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Does Market Innovation Moderate the Association Between Fairtrade Practices and Financial Performance of Certified Small Tea Producer Organizations in Kenya

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Abstract

Tea is a vital cash crop in Kenya, supporting around 560,000 smallholder farmers and significantly contributing to the national economy. Fairtrade certification aims to promote ethical production, equitable compensation, and sustainable development for these farmers. While Fairtrade has improved market access and income stability, recent research highlights on-going challenges, particularly limited adoption of market innovation, which hampers adaptability, competitiveness, and long-term financial sustainability. This study examines how market innovation moderates the relationship between Fairtrade practices and financial performance among certified small tea producer organizations in Kenya. Financial performance was assessed using Return on Assets (ROA), Quick Ratio, Stock Turnover Ratio, and Bonus earnings (Ksh/Kg of Green Leaf). Grounded in integrative social contract theory, the study employed a descriptive cross-sectional design, collecting data from 67 KTDA-affiliated organizations across 17 tea-growing counties. Analysis using SPSS, including ANOVA, revealed that Fairtrade practices significantly improve financial performance, and this effect is strengthened when market innovation such as product diversification, new marketing strategies, and technology adoption is integrated. The findings underscore the importance of combining ethical trade frameworks with innovation to enhance competitiveness and sustainability. The study offers practical insights for stakeholders aiming to support smallholder tea producers through socially equitable and market-responsive strategies.

Keywords: Market Innovation, fairtrade practices, financial performance, Kenya.

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1. Introduction

Fairtrade practices refer to a set of principles and certification mechanisms aimed at promoting equity, sustainability, and ethical conduct within global supply chains, particularly in agricultural sectors reliant on smallholder producers (Fridell, 2023; Raynolds, 2024). These practices seek to address systemic inequalities by ensuring fair compensation, decent working conditions, and environmental stewardship, especially for marginalized producer communities. Financially, Fairtrade certification is designed not only to guarantee minimum prices but also to stabilize producer incomes and improve organizational performance through enhanced access to premium markets (Moore et al., 2024). Indicators such as Return on Assets (ROA), Quick/Acid Test Ratio, Stock Turnover Ratio, and Bonus per Kilogram of Green Leaf (Ksh/Kg GL) are increasingly being used to evaluate the financial performance of Fairtrade-certified organizations The study was grounded in Integrative Social Contract Theory (ISCT), which emphasizes the ethical obligations embedded in economic exchanges, advocating for "macro social contracts" that support local norms of fairness and mutual benefit among stakeholders (Donaldson & Dunfee, 2021). Within this framework, Fairtrade is conceptualized as a socially binding contract that fosters trust and accountability across value chains. Complementary theoretical lenses such as Stakeholder Theory (Freeman et al., 2022) and Instrumental Theory (Jones & Felps, 2023) underscore the importance of aligning organizational ethics with long-term strategic performance and stakeholder engagement, particularly in resource-constrained environments.

In Kenya, the tea industry remains a cornerstone of rural livelihoods and national export revenue, with over 560,000 smallholder farmers organized under entities such as the Kenya Tea Development Agency (KTDA) (Kiai & Korir, 2023). These producer organizations play a pivotal role in rural employment and food security. Yet, despite Fairtrade certification and government-led reforms, many smallholder tea organizations face persistent challenges ranging from governance inefficiencies and underinvestment to global price volatility and limited market diversification (Mutiso, Njoroge, & Kiragu, 2022; Otieno & Wambugu, 2025). While Fairtrade has improved market access and income stability, emerging evidence indicates that limited capacity for market innovation including product differentiation, branding, and technological adoption continues to constrain financial performance and competitiveness (Mwenda & Oduor, 2025; Lee & Mwangi, 2025).

Market innovation has become increasingly vital in responding to rapidly shifting consumer preferences for sustainable and ethically produced goods. Recent research suggests that innovation capabilities can amplify the economic benefits of Fairtrade by enabling producer organizations to create value beyond compliance, diversify revenue streams, and enhance operational efficiency (Wanyoike & Omagwa, 2024)Despite this, empirical studies often treat Fairtrade and innovation as separate constructs, overlooking how their interaction may jointly influence measurable financial outcomes such as ROA, liquidity, inventory turnover, and producer bonuses.The study sort to fill this gap by examining the moderating role of market innovation in the relationship between Fairtrade practices and the financial performance of certified small tea producer organizations in Kenya. Using data from 67 KTDA-affiliated organizations across 17 tea-growing counties, the study evaluated whether innovation-driven strategies such as new product development, value-added processing, and market repositioning enhance the financial impact of Fairtrade practices. By integrating ethical trade frameworks with market responsiveness, this research contributes to theoretical development and provides practical insights for policy, certification bodies, and development agencies working to secure the economic resilience of smallholder producers in Kenya and similar contexts.

1.1 Problem of Research

The financial sustainability and competitive performance of smallholder tea producer organizations (STPOs) in Kenya remain critical yet under-explored issues, particularly within the context of global value chains and ethical certification schemes such as Fairtrade. These organizations are integral to rural employment, household income, and poverty reduction across tea-growing regions (Kiai & Korir, 2023; FAO, 2023). While Fairtrade certification has gained prominence as a tool for promoting social equity and sustainable practices, its actual influence on key financial indicators such as revenue growth, cost efficiency, liquidity ratios, profitability margins, and return on investment—within Kenyan STPOs has not been comprehensively assessed (Smith et al., 2024; van Rijsbergen et al., 2022).Although evidence from developed economies suggests that Fairtrade can improve producers' income, market access, and brand equity (Dragusanu & Nunn, 2018; Smith & Barrientos, 2024), findings from developing contexts like Kenya remain inconclusive and fragmented. Many existing studies rely on qualitative or social development metrics, with limited integration of robust financial performance measures. The absence of a conceptual framework that incorporates quantitative financial indicators, alongside Fairtrade practices and mediating factors such as market innovation and corporate social capital, constrains efforts to assess the full economic impact of certification schemes (Mohan et al., 2023; Bissinger et al., 2022).

