

THE PENNSYLVANIA STATE UNIVERSITY
SCHREYER HONORS COLLEGE

DEPARTMENT OF SUPPLY CHAIN AND INFORMATION SYSTEMS

BEST PRACTICES FOR RESPONSIBLE SOURCING PROGRAMS IN THE COCOA
INDUSTRY

SAMANTHA R. JARMUL
FALL 2013

A thesis
submitted in partial fulfillment
of the requirements
for a baccalaureate degree
in Supply Chain & Information Systems
with honors in Supply Chain & Information Systems

Reviewed and approved* by the following:

Robert Novack
Associate Professor of Supply Chain Management
Thesis Supervisor

John Spychalski
Professor Emeritus of Supply Chain Management
Honors Adviser

* Signatures are on file in the Schreyer Honors College.

ABSTRACT

A potential supply scarcity in the cocoa industry coupled with increased demand from stakeholders for corporate social responsibility and sustainability programs has put added pressure on chocolate and confectionary companies to take action. Due to the inherent nature of these issues, much of the obligation and responsibility to ensure a consistent supply of high quality cocoa procured in an ethical and sustainable fashion falls on the supply chain and procurement functions of corporations. Although progress has been made regarding responsible sourcing programs in the cocoa industry, great strides still need to be made to truly reform the cocoa supply chain and effectively carry out company goals in this arena. Five multinational food and chocolate companies were studied and interviewed about their responsible sourcing programs for cocoa. The companies shared current practices, goals, benefits gained, and challenges experienced. From this, best practices were compiled and the potential longevity, success, and impact of these programs were analyzed.

TABLE OF CONTENTS

Chapter 1 Introduction	1
Chapter 2 Background.....	4
Chapter 3 Methodology.....	16
Chapter 4 Discussion of Findings	18
Chapter 5 Recommendations for Best Practices and Program Success Analysis	30
Appendix A Interview Guide	40
Appendix B Current Cocoa Supply Chain in West Africa Compared to Fairtrade Supply Chain	42
WORKS CITED.....	44

Chapter 1

Introduction

Cocoa is a heavily traded international market commodity. Around 3.9 million tonnes of cocoa beans are produced every year with an estimated export value of \$10 billion (World Cocoa Foundation 2012; Fairtrade Foundation, 2011). With a growing middle class in emerging markets coupled with the global financial crisis recovery providing increased discretionary spending in the West, the demand for chocolate will exponentially increase by year 2020 (Goodyear, 2013). Unfortunately, the industry is plagued with social, ethical, financial and environmental concerns that are creating a scarcity concern in the market. Low investment, out-dated technology, aging trees, climate changes, child labor, slavery, and decreased profits to farmers are some of the key challenges facing the industry today and many of these issues have grabbed the attention of the world population, especially in developed countries.

Businesses today are being confronted with pressure to minimize costs when input prices are increasing while also behaving in an ethical and socially responsible manner. Thus, there is an internal pressure to continue to create stockholder value, while also an external exigency to provide stakeholder value throughout the supply chain. Companies are now held responsible for the actions and business practices of their suppliers and, as a result, it is important for large corporations to ensure their suppliers are acting ethically. Neglecting to do so will have damaging effects on the brand image and reputation of a company as well as top line disadvantages. Consequently, companies in the confectionary and chocolate industry have a great challenge on their hands. Over ninety percent of cocoa farms are small-scale family run operations that are struggling to survive and, as a result, these farms employ child labor and

unfair working conditions in an attempt to increase profit margins. Now that these issues are visible to the public, large confectionary and chocolate corporations are under a microscope to remedy the situation. It is a responsibility that can have major implications on the overall revenue of a company if not carried out, but one that can also differentiate businesses in the market. Improving the livelihood of farmers and their communities provides marketing advantages for businesses and a positive perception in the minds of consumers who are demanding traceable products and ethical behavior.

Outside of the public relations and social responsibility realm, companies need to address the issues in the cocoa supply chain from a profitability and sustainability perspective. From a simple economic outlook, less cocoa means increased prices and decreased sales for corporations. If companies want to continue to grow, they will need to implement strong risk management strategies that provide a sustainable supply of critical raw materials at an acceptable price. These strategies must be steered by supply chain and procurement divisions that must find the delicate balance between cost, quality, and social responsibility. To achieve this, businesses will need to make their buying practices more efficient, innovative, and collaborative. World output of cocoa will not increase unless farmers receive fair pay, technological advancements, trainings, and community developments. Procurement departments will need to embody a “win-win” strategy with their suppliers in order to achieve high quality and reliable sources of raw materials. If investments are made in cocoa producing countries and communities, all parties will experience financial gains and business longevity.

While many large multinational companies in the chocolate and confectionary industry understand this exigency and are developing strategies to combat the issues in the market, gaps still remain in understanding what the most effective strategies are and how long it will take to overcome the constraints impeding success. In this paper, a background of the current landscape of the cocoa industry and Corporate Social Responsibility as a whole will be provided. Then,

current practices of large multinationals will be explained and results gathered from interviews with supply chain professionals in the chocolate and confectionary industry will be shared.

Readers will learn the major challenges facing these companies today as well as the projected evolution of sustainable cocoa procurement practices. Finally, readers will discover whether these supply chain professionals believe that they can sustainably source one hundred percent of their cocoa by year 2020 or ever.

Limitations and opportunities exist in both the short-term and the long-term for corporations and farmers, and the decisions made in today's supply chain and procurement departments will determine whether or not companies and farmers thrive and prosper.

Chapter 2

Background

Industry at a Glance

In most developing countries around the world, agriculture continues to dominate economic growth and remains the main source for employment, livelihood, and income for fifty percent to ninety percent of the population (Kwa, 2001). Small farms make up over ninety percent of this robust agriculture industry (Fairtrade Foundation, 2011). In the cocoa industry specifically, ninety percent of the supply is produced from small farms, which consists of only two to five hectares of land (World Cocoa Foundation, 2012). Total world employment for primary cocoa production is estimated at fourteen million workers and an additional fifty million people depend on cocoa in their livelihood (International Cocoa Organization, 2012). The cocoa industry is fast growing with expected demand increasing by thirty percent through 2020 (Fairtrade Foundation, 2010). However, supply scarcity and humanitarian concerns plague the industry and producing countries are experiencing major challenges in meeting market demands.

The Players

In areas such as West Africa, Indonesia, and Latin America, poor farming techniques and unfair labor practices are still a reality. Ghana and Côte d'Ivoire jointly produce sixty percent of the world's cocoa supply and Africa is the principal cocoa producer with a seventy-three percent market share in 2012 (World Cocoa Foundation, 2012). Southeast Asia and Latin America contribute the remaining twenty-seven percent with Indonesia leading the cocoa production industry outside of Africa. All of these countries experience their own unique challenges,

however the issues surrounding out-dated equipment, disease, aging trees, low profits, and child labor are consistent among all cocoa producing countries.

Côte d'Ivoire

The Ivory Coast is the world's largest cocoa producer with thirty-five percent of world cocoa production yield. However, the region lacks consistency in the market place due to its political instability and decade-long civil war. Cocoa prices reached an all-time high in 2011 after a failed coup, corrupt elections, and civil war caused supply scarcity concerns in the market (Bethel, 2012). Outside the political realm, deteriorating infrastructure is also an issue along with aging trees, periods of droughts, and other issues (Bethel, 2012).

Today, there is a new pricing system in place run by the organization, Ivorian Cocoa and Coffee Council (CCC). The CCC helps stabilize cocoa prices by fixing them and gives an increase in margin (forty percent to about sixty percent of the export price) back to the farmer. However, smuggling is still a massive issue and 200,000 tons of cocoa goes unreported in the country every year (Bethel, 2012). The CCC is a step in the right direction, but the profits earned by farmers are still meager and compliance evasion is rampant.

Since an average farmer takes home an income of \$1,000 USD/year, they have little funds to invest in fertilizers, seeds, and improved technology. Considering sixty percent of the GDP for the country comes from cocoa, the industry is directly tied to the economic success of the Ivory Coast (Bethel, 2012). Consequently, investing in this sector is imperative for GDP growth and humanitarian improvement.

Ghana

Ghana, the second largest cocoa producer, is similar to the Ivory Coast and small farms make up the vast majority of the industry. Unlike its counterpart however, Ghana is stable and

democratic. It was the fastest growing economy in West Africa and ranks third in Africa for Foreign Direct Investments (Lavin, 2010). Although Ghana is experiencing great economic growth, this success is also catalyzing some challenges for the cocoa industry. The country is expected to see less investment in the cocoa industry due to the recent discovery of rich oil fields offshore known as Jubilee (Lavin, 2010). Considering the potential magnitude of oil in Ghana, the currency is likely to appreciate in the coming years. This can make Ghana less competitive in the cocoa commodity market.

