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CSR practices in the coffee industry:

A preliminary review of Kraft Foods, Nestlé and Starbucks

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Abstract

Corporate Social Responsibility (CSR) plays an important role within the coffee industry. Due to conflicts related to farmers' exploitation, fluctuation of bean prices, growing competition in the coffee sector and the increasing superiority of the northern hemisphere, coffee producers in the developing countries fell into a deep crisis. This initiated non-governmental organizations (NGOs) to put more pressure on corporations to act in a social responsible way and to support

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the environment and their stakeholders, especially the coffee farmers. The research question of this paper is: What have been the CSR practices of the main actors in the coffee industry until today? The present analysis offers an insight on CSR activities proposed by multinationals operating in various developing countries. This research closely examines the CSR approach of three leading coffee companies: Kraft Foods, Starbucks and Nestlé. The findings will illuminate similarities and differences on corporate strategy level in relation to environment and stakeholders.

Resumen

La Responsabilidad Social Corporativa (RSC) juega un papel importante en la industria del café. En esta, se han dado conflictos relacionados con la explotación de caficultores, la fluctuación de los precios del grano, la creciente competencia entre compañías del sector y el dominio latente del hemisferio norte. En conjunto, estas han sido las causas de una profunda crisis en la que cayeron principalmente los países productores de café, estos señalados como en vía de desarrollo.

Todo esto ha llevado a que diferentes organizaciones no-gubernamentales (ONG) intervengan presionando a las empresas del café a actuar de manera socialmente responsable, apoyando especialmente a sus productores y la conservación del medio ambiente.

Este artículo pretende explorar cuales han sido las prácticas de RSC propuestas por tres de las multinacionales más representativas en la industria del café como lo son: Kraft Foods, Starbucks y Nestlé. Esta investigación examina de cerca la RSC de estas empresas, comparando sus estrategias corporativas y certificaciones en relación con los actores y el medio de producción del café.

Key Words

CSR, coffee industry, NGO, Fair Trade, Rainforest Alliance, C.A.F.E, Common Code

Introduction

The dimension of CSR has increased due to globalization causing multinational companies to deal with human rights and social activities abroad, especially in countries where governments are not paying attention to these actions (Ewing & Schrage, 2004)

In the coffee industry multinationals (MNCs) have been trying to display a responsible behavior as a method of improving their image and reputation (idem). Addi-

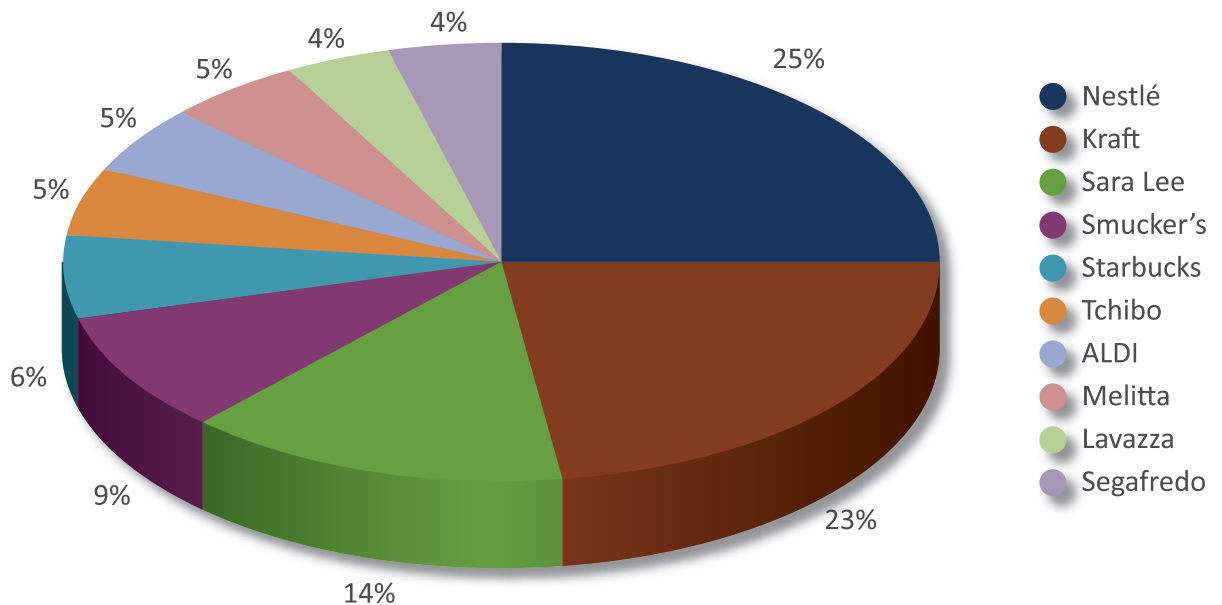
tionally, they enhance employee conditions, generate new business opportunities and control their environmental footprint (idem).