Market innovation strategies such as product diversification, value addition, digital marketing, and ethical branding have the potential to amplify Fairtrade's financial benefits by opening premium markets and reducing dependency on volatile commodity prices (Ponte, 2019; Mwangi & Gathuru, 2021). However, such strategies are underutilized or poorly aligned with Fairtrade models in Kenya, limiting their contribution to revenue growth and long-term financial viability (Ndungu et al., 2024).Moreover, Kenya's unique historical, socio-cultural, and behavioural contexts significantly shape the operationalization and perception of Fairtrade practices. Localized values around communal benefit, trust in cooperatives, and culturally embedded notions of fairness influence both producer compliance and consumer engagement (Ochieng & Koskei, 2022). Behavioral economics suggests that consumer trust, awareness of certification, and perceived authenticity directly influence market demand and price premiums for certified products—yet these dynamics are rarely linked to financial outcomes in empirical. The financial performance of STPOs is further complicated by structural challenges including limited access to credit, high operational costs, and inefficient governance structures. Addressing these barriers requires a multi-dimensional framework that links Fairtrade implementation with both internal financial management practices and external market-facing strategies (World Bank, 2024). There is also a pressing need to investigate whether corporate social capital defined as trust, shared norms, and cooperative networks can serve as a strategic asset in leveraging Fairtrade advantages for financial gain (Mohan et al., 2023). Given the growing demand for transparency, impact measurement, and value-for-money in ethical trade, there is an urgent need for research that integrates financial analysis with social and institutional dimensions. Therefore, this study aims to examine the extent to which Fairtrade practices when complemented by market innovation and corporate social capital affect the financial performance of Fairtrade-certified small tea producer organizations in Kenya. By adopting a comprehensive and context-sensitive analytical framework, the research seeks to bridge critical gaps in theory and practice, offering actionable insights for policymakers, producer organizations, and certification bodies operating in dynamic and competitive agricultural markets.

2. Literature Review and Development of Hypotheses

Fair trade practices have been extensively examined for their influence on financial performance, especially within smallholder producer organizations in developing economies. Fairtrade certification primarily aims to improve market access, secure fair compensation, and foster social and environmental sustainability by embedding ethical principles into global supply chains (Cáceres et al., 2023, Smith & Barrientos, 2024). The financial performance outcomes associated with fair trade certification are commonly measured using key indicators such as Return on Assets (ROA), liquidity ratios (e.g., Quick/Acid Test ratio), operational efficiency measures like Stock Turnover Ratio, and producer-level benefits including Bonus Ksh/Kg green leaf (GL) (Mwangi et al., 2021; Torres et al., 2024). However, despite many reports of positive impacts, the strength and consistency of the relationship between fair trade certification and organizational financial performance remain debated.

Foundational studies by Dragusanu and Nunn (2018) and Valkila and Nygren (2010) documented improvements in producer incomes and community welfare attributable to fair trade certification. Yet, recent research highlights that such benefits are often contingent upon mediating factors such as supply chain governance, market volatility, and internal organizational capacity (Raynolds & Bennett, 2015; Ruben & Fort, 2018; Chen et al., 2024). For instance, Chen et al. (2024) found that fair trade certification's effects on profitability and liquidity indicators are attenuated in contexts lacking effective market linkages and financial management capacity.To better understand these complex interactions, this study is grounded in Integrative Social Contract Theory (ISCT) (Donaldson & Dunfee, 2021), which emphasizes the creation of ethical norms and mutual agreements within market and organizational interactions. ISCT conceptualizes fair trade practices as social contracts that build trust, fairness, and respect for human rights among stakeholders throughout the value chain. However, ISCT also recognizes that ethical practices alone may be necessary but insufficient for sustained financial performance. Organizations must also adopt adaptive and innovative behaviors to respond effectively to changing market conditions and environmental challenges (Crane & Matten, 2021).Building on ISCT, this study conceptualizes Fairtrade Practices (FTP) as the certification-driven and ethical activities aimed at ensuring equitable benefits for smallholder producers. Meanwhile, Market Innovation (MI) defined as the introduction of new marketing methods, product diversification, and branding strategies (Mohan et al., 2023) is posited as a crucial moderator that enhances the positive relationship between FTP and financial performance outcomes. This aligns with Instrumental and Stakeholder Theories (Freeman et al., 2022; Jones & Felps, 2023), which underscore the role of innovation and stakeholder engagement in converting ethical commitments into measurable competitive advantages.

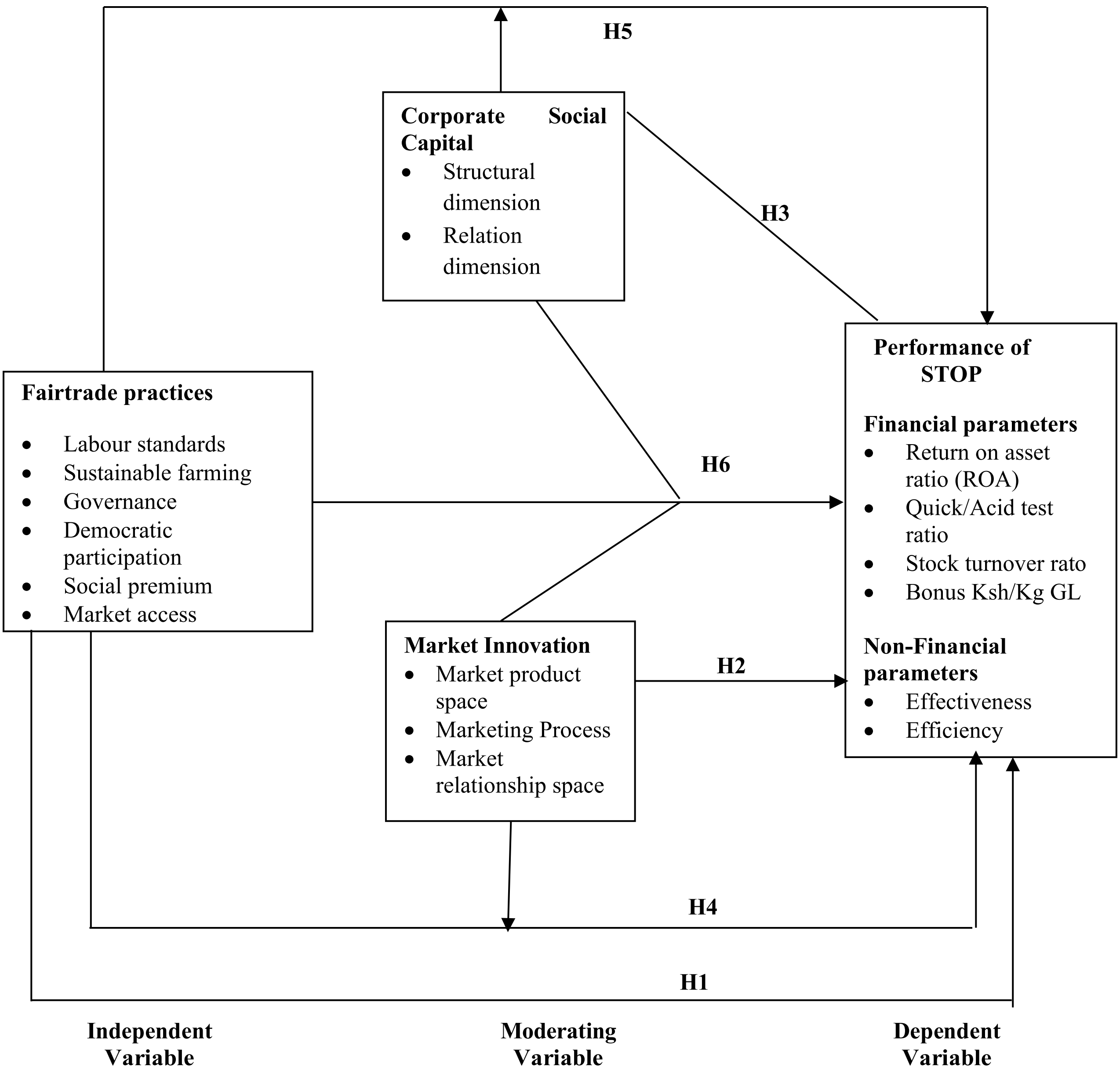
Empirical studies lend support to this integrative perspective. Bissinger et al. (2022) demonstrated that the financial benefits of Fairtrade certification measured through profitability (ROA), liquidity (Quick ratio), and operational metrics (Stock turnover) are maximized when coupled with innovative marketing and product development strategies. Similarly, Hughes et al. (2021) and Ponte (2019) documented how proactive market innovation enhances organizational adaptability, enabling producers to meet shifting consumer preferences and secure premium market segments. Recent research from 2025 (Lee & Mwangi, 2025; Torres et al., 2024) further confirms that innovation is a necessary complement to ethical certification, particularly in sectors facing rapid globalization and technological change.

