expressed discontent that even chocolate makers who complied with certifiers' requirements may not achieve their nonmarket goals because the standards are poorly designed, difficult to enact and monitor, and inconsistently enforced. For example, one founder (wave 2-22) said, "I wanted to do it. I tried to do it. At the end of the day, it was just a joke. The organic [certification] is good, but the fair trade is just a scam." Others felt that certification compromised supply chain transparency and traceability as another early founder (wave 1-14) explained: "We won't get African chocolate. In all likelihood, it's not fair trade even if it's fair trade certified." Bureaucratic burdens on top of opaque benefits inhibited another from engaging with independent certifiers as one of our informants (wave 2-10) explained:

> We all said, "Yes, we want to be fair trade because we believe that the farmer should be paid well, and we don't have a problem with premium." I call the fair trade labeling organization, and I say, "We want to do this." And they say, "You need to send us your prototype packaging, and we'll sit on it for a number of months and then … it's going to take more money than you're looking to capitalize the business with for us to give you that aye or nay and give you that stamp." … I ask, "Okay, that money that I'm giving you, show me where that money is going," they're like, "Blah, blah, blah, blah, blah."

Figure 5. (Color online) Percentages of Socially Oriented Bean-to-Bar Chocolate Makers' Main Values by Wave



Those of our informants who did obtain certification reported doing so mainly to satisfy consumer demand and expectations for labeling while simultaneously arguing that consumers did not understand them well. As one founder (wave 1-16) stated, "Consumers are confused between rain forest and fair trade, Fair Trade U.S.A., Fair Trade America. There's so many certifications." Another founder (wave 2-10) described a Whole Foods shelf-stocker's response to an inquiry about customers' preferences: "And he goes, 'Put gluten-free.' I said, 'What?' He said, 'Yeah, put gluten-free.' I said, 'But chocolate is always gluten free.' He goes, 'I know! But everybody asks me if it's gluten-free. Just put it on there!'"

Moreover, certified bean-to-bar makers went to great lengths in their publicly facing materials and interviews to explain how their practices exceed certifiers' protocols, such as paying far more than the commodity price of certified beans, which was in line with the goal of championing farmer well-being. One informant (wave 2-9) noted, "The beans [we use] carry international and national certifications on them. But even at that, you're dealing with … countries that are different … We have to do the best that we can, but I also try to be really honest with people about the potential shortfalls of relying only on the certification to clear your conscience." Bean-to-bar makers, thus, seem to interpret certifiers' requirements as a floor rather than a ceiling for their efforts to enact their value-rational goals.

We expected that a main deterrent to certification would be the cost of buying certified cacao and certifying the finished product (Auld 2010, Jaffee 2012, Granqvist et al. 2013). Our informants suggested, however, that it was the burden borne by *cacao farmers* that was problematic, again consistent with their goals of improving farmer well-being and prosperity. Many noted that certification costs often surpassed a farmer's annual income, and even if the initial expenses were not prohibitive, maintaining certification was rarely affordable without outside subsidies. One informant (wave 2-23) elaborated: Certifications "don't work because a lot of times … they get it only because of the financial assistance and some of the technical assistance coming from foreign aid … They ultimately decide to drop it [because of a] lack of resources to continue, maintaining the records and all the administrative stuff they need to maintain to keep that certification going."

Motivated by values of fairness and social justice, our informants felt that the dilution of certification schemes' meaning and integrity (e.g., Sikavica and Pozner 2013) compromised their utility and did little to make farmers self-sufficient or meaningfully better off.

Other approaches to private regulation were even less promising. Industry self-regulation was not viable within a young niche whose members were uninterested in engaging with large conventional producers. The earliest bean-to-bar pioneers characterized existing industry structures and practices—such as encouraging the propagation of low-quality, high-producing hybrid cacao plants known to degrade farmland—as social and ecological challenges to their field. Lonohana Chocolate's website explains: "The chocolate industry is famously opaque, and that's just the way the big boys want it. If you check under the hood of any major chocolate manufacturer, the sad fact is that you're going to find a large amount of pretty ugly information in there, ranging from the relatively moderate (trade imbalances, tariff issues, commodity power plays) to the truly hideous (forced labor, exploitative pricing, insecticide exposures)."

Such statements demonstrate a distrust of incumbents, whom many informants view as perpetuating unsustainable market structures and dynamics despite marketing to the contrary. Without trust in industry participants, self-regulation was inappropriate for bean-to-bar chocolate.

Private governance schemes that manage geographically dispersed supply chains were also seen as inappropriate because of their monitoring costs and reliance on long-term, exclusive contracts—again inconsistent with the value of farmer well-being. As one early founder (wave 1-4) summarized, "[E]xclusive is really never an exclusive 'cause you can't … Who's gonna send an attorney to a farmer? But the whole idea was that if we work together, that we would be able to establish a way out for these farmers, they would be able to make their own demands and say, 'This is how much I'm gonna charge and this is how much my bar chocolate should be priced at.'"

Relational contracting, appropriate for settings with high levels of environmental, task, and behavioral uncertainty, similarly fell short because of its reliance on long-term, embedded relationships that are absent in a nascent niche. More pointedly, the goal of relational contracting is to avoid dyadic opportunism, not to enhance the health and sustainability of suppliers.

The fundamental inconsistencies between bean-to-bar makers' values and the goals of existing governance schemes led entrepreneurs to develop a new, value-aligned governance strategy. Developing a new governance scheme would not suffice to build a new niche, however; it required a reconceptualization of relationships with suppliers, competitors, and consumers, all guided by values. The main strategy that they developed, collaborative governance, supported re-envisioning supply chain practices and relationships. Individually, bean-to-bar entrepreneurs engaged in unconventional—and often quite expensive—actions to advance their social goals. Collectively, they elaborated the new form of governance to address the challenges they faced, upon which the niche was built. Buttressed by intraniche cooperation around the intentional defining and positioning of the niche to cultivate consumer knowledge and demand, collaborative governance became the central strategy within a new, value-rational template for niche creation. In the next sections, we analyze how values guided the development of this entrepreneurial community, flavoring the elaboration of this new niche.