According to Valkila, Haaparanta & Niemi (2010), the coffee production and trade are links from some of the poorest rural regions worldwide to global markets. In terms of market share, Brazil is the number one exporting country, followed by countries such as Vietnam, Colombia, Ethiopia, India, Indonesia and other small players in the coffee market (International Coffee Organization, 2011).

This papers’ research question is: What have been the CSR practices of the main actors in the coffee industry until today? The research paper will analyze the CSR activities, the practices and social as well as environmental problems surrounding the coffee industry, through the comparison of three main players: Nestlé, Kraft Foods and Starbucks. Nestlé and Kraft Foods are the largest (Kolk, 2005) and possess great experience in working together with NGOs. Starbucks is a leader in CSR within the coffee industry (Argenti, 2004).

In the following chart, the distribution of coffee purchases can be seen, highlighting Kraft Foods, Nestlé and Starbucks to be three of the main buyer of coffee beans.

Purchases by the Top 10 Coffee Roasters in 2008



Own construction based on the TCC (Tropical Commodity Coalition) Report : Coffee Barometer 2009

Literature Review

To explain the reasons why corporations get involved into socially responsible behavior, Ewing and Schrage (2004) say companies want to keep their reputation and status clean by improving unsustainable production and creating new business opportunities as well as facilitating the access to certifications and licenses. The core idea behind the CSR is to aim corporations to act and interact respecting and considering the stakeholder's needs (Ewing & Schrage, 2004).

On the other hand, the emergence of non-governmental organizations (NGOs) around the globe has been one of the most important events during the last decades. One of their activities is to mediate the negotiation process between governments and multinationals (Doh & Teegen, 2002). According to Jamali & Mirshak, 2007 the intervention and support of NGOs is undeniable and often used by companies to obtain effective social programs on a local level. Still underestimated by other actors, NGOs play a major role regarding stability and sustainability of international investment projects. Some of their goals are to obtain more open and transparent procedures, fairer distribution of the economic returns, reasonable prices, employment opportunities for local labors and many more (Doh & Teegen, 2002).

Besides getting involved in the multinational corporations bargaining process with the local governments, local NGOs can be a very valuable partner when entering markets of developing countries. Their knowledge about the local culture, economy, institutional and geographic features as well as business practices might facilitate market entry, minimize costs and risks and initiate new models of value creation, the community, the MNCs and the NGOs can profit from (Dahan; Doh; Oetzel & Yaziji, 2009).

The coffee crisis in the 1990s, caused by overproduction and deregulation, left many farmers in poverty and destabilized national economies largely depending on coffee (Perez, 2007). Many NGOs started to work on the creation of a market situation offering sustainability for the workers and the environment. The solution to this crisis expected consumers and corporations from rich countries to act as global citizens (Linton, 2005).

NGOs seek to influence cultural and political values of societies from developed countries in order to improve welfare of southern workers in developing countries. An important element they have in their programs is to promote sustainable coffee, which is produced under environmentally, socially and economically sustainable conditions and constitutes one of the main efforts to combine globalization and responsibility in the coffee industry. Several certifications such as Organic, Fair Trade (FT) have emerged since the coffee crisis (Linton, 2005). Vari-

ous NGOs have created certifications and guidelines for coffee production such as Rainforest Alliance, Smithsonian Bird Friendly, Utz Certified and the 4C Common Code. These organizations continuously support local producers in order to fulfill the requirements (Kolk, 2005; SSCA, 2009). The ISO 14000 series, adopted by the International Organization for Standardization (ISO), contain international standards for environmental management. However they are not binding and strictly voluntary (Clapp, 1998). Additionally, NGOs inform and educate customers about the current issues surrounding the coffee production and the crisis as well as alternatives for the customer to be part of the solution (Linton, 2005).