Within the East African context, and Kenya specifically, empirical research exploring the linkages among FTP, MI, and financial performance (FP) remains limited but crucial. Kenya’s smallholder tea sector, primarily organized under the Kenya Tea Development Agency (KTDA), faces ongoing challenges such as governance issues, limited product diversification, and restricted access to premium markets despite widespread fair trade certification (Ochieng & Koskei, 2022; Kiai & Korir, 2023). Mwangi & Gathuru (2021) identified branding, value addition, and digital marketing innovations as essential levers to enhance sector competitiveness. More recent studies (Mwenda & Oduor, 2025; Otieno & Wambugu, 2025) further emphasize that without effective innovation, the full financial and operational benefits of fair trade practices—reflected in improved ROA, liquidity ratios, stock turnover, and bonuses paid per Ksh/Kg GL remain unrealized, negatively impacting organizational performance and smallholder welfare.Overall, the literature highlights a critical gap: the need to empirically investigate how market innovation moderates the relationship between fair trade practices and financial performance among smallholder tea producer organizations. This study addresses this gap by examining this moderating effect within Kenya's tea sector, which supports over 560,000 smallholder farmers reliant on sustainable and competitive production. By integrating ethical trade frameworks with innovation management theories, this research advances understanding of how these factors collectively drive resilience, financial sustainability, and growth in certified smallholder tea producer organizations

2.1 Research Focus

This study investigates the impact of Fairtrade practices, corporate social capital, and market innovation on the financial performance of Fairtrade-certified small tea producer organizations in Kenya. The primary objective is to determine the degree to which Fairtrade practices influence financial outcomes such as profitability, operational efficiency, and liquidity and to examine how corporate social capital and market innovation strategies moderate or enhance this relationship.To guide this analysis, the study adopts a comprehensive conceptual model that conceptualizes Fairtrade practices as the key independent variable, with financial performance as the dependent variable. Corporate social capital and market innovation are introduced as critical moderating variables that potentially shape the strength and direction of this relationship. This integrated framework provides a broader understanding of how ethical certification, when combined with internal organizational capabilities and market-oriented strategies, contributes to the sustainability and competitiveness of smallholder tea enterprises in Kenya. The hypothesized relationships among these variables are visually presented in Figure 1, which outlines the conceptual framework underpinning this study.

Figure 1: Conceptual Framework



Source: Research, 2025

The study's objectives were pursued through the development of a conceptual model and a set of testable hypotheses, grounded in an extensive review of relevant literature and informed by the guiding conceptual framework. These hypotheses were formulated to empirically examine the relationships among Fairtrade practices, corporate social capital, market innovation, and the financial performance of Fairtrade-certified small tea producer organizations in Kenya. The model seeks to capture both the direct effects of Fairtrade practices on financial performance and the moderating roles played by internal organizational capabilities and strategic market engagement.
One of the hypotheses formulated and tested to achieve these objectives was:

H1: *There is no significant influence of market innovation on the association between Fairtrade practices and the financial performance of certified small tea producer organizations in Kenya.*

The hypothesis was tested using inferential statistical methods to examine whether market innovation significantly influences the relationship between Fairtrade practices and financial performance. The results provided empirical support to either accept or reject the null hypothesis, thereby clarifying the extent to which market innovation shapes outcomes in Kenya's smallholder tea sector.

3. Methodology of Research

This study embraced a positivist research philosophy, grounded in reason, objectivity, and empirical verification. Positivism maintains that knowledge arises from observable, measurable phenomena, affirming the existence of an objective reality independent of subjective views. This stance aligns with the study's objective to empirically test and validate hypothesized relationships among Fairtrade practices, market innovation, and financial performance in certified small tea producer organizations in Kenya. The positivist paradigm ensures the findings are credible, replicable, and generalizable through systematic data collection and rigorous analysis. In line with this philosophy, a deductive research approach was employed. Starting with theory-driven hypotheses derived from an extensive literature review including integrative social contract theory and related frameworks this approach facilitated structured hypothesis testing to confirm or reject specific relationships within the Kenyan tea sector context.
A quantitative research design was selected to gather numerical data suitable for objective analysis and hypothesis testing. This design is ideal for quantifying the strength and direction of relationships between variables, thus contributing robustly to existing knowledge on the effects of Fairtrade certification and market innovation. The target population comprised certified small tea producer organizations affiliated with the Kenya Tea Development Agency (KTDA), representing approximately 560,000 smallholder tea farmers across 17 tea-growing counties. These organizations were purposively chosen due to their direct involvement in

Fairtrade certification and their pivotal role in Kenya's tea value chain. To ensure representativeness and minimize sampling bias, a two-stage sampling technique was applied: purposive sampling identified KTDA-affiliated Fairtrade-certified organizations, and within this population, simple random sampling selected 67 organizations as respondents. This sample size was both manageable and statistically significant for inferential analysis. Primary data were collected using structured and semi-structured questionnaires administered to key informants typically managers or appointed representatives knowledgeable about their organizations' Fairtrade practices, market innovation activities, and performance metrics.