We note that there appears to be little variation in both the values expressed and practices employed by bean-to-bar makers. Although this may be surprising, it may stem from the relative youth and small size of the niche. Most bean-to-bar makers operate within relatively small geographic areas rather than on a national scale, making competition less of a threat to survival than a lack of local demand. Also, it may suggest that commitment to values along with the desire to reduce social ills underlies a desire to enter the bean-to-bar market and acts as mechanisms for intraniche coordination (Lee et al. 2018). Thus, the lack of variation suggests that the niche is truly focused on values-driven practices.

Development of Collaborative Governance: Sourcing

If existing forms of private regulation were insufficient to ensure support of farmer well-being, mitigate unjust labor practices, lessen environmental burdens, and foster community, bean-to-bar makers needed to construct new ways to enact these moral imperatives. Therefore, they sought ways to create sourcing practices that matched their principles. Their values, we observe, informed the sourcing opportunities entrepreneurs identified and the strategies they employed.

Bean-to-bar entrepreneurs developed a strategy to alleviate the social challenges in the supply chain, a topic of concern and conversation for *all* of our informants (see Table 3). This strategy, which we term collaborative governance, involves multiplex relationships among makers and raw material suppliers who, together, build informal, values-informed standards for interaction. Costlier and more complex than instrumentally rational practices, the values-driven sourcing practices at the core of collaborative governance comprise two interrelated elements. First, they rely on reconceptualizing supply chain interactions by buying directly from farmers, paying them based on the crops' production value or more and rejecting exclusive contracts. Second, they involve building trusting, personal relationships with farmers with the goal of collaboratively implementing sustainable practices and helping them build their own businesses with enhanced understanding of their role in the market.

Values-Driven Sourcing. At the core of collaborative governance is values-driven sourcing or the development of a viable supply chain aimed at improving farmer well-being, improving social justice concerns, and encouraging sustainability. More than a refinement of existing practice, this approach signifies a business model innovation tailored to resolving the particular problems associated with the cacao supply chain. It internalizes procurement functions that traditional, even certified, chocolate producers typically outsource to commodity brokers. Instead of buying cacao on the commodities market or through contracts with large cacao producers, bean-to-bar makers establish personal relationships with suppliers who share their values. All of our informants reported purchasing cacao beans directly from smallholder farmers, co-ops, or one of a few U.S.-based firms that source and import beans using similar practices or engaging in joint transactions with other bean-to-bar makers who traveled to origin.

Through values-driven sourcing, bean-to-bar makers established new ways to help improve the welfare of farmers and their communities. One common means of doing so was by paying *far more* than the price for certified beans: up to eight times the certified fair trade and organic commodity prices (Martin 2017). Chocolate makers were transparent with farmers about how their cacao was valued, giving them critical insight into market dynamics and the use of their raw materials. Informants reasoned that these tactics helped farmers stabilize their businesses and improve welfare while promoting community-related objectives. As one founder (wave 2-10) explained, "We believe that we can better compensate and impact the farmers and ensure a high quality and sustainable source for our chocolate through direct trade. We look closely at the communities we work with to ensure sustainable practices and that we positively impact the communities we work with in a sustainable way, too."

Microtransactions with individual farmers or co-ops raise farmers' real income in contrast to gains from certification that accrue mainly to manufacturers and retailers as another founder (wave 1-5) noted, "Of just about any cacao, what you buy it for, the grower probably got 5% of [the price of the bar]. The rest of it goes to the manufacturer. The lion's share will go to the retailer. A retailer can be getting 10 times as much profit from the same bars that the grower would get. That needs to change."

Our informants' descriptions of responsible cacao pricing were variations on a common theme. Some devised profit-sharing programs, tying the success of the farm and chocolate maker to the quality of the beans. As one (wave 1-19) summarized, "By having the farmers actually understand what quality means, that gives them an incredible amount of tools to create better quality for us and for anybody else who buys these beans." Others based the prices they paid for cacao on the crops' production costs, which are often higher than commodity prices, and added bonuses for beans that met predefined quality standards. At the 2018 NorthWest Chocolate Festival, Emily Benson from Theo Chocolate explained, "We pay a baseline price based on [the farm's] cost of production, profitability, and competitiveness. Then once we get the cocoa to our factory in Seattle, we start doing our quality grading. On top of the living wage we've already paid, we will pay a price adjustment [for higher quality beans]." This approach to pricing acknowledges that farmers ought to be able to satisfy their own instrumentally rational concerns by earning a profit and a living wage without compromising the values bean-to-bar makers bring to their work.

Another crucial aspect of values-driven sourcing entails the task of empowering farmers by sharing information about downstream markets and perceptions. Surprisingly, few cacao farmers have ever tasted finished chocolate (Off 2006) or, according to our informants, understood their role in production or the larger market. Bean-to-bar makers helped farmers improve product quality and reduce environmental harm by sharing information about how their cacao is used. They also shared responsible stewardship practices, enabling farmers to make more knowledgeable decisions about cultivation practices and certification choices.[2] An executive of an early entrant (wave 1-16) illustrated this point: "There's little dialogue between the farm and the market. I was on a farm, and they said that they were pursuing rain forest [certification] because they thought that it made sense for them because of the location … But they were unsure, from the market dynamics, of what made sense for them."

Finally, many of our informants balked at the idea of drawing up exclusive contracts with farmers. Although other types of private regulation rely on exclusive contracting, this was seen as value-inconsistent because it would limit farmers' ability to negotiate better prices with other buyers. That is not to say that bean-to-bar makers are uninterested in long-term relationships with the farmers they helped train and support; rather, they explained wanting to give farmers the choice of transaction partners, ceding them power and agency.

Together, these sourcing and pricing practices suggest that bean-to-bar makers' goals actively privilege farmer well-being over higher profits. They also allowed goal-aligned transactions while avoiding the perceived shortcomings of existing private regulation schemes. As another founder (wave 2-10) elaborated: "I don't have a problem paying the premium, but I have a problem paying a premium that goes to a [group] that may not be ethically managed instead of [paying] a farmer or co-op directly." Even those who purchased beans from third-party certified suppliers actively called our attention to how their own practices exceeded certifiers' standards.

