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Starbucks' responsible sourcing: Social guidelines from the farm to the coffeshop

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STARBUCKS' RESPONSIBLE SOURCING: SOCIAL GUIDELINES FROM THE FARM TO THE COFFEESHOP

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ABSTRACT

This case study provides an overview of the responsible sourcing practices of the Starbucks Coffee Company and the ways in which the company has incorporated aspects of the United Nations Global Compact principles into its business practices. It focuses on the Coffee And Farmer Equity (C.A.F.E.) Practices program, which is a supplier program that promotes improvements in product quality, economic transparency, social responsibility and environmental leadership at the producer level. It describes how the program works by awarding points to coffee suppliers against a defined set of criteria in return for a financial premium and a preferred supplier relationship, if warranted. In addition to C.A.F.E. Practices, this case study also addresses other initiatives supported by Starbucks via community development projects and farmer assistance programs (loans and technical agronomic support), including support for certified coffee products such as Fair Trade and Organic at the retail level. The study concludes with a brief discussion on future challenges for Starbucks in coffee and other supply networks.

INTRODUCTION

Now operating in almost 40 countries, the Starbucks Coffee Company brand is widely recognized around the world. However, with this high public profile comes a high level of public responsibility. In response to the socially conscious consumer and other important stakeholders, Starbucks developed a wide range of corporate social responsibility practices to be implemented at various levels of its supply chain. One such initiative designed for the farm level is Starbucks' responsible sourcing program called the Coffee and Farmer Equity (C.A.F.E.) Practices. Through the environmental and social guidelines it stipulates for the coffee supply chain, and in combination with financial incentives and lasting supplier relationships, the C.A.F.E. Practices program illustrates how business practices have the ability to contribute to improving the lives of individuals in coffee producing communities. A member of the United Nations Global Compact (UNGC), Starbucks' innovative C.A.F.E. Practices program provides a compelling case study of how private institutions can be important players in the advancement of human rights in their sphere of influence.

Table 1: Select Principles from UNGC¹ and Starbucks Guiding Principles and Environmental Mission Statement²

UNGC Principles	Starbucks Principles
Businesses should support and respect the protection of internationally proclaimed human rights; and	Provide a great work environment and treat each other with respect and dignity.
make sure that they are not complicit in human rights abuses	Embrace diversity as an essential component in the way we do business.
Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;	Apply the highest standards of excellence to the purchasing, roasting and fresh delivery of our coffee.
the elimination of all forms of forced and compulsory labour;	Contribute positively to our communities and our environment.
the effective abolition of child labour; and	Developing innovative and flexible solutions to bring about change.
the elimination of discrimination in respect of employment and occupation.	Striving to buy, sell and use environmentally friendly products.
Businesses should support a precautionary approach to environmental challenges;	Recognizing that fiscal responsibility is essential to our environmental future.
undertake initiatives to promote greater environmental responsibility; and	Instilling environmental responsibility as a corporate value.
encourage the development and diffusion of environmentally friendly technologies	Measuring and monitoring our progress for each project.
Businesses should work against all forms of corruption, including extortion and bribery.	Encouraging all partners to share in our mission.

COMPANY PROFILE

Starbucks Coffee Company was founded in Seattle in 1971 as a retailer of coffee beans. Inspired by the coffee shops and warm coffee culture of Italy, Howard Schultz purchased the company in 1987 with the idea of selling coffee and espresso drinks in addition to coffee beans. Since then, Starbucks has grown at an incredible rate, becoming the world's biggest retailer, roaster and brand of specialty coffee with more than 40 million customer visits per week³. With over 145,000 employees, the company has coffee shops in every state of America and in 36 countries around the globe, totaling over 12,000 coffeehouses and 5,000 licensed locations and joint ventures⁴.

In addition to coffee, Starbucks has also expanded its product line to other goods such as their own brands of bottled water, teas, as well as coffee-related accessories and equipment. With this immense expansion, the company achieved revenues of 7.8 billion dollars in 2006 and continues to grow today.⁵

Corporate Culture

Despite the size of its operation, Starbucks has maintained a strong corporate culture of social awareness. This is largely due to the corporate principles (Table 1) that the company has incorporated into its business practices, which include: recognizing the importance of employee work environment, embracing diversity as an essential component of doing business, and making contributions to the community and the environment a regular activity for those involved in the company. These principles are further translated into the company's relationship with employees and with the communities that surround it.