Indonesia and Southeast Asia

Indonesia is another large producer and ranks third behind the Ivory Coast and Ghana in yield output. Like the West Africa countries, there is little potential for investment and growth for many farms given their small scale (Fairtrade Foundation, 2010). Although Indonesian cocoa exports continually increase, pest infestation and disease is widespread and bubbling a perception of poorer quality than the cocoa found in Africa (Bethel, 2012). Although challenges like this exist, there is still high potential for cocoa production in South East Asia.

Latin America

Brazil and Ecuador are the two largest and most profitable producers of cocoa in Latin America. Each of them produces roughly one-third of Latin America's cocoa production. Venezuela, Columbia, and the Caribbean make small contributions to the industry (Bethel, 2012). Brazil used to be the second largest global producer of cocoa, but the fungus known as Witches' Broom destroyed a large amount of the country's plantations in the 1980s (Bethel, 2012). The industry is rebounding slowly in Brazil; however, substantial investment is flooding into the country for food production of all kinds causing an appreciation in land value (Bethel, 2012). This makes it more difficult for cocoa farmers to invest in new land and increase yield. Coupled

with the depreciation of their own currency, the real, it will become increasingly more challenging for farmers to garner profits. Cocoa is the fifth largest export in Ecuador, and since Ecuador has no currency of its own and uses USD, the country can improve its competitiveness in the region (Bethel, 2012).

Market Analysis

The chocolate and confectionary Industry is a \$120 billion a year global industry according to IBISworld. Economic recovery in the western world coupled with rising incomes in the emerging countries/regions like India, China, and Southeast Asia are contributing to a forecasted high industry growth in the near future. According to the Fairtrade Foundation Commodity Briefing – Fairtrade and Cocoa – demand for cocoa is expected to rise by thirty percent by the year 2020. Of course, this is promising news for the Mars, Hershey's, and Nestlé's of the world, but unfortunately for large, and small, confectionary companies of the world, there is a massive supply issue in the cocoa industry casting a looming cloud over the potential success of these companies.

The Global Trade Atlas tracks cocoa import data, and in 2009 the top importer of Cocoa was the Netherlands, followed by the U.S., Germany, and Malaysia (Fairtrade Foundation, 2010). Cocoa prices are affected by numerous factors including stock/grind ratios, future demand projections, global food prices, consolidation/fragmentation in cocoa trade and processing, political stability or government subsidies in producing countries, weather, disease, and currency fluctuations (Riley, 2012). Cocoa is traded on two world exchanges in two currencies - the British pound and U.S. dollar (Riley, 2012). Soft commodities saw overall price increases after the global financial crisis, and the input cost of crude oil rising put significant pressure on supply chain costs for commodities in general. As previously discussed, the political turmoil in the Ivory

Coast sparked record-high prices in 2011. Prices stabilized in 2012, but supply is lagging demand as the demand for cocoa continues to rise.

Since the chocolate industry has seen great growth over the past years, there is more pressure to deliver quality cocoa at a low price. Given that most major chocolate and food companies purchase their cocoa through a commodities market, profit margins for the farmers are continually squeezed and it is making it extremely difficult for these farms to survive. In fact, growers in West Africa are likely to receive just 3.5 percent to 6.4 percent of the final value of a chocolate bar, depending on the final percentage of cocoa in the product (Goodyear, 2013). To put this in perspective, farms used to make about sixteen percent profit margin in the late 1980s – a rather stark decline. Contrast this to the manufacturer’s share, which has increased from fifty-six percent to seventy percent and the retailers’ share has also seen profit gains from twelve percent to seventeen percent since the late 1980s (Goodyear, 2013). These low prices paid to farmers by brokers result in low productivity, decreases in technological innovation and yield, and poverty in farming communities.

Adding to this struggle is the fact that while these cocoa prices are falling, the price of inputs for the farmers are rising. Smaller farms do not benefit from the bargaining power larger farms enjoy and, as a result, they are extremely vulnerable to exploitation by intermediaries. Farmers use out-dated technology and lack the resources needed to buy inputs such as fertilizers, new technology, irrigation systems, etc. (Kwa, 2001). Maintaining the farm and disposing of aging non-productive trees is also an expense many farmers cannot afford. The communities that these farms reside in also have very poor education and healthcare services and lack access to clean water and electricity. In order to protect and provide for their families, many of these farm owners are abandoning their production. The younger generation is tending to migrate towards the city and into manufacturing jobs, creating a gap in the future generations of farmers.

Currently, the average age of a cocoa farmer in West Africa is fifty-one, which is concerning to the longevity of the industry and cocoa supply chain (Goodyear, 2013).

In this type of environment, it is the survival of the fittest, where the strong are the larger farms. This should be worrisome to the companies of the chocolate and confectionary industry since small-scale family farms supply ninety percent of the world's cocoa (Goodyear, 2013).

As smaller farms struggle and eventually die-off, the industry will find it increasing difficult to provide sufficient supply for this high market demand. One of the responses to this issue from the farmers is the use of child labor.

Child Labor and Slavery

Child labor is a continuing practice widespread throughout West Africa. As previously mentioned, this unfair labor practice stems from farmers taking home little profit and having the inability to invest in technology and labor. Simply, the market demands cheap cocoa and the only reasonable way for many farms to sustain their business is to employ cheap labor – children. Human trafficking in this region is also a sad and true reality. Due to the extreme impoverishment of many of these African countries, relatives sell their children to traffickers or to farm owners, or in some cases, kidnapping takes place (Food is Power, 2013) Surrounded by this intense poverty, children, in order to help financially support their family, begin working on family or neighboring farms at a young age. The average age of children working on the farm is between twelve and sixteen years, however it is not uncommon to find children as young as seven to eight years (Fair Labor Association, 2011). To make matters worse, most of these children are uneducated and will not receive any sort of education in their lifetime. Obviously this has both negative short-term and long-term effects for the children, and ultimately results in the cycle of poverty continuing into the next generation.

Although many companies are working with non-government organizations (NGOs) to eliminate child labor, a lot of progress still needs to be made. The governments of Ghana and the Ivory Coast lack resources needed to properly investigate culprit farms. Moreover, the issue of fair pay to farmers needs to be addressed; if farmers are not receiving a fair wage, they will continually resort to these types of unethical behaviors.

What is even more concerning is that the Fairtrade Foundation has had to suspend several of their “Fairtrade Certified” West African suppliers due to evidence of child labor practices. This illustrates that farms can fly under the radar of NGO supervision and that stricter regulation and audits will need to take place in the future (BBC, 2010).

Consequently, it is imperative that multinationals procuring cocoa from these developing countries employ robust corporate social responsibility (CSR) and sustainable procurement practices into their supply chain strategies.

Corporate Social Responsibility

In today’s business environment, multinational companies are confronted with a growing demand for social accountability from stakeholders. Although this task can be increasingly challenging in the home country, it can become increasingly difficult as the supply chain lengthens and becomes more complex. Nonetheless, the pressure lies on businesses to ensure that their company and their suppliers are acting responsibly, ethically, and sustainably. Consequently, procurement has a crucial and challenging role; they must ensure the company’s suppliers, act and behave in compliance with international standards, adhere to the company’s core values and sustainability objectives, deliver high quality products, and provide a competitive price for the business.

The Challenge

It becomes a challenge for companies to employ successful CSR practices due to the complexity of supply chains and the stability and business practices of the countries that are involved in the network. As the borders between countries open and globalization becomes a major growth strategy for multinationals around the world, more and more businesses are pursuing foreign direct investment opportunities and/or sourcing from abroad. Although great opportunity stems from sourcing abroad, there are also concerning drawbacks, especially in the developing world. First, suppliers can become inclined to cut corners in order to deliver low cost options, and this can result in defying labor standards, risking the health and safety of their workers, endangering the environment, and adopting unethical business practices. Additionally, some governments and businesses in other countries have different definitions of what “fair labor” entails and this can be reflected in their unfair working conditions and wages. In today’s world, multinationals are seen as responsible for the actions, behaviors, and policies not just of their own company, but also of their suppliers. This becomes difficult when multinationals lack control over their suppliers’ processes, and becomes a unique challenge for procurement departments to address.

Despite these challenges, CSR has become a necessary practice for businesses in light of pressure from stakeholders, consumers, media, government, and the industry at large. The exigency behind this notion is clear due to the catastrophic events that occur when a company does not monitor and ensure ethical behavior from suppliers. One doesn’t need to look much further than the examples of Nike, Apple, GM, H&M, and other large multinationals to see the damaging effects that supplier behaviors can have on the public relations and reputation of a company. However, when carried out efficiently, CSR can positively impact the bottom-line (Carter, 2004). Research suggests that CSR actually has the ability to increase sales revenue and

market share by improving the customer's perception of a company (Salem, 2008; Peloza 2006). Forward-thinking companies today are using CSR practices in their marketing and advertising campaigns and are reaping the rewards such as increased customer loyalty and the development of new consumers (Carter, 2004). Due to the demands of stakeholders, the detrimental consequences for not employing CSR and the benefits to companies that utilize it, companies are finding that creating a CSR strategy and fulfilling it is now necessary for the company's success and longevity in today's business environment.