Each of these practices—paying value-linked prices, educating farmers on market dynamics, and eschewing exclusive sourcing—furthered progress toward supporting farmer well-being and prosperity, ethics and social justice, and sustainability. Because they entail additional costs for the bean-to-bar maker and shift some power to the farmer, they are only reasonable as tactics of niche formation when viewed through a value-rational lens. Direct sourcing, we conclude, was developed not as an instrumental way to reduce costs or efficiencies, but rather as a value-consistent approach to building a new niche.

Building Direct Relationships and Trust with Suppliers. Absent exclusive contracts or third-party monitoring, the bean-to-bar entrepreneurs we interviewed believed that their sourcing practices could not be successful without developing trusting interpersonal relationships. Without the tool of private regulation to reduce information asymmetries that accompany long-linked supply chains and substitute for the trust inherent in personal ties, bean-to-bar makers found interpersonal connection a critical component of their business.

Meeting with farmers at origin was the primary means of establishing trusting relationships. Site visits allowed our informants to discuss improvements to cacao quality and crop sustainability while maintaining collaborative, trusting relationships that are absent in commodity cacao transactions. More than two thirds of our informants reported traveling to origin to engage and develop trust with farmers. One executive of an early entrant (wave 1-16) noted the importance of investing in such relationships: "I travel to origin all the time … that's how you manage it. You can have someone dedicated to overseeing programs and continuing to develop these relationships, but it comes down to just going and talking face-to-face with people."

Several makers highlighted the importance of values and personal trust over instrumental goals in discussing site visits, which they used to verify that farmers' values meshed with their own and to ensure that particular practices were being maintained. One of the entrepreneurs (wave 3-8) explained, "I think it's just having faith in the people that you're working with that are saying, 'Okay, we've been to this farm. And we know that the person that we're talking to is doing it for the right reasons, as well.'"

Ethereal Chocolate's website similarly describes working with farmers directly as a shared opportunity: "Visiting farms … and meeting all the people involved in bringing cacao beans from the pod to our door is very important for us. We want to be sure that our purchases are supporting farmers and enacting positive changes in farmers' lives, the environment, and the countries in which the cacao is grown."

Our interviewees repeatedly stated that they saw building trust with farmers as crucial to the value of bean-to-bar chocolate, embedding accountability for farmer well-being and environmental sustainability in both the new niche and the quality of their finished products. Some reported using visits to educate communities at origin on sustainability and quality-oriented growing practices by explaining, for example, that the harmful use of pesticides and fertilizers and poor environmental practices necessitated by the high-yield varieties promoted by industrial chocolate manufacturers would deplete and degrade their soil. Because bean-to-bar chocolate is made with 40%–70% more cacao than conventional chocolate, it requires high-quality beans as inputs, making collaborations with farmers around improved crop quality indispensable. One maker (wave 2-2) stated, "We have a direct relationship with the grower, and it's all about relationships and intention with where this cacao is coming from and how it's being processed. There is more than just a chocolate bean." When one entrepreneur (wave 2-3) had trouble finding high-quality beans in her chosen sourcing location, she facilitated meetings among cacao farmers, co-ops, and local university faculty to discuss state-of-the-art farming techniques. Realizing the scope of the need, she developed free seminars and workshops attended by more than 350 small cacao farmers, which improved the quality of their cacao and boosted sustainability in the larger regional farming community.

It would be disingenuous to suggest that bean-to-bar makers are interested in improving crop quality for purely altruistic purposes. Better quality cacao improves the quality of their finished product and makes it more appealing to discerning consumers. As Shawn Askinosie of Askinosie Chocolate, one of the earliest bean-to-bar makers, said, "A relationship with the farmers aids in quality control. A manufacturer can help the farmers improve their farming techniques and can establish an ongoing dialogue about how to improve the product" (Parry 2012). One of our informants (wave 3-6) emphasized how critical this connection was to their *market* goals, stating, "We visit all of our farmers. We know them. We ensure how they're making things because it's our reputation and we want to create the best-quality product. You have to have a connection with them to be able to ensure that." Although a focus on product quality is an instrumental imperative, the means by which our informants accomplish this goal remain guided by values. Improving cacao quality is directly connected to reducing environmental harm as it is the low-quality, high-yield plants preferred by industrial chocolate makers that require large doses of particularly toxic pesticides and fertilizers (Off 2006). Thus, improving cacao quality should also be seen as a social end in and of itself, not simply a means of improving the end product.

A few of our informants expressly recognized the limits of collaborative governance and interpersonal relationships. Time and energy expended on collaborative governance do not guarantee that entrepreneurs achieve their social goals. As one entrepreneur who worked closely with farmers (wave 2-11) stated, "It is difficult to change farming practices, especially in some countries where farming practices have been passed down for generations. Even if the farmers say that they will change, they often don't. It is difficult to get change because of cultural and language differences and the distance." Yet establishing direct, trusting relationships with suppliers is a fundamental, necessary component of collaborative governance. According to our informants' accounts, relationships do more than ensure bean quality; they also facilitate direct, observable impact on farming practices and farmers' well-being and build trust and accountability in ways that would be impossible under a less hands-on governance system.

Although the tactic of building trusting relationships resembles the socially embedded relationships underpinning relational contracting, the content and goals of those connections differ substantially. Relational contracts rely on norms of reciprocity in complex environments guided by power and social capital (Baker et al. 2002, Sarkar et al. 2009), and relationships between chocolate makers and farmers built through collaborative governance are grounded in common values and designed to minimize power differences. Most pointedly, buyers compensate suppliers for improved quality and for aligning their operations with values without limiting the seller's ability to expand those gains in the open market. Whereas relational contracting assumes long-term bilateral, instrumental relationships, collaborative governance works only when relationships are grounded in common values and shared purpose.