Employees

According to Chairman Howard Schultz, employee satisfaction is key because "we realize our people are the cornerstone of our success, and we know that their ideas, commitment and connection to our customers are truly the essential elements in the Starbucks experience".⁶ One way in which Starbucks demonstrates this ideology is through their employee benefit package that is available to both part and full-time employees and which includes healthcare benefits and the Bean Stock- a Starbucks stock option plan.

Starbucks also supports an internal culture that motivates employees to generate new ideas. In fact, employees driven by a sense of social responsibility have helped to create and cultivate a number of programs, including the C.A.F.E. Practices program, which originated from employees in the Corporate Social Responsibility department in contact with coffee growers. When brought to executives, they recognized the benefits such a program could bring to the company and to the community and approved the development of the idea. Without the initial support from the top to foster employee initiatives, however, it is arguable whether one of Starbucks' most influential programs—referred to as one of his biggest legacies by Orin Smith (former CEO)—would be in existence today.

According to Dennis Macray, director of Business Practices in the Corporate Social Responsibility department at Starbucks, support from Starbucks' top executives has always been critical to the success and implementation of the C.A.F.E. Practices program. Today, the program is being supported by Jim Donald, current Starbucks CEO, who has made the point to track and communicate the progress of C.A.F.E. Practices through periodic messages, such as his weekly company-wide voicemail.⁷ This voicemail is distributed to thousands of employees, including regional, district, and store managers, through a company phone extension. "These "CSR Thursday" voicemails are an opportunity for him to highlight current initiatives such as the launch of our Planet Green Game, or CSR related awards and recognition the company may have received, etc."⁸ Jim Donald ensures that many of these messages also update employees on the advancements of the C.A.F.E. Practices program.

Community Initiatives

In relation to the impact on the surrounding communities, Starbucks encourages community development and interaction through a number of programs and initiatives. One program that aims to encourage volunteerism is the Starbucks "Make Your Mark" program, which matches volunteer hours with cash contributions to designated nonprofits. In 2006, Starbucks' contributions reached \$1.5 million.⁹

Starbucks is also working to prevent discrimination in the workplace and to improve diversity through the "Urban Coffee Opportunities" program—a joint-venture partnership with Earvin "Magic" Johnson's Johnson Development Corp—and also through their supplier diversity program. Urban Coffee Opportunities relates to UNGC Principle 6 on prohibiting employment discrimination. This joint collaboration is intended to enhance the development of Starbucks retail stores in ethnically diverse neighborhoods, especially African-American and Hispanic communities. The other initiative seeks to increase supplier diversity by encouraging minority-owned businesses or socially and economically disadvantaged suppliers to apply to the program, giving better chances for business opportunities with Starbucks.

Finally, there is The Starbucks Foundation. Established in 1997, the Foundation focuses on improving the lives of youth through support of literacy and nontraditional education programs. The Foundation has provided more than \$11 million to more than 700 organizations, with Starbucks partners and customers also contributing through the donation of more than 1.4 million books to libraries and children's clubs across the country.¹⁰

PROMOTING HUMAN RIGHTS IN THE SUPPLY CHAIN- RESPONSIBLE SOURCING

Influenced by UNGC principles, the Starbucks' principles have been incorporated into the business practices of the coffeehouse and retail operations as well as those in its supply chain. This demonstrates both their commitment to the UNGC principles and efforts to improve the

human rights conditions of the people and communities within its sphere of influence. Examples of where these principles have been implemented in practice include the responsible sourcing programs Starbucks has created for its manufactured goods, cocoa supply network and coffee supply chain.

Manufactured Goods

In 2003, Starbucks created its supplier code of conduct for manufactured goods, referred to as the “Social Responsibility Standards for Manufactured Goods and Services”. The standards entail provisions on social and environmental compliance, including adherence to local law and international standards. This Code was communicated to the company’s suppliers as well as to buyers through a number of internal education sessions about responsible sourcing practices.

Since the establishment of the Code, Starbucks has been developing new mechanisms to promote compliance, improve supply chain transparency, and develop a supplier screening process that identifies practices aligned with Starbucks standards. Starbucks has also conducted a risk assessment based on product country of origin, in order to help guide buyers in their sourcing decisions. Progress and major activities under this supplier program are communicated in Starbucks’ annual CSR Report.

Cocoa

To address the issue of responsible sourcing of cocoa, Starbucks started developing stronger guidelines for cocoa purchasing in 2006, based on experiences from the C.A.F.E. Practices program.¹¹ The guidelines were created in response to reports of human rights violations at the supplier level and seek to address the lack of transparency in the cocoa supply chain. Although it was only recently formalized, the program is the result of a stakeholder engagement process that has been ongoing since the initial meeting was hosted by Starbucks in 2004, which included international NGOs, industry experts, and USAID.