The questionnaires were designed to capture quantitative data aligned with the study variables: Fairtrade practices, market innovation, and financial performance. A pilot test involving a small subset of organizations ensured the instrument's clarity, relevance, and reliability prior to full deployment. Data collection occurred over three months through face-to-face interviews and digital surveys, depending on logistical feasibility and respondent preference. To maintain data quality, follow-ups were conducted to clarify ambiguous answers and ensure completeness. Data analysis was conducted using the Statistical Package for the Social Sciences (SPSS). Descriptive statistics (means, frequencies, standard deviations) and inferential statistics (ANOVA, regression analysis) were applied to test the hypotheses. Inferential tests assessed the strength, direction, and statistical significance of relationships between Fairtrade practices, market innovation, and financial performance. This methodological framework is anchored in integrative social contract theory, stakeholder theory, and innovation management, which collectively informed the conceptual framework and variable selection. By adopting a rigorous positivist quantitative approach, the study advances understanding of how Fairtrade certification and market innovation jointly influence the sustainability and competitiveness of smallholder tea producer organizations in Kenya. The methodological rigor strengthens the validity and replicability of findings, offering policymakers and practitioners empirically grounded insights for promoting ethical and innovative agricultural development.

3.1 General Background of Research

The study utilized a descriptive cross-sectional research design, which was considered appropriate for collecting data from the targeted respondents within a specific timeframe. This design enabled the researcher to capture a snapshot of the relationships among Fairtrade practices, corporate social capital, market innovation, and the performance of certified small tea producer organizations in Kenya at a given point in time. As Saunders et al. (2023) emphasize, descriptive cross-sectional studies are effective for examining and portraying the characteristics and interrelations within a defined population or phenomenon. By adopting this approach, the study was able to document the current status of key variables and analyze their interplay within the organizational context.

This methodological choice aligned with the positivist paradigm underpinning the research, as it allowed for systematic data collection and analysis without experimental manipulation of variables. Moreover, the cross-sectional design facilitated data gathering from a diverse sample of small tea producer organizations across multiple counties under the Kenya Tea Development Agency (KTDA). Providing a clear snapshot of the sector's prevailing conditions, the design offered valuable insights into how Fairtrade practices, market innovation, and corporate social capital were influencing financial performance at the time of the study. The results contributed to an enhanced understanding of the Kenyan tea sector's dynamics and served as an empirical basis for practical recommendations and future research directions. Overall, the descriptive cross-sectional design ensured that the study's objectives were effectively met by enabling the collection of reliable, context-specific data and supporting rigorous analysis of the relationships among the critical variables examined.

3.2 Sample of Research

The study targeted all small tea producer organizations affiliated with the Kenya Tea Development Agency (KTDA), which operate across 17 counties known for tea cultivation and collectively represent approximately 560,000 smallholder tea farmers in Kenya. These organizations are divided into seven administrative regions: Aberdare Ranges 1, Aberdare Ranges 2, Mt. Kenya, Highlands of Kisii and Kericho, Mt. Kenya & Nyambene Hills, and Nandi Hills & Western Highlands. KTDA's operational framework guided the selection of this population, identifying these organizations as the primary adopters of Fairtrade practices and certification standards. According to KTDA's 2023 operational report, there are 67 such organizations within these regions. Due to the relatively small and well-defined population, the study employed a census sampling approach, incorporating all 67 organizations in the analysis. This method is supported by recent research emphasizing that census designs are appropriate for manageable populations, ensuring comprehensive coverage and minimizing sampling bias (Saunders et al., 2023; Kothari & Garg, 2021). Additionally, census sampling facilitates a complete understanding of the unique characteristics and operational dynamics within specific population segments, which is critical for sector-specific studies like this one (Bryman & Bell, 2022).

3.3 Data collection and Procedures

The study relied on both primary and secondary data sources to generate robust and triangulated insights. Primary data were collected through semi-structured questionnaires, which were designed to capture quantitative information on Fairtrade practices, corporate social capital, market innovation activities, and financial performance indicators. The questionnaires were administered to management representatives and key decision-makers within each of the sampled organizations to ensure data relevance and accuracy. In addition, qualitative insights were gathered through follow-up interviews with select board members and senior managers to validate responses and provide contextual depth to the quantitative findings. Secondary data were sourced from audited annual reports and financial statements of the small tea producer organizations affiliated with KTDA. These documents covered a period from the financial year ending June 30, 2019, up to June 30, 2023, allowing for a detailed trend analysis of financial performance and financial sustainability over a five-year period. This mixed data approach enabled the study to link reported Fairtrade practices and market innovation efforts with actual performance outcomes.

4. Data Analysis

The collected data underwent a systematic process of cleaning, validation, and organization prior to analysis. Outliers and incomplete responses were identified and removed to preserve data integrity and enhance the reliability of the results. Data analysis was carried out in two primary phases. The first phase involved descriptive statistics to summarize the central tendencies and distributions of the key variables, offering an essential overview of Fairtrade practices, market innovation, corporate social capital, and financial performance across the sampled organizations.

The second phase employed inferential statistical techniques, specifically simple and multiple regression analyses, to examine the direct and moderating effects of Fairtrade practices, market innovation, and corporate social capital on financial performance. Key metrics such as the coefficient of determination (R^2) were used to assess the proportion of variance in financial performance explained by the predictors, while the F-statistic evaluated the overall significance and model fit. Furthermore, path analysis alongside bivariate and multivariate linear regression models were utilized to investigate more intricate causal relationships and interaction effects among variables. By integrating these analytical methods, the study offered a comprehensive evaluation of how Fairtrade practices, market innovation, and corporate social capital collectively influence the performance of KTDA-certified small tea producer organizations. This robust analytical framework ensured that the findings are both reliable and actionable, providing valuable insights for stakeholders aiming to enhance the sustainability and competitiveness of Kenya's smallholder tea sector.