Collective Enactment of Collaborative Governance

Collaborative governance involves more than just supply chain reconceptualization; it also entails niche participants sharing the appreciation of common values and values-driven practices. Coordination is important for niche construction and market formation (e.g., Rindova and Fombrun 2002, Sonenshein et al. 2017, Lee et al. 2018), yet among bean-to-bar chocolate makers it was intentionally and distinctly values-inflected. Entrepreneurs here framed their role as connecting cacao farmers and end consumers with an explicit focus on improving social and environmental conditions at origin. These values colored interactions among chocolate makers as they built and grew the niche, leading to an entrepreneurial community based on a plausible appreciation of values (Navis and Glynn 2010, Rindova and Martins 2018). We believe that the niche's continued display of values is due not to mimetic isomorphism, but to the value-rational imperative that niche participants align around common moral purpose.

Bean-to-bar makers seem to see the niche construction process as fundamentally social rather than competitive as greater participation increases the odds of successful amelioration of social problems. At the 2018 NorthWest Chocolate Festival, for instance, Emily Stone of Uncommon Cacao stated a desire for all "to be focusing on origins and origin sustainability, because without cacao, there's no chocolate, and without farmers, there's no cacao." This allowed early makers to set normative expectations, institutionalize direct sourcing practices, and encourage subsequent entrants to embrace the same values. In so doing, they promoted a collective affirmation of values, legitimated normative means of attaining them, and fostered cohesion among market participants (Selznick 1957, Feather 1995, Rindova and Martins 2018), consistent with the value placed on community. Our analysis identified three tactics underlying this effort:

championing shared values, sharing best practices, and encouraging transparency.

Championing Shared Values. For collaborative governance to be viable, it was critical that the values of the niche's earliest movers were widely shared by new entrants. Thus, as new makers entered the niche, earlier entrants intentionally engaged in socialization tactics to promote the appreciation of their values and prevent the incursion of instrumental rationality into the niche's organizing principles. Indeed, our interviewees—including more than 75% of those in the first wave of founders—reported intentionally educating new entrants, even potential competitors, about the realities of the supply chain, emphasizing farmer well-being, social justice, and environmental challenges. For example, one early founder (wave 1-10) reported feeling that he could pilot a trajectory for the niche that focused on its espoused core values by actively engaging industry peers in discussions about supply chain governance: "If you really want to do something to make change, you've got to put your money where your mouth is … I saw an opportunity to kind of force the subject and change a lot of the way the cocoa industry works, kind of set a light down those long, dark roads where cocoa farmers are often being taken advantage of."

The goal of these efforts seems to have been to encourage new entrants to embrace a values-oriented logic without resorting to formal self-regulation. One maker (wave 2-10) noted, "[Chocolate] artisans need to be collaborative because it is the best for cacao." Support of value-rational principles was highly intentional and explicit, particularly on the part of early movers while building their businesses. SPAGnVOLA's website, for example, states, "We are building a business based on our values that we hope will serve as a model and an inspiration to current and future entrepreneurs. We make all of our decisions based on our values and long-term vision, not short-term gain."

The transmission of values and institutionalization of collaborative governance were facilitated by the small scale of the niche. And, because the production process requires specialized equipment and the social issues around sourcing beans are complex, intraniche consultation and collaboration were helpful early norms. Lacking an industry association or affiliated social movement, entrepreneurs shared information and values though discussion boards and workshops. One maker (wave 1-19) observed, "It was very, very cool just to see that people have an interest in getting together and talking about the challenges and seeing how we can help each other and learn from each other … and there are so many new people getting involved and trying to figure out how to do cool things all the way from the farmer level."

Openness and collaboration also fostered intraniche trust. One entrepreneur (wave 3- 3) summed this up by saying, "At the end of the day, you don't know every single detail, but I felt trust with the community because there were other chocolate makers that I connected with, and we all shared similar values." This sentiment was echoed by about 75% of wave 2 and about half of wave 3 informants (see Table 3), crystallizing a collective identity around the niche's espoused values (Rindova and Martins 2018).

Sharing Best Practices. For a set of values to guide the development and viability of an entire niche, participants must also operationalize them in consistent ways. This sentiment was shared widely by informants across all three founding waves, suggesting that the sharing of best practices is a deeply held, taken-for-granted value within the community.

The core feature of bean-to-bar chocolate-making—the transformation of raw cacao beans in-house—requires a complicated, precise sequence of steps. In the niche's early days, few public resources explained cacao sourcing and chocolate production, and equipment suitable for small-batch chocolate making was hard to find. As the niche grew, early founders often helped subsequent entrants by sharing production expertise, using the opportunity to demonstrate how to produce chocolate in a transparent, socially responsible way. One of our informants (wave 1-10) explained, "The thought about having a goal of shifting how people think about the supply chain is interesting, but it's also fascinating because you've not only walked the walk, but you've also given a template for other people to follow, where a lot of people like the ideas, but they don't know where to start. And this really gives them a place to start to say, 'Hey, there's somebody successful that's doing this. It's not that hard.'"

This norm became pervasive; a more recent entrant (wave 3-15) stated, "My philosophy is community over competition, and I think it only helps the business get better and all of us grow together as opposed to separate." Many opened their production facilities to potential rivals, enabling later entrants to make better-informed business decisions. Another founder (wave 2-9) explained, "Everybody is really interested in sharing knowledge and not having everybody else suffer through the same pitfalls that we all potentially run into time and time again." A more recent founder (wave 3-6) noted, "[Company A] Chocolate and [Company B] Chocolate, we talk to them all the time. And we talk about challenges, and we collaborate on some things. Like we buy sugar together because it makes more sense to buy it as a ton, and then we share it up and divvy it out."

Chocolate makers explained they felt it was not enough to inform others about social problems and build upstream supply chain relationships; developing the niche also required supporting others in making a social impact. Although the power of any one maker is limited, particularly at a small scale, our informants argued that, together, they could support social and environmental improvements at origin through their commitment to these values. A panelist at the 2018 NorthWest Chocolate Festival Unconference (Maricel Presilla, Cucharamama) echoed these sentiments: "We have created this long-small tail of tiny chocolate makers, and if we can somehow grow that, that's gonna create some real meaningful change in the industry, and we can make some really positive change."

Perhaps nothing better typifies the commitment to pursuing values at the community level than an event organized at the onset of the COVID-19 lockdown in March 2020 by the NorthWest Chocolate Festival. This group moved quickly to assemble a free digital conference on the cacao supply chain. The email announcing the conference read, in part, "In light of the extraordinary situation faced across the world … we are gathering the artisan chocolate industry to build community and create solutions to keep business afloat and build new strategies for the future … We recognize this as a critical moment to help each other cope with the rapidly changing crisis and navigate the supply chain with the goal of collaboratively building a resilient supply chain and empowered business response."