The Rainforest Alliance (RFA) is an internationally recognized NGO that emphasizes on the development of sustainable and ethical measures to ecological issues. A certification process has been established by the RFA combining efforts to transform land-use practices, business practices and customer behavior (Rainforest Alliance, 2011). Its purpose is to create awareness on aspects such as: Ecosystem and wild life conservation, fair treatment and working conditions, community relations, integrated crop management, integrated management of waste, soil conservation, planning and monitoring, occupational health and safety (idem). The RFA trains local auditors and makes connections between farmers, NGOs, coffee associations, and agricultural research institutions (Linton, 2005).

On the other hand, the concept of Good Agricultural Practices (GAP) describes a set of principles that can be applied to a wide variety of farming systems (FAO, 2003). These principles emphasize aspects such as: economic and efficient production of sufficient, safe and nutritious food; sustain and enhance natural resources; maintain viable farming enterprises and contribute to sustainable livelihoods; and, meet cultural and social demands of society (idem).

Another important certification in CSR practices is the Fair Trade (FT) Coffee initiative. Its purpose is to purchase the coffee beans straight from growers at a higher price than the standard coffee. This license fosters, according to Argenti (2004), healthier working conditions and different economic incentives for producers. The certification is based on five principles: Fair price, democratic organization, direct trade and long-term relationships, access to loans, and environmental protection (Fair Trade USA, 2010). A condition to be certified under this label is to join a coffee cooperative with other local growers. They determine how the premiums from Fair Trade coffee will be spent (Argenti, 2004).

Regarding CSR of coffee companies, Starbucks has been a pioneer to draw the starting line. In 1994, the company experienced pressured from a boycott threat by the American NGO US/LEAP (Ewing & Schrage, 2004). The Starbucks' code of conduct was created in 1995 addressing issues related with fair wages, child edu-

cation rights and freedom of association with other employees (*idem*). In 2000, Starbucks again underwent pressure from NGOs initiating purchases of FT coffee to commercialize in their shops (Kolk, 2005). One of the last and most important programs Starbucks developed in terms of CSR was the preferred supplier program which pays a premium for the coffee as long as it is harvested complying environmental, social, and economical criteria (Kolk, 2005). After two years of pilot programs, the C.A.F.E program (Coffee and Farmer Equity) was officially launched, giving preferences to the growers that meet the criteria mentioned above (Ewing & Schrage, 2004). The certification C.A.F.E. was officially put in place by Starbucks after that.

In 2004, a public-private alliance was formed, due to an initiative by the German government to protect the Latin-American, African, and Asian agriculturists' rights (Ewing & Schrage, 2004). The negotiation of this alliance involved producers, trade and industry actors, NGOs, unions, ICO (International Coffee Organization), and the World Bank among others (Kolk, 2005). The idea was to develop a code of conduct for the coffee industry that may be aligned with the United Nation millennium goals (Ewing & Schrage, 2004). Although this code of conduct is not mandatory, big transnational coffee companies such as Nestlé, Sara Lee, Kraft Foods and Starbucks have adhered to it (Kolk, 2005). Even though the code does not state specific items regarding human rights, it refers to the international normative. Specific subjects are addressed by the International Labor Organization (ILO), the United Nations (UN) and the human rights declaration (Ewing & Schrage, 2004). Finally, in order to analyze the way companies apply different CSR practices within the coffee industry, we need to understand its dynamics by comparing and contrasting several CSR approaches and CSR certification goals. This research paper intends to close the gap and focuses on the CSR practices of Starbucks, Nestlé and Kraft Foods, their similarities, differences as well as good and bad practices.

Methodology

This paper is a literature based research where there are analyses of existing text using both primary and secondary sources (Higson-Smith, Parle, Lange & Tothill, 2000). According to this, the methodology that will be used is to search within secondary data, such as websites, statistics, reports and articles, collecting information regarding their actions and CSR practices. Based on this data, a chart will be constructed to compare some similar and differing aspects among these three companies. In the discussion, these findings will be critically assessed in order to identify common ground obtained from the data and the literature review. The correlation between the indicators will be outlined.