While development and engagement with stakeholders continues, the program has already led to a review of cocoa suppliers that were screened for their ability to address social issues in the supply chain and for their plan on price transparency for growers. As a result of the selection process, Starbucks was able to select two suppliers working through cooperatives that do not use forced child labor to produce cocoa and that have a transparent supply chain, allowing pricing to be traced back to the grower. In 2005, Starbucks purchased 12.4 million pounds (5.6 million kilograms) of processed cocoa from its suppliers¹².

DRINKING COFFEE RESPONSIBLY- STARBUCKS’ COFFEE SUPPLY CHAIN

A \$55 billion industry, coffee is the second most widely traded commodity in the world and also subject to highly volatile commodity price fluctuations. Although coffee prices have been falling for the last few decades, averaging about \$1.20USD in the 1980s, they hit an unprecedented low of \$0.50USD in 2001¹³. The drop in prices caused extreme economic and social hardship for an estimated 25 million families worldwide that were dependent on coffee production for a living.¹⁴ Faced with this coffee crisis, Starbucks saw an opportunity to set better standards and pricing for its suppliers, a position the company has understood “since its inception, [when it] understood and embraced the idea that the company could be a leader in promoting sustainable practices in the coffee sector”¹⁵

Coffee Certifications

Although the coffee crisis prompted action from many within the sector, Starbucks started reviewing the conditions of its supply chain as early as 1995, by developing a framework for a code of conduct. Three years later, Starbucks then launched a partnership with Conservation International (CI) to specifically address environmental concerns. Since then, Starbucks has implemented six additional initiatives for its coffee supply chain, which include: fair trade certifications, organic and/or shade grown, affordable loans to farmers and community development projects, technical agronomic support, and the C.A.F.E. Practices program.

Fair Trade

In 2000, Starbucks established an agreement with TransFair USA, a nonprofit organization member of the Fairtrade Labelling Organizations International (FLO) and a third-party certifier of Fair Trade products, to start selling Fair Trade Certified coffee. This meant paying a set price for coffee purchased from cooperatives that are Fair-Trade certified. The most widely accepted definition of fair trade is:

“Fair Trade is a trading partnership, based on dialogue, transparency and respect, that seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, marginalized producers and workers - especially in the South. Fair Trade organizations (backed by consumers) are engaged actively in supporting producers, awareness raising and in campaigning for changes in the rules and practice of conventional international trade. Fair Trade's strategic intent is:

- Deliberately to work with marginalized producers and workers in order to help them move from a position of vulnerability to security and economic self-sufficiency
- To empower producers and workers as stakeholders in their own organizations
- To actively play a wider role in the global arena to achieve greater equity in international trade.”¹⁶

According to Transfair USA:

"Since launching Fair Trade Certified (FTC) coffee in 2000, Starbucks has undeniably made a significant contribution to family farmers through their rapidly growing volumes of FTC purchases. By offering FTC coffee in thousands of stores, Starbucks has also given the FTC label greater visibility, helping to raise consumer awareness in the process. Starbucks offers an incredible opportunity to make positive impact in the developing world. We at TransFair look forward to continued collaboration and growth in the volume of FTC coffee purchased, sold, and marketed by Starbucks."¹⁷

By supporting FTC, Starbucks has become the largest purchaser of Fair Trade Certified coffee in North America, purchasing 30% of the coffee imports under this certification in 2006. The company paid \$1.48 per pound on average for 18 million pounds of green coffee, meaning it paid approximately \$8 million more to Fair Trade Certified cooperatives than they would have received if they sold their coffee in the New York market.¹⁸

Organic and shade grown

In addition, Starbucks has also established numerous partnerships with various organizations to purchase shade grown and organic coffee. In 2006 Starbucks purchased 2 million pounds of shade grown coffee and 12 million pounds of certified organic coffee¹⁹. These two types of certifications allow farmers to also receive premium prices for growing their coffee under specific environmental guidelines.

