

Social Capital, Social Enterprise and Community Development: A Case Study of Doi Chaang Coffee

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Abstract

The legend of the Doi Chaang Coffee Business started from the Arabica coffee beans that His Majesty King Rama IX gave to hill farmers in the Doi Chang area to replace opium cultivation. The coffee grew well but there were problems with having to sell the coffee beans at a low price. Therefore, most farmers destroyed their coffee plants. Nevertheless, some escaped destruction. This problem meant that Mr. Panachai Phisailert, the village Headman of the Doi Chaang community, had to try to find a solution by consulting Mr. Wicha Phromyong, one of the co-founders of Doi Chaang Coffee. He had the idea of creating a coffee business in the community. Mr. Wicha Phromyong tried hard to find someone who would help him set up a coffee business. Finally, he met Mr. Pitsanuchai Kaewphichai, a businessman in the hotel industry. Mr. Pitsanuchai Kaewphichai understood the aspirations of the Doi Chaang people and he decided to assist them in establishing a coffee business. He worked out a suitable business model for starting a coffee business based on community involvement-a social enterprise model. Thus, Doi Chaang Coffee Co., Ltd., a genuine social enterprise, began operation in 2003 with three co-founders, and with Mr. Panachai Phisailert acting as managing director. Doi Chaang coffee was improved to be a world class specialty coffee because of its high standard quality

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and meticulous care. The notoriety of Doi Chaang coffee initiated the high selling price, therefore, the excessive price caused coffee adulteration. This problem affected Doi Chaang coffee's reputation. The adulterators were 12 groups of farmers on Doi Chaang; some of them were Mr. Panachai Phisailert's relatives. In this crisis, Mr. Panachai Phisailert has to make a decision to solve the problem before incoming harvest season.

Keywords: Social Capital, Social Enterprise, Community Development

กาแฟดอยช้าง : ทูทางสังคมกับการพัฒนาที่ยั่งยืน

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บทคัดย่อ

เรื่องราวของธุรกิจกาแฟดอยช้าง เริ่มต้นขึ้นจากเมล็ดกาแฟพันธุ์อาราบิก้าที่พระบาทสมเด็จพระเจ้าอยู่หัว รัชกาลที่ 9 ได้พระราชทานให้เกษตรกรในพื้นที่ดอยช้างปลูกทดแทนการปลูกฝิ่น ต้นกาแฟเติบโตได้ดีแต่ประสบปัญหาการขายเมล็ดกาแฟได้ราคาต่ำ ดังนั้น เกษตรกรส่วนใหญ่จึงทำลายต้นกาแฟทิ้ง แต่อย่างไรก็ตาม ยังมีต้นกาแฟบางส่วนเหลือรอดจากการถูกทำลาย จากปัญหานี้ทำให้คุณปณชัย พิสัยเลิศ ผู้ใหญ่บ้านดอยช้าง พยายามหาทางแก้ไขปัญหาโดยการไปปรึกษากับคุณวิชา พรหมยงค์ ซึ่งเป็นหนึ่งในผู้ร่วมก่อตั้งกาแฟดอยช้าง เขามีความคิดที่จะสร้างธุรกิจกาแฟขึ้นในชุมชนคุณวิชา พรหมยงค์ พยายามอย่างหนักที่จะหาผู้ช่วยก่อตั้งธุรกิจกาแฟ ในที่สุดเขาก็ได้พบกับคุณพิษณุชัย แก้วพิชัย นักธุรกิจด้านอุตสาหกรรมโรงแรม คุณพิษณุชัย แก้วพิชัย เข้าใจถึงความมุ่งหวังของ ชาวดอยช้าง เขาจึงได้ช่วยชาวดอยช้างก่อตั้งธุรกิจกาแฟ โดยหารูปแบบการประกอบธุรกิจที่เหมาะสมสำหรับการเริ่มต้นธุรกิจกาแฟบนพื้นฐานของการมีส่วนร่วมของชุมชน นั่นคือ รูปแบบกิจการเพื่อสังคม ดังนั้น บริษัทกาแฟดอยช้าง กิจการเพื่อสังคมที่แท้จริงจึงเริ่มต้นขึ้นใน พ.ศ. 2546 ด้วยผู้ร่วมก่อตั้ง 3 คน โดยมีคุณปณชัย พิสัยเลิศ เป็นกรรมการผู้จัดการ กาแฟดอยช้างได้รับการพัฒนาเป็นกาแฟชนิดพิเศษระดับโลก เนื่องด้วยคุณภาพของเมล็ดกาแฟ และการดูแลอย่างพิถีพิถัน ความโด่งดังของกาแฟดอยช้างทำให้เมล็ดกาแฟดอยช้างมีราคาสูงขึ้น ราคาที่สูงของกาแฟดอยช้างทำให้เกิดการปลอมปนเมล็ดกาแฟ ปัญหานี้ส่งผลกระทบต่อชื่อเสียงของกาแฟดอยช้าง ผู้ที่ปลอมปนเมล็ดกาแฟนั้น คือ เกษตรกรใน 12 กลุ่มบนดอยช้าง ซึ่งส่วนหนึ่งเป็นญาติของคุณปณชัย พิสัยเลิศเอง ในวิกฤติการณ์นี้คุณปณชัย พิสัยเลิศ จำเป็นที่จะต้องตัดสินใจแก้ปัญหาให้ทันก่อนฤดูกาลเก็บเกี่ยวที่กำลังจะมาถึง