Findings

This section will present the results of a CSR approach analysis within the coffee industry. The cases of companies such as Nestlé, Kraft Foods and Starbucks will be compared and contrasted.

The strategy that Société des Produits Nestlé S.A., best known internationally as Nestlé, has been the creation of share value to ensure sustainable conditions for workers and the environment. It is one of many efforts that they are making in order to support society's progress through a CSR plan (Kiran & Sharma, 2011), thus the company's factories are currently located in developing countries. They invest in small farmers as well as in training programs to become a more profitable global business. (Porter & Kramer, 2006).

Kraft Foods' slogan is "Creating a delicious world" not only referring to their products but to the living conditions of all stakeholders. Their approach includes focusing on where they can achieve the greatest difference with their global priorities in mind: food safety, health and well-being, and sustainability. Helping raise people out of poverty and hunger into a healthier life is the main social objective of Kraft Foods. Also, creating jobs, engaging in sustainable coffee production and partnering with NGOs to combine their strengths and capabilities (Kraft Foods, 2011b).

Starbucks is one of the industry leaders regarding CSR; however most of the CSR actions they have engaged are fueled by pressures from NGOs, such as US/LEAP and Global Exchange (Kolk, 2005).

ASPECTS	STARBUCKS	NESTLÉ	KRAFT FOODS
CSR programs focus area	<ul style="list-style-type: none"> • Coffee purchasing and farmer support • Community involvement • Recycling and introduction of reusable cups • Energy and water conservation • Green building (ecological construction) (Starbucks, 2010) 	<ul style="list-style-type: none"> • Water and environmental sustainability • Nutrition • Rural development (Nestlé, 2011) 	<ul style="list-style-type: none"> • Health and well being • Sustainability • Food Safety and quality • Work place and culture • Governance and compliance (Kraft Foods, 2011a)
CSR actions regarding the Coffee industry	<ul style="list-style-type: none"> • Buying 100% ethically produced coffee by 2015 • Giving loans to farmers up to USD 20 million by 2015 • Helping farmers to access the carbon market to improve their profits while taking care of the environment (Starbucks, 2010) 	<ul style="list-style-type: none"> • Sourcing for quality and sustainability • Research and development for better yields. • Knowledge transfer and farm assistance • Partnerships for sustainable agriculture (Nestlé, 2006) 	<ul style="list-style-type: none"> • Promote sustainable farming, expecting less environmental damage and higher standards of living for farmers and their families. (Kraft Foods, 2011c)

ASPECTS	STARBUCKS	NESTLÉ	KRAFT FOODS
CSR Alliances	<ul style="list-style-type: none"> • Conservation International • Rainforest Alliance • Common code • Transfair USA • (Linton, 2005) • Organic Farming (TCC, 2009) 	<ul style="list-style-type: none"> • Rainforest Alliance (Linton, 2005) • Common code (Linton, 2005) • SAI (Sustainable Agricultural Initiative Platform): Industry level alliance with Unilever and Danone. The objective is to support agricultural development worldwide (Nestlé, 2006) 	<ul style="list-style-type: none"> • Rain Forest Alliance (RA) • Deutsche Gesellschaft für technische Zusammenarbeit (GTZ) • United States Agency for International Development (USAID) (CSR WeltWeit, 2009)
Own developed programs	<ul style="list-style-type: none"> • C.A.F.E program: Seeks the sustainability of the coffee farmers and its communities. It focuses on five areas: product quality, economic accountability, social responsibility, environmental leadership in growing and processing coffee (Starbucks, 2005) • In 2008, 69% of the total coffee bought by Starbucks came from the C.A.F.E program (TCC, 2009) 	<ul style="list-style-type: none"> • SAIN – the Sustainable Agriculture Initiative Nestlé: program to support farmers and producers to increase productivity by giving them access to experts and the latest agrotechnology. (Nestlé, 2006) • Nescafé Plan, to support good farming practices in the coffee supply chain and eliminates mediation (Nestlé, 2010b) • The Partners’ Blend program supports farmers to establish higher quality coffee, diversify the genetics of their crops and achieve a higher standard of living (Nestlé, 2006) 	They do not have any self-developed program.
Fair Trade	<ul style="list-style-type: none"> • They have bought Fair Trade labeled coffee since 2001, the yearly amount bought by Starbucks has grown steadily (Kolk, 2005; Ewing & Schrage, 2004) • In 2008, 5% of the total coffee bought by Starbucks came from the Fair Trade certified coffee (TCC, 2009) 	<ul style="list-style-type: none"> • Nestlé is certificated in the international Fair trade standards, including the payment of Fair trade minimum prices and social premiums to the farmers’ organizations (Nestlé, 2006) • In 2008, 0.26% of the total coffee bought by Nestlé came from the Fair Trade certified coffee (TCC, 2009) 	<ul style="list-style-type: none"> • Largest buyer of cocoa beans, no information on coffee beans (Kraft Foods, 2011b)