Sustainable Procurement/ Responsible Sourcing Practices

Closely tied to CSR, sustainable procurement, or as many companies coin it, "Responsible Sourcing," also contributes to an increase in profit margins by decreasing risk in the supply chain and ensuring a sustainable source of supply for the future.

Carter speaks to the benefits of responsible sourcing: "The increased involvement by purchasing managers in socially responsible activities leads to improved trust in and commitment to suppliers and to increased supplier performance" (Carter, 1998). They also find that sustainable procurement practices lead to an enhanced competitive advantage due to the "increased commitment by their customers and improved performance as measured by lead times, quality, and efficiency" (Carter, 2002). Responsible sourcing is defined as the process of purchasing goods and services without causing unnecessary harm to, or exploiting, humans or the natural environment. This definition concentrates on four primary areas including: labor standards, health and safety, environment, and business ethics.

It is important that suppliers are instituting labor standards that are ethical and reflective of the purchasing company's values. This includes proper compensation, fair working hours, safe working conditions, and an environment free from harassment, discrimination, and other violations of human rights (Krueger, 2008). In some cases, this also entails acknowledging the

workers and families of workers as stakeholders: “In today’s norm, suppliers’ workers and their families are considered stakeholders of the corporation, and therefore, need to be properly managed” (Park-Poaps and Rees, 2010). Thus, in industries like the cocoa industry, it is important to address the fair labor practices inherent in the cocoa industry at a community level. Simply put, if these communities are not successful, the farms will struggle and eventually close down. If companies want to ensure supply for their products in the long-term, drastic changes need to be made in the fair labor and community development realm.

Health and safety and labor standards are intertwined, but it is important to note the exigency behind having safety-related codes of conduct and procedures in place for workers. For example, in the cocoa farms of Africa, many children use unsafe machetes to extract cocoa beans from trees. Issues like this need to be addressed to make the farms more efficient, and also to protect people who cannot necessarily protect themselves.

Ethical business behavior is difficult to assess, especially given cultural barriers and differing business norms. For example, in some cultures, bribery is considered appropriate or the laws surrounding child labor are nonexistent. This can make it extremely difficult for companies to ensure their suppliers are acting appropriately. In the cocoa industry, companies can utilize the expertise of NGOs to help with monitoring and ensuring compliance. They can also work closely with farmers and provide them with needed tools to act ethically. Again, given the cultural differences in developed versus non-developed countries, this task can be extremely difficult, but it is necessary to ensure the longevity of both farms and confectionery companies.

Purpose of Employing Sustainable Cocoa Procurement and CSR Practices

In the cocoa industry, the benefits of sustainable sourcing are magnified and inflated. Due to the nature of the industry today, it is now crucial for companies to employ sustainable sourcing and CSR practices for cocoa purchasing. If companies ignore these practices, they will

suffer from negative public relations, consumer unrest, potential quality issues, and supply scarcity risk in the future. Maloni and Brown explain:

Beyond ethical considerations, consumer criticism of perceived CSR deficiencies can be extremely detrimental to corporate profitability and market share, and the infusion of supply chain accountability into CSR only increases the complexity of corporate CSR management. Companies may therefore find it more prudent to anticipate future CSR issues in their supply chains and integrate supply chain CSR standards into daily operation (2006).

As a result, it is simply not enough to develop codes of conduct to monitor responsible sourcing and CSR. After all, cocoa farmers will likely have little interest in actually complying with these because of the financial cost, implementation challenges due to cultural differences, lack of investment funds, or the presence of a weak compliance and auditing system that allows them to ignore a company's protocols. This reality catalyzes the need for companies to maintain strong sustainable procurement practices including supplier audits, investing in farms and communities, and working with NGOs to ensure farms are acting ethically and also sustainably. If this occurs, confectionery and chocolate companies will reap increased profits, strong relationships with suppliers, steady cocoa supply, positive image in the marketplace, and an enhanced competitive advantage.

A great deal of literature exists on cocoa farming and the issues surrounding the industry, and to a lesser extent, on what companies are doing to ensure a sustainable supply of cocoa. It is agreed that changes need to be made so that all parties involved can prosper and financially succeed. However, there exists a gap in recent research as to how companies should effectively go about this. Research shows that supplier codes of conduct and partnering with NGOs are a strong foundation, but it is simply not enough to rely on these. Companies in the cocoa industry must go further to ensure all of their cocoa is sustainably sourced in the coming years. Emulating

the success of similar industries, such as the coffee industry, coupled with CSR/Responsible Sourcing initiatives and collaborative, mutually beneficial partnerships will help advance this movement and create a stronger cocoa market.

Chapter 3

Methodology

This research has been focused on large, multinational leaders in the chocolate/confectionary industries. Five chocolate/confectionary companies were contacted based on their performance and global impact in the industry. Of the five companies that were contacted, four responded for interviews. In addition to the information collected from the interviews, publically available information regarding each of the five companies' sustainability practices and CSR strategies were also examined. The interviews spoke to the current and future practices, challenges, and benefits of such a program in greater detail than the information found through online company resources. To ensure consistency and appropriate comparison, the same questions were asked to all companies interviewed. As mentioned above, the interview guide included questions revolving the overarching strategy of the sustainable sourcing program, the exigency for such a program, the challenges and benefits experienced, and the optimism for such programs moving forward. The interview guide can be found in Appendix A.

The five companies interviewed were large multinational corporations. Four of the companies are part of the Fortune 500 and the other one is privately owned (but is so large that they would also be in the Fortune 500 if public). The revenue for this group ranges from \$6 billion to \$94 billion. The total number of employees ranges from 14,000 to 330,000 employees. For confidentiality reasons, the names of these companies will not be disclosed in this paper.

The first company profiled is an international food processing company with revenues exceeding \$94 billion. The second company is a multinational consumer goods and food processing company that has revenues exceeding \$64 billion. The third company is a

multinational food processing company that focuses on snacks, chocolate, and confectionary products with revenues exceeding \$35 billion. The fourth company is an international chocolate and confectionary company with over \$6 billion in annual sales. The last company featured is an international chocolate and confectionary company with sales exceeding \$33 billion.

The interview answers, coupled with publically available information, were consolidated, analyzed, and compared to discover trends and similarities within responsible sourcing strategies. Despite minor differences in cocoa sourcing strategies, size of investment, and maturity of programs, many similarities were found in respect to their initiatives. From this, best practices were indentified and results to date were shared. Additionally, resources from the Rainforest Alliance and the Fair Labor Association were utilized to track the progress of these companies, understand the challenges that still exist, and provide recommendations for further improvement in this area.

Chapter 4

Discussion of Findings

Sustainable procurement strategies are becoming increasingly instrumental in the way chocolate and confectionary companies are now conducting business. The primary goal of such a program is to ensure each company has a sustainable supply of cocoa to meet an increasing world demand. In short, if companies want to stay in business, they need high quality cocoa available. Additionally, these companies are feeling pressure from their stakeholders to ensure their cocoa is sourced from farms that are acting ethically and protecting human rights. Due to issues surrounding a global cocoa scarcity and increased CSR demands, the majority of companies in the chocolate industry have created responsible sourcing initiatives.

These strategies share a common goal among all of these multinational companies: to source one hundred percent of their cocoa sustainably in the near future. In order to achieve this, companies understand the exigency behind empowering and enabling farms to become more productive. As stated earlier in this research, the social and human rights concerns that stem from the inherent nature of this business are directly related to the small profit farmers are bringing home from brokers. In order for farms to stay alive, farmers feel pressured to employ children and practice unfair and unsafe working conditions. Little to no funds can be used to invest in their property and many of these farms are failing as a result. The ones that do survive have seen quality issues and decreased yields. Companies understand that changes in this industry must be made and that these changes must take place at the source of the issue – the farmers. These farmers cannot work alone; they need the financial support and expertise of large chocolate multinational corporations, national governments, and non-governmental organizations.

The Strategy

In order to secure this valuable raw material and create a sustainable supply chain, chocolate companies need to ensure the well-being of the farmers who supply them and the communities in which they live. Due to these companies' presence in the market and sheer volume of cocoa they procure, these large multinational corporations have the ability to make a grand, positive impact on the livelihoods of farmers and the cocoa communities. However, they can still not take on this massive issue alone. Consequently, companies are partnering with NGOs such as the Rainforest Alliance, The International Institute for Environment and Development, and the Fair Labor Association to name a few. These NGOs have expertise in areas such as child labor sensitization, water and sanitation, farmer training, agriculture, and certifications. These private-public partnerships are critical for the success of these programs for they provide the support needed on the ground at these farms.