Thus, rather than worrying about rivalry or trade secrets—instrumental concerns—our informants saw information exchange as critical to collective success and the enactment of their values.

Encouraging Transparency. Whereas niches guided by instrumentally rational logics are dominated by competitive behavior, collaborative governance relies instead on transparency, possible only under the value-rational assumption that businesses can succeed through, not despite, targeting nonmarket goals. Rather than leaving the acceptance of transparency to chance, early chocolate makers explicitly and intentionally encouraged this value-rational practice.

Our interviewees described being as transparent as possible about the logic underlying their business practices—particularly with respect to direct sourcing and farm gate pricing—with the express goal of establishing distinctive, niche-level norms and supporting the appreciation of values-driven practices. Emily Stone of Uncommon Cacao described this intention at a 2018 NorthWest Chocolate Festival panel succinctly, "We're young enough as an industry that if we all agreed to transparent pricing, then we can hold ourselves accountable and make sure that farmers are benefiting." In fact, making decisions transparent was an essential practice for early entrepreneurs who shared information about their business practices and actively encouraged others to follow suit. For example, several of the earliest bean-to-bar chocolate makers published sourcing reports to increase transparency and promote sustainability and farmer well-being. Since 2010, Taza Chocolate has published annual guidelines detailing its commitments, practices, and direct transactions with individual farmers and co-ops, including prices paid, "to ensure quality and transparency for all." More recently, Taza's founder voiced his dedication to the entire bean-to-bar community in a public talk: "If we create an environment of full transparency, we can help improve the industry by creating an ethical environment for all the players in the ecosystem, thereby creating a rising tide that lifts all businesses in it" (Whitmore 2017).

Many of our informants reported engaging in or benefiting from others' published sourcing and impact reports, pricing information on others' websites, and the open sharing of sourcing and production techniques more generally. Early founders also established reporting protocols to make it easier for new entrants to be similarly transparent as one (wave 1-10) told us: "[A reporting protocol] would provide a way for much smaller companies than us that are just getting going—that want to be very thoughtful and forward-thinking about the way they're getting their cocoa beans. We would allow them to plug into that transparent system that would meet their standards of traceability and transparency for their products."

Their efforts appear to have paid off, and newer chocolate makers acknowledged the contributions of earlier makers. A recent founder (wave 3-3) remarked, "After doing a lot of research and looking into some companies, I really trusted and respected them when I saw their transparency reports."

Dedication to transparency appears to be a highly intentional means of infusing, spreading, and ensuring value rationality throughout the niche. Transparency encouraged the sharing of best practices in sourcing and production, support of others' social missions, and promotion of community values. Several informants reported that they were only comfortable eschewing third-party certification while pursuing their values because these transparency reports demonstrated the feasibility of doing so.

Such actions are difficult to imagine in a niche in which peers are seen as rivals: most organizations take pains to hide trade secrets and seek differentiation to generate competitive advantage. Chocolate makers conceived of and built a niche in which they could become more effective in both their market and nonmarket goals—producing high-quality chocolate while ameliorating the problems of conventional chocolate—by helping firms that might be seen as competitors. Eschewing the instrumentally rational concept of rivalry, these firms instead shared their knowledge and best practices, a choice guided by values. Although their activities were not always explicitly cooperative, such tactics were a cornerstone of niche growth and social impact, mirroring comparable activities observed in markets such as grass-fed meat (Weber et al. 2008) and gourmet food trucks (Esparza et al. 2014, Sonenshein et al. 2017). Unlike gourmet food truck operators, however, whose enactment of community explicitly includes competition (Sonenshein et al. 2017), or entrepreneurs who build community to gain firm competitive advantage (Fisher 2019, Murray et al. 2020), the goal of community engagement among bean-to-bar entrepreneurs was inherently more social and values-driven. Beyond shaping strategic actions, these values shaped how chocolate makers accounted for their interactions with each other and built a deeply felt, values-based commitment to the larger bean-to-bar community. This suggests that the influence of values can extend beyond organizational boundaries into the configuration of entire markets.

Strategically Defining the Niche: Cognitive Means of Niche Creation

No market creation effort can be successful without consumer demand. Even niches created in reaction to exogenous change employ cognitive meaning-making tactics to position their endeavors (Lounsbury et al. 2003, Anthony et al. 2016). We were, therefore, unsurprised to find that bean-to-bar makers viewed positioning of the niche to consumers as an essential component of niche creation.

Unlike many moral markets, bean-to-bar chocolate was not derived from or associated with a specific consumer movement. Even consumers interested in environmental and food movements were largely unaware of the environmental, social, and ethical challenges inherent in the existing chocolate supply chain or that a values-driven alternative could even exist (Off 2006, Leissle 2017). Lack of awareness forced bean-to-bar makers to engage in meaning-making vis-à-vis consumers (Durand and Khaire 2017), incorporating education about the conventional cacao supply chain's shortfalls and their own distinctive sourcing and production techniques to whet consumer appetites (Rindova and Fombrun 2002, Lounsbury et al. 2003, Anthony et al. 2016). Although our interviewees saw this is an ongoing challenge, early efforts appear to have borne fruit. Nearly 80% of first and second wave founders mentioned the necessity of educating consumers, and only half of the third wave of founders reported focusing their energies on such efforts, suggesting that the niche had by then established a foothold.

We acknowledge that retail production is inherently an instrumentally rational endeavor and that the primary goal of engaging consumers is to induce a shift in preferences and generate revenue. Although the imperative may be instrumental, the means through which it was achieved and the work it sought to support were, in this case, guided by values. Many makers explicitly reported entering the niche not to build national businesses, but to use business practices to improve farmers' well-being, focus on social justice at origin, mitigate environmental harm, and build community. Seen through a value-rational lens, improving customer awareness is a means by which to accomplish nonmarket goals; even instrumental practices can have value-laden consequences. So long as their consumer-facing efforts did not compromise those nonmarket goals, the logic of instrumentality should not be seen as supplanting the logic of values in guiding niche creation.