ASPECTS	STARBUCKS	NESTLÉ	KRAFT FOODS
RainForest Alliance (RA)	<ul style="list-style-type: none"> Starbucks is part of the Rainforest Alliance (Linton, 2005) Starbucks did not buy any Rainforest Alliance certified coffee in 2008 (TCC, 2009) 	<ul style="list-style-type: none"> Nestlé is part of the rainforest alliance. They had created together the Nespresso AAA sustainable Quality Program to ensure quality and sustainability requirements (Nestlé, 2010a; Nestlé 2010b) In 2008, 1.67% of the total coffee bought by Nestlé came from the Nespresso AAA coffee (TCC, 2009) 	<ul style="list-style-type: none"> Since 2003 (leading purchaser of RA certified coffee) the yearly amount bought by Kraft Foods has grown steadily (CSR WeltWeit 2009; Kraft Foods, 2011a) In 2008, 3.99% of the total coffee bought by Kraft Foods came from the RA coffee (TCC, 2009)
Common Code (4C)	<ul style="list-style-type: none"> Starbucks is part of the Common Code (Linton, 2005) Starbucks did not buy any Common Code certified coffee in 2008 (TCC, 2009) 	<ul style="list-style-type: none"> Nestlé is part of the Common Code and expects that in 2015 all its supplier should meet common code standards (Nestlé, 2006; Nestlé 2010b) In 2008, 0.77% of the total coffee bought by Nestlé was Common Code certified coffee (TCC, 2009) 	<ul style="list-style-type: none"> One of the founders (Kraft Foods, 2011c; CSR WeltWeit, 2009) In 2008, 0.14% of the total coffee bought by Kraft Foods was the 4C coffee (TCC, 2009)
CSR major scandals	<ul style="list-style-type: none"> US/LEAP boycott fighting for Guatemalan coffee farmers human right Global exchange threat to boycott their stores in order to make Starbucks buy and commercialize Fair Trade coffee <p>All of these scandals ended up in CSR actions by Starbucks. (Kolk, 2005; Ewing & Schrage, 2004)</p>	<ul style="list-style-type: none"> Nestlé boycott by NGO War on Want in 1974, INFAC (Infant Formula Action Coalition) in 1977. This boycott pressured Nestlé to adopt international codes (Baker, 1985). According to Kolk (2005) this boycott permeated all CSR actions engaged by Nestlé. 	<ul style="list-style-type: none"> Kraft Foods has presented 2 environmental cases that have provoked its inclusion in CSR: An air free of ozone-depleting refrigerant affecting the layer of ozone and the other case involves a release of oil which contaminated the river (GreenEnvironment, 2006)

As the chart shows, all three companies are active in CSR. It is important to clarify that Starbucks is only in the coffee industry; meanwhile Nestlé and Kraft Foods are in the food industry. When analyzing each CSR approach, Starbucks and Nestlé have a direct line of action related to the coffee supply chain; instead Kraft Foods does not have a specific CSR line to attack directly the deficiencies of human and environmental rights within the coffee industry. Agricultural product's supply chain is within the sustainability line of Kraft Foods' CSR. Also, the actions within the coffee industry are well defined and measured especially in the Starbucks' reports. Nestlé is not as concrete as Starbucks, however, they have well defined ac-

tions but they are not clear enough about when they expect to fulfill these goals. For Kraft Foods, the most visible objective is to be the biggest buyer of RainForest Alliance certified coffee (Kraft Foods, 2011c).