Creating Profitable Farms

Increasing profit to these small farms is a top priority for companies interviewed for this research. By nature, cocoa is a labor-intensive crop which translates into high labor costs to farmers. Additionally, depleted soil, disease, and little training are also depleting farmers' profits. Many of these farms have not changed in the last century, so the learning curve is steep; however, so is the potential opportunity. To achieve meaningful change, most chocolate companies believe farmer productivity is the top priority. Achieving this not only would increase yields and allow companies to meet rising consumer demand, but also will positively impact the social well-being of cocoa communities.

In order to increase the productivity and efficiency of these farms, most companies find providing training programs for farmers contribute the greatest impact to farm sustainability. This includes training in improved agriculture practices to increase yields. Examples can be

implementing improved irrigation techniques or utilizing more modern equipment. Some large chocolate companies even set up research and development (R&D) facilities dedicated to enhancing seed technology and agriculture practices. One company set up a farmer outreach company that uses mobile voice and SMS text messages to relay important farming information regarding practices, safety, health, labor, weather, crop disease, and marketing. This innovative approach to sustainable cocoa farming is providing modern techniques that enhance the productivity of thousands of farms. These companies are also partnering with NGOs that provide local farmers with best practices and updated modern information. One company shared that these modern farming methods increase cocoa yields by thirty to fifty percent. Additionally, farmers that are trained generate fifteen to forty percent greater yields than non-trained farmers. There is a social benefit from this training as well. For every one thousand farmers that are trained, over two hundred children are removed from dangerous forms of work. This increased efficiency is directly impacting the profitability of the farms and the regional economy in which they operate. Now, the younger generations have a reason to work on the farm and resist migrating to cities or working in other industries.

In addition to training opportunities, companies are also replenishing farm soils and providing fertilizers to farms. This ultimately leads to greater yields and improved quality. By partnering with both private and public organizations, farmers now have access to the proper agriculture products and fertilizers. Some of the companies featured also have R&D facilities researching plant genetics and breeding and pest-resistant formulas for plants. This technology also contributes to increased yields. Training programs, married with industry-related research and services, are allowing farmers to improve productivity and ultimately, their livelihood.

Improving Social Conditions

Although training programs provide social benefits to cocoa communities, most large multinational companies are going beyond profit enhancing strategies to reform the social issues prevalent in the industry today. As discussed, child labor, slavery, and unfair working conditions are common in many cocoa farms. Training farmers and increasing farm efficiency helps counteract this, but more must be undertaken to truly put an end to these human rights issues. Thus, chocolate companies are partnering with NGOs such as the Fair Labor Association to perform audits and monitor farm labor practices. Companies have also included strict “No Child Labor” clauses in Supplier Codes of Conduct. Companies also source Fairtrade Certified and/or Rainforest Alliance Certified and UTZ Certified cocoa to address social, economic, and environmental concerns. When farms are certified, they can demand a premium for their cocoa, and thus, adhering to fair labor practices becomes an incentive to behave ethically and responsibly for these farmers. These standards provide decent wages, better access to healthcare and education for farming communities, and higher farm productivity and product quality.

Additionally, some of these multinational companies are building schools and providing educational services to the farming communities. One company partnered with the World Cocoa Foundation to build and/or refurbish forty schools in four years in the Ivory Coast. Another partnered with the Bill & Melinda Gates Foundation to improve education and overall livelihood in the farming communities. Improving the well-being of the community is another important component to increasing cocoa yields. With better access to education, farms will develop a sustainable longevity as ownership transfers to younger generations. Better access to healthcare, water, and sanitation will improve the overall health of the communities and, thus, ensure that not only the farms are sustainable, but also the communities in which they operate as well.

Sourcing Sustainable Cocoa

The last component to responsible cocoa sourcing strategies driven by world chocolate leaders is the shared value of sourcing sustainable, high quality cocoa globally. Developing a sustainable supply chain begins with the investment in farmers and their communities coupled with auditing practices. As stated earlier, companies work with partners such as Fairtrade, Fair Labor Association, UTZ Certified, World Cocoa Foundation, and other NGOs to ensure farms are acting ethically and responsibly after certification. This provides an added assurance to consumers that the cocoa they are consuming was produced under fair conditions. In order to meet stakeholder pressure and consumer demand, companies are now paying premiums for their cocoa from certified farms.

Companies are also partnering with NGOs to audit the farming practices of their certified farmers. This step is imperative in any plan because it holds farmers accountable for their actions. Unfortunately, there is still a strong incentive for farmers to resort back to child labor and other unfair labor practices to increase profitability, and thus they need to be carefully monitored as they transition from their old techniques to new ones. Consumers are demanding traceability of the products they consume, and large multinationals need to provide this information. Although this is no easy task, to maintain positive public relations and increased sales revenues, companies must ensure the farms they source from are acting ethically and responsibly.

The Challenges to Overcome

Many challenges exist that are hindering companies from making significant progress with their responsible sourcing strategies. As expected, this is not an industry that can be reformed overnight; it is going to take years of effort and collaboration to remedy the complex problems inherent to the cocoa economy. Although some companies featured had specific issues

they are facing within their cocoa supply chain, many of them shared major complex problems that they are currently trying to address.

The premier challenge shared by these companies is the productivity of farms today. Farmers struggle with aging trees, plant disease, and poor infrastructure and equipment needed to meet customer demand. To remedy this, a great amount of investment is needed from chocolate companies. This involves financial support, research and development, and training opportunities on the ground with partners. Although most of these companies have implemented training programs and a commitment to plant science, many farms have not reaped these benefits due to the sheer size of the cocoa industry footprint. Thus, drawing on the collective expertise of NGOs, governments, and other supply chain members is imperative for the sustainability of the cocoa industry.

Another major issue that these companies are facing revolves around monitoring supplier accountability. Cocoa regions like West Africa are relatively new to the practice of voluntary certification (Rainforest Alliance, 2012). West Africa also had no established base of trained auditors who can monitor farms in an appropriate and productive way (Rainforest Alliance, 2012). As a result, auditors had to be selected and trained by NGOs such as the Rainforest Alliance and a local network of auditors was created. Although the quality and reliability of audits are improving, questions still exist as to whether these certified farms are truly adhering to set standards on a regular basis. The Fair Labor Association detected gaps in one major chocolate company's projected number of Fairtrade Certified farms and the actual number of farms complying with certification standards. Currently, the major chocolate companies do not have a comprehensive system in place to monitor labor and social compliance. Many of the cooperatives are actually performing the audits and since their performance is based on quality and volume delivered, a conflict of interest may arise that prevents them from sharing information truthfully. Although farm productivity is increasing, the Fair Labor Association

found that many farms still feel pressured to resort to child labor and other forced labor practices. This is especially true in the more remote regions of West Africa. Monitoring these farms is increasingly difficult due to bandwidth and cost, so many of these farms can remain undetected easier than more concentrated cocoa communities.

Outside the auditing realm, many farms are still not certified. Many reasons contribute to this. First, some farms do not want to be certified; some farmers are not so welcoming to foreign aid telling them how to do the job they have been doing for decades. On the other hand, some farmers are simply unaware of the programs that may be available to them. This is especially true for farms in remote areas. During field visits, the Fair Labor Association team noticed a lack of basic infrastructure to support services such as roads, schools, sanitation services, and access to electricity. This creates a real challenge for governments, NGOs, and companies to extend resources to these farms. Consequently, improvements in infrastructure and innovative approaches to meeting the needs of these farms must be created. Otherwise, farms will continue to struggle and they will not receive the investments they need to increase farm profitability, and improve the social conditions for farm workers and the community.

For farmers that are certified, similar challenges exist. Certified farms in remote areas find that they are not receiving sufficient quantities of fertilizers, pesticides, and other extension services from the government according to a study conducted by the Fair Labor Association. This makes it increasingly difficult for farms to behave in a socially responsible manner. According to several NGOs interviewed by the Fair Labor Association, remote farms are seldom targeted for social and infrastructure projects because they are simply too hard to reach. Thus, scaling up these programs and initiatives created by chocolate companies is increasingly difficult and limited.

Culturally, there are also disconnects between company strategies and implementation on the ground. When the Fair Labor Association interviewed community members in West Africa,

many local communities do not perceive child labor as an issue. Thus, interventions with these farms are a challenge and getting farms to commit to such a programs long-term is difficult.

There is a high reliance on NGOs and other external agents to motivate and monitor farms to ensure they are committing to developmental programs in their communities. In order for these programs to be successful, farmers and communities must be educated about the benefits that accrue from keeping children in school and unaffiliated with unfair working conditions.