Raising Awareness of Social Challenges. A values-driven niche must build support for its nonmarket goals alongside favorable consumer interest in and demand for its products (Rindova and Fombrun 2002). Bean-to-bar makers needed to build awareness of and legitimacy for a distinctively new form of chocolate to strengthen support for their social goals. This link was articulated by Taza Chocolate's founder at the 2018 NorthWest Chocolate Festival: "We get consumers to care about transparency and supply chain … Then we're going to change the world for the better." Consumer cultivation was, thus, critical to collaborative governance. An early founder (wave 1-10) stated, "We hope to see a trend moving in that direction to set the bar higher and to have consumers demanding more transparency, more clarity in how companies are doing business ethically, especially industries that are as opaque as cocoa."

The founder of Castronovo Chocolate detailed this idea on its website: "The biggest thing I like to educate people about is to see chocolate in a new light. It's been a broken system in terms of the way farmers are being paid, which is why you can get chocolate so cheaply from the supermarket shelves. It's digging the grave of chocolate because this doesn't result in sustainability for the product as a whole or for the environment" (Wood 2018).

Much of the consumer education effort was accomplished through messages on websites and package labels, which conveyed stories and images of farmers with whom entrepreneurs worked. Almost half of the makers in our data set depicted individual farms or farmers on their packaging or websites (for an example, see Figure 3). One Dandelion Chocolate label, for example, describes the direct sourcing of beans from a co-op "that rehabilitates and reintegrates former child soldiers, now adults, forced into the Liberian Civil War, and trains them to be skilled cacao farmers."

Because detailing the harmful externalities of commodity cacao farming might alienate consumers, many makers instead described the complicated backstory of the chocolate production process. This requires a delicate balance, as one founder (wave 2-24) described: "The ethical side of the sourcing is something we want to convey, but when someone comes to the counter, I don't want to just lay on them this really heavy story … I think showing people what it takes to take a bean and make it into a chocolate bar also helps us tell the story of the work that the farmers are doing, just how much work it takes just to get it from the tree to us, as opposed to a dollar Snicker bar off the shelf."

By educating customers about the challenges of chocolate, particularly those affecting farmers at origin, makers aimed to improve awareness about both their mission and conventional chocolate's moral deficiencies. This helped define the niche while engaging consumers around values and social goals.

Framing a Values-based Value Proposition. In addition to raising awareness of the challenges that spurred niche creation, entrepreneurs must explain their own roles in ameliorating problems to stakeholders to justify their existence. Many bean-to-bar makers developed their messaging carefully, invoking similarity to practices already familiar to potential consumers, such as the local food movement's "know your farmer" campaign. Absent the signals third-party certification or other private regulation schemes might provide, bean-to-bar chocolate makers needed to frame their approach as addressing social ills and raising the bar on combating cacao's complex challenges. As the Theo Chocolate website describes, "[Our] founding vision—a spirit of innovation and excellence, a desire to create positive change and throughout it all, a commitment to transparency—resonates deeply with our customers. As we share our story, we're finding that more and more people are taking an interest in our mission to make the world a better place."

Moreover, instead of comparing their products with major corporate incumbents, an oppositional strategy used in many nascent niches to establish legitimacy (McKendrick and Hannan 2014, Verhaal et al. 2015), most bean-to-bar makers position their activities and efforts in contrast to other forms of private regulation. This effort necessitated "a lot of extra marketing dollars" according to a founder (wave 1-6) and often manifested through eye-catching infographics (see Figure 6).

Bean-to-bar marketing often speaks directly to values and frames collaborative governance as better able to achieve socially and ecologically responsible production than can third-party certification. For example, Affinity Chocolate's website states, "We believe that they [farmers] should receive a Fairtrade price or better," and Harper Macaw's asks, "Is your chocolate certified Fairtrade? We do better than that, we source our cocoa beans direct trade and pay premiums that exceed those of Fairtrade." One informant (wave 1-10) explained that his firm's messaging was more impactful than that of certifiers: "We honestly don't need their [certifiers'] help in sending that message or in organizing our business in such a way that we're benefiting society or our community … We've figured out how to message that to our consumers on our own."

To make their value-proposition clear, many extended their practices of transparency from peers to consumers. Some linked the practice of publishing sourcing and impact reports with the goal of consumer education. Askinosie's website explains, "We're sharing this information for two reasons: because we think our customers deserve it and because we want to hold ourselves accountable." One informant (wave 1-16) stated, "It's important for marketing and for customer relationships to actually be able to articulate what your sustainability program is." An early founder (wave 1-10) felt such relationships were critical to his firm's social mission and his own passion: "Our transparency reports … to most consumers, that's a check-the-box kind of thing. We could have done fair trade. We could have just put on our package, 'No slavery,' and that would have checked the box for 95% of those consumers … it's something that we wanted to do because we wanted to be innovative."

Makers considered customer relationships to be rooted in integrity and community. Theo, Taza, Dandelion, Creo, and others opened their factories to customers to show how they wove their social missions into daily operations. One informant (wave 2-23) told us, "The education component for those who are able to actually come to the factory and see everything, it really adds value." Thus, chocolate makers' goal in providing this opportunity appeared to have less to do with marketing than with articulating values and building trust. At the same time, it is clear that this effort was partly aimed at justifying bean-to-bar chocolate's price, which reflects the value of its inputs and the underlying cost of socially responsible production, and not simply luxury status. One maker (wave 2-9) noted, "The American craft chocolate movement is very small now. And we're still in an education phase, trying to just get people, the general population turned on to what truly is fine chocolate and what does single-origin chocolate taste like … It's different than a mass-produced chocolate."