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The legend of the Doi Chaang Coffee Business started from the Arabica coffee beans that His Majesty King Rama IX gave to hill farmers in the Doi Chang area to replace opium cultivation. The coffee grew well but there were problems with having to sell the coffee beans at a low price. Therefore, most farmers destroyed their coffee plants. Nevertheless, some escaped destruction. This problem meant that Mr. Panachai Phisailert, the village Headman of the Doi Chaang community, had to try to find a solution by consulting Mr. Wicha Phromyong, one of the co-founders of Doi Chaang Coffee. He had the idea of creating a coffee business in the community. Mr. Wicha Phromyong tried hard to find someone who would help him set up a coffee business. Finally, he met Mr. Pitsanuchai Keawphichai, a businessman in the hotel industry. Mr. Pitsanuchai Keawphichai understood the aspirations of the Doi Chaang people and he decided to assist them in establishing a coffee business. Thus, Doi Chaang Coffee Co., Ltd., began operation in 2003 with three co-founders, and with Mr. Panachai Phisailert acting as managing director. Doi Chaang coffee was improved to be a world class specialty coffee because of its high standard quality and meticulous care. The notoriety of Doi Chaang coffee initiated the high selling price, therefore, the excessive price caused coffee adulteration. This problem affected Doi Chaang coffee's reputation. The adulterators were 12 groups of farmers on Doi Chaang; some of them were Mr. Panachai Phisailert's relatives. In this crisis, Mr. Panachai Phisailert has to make a decision to solve the problem before incoming harvest season.

From Low Price Coffee Beans to A World Class Coffee Business

Doi Chaang village is located in the Wawee sub-district, Mae Suai district, Chiang Rai province. It is the residential area of three hill tribes, composed of about 80% Akha, while the Lisu and Chinese account for 20% of the population. They traditionally survived by cultivating opium. In 1983, 40 families in Doi Chaang received Arabica coffee plants from the Department of Social Welfare, with the support of His Majesty King Rama IX, to replace opium cultivation. Mr Piko Saidu, the village headman at that time and Logo Man, had encouraged his villagers to follow His Majesty's instructions and join him in cultivating coffee. Even though the coffee

grew well, the income from selling it was very low. Because they lacked Thai identification cards, the growers had limited access to markets, so middlemen took advantage of their low purchasing power. Consequently, most farmers in Doi Chaang destroyed their coffee plants. Nevertheless, some escaped destruction (Legend of Doi Chaang Coffee, n.d.; Ritpreecha, 2008, 2011).