Another major challenge surrounds the long-term stability concerns that exist in the cocoa supply chain today. In West Africa, eighty to eighty-five percent of cocoa procurement is through actors other than cooperatives and, instead, is carried out in the “unorganized sector” according to the Rainforest Alliance. These unorganized sectors are commonly known as “pisteurs” whose price per kg and quality standards are lower than those of cooperatives. Many farmers find this selling approach beneficial since they can be paid in cash immediately. Since most actors in the cocoa supply chain are driven by price, time of payment, and other benefits, cooperatives in company sustainability programs are in the minority (Fair Labor Association, 2012). Additionally, the cocoa supply chain is unstable since there are so many different players that farmers can sell to. Even when farmers are organized in formal cooperatives, many farmers will bypass these formal parties and sell to pisteurs if offered a better price. Many of these pisteurs mix cocoa beans from different farms together to achieve a more consistent quality, thus making it difficult to trace what farms the cocoa beans originate from. Due to the presence of these middlemen, transparency and auditing practices are extremely difficult to maintain; according to the Fair Labor Association, it is not possible to source one hundred percent of cocoa from sustainable cooperative partners alone. Reengineering of the supply chain must take place, and this is a challenge that, due to its sheer size, will not be attainable in the short and medium term. According to the Rainforest Alliance, most pisteurs are not willing to see the benefits and take on additional costs and responsibilities to certify all the cocoa they procure. New approaches

to dealing with the unorganized sector must be created to make continued progress in sustainable sourcing programs. Since this supply chain is complicated and complex, major reforms in the organized sector coupled with increased purchasing from sustainable cooperatives must take place to increase transparency and carry out corporate responsible sourcing initiatives. More information depicting the current cocoa supply chain in West Africa compared to the Fairtrade supply chain can be found in Appendix B.

Finally, awareness of corporate programs needs to become more visible to farmers. In a Fair Labor Association study, farmers consider NGOs and certification organizations to be their most frequent partners, not the chocolate companies themselves. Only nineteen percent of farmers surveyed consider themselves to be affiliated with large multinational sustainability programs. These farmers involved speak highly of the program and share benefits they received. To increase participation and favorability of these companies, they must become more visible upstream in the supply chain. Sponsoring schools and class materials along with on the ground training support can help make company brands and initiatives more visible to the farmers and enhance stakeholder perception.

Benefits of Responsible Sourcing Programs

Much work still needs to be done in this industry, however large multinational companies have made progress. First, all of the major chocolate and confectionary companies in the world recognize the need for action and have developed strategies to address the issues in the industry. Although some plans are more intricate and more mature than others, the fact remains that companies are making efforts to ensure a sustainable supply of cocoa in the future and that social and human rights are defended.

Thousands of farms have benefited from increased productivity due to the aid and investment provided by private/public partnerships. One company recorded that their Cocoa

Development Centers, that serve as training hubs for farmers, have in some cases increased the farmers' incomes by five hundred percent. Another claimed to have trained over one thousand farmers prior to 2012. A different company states they trained nearly twenty-seven thousand farmers and propagated over one million plants since beginning their responsible sourcing program. Interviews with farmers conducted by the Fair Labor Association and Rainforest Alliance support that farmers are enjoying upgraded skills, stronger organizations, and greater, higher quality yields. In fact, according to the Rainforest Alliance, the average net income of certified farmers was \$403 USD per hectare compared to \$113 USD for non-certified farmers. In the same study, Rainforest Alliance researchers found that two-thirds of certified farmers felt that their economic situation improved over the last year, compared to one-quarter of non-certified farmers. Much of this is due to the increased productivity on the farms, not necessarily the price premiums they can charge for their certified product. Partnerships with NGOs and company investment in farms have had profound impacts on the farmers' productivity and profitability, and in turn, have benefitted the multinationals that source from them.

Social benefits have come from company sustainable cocoa sourcing programs as well. Although the strategies may differ, some companies invest directly to build schools and support education, others donate to foundations like the Bill & Melinda Gates Foundation to make social contributions. Companies are attempting to improve the livelihood of the communities they rely on. One multinational chocolate company built and/or refurbished ten schools in 2013. Another major chocolate company has provided over six thousand community members with access to computer labs. Researchers found that just over half of the children on certified farms have reached an age-appropriate grade level, compared with just over ten percent of non-certified farms (Rainforest Alliance, 2012). Although both of these statistics need to improve, company initiatives have taken great steps to improve family life in the community and have contributed to

a higher quality education for children. These CSR programs are fostering improved perceptions of these companies and are also creating a more educated workforce – a true win-win scenario.

Additionally, these programs have also ended the worst forms of child labor for thousands of children. The Fair Labor Association notes that much improvement still needs to be made in this area, but a strong foundation has been laid to combat this issue. Given farm productivity is improving, there is less reliance on child labor. NGOs and certification agencies also monitor child labor practices on certified farms to ensure they are not using children unfairly. Although there are concerns regarding these auditing processes, progress is being made.

Environmental concerns are also addressed through these programs. Companies sourcing from certified farms are aiding in the prevention of soil erosion, water contamination, and deforestation (Rainforest Alliance, 2012). The Rainforest Alliance and UTZ certification requires cocoa farmers to plant native tree species, reduce their reliance on pesticides, and implement water protection measures. As discussed earlier, most of the major companies provide access to needed inputs and infrastructure to achieve this. Additionally, now that farms are becoming more profitable, they are incentivized to invest in their farms and utilize new technologies and environmentally friendly practices. Over sixty-five percent of certified farmers reported that they have an increased concern about the environment over the last year, compared with only thirteen percent of non-certified farmers (Rainforest Alliance, 2012). Environmentally conscious farms will experience increased yields and higher quality cocoa, which benefit the entire industry supply chain.

Responsible sourcing programs' impacts reach beyond farms, communities, and corporate players to benefit chocolate consumers as well. Now there is greater transparency surrounding the origin of the cocoa consumers purchase. Stakeholders demanded improvements in CSR and ethical sourcing practices and they are starting to see progress in these areas. In fact, some chocolate bars are made from one hundred percent certified cocoa. Consumers now have a

way of supporting company initiatives by buying chocolate bars that support social and ethical development in farming communities around the globe. Additionally, since yields are improving, it will become increasingly easier to meet the rising consumer demand for chocolate at an affordable price. Simply put, ensuring a sustainable supply of chocolate products will make customers happy; and happy customers translate into increased revenues for chocolate companies.

Chapter 5

Recommendations for Best Practices and Program Success Analysis

According to Fairtrade International, there will be a thirty percent increase in demand for chocolate by 2020. This is attributed to an economic recovery in developed countries, and the booming economic growth of developing countries. Although this market growth and expansion is exciting for member of the cocoa supply chain, supply scarcity issues cast a looming grey cloud over the industry's potential success. Unless companies take action, supply will soon outstrip demand, causing prices for the commodity to rise and quantities to decrease. Not only will this impact customer satisfaction, but also all players in the supply chain will struggle.

Cocoa farmers need to cope with poor infrastructure, little access to healthcare and education, poor sanitation, limited resources, and in some cases, political instabilities and local violence. Over fifty million people are dependent on cocoa for their livelihood, and fourteen million of these people reside in remote, rural areas (Fairtrade International, 2011). Additionally, over ninety percent of the world's supply of cocoa is sourced from small farms, most of which are unsustainable in nature (World Cocoa Foundation, 2012). In order for yields and quality to increase, large financial investments, social and environmental reforms, and collaboration from all members involved must occur. Multinational chocolate companies must take the lead and act responsibly, efficiently, and immediately. Stakeholder pressure is high and company reputations are at stake. The actions and behaviors of these large multinationals will lay the foundation for massive industry changes in farming productivity and social responsibility. Corporate Social Responsibility and Sustainability strategies are now a key ingredient for a company's success for

they will not only drive profits in the long-run, but also enhance a company's brand image and ensure the longevity of the corporation.

Interviews with major chocolate and confectionary companies were conducted, online company resources were explored, and industry reports from the Rainforest Alliance, UTZ certification, Fair Labor Association, and Fairtrade International were studied. Corporate strategies, benefits of company initiatives, and challenges that companies are facing were shared in chapter four, along with findings and results from industry reports. Best practices will now be summarized and an industry outlook will be provided in this chapter.

Best Practices for Responsible Cocoa Sourcing Programs

Creating the Exigency

As demand is predicted to outstrip supply through 2020, multinational companies could be facing a supply scarcity crisis for their most important raw material. In order to secure a reliable stream of quality cocoa, companies need to take action. Fortunately, many have. The top chocolate and confectionary companies of the world are undertaking projects and initiatives to address the issues surrounding sustainability and providing an improved livelihood for farmers and communities. Unfortunately, financial support alone cannot solve this complex and deep-rooted issue. Reforming the agricultural practices, cultural differences, education and healthcare access, and infrastructure systems are essential for long-term sustainable success.