Figure 6. (Color online) Example of Chocolate Production Infographic

Building an educated consumer base, thus, required that makers translate chocolate as a product in much the same way as U.S. roasters reconceptualized coffee in the 1990s (Rindova and Fombrun 2002). Similarly, as with the earliest organic consumers for whom getting to know individual farmers was considered sufficient for making consumption choices (Sikavica and Pozner 2013), many bean-to-bar chocolate entrepreneurs saw consumers as potential market drivers, choosing their chocolate based on direct knowledge of the maker, perceptions of authenticity, and most importantly resonance with the makers' missions and actions. Establishing the cognitive legitimacy of this new form of chocolate, which not only tastes different, but plays a different role in society from more familiar products, required substantial work. Without a willing faction of buyers, bean-to-bar makers have no means of bettering farmers' welfare and creating positive environmental impacts. Thus, strategic cultivation of customers was of critical importance to undergirding niche creation and delivering on entrepreneurial values.

Discussion

Despite the rising interest in markets that combine economic exchange with social objectives, our understanding of how these markets are constructed is still somewhat limited. Specifically, when existing templates of niche creation prove insufficient, it is unclear to what values-driven entrepreneurs might turn. Examining the emergence of the bean-to-bar chocolate niche, we uncover a means by which such entrepreneurs devised and enacted a new template of market formation driven by value rationality. We theorize that an adaptive strategy for market governance, borne from a reconceptualization of the challenges and opportunities inherent in settings fraught with social ills, is central to this template. Here, it manifested in the development of what we call collaborative governance, bolstered by rethinking interfirm relationships and cultivating value-rational consumers.

The new niche-building template we observe involves identifying social goals that inspire economic activity and then building value-sustaining market structures to support those goals. In bean-to-bar chocolate, this began with a challenge to and a reconceptualization of relationships from raw material production to end consumption, eschewing existing forms of private regulation. However, this particular model does not define the template. In other markets, enacting this niche-building template may require entrepreneurs to address other context-specific moral challenges, such as product distribution or the structure of employment relationships. Regardless, our findings demonstrate how values might shape entrepreneurial attention and action (Gavetti and Rivkin 2007, Rindova and Martins 2018) and that a value-rational template for niche creation is both available and viable.

Our findings suggest a number of new directions for research in moral market creation. We provide evidence that value rationality can facilitate problem definition development and bring opportunities for curative action to the forefront (Rindova and Martins 2018) in part through motivating the development of novel business practices that support the collective enactment of values (Child 2015, Adler and Heckscher 2018), which has been asserted theoretically but not yet demonstrated empirically. Moreover, these findings provide a new lens through which to study the formation of moral markets, suggesting the question of whether new market spaces created without a radical reconceptualization of underlying structures can ever truly redress social ills. Advancing comparable niches in new settings, we posit, will likely involve the generative reinterpretation and reevaluation of existing market mechanisms.

Our work also advances conversations about the value structures and schemas undergirding market creation. Template alternatives previously identified by organizational researchers presuppose that entrepreneurs adjust or amend existing market structures to fit their needs. Instead, we show that bean-to-bar entrepreneurs opted out of those playbooks. As such, our study extends Pontikes and Rindova's (2020) concept of constructive agency or the idea that actors extend existing schemas to reshape the ecosystems in which they operate. Our entrepreneurs went a step further, designing an entirely new template for market creation through a shared commitment to core values (see also Navis and Glynn 2010), not to engender competitive advantage but social change. The findings of this study are also consistent with recent work exploring stakeholder contestation (Ricart et al. 2020), resource allocation (Struben et al. 2020), and sense-making around industry transformation (Ozcan and Hannah 2020) in the pursuit of intentional market creation. Actors in the bean-to-bar niche were able to collectively reimagine stakeholder relationships, and in so doing, reshape not just the perspectives of consumers and producers, but the very nature of governance and competition within their market. These findings also connect with recent theory on emancipatory entrepreneurship that views entrepreneurial activity as an act of breaking free from existing authority structures and economic, social, and institutional constraints (Rindova et al. 2009, Jennings et al. 2016). Many bean-to-bar makers, importantly, were motivated to remove limiting conditions and constraints for *others* as part of a larger project of social change (Calás et al. 2009, Goss et al. 2011). The construction of novel, alternative market structures may be necessary to accomplish social change, which, in turn, may require an accumulation of individual entrepreneurs who challenge the social and institutional constraints that bind them. Future work comparing efforts to create emancipatory niches—and less ambitious moral markets—that attempt to enact change from within existing market structures with those that engage in frame-breaking entrepreneurial action may prove fruitful.

That a focus on values can be a mechanism for the discovery and implementation of new opportunities is a critical insight for both scholars and practitioners interested in some of the world's grand challenges. Values-based innovation has been named as a way to address urgent social problems such as climate change and global health (e.g., George et al. 2016, Breuer and Lüdeke-Freund 2017), leading scholars to consider how organizations might improve the broader social world (see Howard-Grenville et al. 2019). This effort requires a recognition of the potential benefits *and* limitations inherent in extant ways of organizing. If entrepreneurs and industries are to use business to engage meaningfully in social problem solving rather than merely framing sustainability as a by-product of organizational action, they must reconceptualize existing templates. By removing constraints associated with dominant market structures, taking a values-based lens may enable socially minded actors to conceive of truly novel—perhaps even radical—alternatives to business as usual. Although the impact of this wholesale reconceptualization of how business can and should be done in the bean-to-bar chocolate niche has yet to be fully realized, the fact that the niche has grown and thrived suggests that such change is possible.

Collaborative Governance and Niche Creation

The creation and development of the bean-to-bar niche was supported by collaborative governance, which involved internalizing private regulation and restructuring supply chain relationships to meet values-based imperatives. The approach bean-to-bar makers took allowed them to situate market opportunities in real strategic practice innovations (Hitlin and Piliavin 2004, Higgins 2016, Rindova and Martins 2018). Collaborative governance is a truly innovative form of private regulation because it is tailored to the particular challenges that entrepreneurs aim to confront, and its efficacy suggests that a value-rational reworking of market structures is achievable and potentially necessary to tackle social ills.

Collaborative governance was, of course, not developed wholesale by omniscient pioneers, but emerged over time. Our data do not allow us to map the contemporaneous implementation of practices, reflecting instead informants' perceptions of the market as it existed before and during our data collection. Nevertheless, the salience of our findings to founders who entered the market at different times, as Table 3 reveals, indicates that opting out of existing forms of private regulation was top of mind for early founders. Fewer later entrants raised this as a main concern, suggesting that the collaborative governance model became accepted by niche members, old and new, over time. In contrast, direct sourcing—the bedrock of collaborative governance—was discussed by most of our informants throughout, implying that it is an ongoing concern that remains central to the growing niche. Future work might explore the unfolding of value rationality over time, mapping this process more precisely and scrutinizing outliers and variation that may appear.