4.1 Results of Research

Primary data for this study were collected via questionnaires distributed to all 67 small tea producer organizations affiliated with the Kenya Tea Development Agency (KTDA). The study achieved a high response rate of 95.5%, with 64 completed questionnaires returned and deemed suitable for analysis. This robust response was facilitated by active follow-up efforts, physical retrieval of questionnaires, and strong endorsement from KTDA through an official letter encouraging full cooperation. Such collaborative engagement enhances

participation and data quality, which, as noted by Saunders et al. (2023), significantly improves the reliability and validity of findings when response rates exceed 70%.The demographic profile of respondents provided valuable insights into organizational experience and operational capacity within the smallholder tea sector. Among male respondents, 68.7% reported service tenures of 26 years or more, reflecting a dominant presence of highly experienced male leadership. Conversely, female respondents exhibited more varied service durations, with 20.5% serving between 11 and 15 years and accounting for 31.3% of female participation. Notably, no female respondents reported service exceeding 26 years, underscoring an ongoing gender disparity in senior leadership roles within smallholder tea producer organizations, consistent with findings by Ochieng and Koskei (2022).Regarding organizational age, only 1.6% of respondents represented relatively young organizations operating for less than 10 years. In contrast, 51.5% reported operational durations between 20 and 50 years, while 46.9% had been active for over 51 years. This distribution highlights the deep-rooted presence and accumulated institutional knowledge characteristic of Kenya's smallholder tea sector, a factor known to enhance organizational reputation, stakeholder trust, and strategic resilience (Sarvan, 2013; Mwangi & Gathuru, 2021).
The study further revealed substantial social outreach among the sampled organizations: 96% operated 11 or more buying centres, with half managing 31 or more centres across their respective regions. This extensive infrastructure demonstrates a strong social network that facilitates broad market access for smallholder farmers and reinforces Fairtrade's commitment to community development and economic inclusion (Ruben et al., 2022). Against this organizational backdrop, the central null hypothesis tested was:

H2: *Market innovation does not significantly influence the relationship between Fairtrade practices and the financial performance of certified small tea producer organizations in Kenya.*

This hypothesis addressed whether market innovation strategies amplify, diminish, or have no effect on the impact of Fairtrade practices on financial outcomes. To test this, inferential statistical analyses including regression models and interaction effect testing were employed to evaluate the moderating role of market innovation. The ensuing section presents the statistical evidence supporting acceptance or rejection of the null hypothesis and discusses its implications for strategic decision-making among Fairtrade-certified small tea producer organizations in Kenya.

Table 1: Summary of Research Objective, Hypothesis and Conclusions

Objective	Hypothesis	Pearson's Product Moment Correlation (r)	R	R^2	Levels of Significance (p-value)	Conclusion
Determine the influence of market innovation on the association between fairtrade practices and performance of certified Small tea producers organisation in Kenya	H2: Market innovation does not have a significant influence on the association between fairtrade practices and financial performance of certified Small tea producers organisation in Kenya	.656	.643	.413	.000	H1 was not supported

Source: Research, 2025

The analysis aimed to assess the moderating effect of market innovation on the relationship between Fairtrade practices and the financial performance of certified small tea producer organizations in Kenya. As presented in Table 41, the results revealed a Pearson's correlation coefficient (r) of 0.656, indicating a moderately strong positive relationship between the integrated variables when market innovation is considered. The coefficient of determination (R^2) was 0.413, suggesting that approximately 41.3% of the variation in financial performance can be explained by Fairtrade practices when market innovation is included as a moderating variable. An R-value of 0.643 further supports the strength of this association, while the p-value of 0.000 ($p < 0.05$) confirms that the relationship is statistically significant. These findings provide compelling evidence to reject the null hypothesis and establish that market innovation significantly influences the Fairtrade financial performance relationship. The results underscore the strategic importance of market innovation—encompassing product diversification, value-added branding, customer-focused marketing, and digital transformation in amplifying the impact of Fairtrade certification on organizational outcomes. The implication is clear: Fairtrade certification alone is insufficient to drive superior financial performance. Instead, the integration of innovation into organizational practices enhances the competitiveness and adaptability of producer organizations in dynamic markets. This aligns with recent research by Bissinger et al. (2022), who found that Fairtrade-certified cooperatives experience improved market outcomes when innovation is embedded into their operations. Similarly, Hughes et al. (2021) emphasize that innovation fosters organizational resilience and adaptability in the face of evolving global trade dynamics.

Moreover, this study builds upon and extends the insights of Ochieng and Koskei (2022) and Kiai and Korir (2023), who argued that institutional and market constraints often limit the effectiveness of Fairtrade in Kenya's tea sector. The current findings provide empirical evidence that market innovation acts as a catalyst, enabling organizations to overcome these structural barriers and unlock the full value of ethical certification schemes. This research also addresses prior concerns raised by Ruben and Fort (2018), who questioned the tangible financial benefits of Fairtrade certification in low-income agricultural contexts. The present findings suggest that while Fairtrade alone may not yield significant performance gains, its effectiveness is substantially enhanced when coupled with strategic innovation. This points to a critical insight: the key to performance lies not only in ethical compliance but also in market responsiveness and innovation capability. In conclusion, the study makes a contribution to the growing body of knowledge on Fairtrade and organizational performance by empirically demonstrating the moderating role of market innovation. It highlights that innovation is not merely a competitive advantage, but a necessary enabler for realizing the full potential of Fairtrade certification. These insights are especially relevant for policymakers, development agencies, and agricultural cooperatives seeking to improve the livelihoods of over 560,000 smallholder tea farmers in Kenya. By embedding innovation into Fairtrade-aligned strategies, stakeholders can enhance both the sustainability and profitability of smallholder tea enterprises in a rapidly evolving global market.

5. Discussion

This study developed a conceptual model integrating Fairtrade practices, market innovation, and financial performance, and empirically tested the moderating role of market innovation within this relationship. The results confirmed that market innovation significantly moderates the link between Fairtrade practices and the performance of certified small tea producer organizations in Kenya, strengthening the relationship in a meaningful and measurable way. The finding that Pearson's r was 0.656 with an R^2 value of 0.413 indicates that when strategic market innovation activities such as product diversification, branding, digital marketing, and new market development are embedded within Fairtrade-certified operations, they explain over 41% of the variance in performance outcomes. The statistically significant p-value of 0.000 at the 95% confidence level supports this result and aligns with recent studies that emphasize innovation as a catalyst for sustainable agribusiness growth (Lemke et al., 2021; Chege, Wanyama, & Wainaina, 2023; Mutua & Kiiru, 2023).These findings suggest that certified small tea producer organizations that strategically combine Fairtrade principles with innovation strategies such as value-added processing, premium product positioning, and digital sales platforms are better equipped to transform certification benefits into measurable financial performance improvements. This interpretation is consistent with current research indicating that the synergy between ethical sourcing and innovation enhances competitive advantage in global value chains (Acheampong & Adams, 2020; Mburu, Wambugu, & Kathuri, 2022). Organizations that treat Fairtrade not merely as a compliance mechanism but as a platform for innovation are more likely to realize its full potential in terms of profitability, resilience, and community impact.