The first step necessary for companies to address is creating an exigency to act. Fortunately, many large multinationals, and all of the companies featured in this research, understand the need for action and investment. However, most admit they are still in the learning phase. All of these programs are relatively new so although the foundation has been laid, efforts need to be greatly scaled-up, fine-tuned, and continually improved.

Due to the intrinsic nature of large, diverse multinational corporations, bureaucracy and internal constraints can be impediments to progress. Creating the appropriate program for each company's specific needs is crucial. Although many common themes exist among chocolate and confectionary companies' responsible sourcing programs, each one will be tailored to the individual needs of the business. Creating the appropriate cross-functional team to drive the strategies and monitor success is important. Additionally, gaining senior leadership buy-in is also crucial. For any CSR or sustainability initiative to be successful, the strategic vision must be set by top leadership and involvement across all levels of management is needed. The program must have visibility to the entire company as well as all stakeholders to ensure accountability and create a motivation and drive for progress. This exigency must then be instilled into the upstream members of the supply chain; buy-in from suppliers must be gained. Some of the companies interviewed described some initial apprehension from their suppliers regarding responsible sourcing programs. However, great progress has been made in this arena. Although it is an added upfront expense for upstream suppliers, many of these multinational companies can leverage their buying power to influence the decisions and practices of their suppliers who in turn can impact additional players upstream. This domino effect will continue to foster awareness, support, and an ethical consciousness in the cocoa supply chain.

Developing the Plan

After an exigency and passion for change is created, the next step is to develop the appropriate plan. As stated, there are nuances and differences in company strategies across the industry. However, common themes were identified and discussed in the last chapter. In order for companies to ensure a sustainable source of supply, corporate involvement and investment, creation of public/private partnerships, a research and development commitment, and sourcing from certified farms are key components to the success of sustainability programs.

The first pillar that supports these strategies is providing farms with the tools that enable them to become more profitable. In order to do this, companies should invest in farmer training programs coupled with enhanced resource allocation: provide access to fertilizers, pesticides, and improved agriculture equipment. Most of these small farms are employing the same practices used over a century ago. These farmers need up-to-date technology and education to increase the quantity and quality of their yields.

The second aspect of these programs involves improving the social conditions and the livelihood of farming communities. To ensure that the next generation can manage these farms sustainably, education, healthcare, and other social improvements (such as access to clean water and irrigation systems) are needed. Additionally, companies need to work to eliminate child labor from the supply chain. Child labor is not only unethical, it hinders the long-term success of these projects. By becoming involved in the communities, companies can ensure that their farming communities are healthy, happy, and thus productive.

Another strategy companies are employing entails sourcing from certified cocoa producers. Sourcing from cooperatives that are certified by UTZ, Rainforest Alliance, and/or Fairtrade International enhances the transparency and visibility of the supply chain. Also, by paying a premium for these products, companies can provide farmers with adequate profits so they can invest in their farms and become more productive. Certified farms are also held to higher ethical, social, and environmental standards, which in turn improve the sustainability of the supply chain.

Finally, there is a need for research and development teams to develop technology that addresses current agricultural issues. Aging trees, diseases, and droughts are all issues farmers face in this industry. As a result, companies are investing in technological developments to create healthier, disease resistant trees, along with other technological enhancements.

Combining all of these components in a company's responsible sourcing initiatives is wise. Although some companies are only carrying out one or two of these recommendations, utilizing all of these approaches creates a strong, interconnected, and holistic program.

Leveraging Public/Private Partnerships

Multinationals cannot solve these problems alone. After all, their core competency is producing delicious chocolate products for their consumers, not necessarily social and community development. Thus, chocolate and confectionary companies need to leverage the expertise of organizations that specialize in community and agriculture development. All of the companies featured are working with strategic partners to help further these initiatives. For example, all five of the companies studied work with certification agencies to source sustainable cocoa. Three of the five have partnered with NGOs, local governments, and research institutes to improve the social conditions of the communities and the productivity on the farms. This public/private collaboration is essential to successfully reforming the industry; only by combining resources, knowledge and best practices can companies solve an industry-wide dilemma.

Utilizing Technology

Due to the intrinsic nature of the industry, modernizing farming practices and utilizing today's technology can provide companies with a competitive advantage in the market. The sheer size of this industry, with hundreds of thousands of small farms, creates the need for innovative technology to effectively service all of these farms. Since a large number of these farms are in remote places with poor infrastructure, it is increasingly difficult to provide the appropriate resources to these farms. Additionally, since these companies and NGOs want to impact millions of people, it is important to create a sustainable method to provide resources to farmers and their communities. Since it is impractical to physically visit every farm, technology has allowed a company to communicate with farms on a scale that has never been attained before.

One company has created a two-way texting service that reaches over three hundred thousand mobile users in Ghana. The service provides updates on best practices, weather forecasts, and market information. In this industry, access to information determines a farm's success. Using these mobile platforms and other technologies allow companies to have a greater impact on farmer productivity, and also allows companies to reach farms in the remote areas, which poor infrastructure and the vast complexity in the cocoa farming industry had previously prevented.

Provide Transparent Progress Reports and Involve Marketing

To appease stakeholders and maintain the integrity of the program, companies should post goals and progress updates in public channels. In today's world, consumer consciousness is high. According to a survey conducted by the Fairtrade Foundation, over eighty percent of people said companies "should protect the environment and ensure farmers and workers are paid fairly and have safe working conditions" (Fair Trade Foundation, 2011). Therefore, sharing information with consumers will show stakeholders that the company is creating platforms that address their concerns.

Although not employing these CSR and sustainability strategies can be detrimental to a company's reputation, taking action to improve the supply chain environmentally, socially, and ethically can foster increased customer loyalty and brand differentiation, which ultimately can affect the top and bottom line. Using these strategies to engage stakeholders and build positive public relations for the company is another best practice companies should leverage in these campaigns.

Scale-up Quickly

Although much progress has been made in the industry, more work still needs to be done. Training programs, farming investment, school creations, and sourcing certified cocoa are all great steps. However, more progress must be made to truly reform the industry and create long-

term sustainable solutions. Currently, less than five percent of cocoa production is Fairtrade certified (Fairtrade Foundation, 2011) and these certification agencies and NGOs reach more farms than companies do. As one can see, there is great potential for improvement and growth with these initiatives and companies must pursue robust strategies that aggressively pursue methods to improve farmer productivity and community livelihood.

Develop Metrics for Continuous Improvement

Developing and measuring appropriate key performance indicators can be challenging considering small cocoa farmers typically do not quantify yields. Therefore, collecting data can be a challenge. However, companies can influence the data collection methods of farmers and work with NGOs to garner relevant information. Companies should develop key metrics that support their initiatives and aim to continuously improve their processes. These robust internal monitoring systems should cover social, environmental, production, supply tracking, and other relevant benchmarks, and should also include remediation procedures.

Companies should also pass these metrics along to their suppliers. Companies should strengthen contracts and hold suppliers accountable to the same reporting requirements. Contracts should include comprehensive reviews of key performance indicators and suppliers should share progress reports regarding these measurements to the chocolate companies. Transparency and collaboration of supply chain partners will cultivate accountability, integrity, and industry improvement.

Although these best practices are accompanied with challenges, aggressive reforms are needed for companies to overcome the social, environmental, and supply scarcity concerns that plague the industry.

Looking Forward: Optimism for Responsible Sourcing Program Success

It can be concluded that significant progress has been made in reforming and improving the cocoa industry. There have been financial, social, and environmental improvements throughout the cocoa growing world and companies, farmers, and consumers are all benefitting from these initiatives. However, as stated, great challenges still exist and considerable progress must still be made to achieve lofty responsible sourcing initiatives. Of the five companies featured in this study, three have committed to source one hundred percent of their cocoa sustainably by 2020. Does this mean these three companies are more committed to responsible sourcing in the industry? Probably not. Other companies may not be as optimistic considering the amount of progress that still needs to be made in the industry. Setting high standards is important, but the reality is that this is an issue that will not be solved in the short to medium term, despite significant improvements. Eighty to eighty-five percent of industry cocoa is still being sourced from unorganized, uncertified channels (Fair Labor Association, 2012). Hence, companies would need to rapidly ramp up their programs in order to source one hundred percent of their cocoa sustainably by 2020. Since this would require reengineering the existing supply chain, which is large, vast, and complex in nature, it is not expected that companies will be able to source all of their cocoa sustainably in the short to medium term. Companies will need to either expand their reach to more independent remote farms, and/or encourage more farms to join certified cooperatives.