This situation caused Mr. Panachai Phisailert, the village Headman and Mr Piko Saidu's son, to try to solve the problem by consulting Mr. Wicha Phromyong, a trekker and globe-trotting entrepreneur in Chiang Rai. He had the idea of creating a coffee business in the community. So, Mr. Wicha Phromyong tried hard to find someone who would help him set up a coffee business. Fortunately, he met Mr. Pitsanuchai Keawphichai, a businessman in the hotel industry, who understood the aspirations of Mr. Wicha Phromyong, Mr. Panachai Phisailert and the Doi Chaang people. He decided to assist them in establishing a coffee business (Ritpreecha, 2008). and worked out a suitable business model based on community involvement. He had an interest in Social Enterprise, as he explains here:

"When thinking about starting up a coffee business, I was interested in the Social Enterprise business model. Our purpose was to assist the Doi Chaang people to sell coffee at a fair price and to have a better quality of life due to their participation. We did not expect wealth." [Mr. Pitsanuchai Keawphichai]

Social Enterprise is a business model employed to solve social problems. The objective is to keep profit or non-profit organizations financially independent so they can sustainably achieve their goals. The social entrepreneur can thus generate both social impact and revenue (Social enterprise business models, n.d.).

The two key factors of Social Enterprise comprise an operating strategy and a resource strategy (Social enterprise business models, n.d.).

1. The operating strategy is composed of an internal organizational structure and external partnerships.
2. The resource strategy defines what resources the organization requires for accomplishing its mission, for example financial and human resources.

The Doi Chaang coffee business has generated social impact by creating the Doi Chaang Coffee Foundation. The Foundation has provided healthcare for community, scholarships for students, and various other activities to improve the villagers' quality of life, and also promotes the preservation of local culture (Legend of Doi Chaang Coffee, n.d.).

"We give 30 % of our revenue to the foundation. Our plan is to build a hospital, school, and football field, to support community activities, to promote culture and enhance environmental protection".

[Mr. Panachai Phisailert]

As a strategy for maintaining the organization's finances, Mr. Pitsanuchai Keawphichai applied the wine-making model to the Doi Chaang coffee business. He thought that coffee was like wine. In the wine business, the quality of the product is very important. Therefore, making a premium coffee product is the way to succeed. It was a good opportunity since the quality of the Arabica coffee grown in Doi Chaang scored highly on international testing standards. It meant that he could establish a specialty coffee business exporting to international markets at a high price. Thus, the Doi Chaang Coffee Co., Ltd., a genuinely social enterprise, began in 2003.

"In my opinion, coffee is like wine. I am a hotel businessman, so I am familiar with wine. Wine is a global business and the important thing about wine is quality. The quality of our coffee is good. We sent it for international testing and it got a high score. Therefore, it was possible to start an export business."

[Mr. Pitsanuchai Keawphichai]

This new coffee business needed effective organization and a high-quality product. Thus, effective organization; human resources and financial capital were the three significant issues. Mr. Panachai Phisailert then invited his brother and other relatives, in total seven people, to start up the company. At that time, the Doi Chaang founders had only a small amount of money. Mr. Panachai Phisailert had to sell his car and borrow money from his relatives. Mr. Wicha Phromyong and Mr. Pitsanuchai Keawphichai supported the enterprise with their own money. Mr. Wicha Phromyong also had to borrow from his friends (Ritpreecha, 2008).

“At that time, we had no money. I had to sell my pickup truck and borrow cash from my cousins. Mr. Wicha Phromyong and Mr. Pitsanuchai Keawphichai also provided their own money but it wasn’t enough. Therefore, Mr. Wicha Phromyong borrowed from his friends.”
[Mr. Panachai Phisailert]

With a high-quality product in mind, the men persuaded the Doi Chaang farmers to improve coffee quality and buy coffee cherries at a high price. With a focus on the export trade, they needed two things. The first one was international partners. So, they tried to find suitable partners who would share the same vision of conducting business for people, not only for financial benefit. Finally, after a careful selection process, they found their first international partner in Canada and together began a world class business. Nowadays, they have many overseas partners in Japan, Korea, and Singapore (Ritpreecha, 2011).

The second thing they needed was an international standard certificate in order to gain recognition. The most valued certificate was the Fairtrade one. It is a sign to guarantee that the Doi Chaang coffee product has been certified in accordance with international Fairtrade standards to secure a better deal for farmers and workers. In addition, Doi Chaang coffee has been awarded other global certificates namely Member of the Specialty Coffee Association, USDA ORGANIC, EU Organic Farming, Beyond Fairtrade, Thai Geographical Indication and EU Geographical Indication. All these global recognitions came about as a result of a sustained and intense collaboration with the Doi Chaang farming group, involving the production process from planting to roasting and distribution (Figures 1-7) (Legend of Doi Chaang Coffee, n.d.). Consequently, Doi Chaang coffee has become a renowned specialty coffee product in both the Thai and International markets.