In addition, it is important to illustrate that in 2008, 76.5% of Starbucks coffee purchases were made from C.A.F.E, Fair Trade or Organic Farming certified products, while Kraft Foods only bought 4.1% certified coffee beans out of the company's total coffee purchase, most of the beans being RA coffee. Lastly Nestlé only bought 2.7% of the total purchases from certified coffee supply (Nespresso, Fair Trade and 4C certifications) (TCC, 2009).

When reviewing CSR alliances, an important fact must be highlighted. Nestlé is the only one that has engaged in an industry level program regarding the agricultural industry. According to self-developed programs, Starbucks and Nestlé have been active developing programs to improve the conditions of the coffee supply chain. Kraft Foods has not had any self-developed program. The three companies are active in the Rainforest Alliance and 4C, however, only Nestlé and Starbucks are related to Fair Trade in the coffee industry.

Discussion

As explained in the literature review the role of NGOs as active player in CSR has become a major issue. They are powerful enough to make changes in the status quo of a situation. For example US/LEAP pressured Starbucks to adopt a code of conduct, the first time an American multinational corporation did it in the agricultural industry (Ewing & Schrage, 2004). Also, War on Want and INFACT lead Nestlé to adopt a code and stopped publicity about how formula milk could completely replace breast feeding (Baker, 1985). Moreover, this Nestlé boycott had a deep impact on the company's CSR, granting special importance to the international legal laws (Kolk, 2005). However, in spite of the power held by NGOs, and the continuous demands towards transnational coffee companies, there are still some bad practices occurring and harming the coffee growers. For instance, according to Argenti (2004), small producers still have issues with financing their operations throughout the year and selling their crop prior to harvest for a cash advance to traders. The high interest rates charged on these credits result in a continuing poverty spread. Additionally, as a commodity product, coffee prices vary greatly according to the supply and demand. Small farmers are always at risk of shortage and overproduction in the harvesting process thus the return on investment is not homogenous (idem).

Furthermore, Muradian and Pelupessy (2005) argue that some voluntary certification schemes embrace weaker selection criteria and thus provide opportunities for large companies to "green wash" their image. Regarding the welfare effects of

the CP and RFA certifications, these are most likely to be given to highly educated and somewhat small size farm families. While the income received by the conventional FT households is relatively high, the income by RFA producers is considerably low (Ruben & Zuniga, 2011).

After reviewing the CSR actions engaged by these three companies, it is evident that most of the time they take on CSR actions, it is because a threat of boycott or an actual boycott is hold against them. Starbucks developed most of its CSR programs, as said before, because of NGO pressures. The same happened with Nestlé. By studying these two companies we can say that they have had a responsive CSR. However, it is clear that Starbucks has adopted greater compromises than Nestlé and Kraft Foods. This is very obvious when comparing the amount of certified coffee each company bought in 2008. Furthermore, the fact must be taken into account that Starbucks is within the fine coffee segment (Kolk, 2005), which allows them to charge higher prices to consumers; meanwhile Nestlé and Kraft Foods are within a different segment and competes mostly with various brands in the supermarket, in a less differentiated product environment (Idem). It can be stated that the pressures by the NGOs has resulted in a more compromised CSR behavior by Starbucks than by the other two companies.

Conclusion

The coffee industry has undergone major changes and challenges during the last twenty years. The supply and demand of certified coffees and sustainability standards have been the result of NGOs pressure and corporation's responsive actions. Throughout the analysis, the rather reactive than active corporate approach by preventing scandals and seeking image gain through CSR practices, such as the increased purchase of certified coffee beans, became evident.

Nestlé and Starbucks have chosen to use different standard systems in alliance with different NGOs to advertise sustainability in their own premium product lines. Kraft Foods is promoting Rainforest Alliance coffee, while Nestlé, who developed its own program for a very specific high quality premium coffee, is the main buyer of 4C compliant coffee. Both companies are developing a CSR-policy specifically focused on procuring more sustainable coffee on a yearly basis. However, Starbucks is the only company that buys large quantities of coffee, certified by C.A.F.E Practices, Fairtrade and/or Organic, and has set a clear goal of 100% sustainable coffee, by 2015.

In spite of all the voluntary and involuntary efforts by companies in the coffee industry there remains a lot to be done regarding welfare and environmental protection as well as economical and social equality within the sector.

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