Adding to this, it is impractical and essentially impossible to track each cocoa bean to its source. One company explained that they trace the Fairtrade premium through the supply chain but the visibility ceases once it reaches the Fairtrade partner/ cooperative. According to the Fair Labor Association:

The work done to improve labor management systems has mostly taken place at the cooperative level and in few instances extends to the farm level. At the farm level,

implementation of, and compliance with labor standards depends very much on the cooperative management and the functioning certification systems as well as the individual that monitors the application of training received on the farms... Capacity building for all actors in relation to the action planning of corrective measures for other labor issues (such as hours of work, compensation, harassment and abuse, discrimination) was not found during the assessment visits (Fair Labor Association, 2012).

Clearly, the current monitoring system is not sufficient. In addition, since most of these cooperatives sell both certified and non-certified cocoa, it becomes unclear how funds are being directed, especially since it is impractical for auditing agencies to visit every certified farm. Currently, farms are audited mostly through self-policing, which can foster corruption and conflict of interests. Consequently, improvements in the auditing processes must also be undertaken; greater transparency will be needed to ensure companies are not just “ticking the box,” and are instead truly sourcing from farms that are acting ethically and responsibly.

There are also cultural differences that are impeding industry reform success. Child labor is not seen as an unethical practice in all parts of the world. Consequently, educating farmers on the benefits of ethical and fair labor practices is needed. This change will not occur overnight and unfortunately, this means the problem still persists on certified and non-certified farms today in the short and medium term.

It is also important to note that the vast majority of cocoa produced in the world is non-certified. Great efforts must be undertaken in the industry to impact more farms and increase the participation of farmers in these certified cooperatives. However the Rainforest Alliance makes a valid point: “There are limits to how fast certified supply can be scaled up to meet demand, requiring close collaboration across the supply chain to manage problems that arise.” In order to truly reform the industry, closer collaboration between companies, NGOs, and governments will be necessary.

Finally, greater support throughout the industry must be gained. This is not just a company problem; it is an industry dilemma affecting many corporations today. Some companies that source cocoa have not instituted any plans for ethical sourcing in the industry to date. In order to tackle these supply scarcity and human rights issues, the involvement of all food companies that source cocoa will be critical.

Reforming the current supply chain, improving auditing processes, and exponentially increasing the number of farms impacted by such programs are necessary for the success of responsible sourcing programs in the cocoa industry. However, through company investment, public/private partnerships, sourcing certified cocoa from farmers, and improving supply chain transparency, companies can make great strides in the responsible sourcing arena, and in the long-term, ensure one hundred percent of cocoa is sourced sustainably. As one company interviewed stated,

Delivering change for one's own supply chain is easier than mainstreaming sustainability across a sector. We want a sustainable sector, not just sustainability for our own needs.

We committed one hundred percent of our cocoa to be sustainably sourced by 2020 to demonstrate our commitment and to influence others to do the same.

Although this will be no easy task, with collaboration throughout the entire supply chain, industry reform can be achieved in the long-term and companies can ensure they are sourcing high quality cocoa in a responsible and ethical manner.

Appendix A

Interview Guide

Please fill out the questionnaire below as thoroughly as possible. Please allow 20-25 minutes to complete the survey and keep in mind that specific company information will be kept confidential, and all information collected and presented in this paper will be an aggregate industry wide representation. Thank you for your time!

1. What sort of Sustainable Cocoa Procurement Program do you have in place to monitor responsible sourcing efforts in the industry?
 - Formal or informal?
 - Which departments are involved?
 - How many people contribute to the program?
 - What partnerships with NGOs and other organizations exist?
2. If a program exists, how does this sustainability initiative rank against other sustainability initiatives in the company?
3. What visibility does your strategy have with top management?
4. If a program exists, what are the main reasons for exigency? Please rank.
 - Consistent supply
 - Stakeholder/consumer pressure
 - Price
 - Marketing and PR benefits
 - Product differentiation
 - Future scarcity concerns
 - Quality
 - Environmental Concerns
 - Other (please specify)
5. Please provide the location breakdown of where you source your cocoa.
6. Are certain regions of the world easier to work with than others in regards to sustainable cocoa sourcing? Are certain regions advancing more quickly than others?
7. Do you see this program as a competitive advantage to your company and risk management strategies? Please elaborate.
8. What are the highest financial costs that your company experienced when implementing and carrying out this program?

9. What method has worked particularly well for your company (ex. Partnering with certain NGOs, building schools in local communities, training farmers, etc.)?
10. Please list some of the benefits/improvements in the supply chain your company is reaping as a result of the program.
11. What types of auditing programs exist to ensure farmers are complying with company standards?
12. Are farms, NGOs, government organizations, and other parties involved in this effort receptive of the program?
13. What do you see as the greatest challenge to achieving 100% sustainably sourced cocoa? Please provide challenges that are affecting your business today, and also long-term challenges you foresee.
14. How are you overcoming these challenges?
15. Do you believe your company can have 100% of its cocoa sourced sustainably by 2020? 2030? 2050? Ever?

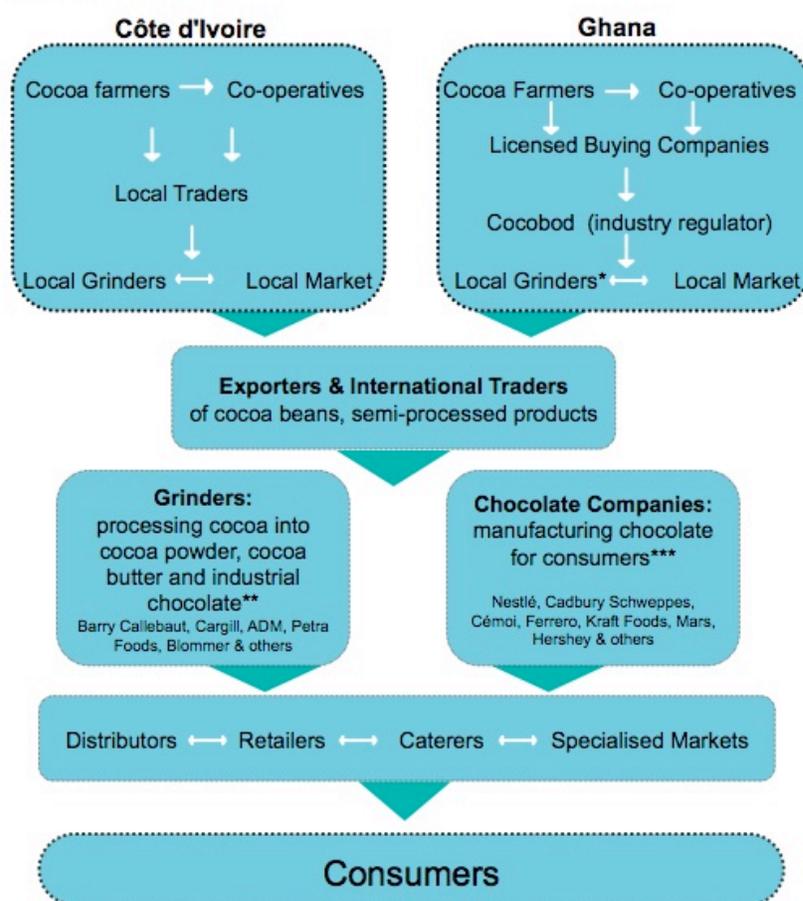
Appendix B

Current Cocoa Supply Chain in West Africa Compared to Fairtrade Supply Chain

The process maps below are from a Fairtrade Foundation report published in 2011.