Social Capital and Community Development

Social Capital has played a principle role in the case of the Doi Chaang coffee business. The day before setting up the company, Mr. Panachai Phisailert, the village Headman of the Doi Chaang community, had only coffee plants; his

intention was to deal with the problem of the low selling price of the coffee beans. He went down to consult Mr. Wicha Phromyong, with whom he had a close **relationship** and whom he **trusted**. He expected that Mr. Wicha Phromyong would be able to help him. Finally, he got the assistance he was seeking.

After talking with Mr. Panachai Phisailert, Mr. Wicha Phromyong read up about coffee and tried to find experts who could help him. He met two key persons who were to provide a good **network**: Mr. Pitsanuchai Keawphichai and Ms. Patchanee Suwanwisolkrit. Mr. Pitsanuchai Keawphichai, a businessman in the hotel industry, helped to establish the coffee business, while Ms. Patchanee Suwanwisolkrit, a researcher at Chiang Mai University, supported the enterprise with her knowledge of coffee farming practices.

Relationship, trust and **network** are the three elements of Social Capital. It is a new form of capital, derived from assistance and cooperation between people or social groups (Putnam,1993; Triwanchai, 2019). There are three influential views of Social Capital namely those of Pierre Bourdieu, James Coleman and Robert Putnam (Winter, 2000; Fundamentals of Social Capital, n.d.).

1) Bourdieu on Social Capital

According to Pierre Bourdieu's perspective, Capital consists of three types: economic capital, cultural capital and social capital. Social capital refers to a social connection that can be turned into financial capital and institutionalized in the form of a title of nobility. It is based on social relationships, functioning as a network of connections, all of which are utilizable. The relationships are the neighborhood, the workplace, and kinship. Social capital is defined as 'the aggregate of the actual or potential resources which are linked to membership in a group-which provides each of its members with the backing of the collectively owned capital'. The important role of social capital is to provide access to resources through participation in the network and augmented economic capital of the individual or group (Winter, 2000).

2) Coleman on Social Capital

James Coleman defined social capital by its function. This function is the value of the social structure to members as a set of resources that they can use to

complete their intentions. It comprises obligations, expectations, as reciprocal relations among persons, information channels, norms and effective sanctions that restrict and or promote certain kinds of behavior. Moreover, social capital includes the role of norms and sanctions within family and community networks that facilitate the fulfilment of human capital for individuals such as educational achievements (Winter, 2000).

3) Putnam on Social Capital

Social Capital, according to Robert Putnam's perspective, is a new form of capital that is related to social relationships. It is defined as the quantity and quality of resources that an individual or group or community can access through its social network (Lin, 2000). Social capital includes trust, norm and network. These elements increase the effectiveness of social activities and are influenced by the level of confidence demonstrated in personal and social commitments. Moreover, it increases expectations of reciprocity. All components affect institutions whose objective is to collaborate in solving problems by collective action. (Putnam, 1993; Triwanchai, 2019).

Social Capital is indirect capital. It is a mediating factor connected to direct resources such as human capital, physical capital and natural resources. People can access these direct capitals at low cost through social relationships and the social networks of which they are members. Therefore, Social Capital is the fundamental factor in social collaboration enhancing community development.

Inequality of Social Capital

Even though social capital encourages desirable outcomes, its possible negative effects should be a matter of concern. Social resources correlate to social relations and networks that are advantageous in similar social groups. Different socioeconomic characteristics can induce inequality of social capital. In society, some social groups play a major role in the social structure. There are unequal opportunities to access resources for groups with inferior or different status for example in terms of race, gender, religion and other characteristics. The members of a social group tend to form

networks connected to other members from the same group (Lin, 2000). In addition, the concept of social capital is based on social relations. Actors probably avoid conflicts that can harm the relationship because this can reduce their benefits in the future. Therefore, they face difficulties in making the decisions needed to solve problems.

Facing a Significant Crisis

The Doi Chaang Coffee Company organized coffee bean production by establishing 12 plantations. The coffee farmers were hill tribe people in Doi Chaang, including the Akha, Lisu and Chinese; some of them were Mr. Panachai Phisailert's relatives (the managing director of Doi Chaang Coffee). Each plantation followed the standard quality criteria for the product. The coffee cherries from the 12 plantations were sold to the company and the committee determined the selling price: the minimum price of 100 baht per kilogram was guaranteed by the Doi Chaang Coffee Company (Ritpreecha, 2008).