The demographic profile of the sampled organizations reinforces this perspective. A large majority operate extensive buying centre networks and report decades of institutional experience, suggesting that well-established, community-rooted entities are structurally positioned to exploit the benefits of innovation. As noted by Ochieng and Wambugu (2021), organizational maturity in the Kenyan tea sector can enhance absorptive capacity for new ideas, technologies, and marketing strategies crucial components for converting certification into sustained growth. However, the analysis also uncovered a notable gender gap in leadership experience, with no female respondents reporting service exceeding 26 years. This imbalance signals a structural weakness in inclusive leadership development. Promoting gender-balanced leadership and empowering younger managers could strengthen the organizational innovation culture, which is vital for long-term sustainability. This concern is echoed in recent African agribusiness research, which highlights the underutilization of women's potential in driving innovation and governance reform (Njiru et al., 2023; Kariuki & Mwangi, 2022).Overall, this study contributes to the ongoing discourse by demonstrating that market innovation serves as a critical enabler transforming Fairtrade commitments from symbolic ethics into tangible economic and social outcomes. In doing so, the research directly responds to recent calls in the literature for more models that explore how internal capabilities and external strategies interact to shape the impact of certification schemes (Santos, Ribeiro, & Azevedo, 2022; Chege et al., 2023). Rather than viewing Fairtrade as a standalone intervention, the findings emphasize the importance of strategic alignment between ethical standards and organizational innovation.

This contribution provides a valuable insight for managers, policymakers, and development agencies operating in Kenya's tea sector: achieving sustainable performance gains requires more than certification alone. Effective implementation of Fairtrade must be matched with intentional investments in innovation, inclusive leadership development, and market responsiveness. Such synergies can unlock new sources of value, promote rural livelihoods, and reinforce Kenya's position in the increasingly complex and competitive global tea economy. In conclusion, the study set out to investigate the influence of market innovation on the relationship between Fairtrade practices and financial performance among certified small tea producer organizations in Kenya. Using a descriptive cross-sectional research design, comprehensive data collection, and rigorous inferential analysis, the study found clear empirical evidence that market innovation significantly strengthens this relationship. The findings revealed a moderately strong positive correlation ($r = 0.656$) and an R^2 value of 0.413, confirming that market innovation accounts for a substantial share of performance variation among Fairtrade-certified producers. This result led to the rejection of the null hypothesis, confirming that innovation is a vital moderating factor in realizing the potential of Fairtrade certification. Theoretically, this research extends understanding of Fairtrade effectiveness by illustrating that complementary strategic capabilities, particularly innovation, are essential in driving meaningful performance outcomes. It demonstrates that a holistic approach combining ethical certification with adaptive, market-focused innovation is critical for smallholder tea organizations striving to maintain competitiveness and sustainability in a volatile global market.

5.1 Theoretical Implications

This study makes a substantial contribution to contemporary Fairtrade scholarship by empirically validating that Fairtrade practices positively influence the performance of certified small tea producer organizations in Kenya an effect that is further amplified by the moderating role of market innovation. By integrating corporate social capital and market innovation within its conceptual framework, the research moves beyond the conventional, singular focus on certification outcomes. This approach aligns with recent calls for holistic, systems-based models to understand sustainability outcomes in agribusiness (El Baz & Iddir, 2021; Acheampong, Boateng, & Adams, 2020). In doing so, the study contributes to evolving theory by showing how interconnected organizational capabilities shape the efficacy of Fairtrade adoption. Grounded in Integrative Social Contract Theory, the findings affirm that local social norms, trust networks, and shared ethical values critically mediate how Fairtrade principles translate into organizational performance gains. The inclusion of Instrumental and Stakeholder Theories further enriches this analysis, demonstrating that stakeholders' ethical expectations such as community development and responsible sourcing directly influence performance outcomes (Kapoor & Sandhu, 2023; Muli & Maina, 2021). These findings reinforce the argument that Fairtrade benefits are not universally automatic but contextually contingent on embedded social capital and innovation practices.

The Kenyan context adds a critical local dimension to the theoretical discourse. By showing how corporate social capital and market innovation interact with Fairtrade practices, the study addresses the gap identified by Mutua and Kiiru (2023) and Chege et al. (2023) regarding the need for context-specific theorization in emerging market economies. Unlike earlier studies that analyzed these dimensions in isolation (e.g., Markelova et al., 2009; Lorenzo et al., 2016), this research confirms the value of an integrated model that reflects real-world complexity in organizational performance dynamics. The results reveal that Fairtrade certification alone is insufficient; its impact is conditional upon the presence of enabling internal capabilities. Methodologically, the triangulation of primary survey data with secondary trade statistics enhances the robustness of the research, consistent with best practices for empirical validation in sustainability research (Mohan, Bissinger, & Di Maria, 2021). The inclusion of export data highlighting Kenya's key markets such as Egypt, the UAE, and the UK corroborates the primary findings and reflects the sector's relevance within global tea trade dynamics (International Trade Centre [ITC], 2023). These trade insights also support the argument that market-driven innovation is a prerequisite for leveraging the full benefits of ethical certification in international markets.

The study also introduces a three-dimensional measurement framework encompassing Fairtrade practices, corporate social capital, and market innovation which provide more insights than traditional single-variable approaches. This methodological innovation aligns with the recommendations of Barbieri et al. (2020) and Santos, Ribeiro, and Azevedo (2022), who argue that sustainability impacts should be evaluated through interrelated capabilities and behavioural factors. The rejection of the null hypotheses concerning moderating effects further clarifies previously ambiguous or inconsistent findings in the literature, particularly regarding the efficacy of Fairtrade in enhancing financial outcomes. In addition, the study supports emerging behavioural perspectives, which argue that consumers increasingly interpret ethical labels like Fairtrade as signals of quality, reliability, and social responsibility. This aligns with recent findings by (Gichuki & Kamau, 2022) which suggest that Fairtrade labels act as trust-enhancing cues, particularly in competitive consumer markets where ethical differentiation is valued. In sum, this research contributes to theoretical advancement by confirming that Fairtrade performance outcomes are contingent upon the presence of complementary capabilities, particularly market innovation and social capital. It reinforces the value of contextual, interdisciplinary frameworks in understanding sustainability, and challenges the oversimplified view of Fairtrade as a standalone solution. These insights not only deepen academic understanding but also inform the design of more effective, performance-oriented certification models for smallholder organizations in Kenya and beyond.