Current Cocoa Supply Chain in West Africa

Figure 4: West African cocoa supply chains²⁶



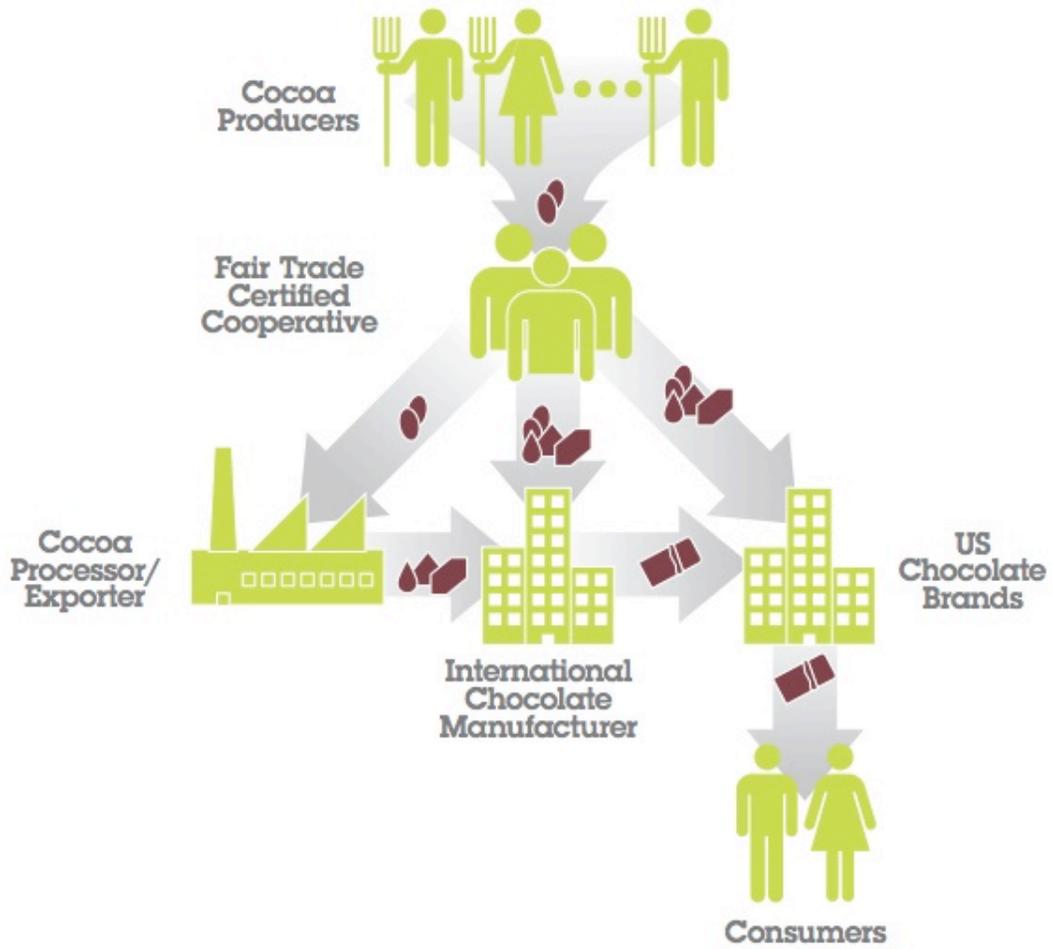
*Local grinding in Ghana is very limited.

**These companies are not just involved in the grinding stage of the supply chain: Barry Callebaut, Cargill and ADM sell small amounts of individual chocolate; Blommer and Barry Callebaut manufacture chocolate for consumers.

***Some chocolate companies also have their own grinding capacity, but this is limited.

Based on *Towards a Sustainable Cocoa Chain*, Figure 4, p.17, Oxfam International Research Report, January 2009

Fairtrade Supply Chain in West Africa



WORKS CITED

- BBC News*. BBC, 24 Mar. 2010. Web. 16 Oct. 2013.
- Bethel, Erik. *Erik Bethel's Instablog*. SinoLatin Capital, n.d. Web. 01 Oct. 2013.
- "Building Livelihoods for Tomorrow's Cocoa Farmers with the Initiative of Assisting with Growing, Farming and the Production of Cocoa for Chocolate." *Cocoa Sustainability*. N.p., n.d. Web. Sept.-Oct. 2013.
- Carter, Craig R., and Joseph R. Carter. "Interorganizational Determinants of Environmental Purchasing: Initial Evidence from the Consumer Products Industries." *Decision Sciences* 29.3 (1998): 659-84. *ProQuest*. Web. 04 Jan. 2013.
- Carter, Craig R., and Marianne M. Jennings. "Social Responsibility and Supply Chain Relationships." *Transportation Research Part E: Logistics and Transportation Review* 38.1 (2002): 37-52. Print.
- Carter, Craig R. "Purchasing and Social Responsibility: A Replication and Extension." *The Journal of Supply Chain Management* 40.4 (2004): 4-16. *ProQuest*. Web. 04 Jan. 2013.
- "Certified Cocoa: Scaling up Farmer Participation in West Africa." *Rainforest Alliance*. International Institute for Environment and Development/Sustainable Food Lab, 2012. Web. 10 Nov. 2013.
- "Cocoa." *Fairtrade International*. Fairtrade Foundation, n.d. Web. 01 Nov. 2013.
- "Fair Labor Association." *Fair Labor Association*. N.p., 2011. Web. 11 Nov. 2013.
- "Fairtrade and Cocoa." *Commodity Review 2011*. Fairtrade Foundation, Aug. 2011. Web. 03 Nov. 2013.
- "Fairtrade Certified Cocoa Review." Fairtrade USA, 2011. Web. 03 Nov. 2013.
- "FLA Highlights Underlying Challenges of Child Labor After Extensive Investigation of Nestlé

- Cocoa Supply Chain." Fair Labor Association, 29 June 2012. Web. 03 Nov. 2013.
- "Food Is Power." *Slavery in the Chocolate Industry*. Food Empowerment Project, 2013. Web. 12 Sept. 2013.
- "Global Industry Reports: Global Candy & Chocolate Manufacturing." *IBIS World*. N.p., 2013. Web. 01 Sept. 2013.
- Goodyear, Dave. "The Future of Chocolate: Why Cocoa Production Is at Risk." *The Guardian*. N.p., 2013. Web. Sept.-Oct. 2013.
- "International Cocoa Organization." *Other Statistical Data*. N.p., n.d. Web. Sept.-Oct. 2013.
- Krueger, David A. "The Ethics of Global Supply Chains in China – Convergences of East and West." *Journal of Business Ethics* 79.1-2 (2008): 113-20. *JSTOR*. Web. 04 Jan. 2013.
- Kwa, Aileen. "Agriculture in Developing Countries: Which Way Forward?" *Trade-Related Agenda, Development and Equity* (2001): n. pag. Web. 12 July 2013.
- "Making Chocolate an Affordable Luxury; Private/public Partnerships in Agroforestry Benefiting Cocoa Farmers." *Cocoa Sustainability*. Sustainable Cocoa Initiative, 20 Nov. 2012. Web. 02 Sept. 2013.
- Maloni, Michael J., and Michael E. Brown. "Corporate Social Responsibility in the Supply Chain: An Application in the Food Industry." *Journal of Business Ethics* 68.1 (2006): 35-52. *JSTOR*. Web. 23 Dec. 2012.
- Park-Poaps, Haesun, and Kathleen Rees. "Stakeholder Forces of Socially Responsible Supply Chain Management Orientation." *Journal of Business Ethics* 92.2 (2010): 305-22. *SpringerLink*. Web. 02 Feb. 2013.
- Pelozo, J. "Using Corporate Social Responsibility as Insurance for Financial Performance." *California Management Review* 48.2 (n.d.): 52. *Business Source Premier*. Web. 01 Mar. 2013.
- "Rainforest Alliance Certification on Cocoa Farms in Côte D'Ivoire." *Rainforest Alliance*. N.p.,

2012. Web. 12 Nov. 2013.

Riley, Geoff. "Markets in Action - Market for Cocoa." *Markets in Action - Market for Cocoa*.

N.p., 23 Sept. 2012. Web. 11 Nov. 2013.

Salam, Mohammad Asif. "Corporate Social Responsibility in Purchasing and Supply Chain."

Journal of Business Ethics 85.S2 (2009): 355-70. *JSTOR*. Web. 12 Nov. 2012.

"Sustainable Management of Nestlé's Cocoa Supply Chain in the Ivory Coast—Focus on Labor

Standards." *Fair Labor Association*. N.p., June 2012. Web. 28 Oct. 2013.

Wills, Jackie. "Nestle's Fairtrade Kit Kat Boosts Ivory Coast Farmers." *The Guardian*. N.p., 16

May 2013. Web. 01 Oct. 2013.

"World Cocoa Foundation." *World Cocoa Foundation*. N.p., n.d. Web. Sept.-Oct. 2013.

ACADEMIC VITA of Samantha Rose Jarmul

214 Steeplechase Drive
North Wales, PA 19454
sjarmul3@gmail.com

Education

B.S., Supply Chain & Information Systems, 2013, Pennsylvania State University, University Park, PA

MIN, International Business, 2013, Pennsylvania State University, University Park, PA

Honors and Awards

- R. Gene Richter Scholarship, R. Gene and Nancy D. Richter Foundation, 2013
- Traffic Club of Pittsburgh Scholarship, 2012, 2013
- Massachusetts Institute of Technology Supply Chain Excellence Award, 2013
- Beta Gamma Sigma, 2012
- Phi Beta Kappa Society, 2012
- All Big-Ten Academic Honors, 2011
- Golden Key International Honour Society, 2010
- Dean's List, Pennsylvania State University, 2009-2013

Professional Experience

- DuPont, IT Sourcing Co-op, 2012, Wilmington, DE
- Campbell Arnott's, Strategic Sourcing Intern, 2013, Sydney, Australia

Association Memberships/Activities

- Smeal College of Business Sapphire Leadership Program
- Varsity Women's Swimming Team
- Athletic Director's Leadership Institute
- Mortar Board Archousai Chapter National Honor Society