The reputation of the specialty coffee from Doi Chaang meant the selling price was high at first. This excessive price caused coffee adulteration as low-quality coffee cherries from outside the Doi Chaang area were sold to the company. This made the company lose 14 million baht (Ritpreecha, 2011).

“There was one disloyal person who brought us low quality coffee, which caused us to lose a lot of money. We completely rejected it because it destroyed our customers’ brand loyalty.”

[Mr. Panachai Phisailert]

There were many forms of adulteration such as outside merchants who set up factories on Doi Chaang and brought in coffee from outside claiming it was Doi Chaang coffee. Many cafes showed our product packages on their shelves but used coffee beans from elsewhere to sell to consumers. Because of these instances of adulteration, we changed the company name to Doi Chaang Coffee Original, changed the product packages, and charged a fee for using a Doi Chaang coffee sign in front of the cafe. We had to spend money on inspecting suspected “pirate” cafes (Ritpreecha, 2016).

Time to Make a Decision

The Doi Chaang coffee business was founded on the diligence and dedication of the founders with help from their networks. As a result, Doi Chaang coffee has become world class. This has helped improve the quality of life of the Doi Chaang people. Furthermore, the environment of Doi Chaang has developed considerably compared with the past. In order to be a sustainable business, Doi Chaang Coffee Original has to maintain a high standard of coffee quality to ensure the consumers' trust. Coffee adulteration is, therefore, a major problem, causing a crisis affecting Doi Chang's coffee business. Solving the adulteration problems caused by outsiders is not difficult. However, problems of contamination that occur within the 12 groups of farmers on Doi Chaang itself, i.e. members of the Doi Chaang community, possibly including some of Mr. Panachai's relatives, is more complicated to solve. So, if you were Mr. Panachai, how would you decide to solve this problem?

Discussion Questions

1. What are the key factors in establishing and operating the Doi Chaang coffee business?
2. Doi Chaang coffee Original is a successful organization. What are the important principles behind this achievement?
3. How can the success of Doi Chaang Coffee Original become sustainable? What are the indicators of sustainability?

Appendices



Figure 1: Fairtrade



Figure 2: Member of Specialty Coffee Association



Figure 3: USDA ORGANIC



Figure 4: EU Organic Indication



Figure 5: Beyond Fairtrade



Figure 6: Thai Geographical Farming



Figure 7: EU Geographical Indication



Figure 8: Doi Chaang Foundation

Source: <https://doichaangcoffee.co.th>



Figure 9: Day Care Center by Doi chaang Foundation

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Doi Chaang Coffee: A Sufficiency-Based Community Enterprise for Sustainability

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Abstract

From the royal initiative of His Majesty King Bhumibol Adulyadej the Great, who initiated the Royal Project to encourage hill tribe people in various highlands to reduce forest clearance and turn to growing cash crops instead of opium cultivation. Farmers in Ban Doi Chang area were therefore encouraged to grow Arabica coffee but found pressure to lower coffee price by the middlemen. Subsequently, Khun Wicha Phromyong, Co-Founder of Doi Chaang Coffee Original Company Limited joined forces with the new generation of Akha community leader, Mr. Adel-Mr. Panachai Phisailert, and experienced businessman-Mr. Phitsanuchai Kaewpichai, in developing quality organic coffee varieties and marketing them internationally until Doi Chaang coffee is accepted in the international market. By sharing knowledge with community members, it has helped to expand the production of quality coffee, as well as helping the majority of Doi Chaang residents to be certified as Thai, while reducing conflicts between the Akha and Lisu tribes within the village. Since Arabica coffee grows well in the shade of trees, as a result, the forest that has been degraded in the past has been restored

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to a fertile forest with a total agricultural area of more than 30,000 rai. These resulted in generating income for the Doi Chang community, with revitalizing pride in ethnicity and dignity of Thai hill tribe people. Doi Chaang Coffee is therefore regarded as a case of community enterprise that adheres to the Sufficiency Economy Philosophy, progressing with balance and aiming for sustainable development relentlessly.

Keywords: Doi Chaang Coffee, Community Enterprise, Sufficiency Economy, Sustainable Community Development