5.2 Policy Implications

For policymakers, this study offers practical guidance to revitalize Kenya's tea sector under flagship initiatives such as Vision 2030, the Tea Industry Reforms (2022), and the Agricultural Sector Transformation and Growth Strategy (ASTGS 2019 2029). Kamau (2023) asserts that enhancing sector competitiveness requires integrated policy frameworks that uphold ethical compliance, stimulate innovation ecosystems, and foster farmer inclusion. The confirmed positive impact of Fairtrade practices, particularly when paired with market innovation, underscores the urgency of reinforcing certification integrity. Policymakers should enhance the Kenya Tea Board's oversight capacity, institute traceability mechanisms, and align national standards with emerging global requirements like the European Union's Corporate Sustainability Due Diligence Directive, to prevent mislabelling and strengthen accountability (Kenya News Agency, 2025). Another pressing need is promoting local value addition. Although Kenya earned over KSh 215 billion from tea exports in 2024 with most of it coming from raw bulk shipments—only 5% of exports were value-added products (African Business, 2025). The government has set a goal to increase this to 50% by 2027 to boost rural incomes and expand enterprise (The Star, 2024). Fiscal incentives, including proposed tax rebates for packaging materials and access to affordable processing loans, are vital. For instance, the 2025/2026 Finance Bill removed excise duty on packaging materials and VAT on value-added tea exports (Kenya News Agency, 2025).

Emerging regional competition from producers like Rwanda and Uganda necessitates a shift toward ethical branding. Linking Fairtrade compliance with innovation clusters such as specialty orthodox, organic, or wellness teas can differentiate Kenyan products in premium global segments (Mutua & Kiiru, 2023). To facilitate this transition, stakeholders such as KTDA, county governments, trade associations, and development partners must invest in building institutional capacity. Priority areas include training in sustainable farming practices, digital traceability, and market diversification, while advancing gender-inclusive leadership and youth engagement to foster innovation (Njiru et al., 2023; Kariuki & Mwangi, 2022).Kenya's export strategy must also leverage collaborative marketing efforts. With conscious consumer markets growing across Europe, the Middle East, and Asia, coordinated promotions via embassies and trade attachés can enhance Kenya's image as both high-quality and ethically responsible (Mburu et al., 2022). Investing in digital infrastructure will further enable Fairtrade-certified producers to access global buyers through e-commerce and direct-to-market platforms a trend already transforming value chains in sectors such as specialty coffee and cocoa (Acheampong & Adams, 2020).

Finally, aligning policy with climate resilience is essential. Recognition of climate threats to tea yields has led to reforms such as packaging tax exemptions and investments in drought-resistant seed varieties. Integrating Fairtrade requirements with climate-smart agriculture subsidies, reforestation incentives, and renewable energy initiatives will ensure the sector's long-term viability (Food and Agriculture Organization [FAO], 2023; Kenya News Agency, 2025).In totality, this study suggests that transforming Fairtrade from a compliance requirement into a dynamic driver of competitiveness and inclusive growth will require synchronized efforts in regulatory governance, value addition, branding, digital innovation, institutional inclusion, and environmental resilience.

5.3. Implications for Practitioners

The findings of this study indicate that Fairtrade certification alone is insufficient to ensure long-term competitiveness for small tea producer organizations operating in an increasingly globalized and dynamic market. To remain viable and competitive, these organizations must integrate ethical compliance with continuous market-driven innovation. As highlighted by Mutua and Kiiru (2023) and Acheampong and Adams (2020), the combination of Fairtrade principles and innovation such as new product development, premium product lines, value addition, and adoption of digital technologies—positions smallholders more strategically in export-oriented sectors. To fully realize the benefits of Fairtrade, producers should prioritize product development pipelines focused on specialty teas like purple tea, organic variants, wellness-infused blends, and climate-resilient options that appeal to premium consumers in regions such as the European Union, the United Kingdom, and the Middle East. Embracing digital marketing and e-commerce platforms is equally important for accessing ethically motivated buyers who demand traceable and transparent supply chains (Acheampong & Adams, 2020).In the domestic market, there is a pressing need for behaviour-change marketing strategies that foster consumer pride and preference for local products, particularly through national campaigns such as Buy Kenyan, Build Kenya. According to Kenya News Agency (2025), consumer loyalty tends to shift toward local brands when these are perceived to match or exceed the quality and value of imported goods especially critical given rising competition from regional producers like Rwanda and Uganda. Producers should also invest in certified quality assurance mechanisms, accurate and transparent labelling, and compelling brand narratives that link Fairtrade certification to visible community benefits such as improved farmer incomes, social infrastructure, and environmental resilience. Greene et al. (2022) note that ethical cues influence consumer choices differently depending on individual values and beliefs, suggesting that segmentation in marketing approaches is necessary to effectively reach diverse consumer groups.

Beyond branding, the integration of corporate social capital into operational strategies is vital. Strong relationships with farmers, trust-based engagement with buyers, and collaborations with certification bodies and development partners can enhance access to technical knowledge, new markets, and financial resources (Huggins & Thompson, 2022). Managers should also prioritize inclusive leadership development to ensure gender and youth representation, as inclusive governance has been shown to increase adaptability and foster innovation in cooperatives (Njiru et al., 2023).Finally, consistent investment in market intelligence is crucial. By regularly monitoring shifts in consumer preferences, certification requirements, and competitive trends, managers can proactively adjust strategies, align with emerging market demands, and identify opportunities for value addition. This proactive approach ensures that Fairtrade branding remains credible, relevant, and economically beneficial.