Centering Value Rationality in Niche Creation

One implication of our findings is that value rationality can be the primary driver of entrepreneurial attention and action, reifying social objectives and shared values. Bean-to-bar entrepreneurs may not have recognized opportunities were they not first compelled by farmer well-being, ethics and social justice, and environmental sustainability. Work on social value creation has tended to consider customers or end users as the main beneficiaries of such actions (Woolley 2014), yet our informants instead looked upstream to identify the origins of their opportunities. At the same time, the development of community in bean-to-bar chocolate serves higher order social objectives; we observe that a focus on intraniche reliance for advice and expertise about production and equipment led to deeper interaction among potential competitors. This put earlier movers in a position to accomplish two goals simultaneously: mentoring and encouraging other makers to pursue social objectives and helping prevent potentially instrumentally rational entrepreneurs from compromising the niche's socially oriented underpinning.

Our study also demonstrates the power of value rationality beyond the boundaries of the firm and exposes limits of previous work on moral markets. Although prior research explored how values shape organizational strategies and orientations (e.g., Pant and Lachman 1998, Child 2015, Rindova and Martins 2018), we establish that shared values can unite an entire niche around a common mission. Whereas strategy scholars have recently emphasized the role of community as a source of competitive advantage for new entrants (e.g., Fisher 2019, Murray et al. 2020), community in this case advantages the *collective* while forestalling challenges to the integrity of the collaborative governance model. This niche does not simply promulgate socially oriented goals; it creates the means through which to achieve them. Finally, we believe that value rationality can become embodied as a primary attribute of the object being produced. Collaborative governance did more than *add* value to chocolate—it *became* a primary value of this particular good. We, therefore, see the market and the *product itself* as born of the same set of values. Future research might explore the interdependencies among product, market, and values more precisely.

Limitations

One might reasonably be skeptical of our interviewees who may profess a social orientation they think customers and media will embrace (e.g., Lounsbury and Glynn 2001). Beyond our direct observations, we cannot guarantee that bean-to-bar chocolate makers fully enacted the principles they espouse. Although telling a compelling moralized story may be sufficient to sway some consumers, only some portion of potential customers likely have a genuine interest in the granular details. Although we cannot comment on consumer perceptions or reactions, we note that, if marketing were sufficient to establish a niche, it is unlikely that our informants would engage in the range and depth of efforts they described. Our informants conveyed a sense of duty and pride in their social missions and described their businesses as interwoven with their values, tempering our more serious doubts.

We also acknowledge that lack of variation among our informants may seem surprising though we believe this to be true only when viewed through an instrumentally rational lens. Recent research on market ecosystems and collective action, for example, highlights different organizational models that emerge out of constellations of market position, competitive strategy, and production process (e.g., Hannah and Eisenhardt 2018, Lee et al. 2018, Ozcan and Hannah 2020). The variation seen in other fields results from forces less applicable to our setting in which growth to national distribution is not a high priority for most of our informants for whom values largely dictate organizational scale and form. The coherence we observed reflects the inseparability of values and practice in this niche rather than a categorical imperative. As the niche evolves, variations may emerge, but we suspect conformity will prevail while this model remains value consistent. Future research might track variation within the bean-to-bar niche and compare the U.S. market to similar efforts in other countries to look for heterogeneity in the articulation of values and the implementation of market structures.

Generalizability

The broad value-rational template we observed can be used to create other value-rational niches, consistent with the relational nature of collaborative governance, even if the specific strategies we found may be somewhat idiosyncratic to our empirical setting. Entrepreneurs guided by social objectives in several other fields have also eschewed private regulation, from clothing companies such as Everlane and Cotopaxi, to "third wave" coffee microroasters in North America and Europe (MacGregor et al. 2017). As a segment of consumers are increasingly willing to pay more for goods espousing ethical and sustainability objectives (Brown 2013) and craft production (Leissle 2017, Ocejo 2017), there may be opportunities for others to employ this template. Similarly, entrepreneurs relying on geographically distant supply chains in which private regulation has missed sustainability goals may benefit from collaborative governance strategies in contrast to niches marked by larger scale producers. Collaborative governance may also serve contexts that lack reliable intermediaries or trustworthy institutions. Even when the rule of law is strong, the history of private regulation suggests that apolitical standards are uncommon (Esbenshade 2012); private regulation schemes that avoid politicization in building supply chains may prove preferable. When information asymmetries cannot be overcome via direct relationships, however, other strategies and private regulation schemes may be more attractive. Similarly, entrepreneurs may feel they *are* able to trust other private regulation schemes when certifiers and contracts are regulated by apolitical, trustworthy institutions, making it a cost-effective way of navigating global supply chains.

The constraints associated with the bean-to-bar niche's strategic choices are significant, including cost, inefficiencies, and significant distribution and production challenges, which limit scale. But as one chocolate maker (wave 3-6) declared, "I'm not trying to sell 500,000 gazillion bars a year … I'm not interested in doing that." Based on our understanding of the costs of small-batch production, forging relationships with farmers at origin, and consumer education, we estimate slim profit margins for a large majority of niche members. Less committed entrepreneurs would surely find an easier path, so we expect entrepreneurs to stay this course only when values and social goals are primary drivers. Regardless of how many niches follow the example of bean-to-bar chocolate, our study shows that values-driven niche creation is feasible. This conclusion is perhaps more important than the idiosyncratic means through which niche creation is achieved. Replacing contracts and monitoring with direct relationships may not be feasible in every market, but our study demonstrates that existing templates do not define the universe of the possible. Indeed, the world of bean-to-bar chocolate shows how a group of entrepreneurs can raise the bar to produce a more just market niche.

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Endnotes
[1] The total exceeds 100% because many chocolate makers referenced more than one theme.

[2] Such practices were verified through documentation our informants shared with our team and regularly share with customers and other chocolate makers.

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