6. Conclusions

This study aimed to assess how Fairtrade practices, corporate social capital, and market innovation jointly impact the financial performance of Fairtrade-certified small tea producer organizations in Kenya. Utilizing a robust integrated conceptual model, the research examined both the direct influence of Fairtrade practices on financial outcomes and the moderating effects of networks of trust and innovation-driven strategies. The findings reveal that Fairtrade practices significantly boost financial performance, particularly when underpinned by strong social capital and proactive market innovation. Contextually, this is increasingly critical as Kenya's tea sector contends with severe climate-related disruptions. For instance, February 2025 production losses of up to 24% among KTDA smallholders reflect how hot, dry weather critically impacts output (Tea Board of Kenya, 2025; African Business, 2025). Further compounding the challenge, unpredictable rainfall and rising temperatures contribute to yield declines of 14–20%, which jeopardize productivity and long-term viability (Business Daily Africa, 2025; The Guardian, 2024).Theoretically, this research expands Fairtrade scholarship by demonstrating the importance of embedding certification within a broader web of organizational capabilities. Specifically, it illustrates that corporate social capital manifested through farmer networks and cooperative trust and market innovation such as digital marketing, specialty product development, and branding strategies augment Fairtrade's effectiveness. By doing so, it supports more multidimensional frameworks in agricultural performance analysis. In practical terms, the study provides actionable direction. It underscores the importance of aligning Fairtrade certification with capacity building, value-addition infrastructure, and innovation strategies. For example, KTDA's recent investments in drought-resistant tea varieties and efficient irrigation systems reflect efforts to strengthen resilience amid climate shocks (African Business, 2025). Similarly, TEMEC's deployment of energy-efficient machinery and green energy initiatives helps reduce production costs and environmental impact while supporting transformation (The Star, 2024).In conclusion, the study successfully maps out the pathways through which Fairtrade practices, social capital, and market innovation enhance smallholder performance. It provides a holistic and actionable bridge between theory and practice, suggesting that in emerging economies like Kenya, resilient and high-performing smallholder enterprises rely on ethical compliance accompanied by strategic innovation and relational assets.

6.1 Limitations of the Study

While this study provides valuable empirical evidence on the influence of Fairtrade practices on the financial performance of small tea producer organizations in Kenya, several limitations must be acknowledged. Firstly, the research focused exclusively on smallholder tea producer organizations affiliated with the Kenya Tea Development Agency (KTDA). This targeted approach allowed for detailed analysis within a well-structured governance system; however, it restricts the generalizability of the findings to the broader tea industry. Other segments such as large multinational estates, independent smallholders, and privately operated tea factories function under distinct business models and may experience different performance drivers and market dynamics (Kiprotich et al., 2023). Secondly, the study employed a cross-sectional research design, influenced by time, funding, and logistical constraints. This design captures data at a single point, offering a static snapshot rather than a longitudinal understanding of how Fairtrade practices and market innovation influence performance over time. Consequently, it does not account for fluctuations due to seasonal variations, global price cycles, or evolving policy environments (Muriuki & Omondi, 2023). Additionally, the research framework concentrated on a specific set of variables—namely, Fairtrade practices, corporate social capital, market innovation, and financial performance. Although this narrowed scope enabled analytical clarity, it excluded other potentially influential factors such as governance quality, access to digital traceability tools, adaptation to climate change, and international commodity market volatility. These dimensions, while outside the present study's boundaries, are integral to understanding the full spectrum of performance influencers in Kenya's tea value chain (Acheampong & Adams, 2020). From a methodological standpoint, the study relied exclusively on quantitative techniques, particularly structured questionnaires and secondary financial data. While appropriate for measuring statistical relationships, this approach may have constrained respondents from elaborating on nuanced experiences or providing deeper contextual perspectives. As Mungai, Wambugu, & Gikonyo, 2024 note, quantitative-only methods can limit the ability to explore behavioural and perceptual dimensions that are often critical in the implementation of ethical trade standards. Given these limitations, the findings should be viewed as context-specific and not exhaustive. They contribute meaningfully to the existing literature on Fairtrade and smallholder performance but should be interpreted as part of an ongoing research dialogue, rather than as a comprehensive account of Fairtrade's impact across Kenya's entire tea sector.

6.2 Suggestions for Further Research

Given the scope and limitations of this study, several avenues for future inquiry are particularly promising. First, extending research beyond KTDA-affiliated small tea producer organizations to include multinational estates, independent smallholder cooperatives, and private processing factories would enrich understanding across different organizational and market contexts. Such comparative work could clarify whether Fairtrade practices and innovation capacities affect financial performance differently depending on governance models and market access mechanisms (Kiprotich et al., 2023).Second, adopting a longitudinal research design that tracks Fairtrade practices, corporate social capital, and market innovation over multiple production cycles would offer deeper, more dynamic insights into how these relationships evolve over time. This approach could capture seasonal fluctuations, global commodity shifts, and policy changes factors a cross-sectional design cannot address (Muriuki & Omondi, 2023).Third, expanding the conceptual framework to incorporate additional variables such as cooperative governance effectiveness, climate-smart agricultural practices, digital traceability adoption, and exposure to global price shocks could yield a more complete understanding of the factors that drive resilience and performance in Kenya's tea value chain (Acheampong & Adams, 2020). For example, exploring how institutional quality or digitization influences Fairtrade impact could uncover new mechanisms for improving smallholder outcomes.

Beyond the tea sector, the integrated model used in this research could be adapted for other Fairtrade-eligible value chains, including coffee, cocoa, horticultural crops, floriculture, and even textiles. Cross-sectoral studies would help determine whether the moderating effects of social capital and innovation persist across product categories or are sector-specific. Similarly, replicating this research in other East African Community (EAC) member states or broader regional blocs like COMESA and SADC would provide comparative insight into how varying institutional environments, trade policies, and socio-economic conditions influence Fairtrade's efficacy (Njiru et al., 2023). Finally, employing mixed-methods research designs that integrate quantitative rigor with qualitative depth such as semi-structured interviews, focus group discussions, and participatory rural appraisals would enrich our understanding of how Fairtrade practices are experienced on the ground. This approach would capture the nuanced perceptions, motivations, and contextual realities that shape smallholders' engagement with Fairtrade principles (Mungai, Wambugu, & Gikonyo, 2024). A mixed-methods framework can produce well-rounded evidence that informs policy, managerial strategy, and the broader discourse on Sustainable and inclusive agricultural development in Kenya and comparable emerging markets.

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Competing Interest Statement

This manuscript was prepared without any financial support to the author. The research was conducted independently, and the supervisors were not involved in any financial or commercial activities related to the study. They also declare no conflicts of interest regarding the content of this manuscript.

Author (s) Contribution Statement
The final manuscript was reviewed, revised, and approved by the supervisors, Professor Francis Ndungu Kibera, Professor Mary Wanjiku Kinoti, and Dr. Winnie Gacugu Njeru. The corresponding author, Fredrick Mutwiri Mutea, was responsible for preparing, developing, and finalizing the manuscript in accordance with the recommended academic and institutional guidelines.

Informed Consent of Participant
This study did not require informed consent. The corresponding author is Fredrick Mutwiri Mutea.

Declaration
I hereby declare that the work contained in this manuscript is my original work and has not been submitted, either in whole or in part, for publication elsewhere.

Data Availability Statement.
The data will be made available immediately upon online publication of the paper.

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