Farmer Loans and Community Projects

Farmers usually rely on a very limited cash reserve during the growing and harvest period of coffee production, which means that in certain circumstances they are highly susceptible to monetary shortages and exploitative buying practices. To prevent this from occurring, Starbucks worked through different institutions and initiatives to help make affordable loans available to farmers. In 2004 Starbucks committed a total of \$6 million in loans and an additional \$2.5 million in 2005²⁰. In addition to these loans, Starbucks also invests directly in the development of coffee production regions. In 2005, the company invested 1.5 million dollars in several projects ranging from education to health in targeted communities.²¹

Technical Agronomic Support

Starbucks collaborates directly with coffee producers around the world on issues relating to coffee quality, production, processing and research. In order to provide the members of its supply chain with proper assistance on these subjects, the company has a team of experts at the Starbucks Coffee Agronomy Company, located in Costa Rica. The office manages Starbucks coffee sourcing guidelines, oversees regional social programs, and engages with local governments on sustainability issues. Additional agronomists are also based in select locations to work directly with farmers to implement sustainable coffee production methods.

C.A.F.E. PRACTICES

The last, and perhaps most important supply chain initiatives, is Starbucks' internal coffee sourcing program. In combination with financial incentives and long term supplier-buyer relationships, the C.A.F.E. Practices program are a set of environmental and social guidelines against which suppliers are scored. If suppliers achieve good standing, they receive premium prices for their coffee and are given first consideration when Starbucks is making purchasing decisions.

Development Phase: The Preferred Supplier Program

Prior to its current format, the C.A.F.E Practices program actually evolved from the pilot project known as the "Preferred Supplier Program" or PSP. This initiative began in 2000, when Starbucks launched a multi-stakeholder process that included CI, the Rainforest Alliance, and the Smithsonian Migratory Bird Center to develop in-depth guidelines on social and environmental issues in the coffee supply chain. By 2001, guidelines were set for the two-year PSP pilot project, in which Starbucks paid premium prices to those suppliers that achieved a certain standing against the requirements. During this period, third-party independent parties verified the compliance of coffee producers with program guidelines. After a successful assessment, approved suppliers then received a premium price for their coffee. For every 10 points achieved, Starbucks awards a \$.01 sustainability premium per pound of green coffee purchased from that approved supplier. By the end of 2003, 166 farmers from 16 countries had applied, with 60 of these approved to the PSP²². From these preferred suppliers, Starbucks purchased 13.5 million pounds of coffee at a premium price.²³

Challenges Faced

During pilot phase, stakeholder feedback identified three major challenges to implementing a sourcing program that rewarded suppliers based on performance: (i) the inclusion of all sourcing regions into the system, (ii) increasing supplier comfort with the independent verification process, and (iii) uniform and consistent guidelines.²⁴

i) Including all sourcing regions: Asia and Africa

According to Dennis Macray, in contrast to Latin America where the program was rolled out with rapid acceptance, implementing the program in Asia and Africa was a challenge. The difference was primarily due to existing infrastructure and strong supplier relationships already present in Latin America. For the remaining regions of the world, however, Starbucks would have to make changes to accommodate different supply chains. To date, program expansion and implementation is still an ongoing effort in Africa and Asia.

ii) Relationships between suppliers and third-party verifiers:

For many farmers, especially those with limited exposure to this type of interaction, preparing for the assessments was challenging at times. Starbucks continues to work with farmers on these issues through continued communication and local stakeholder

engagements. Education sessions focus on understanding the verification process and what it entails as well as potential benefits.

iii) Developing uniform and consistent guidelines:

To create a credible program that provided a progressive way of looking into a supply chain, Starbucks realized that measurable, objective indicators were a necessary component to the program. In an interview, Macray noted “Starbucks sought to implement the program with transparency and to audit its performance. However, it became clear that suppliers and verifiers were demanding program improvements and adjustments to ensure uniform and consistent application of the guidelines as well.”²⁵ To accomplish this objective, Starbucks forged a strong partnership with Scientific Certification Systems (SCS), a third-party provider of certification, auditing, and standards. Together with SCS, Starbucks reviewed the learning experiences from the PSP pilot to establish new and stronger guidelines that, in 2004, would be officially known as the C.A.F.E. Practices.

C.A.F.E. PRACTICES GUIDELINES

The result of Starbucks’ partnership with SCS was a set of 28 indicators in four categories: product quality, economic transparency, environmental practices, and social responsibility. To become a C.A.F.E. Practices supplier, coffee farmers, processors, and exporters must meet minimum requirements. However, if they also meet best practice standards, scoring high on the aforementioned categories, they then receive preferential buying status and higher prices for their coffee. These scores are assessed and calculated by third-party verifiers.

Prior to third party verification, C.A.F.E. Practices requires suppliers to conduct self-assessments of their own supply chain against the program’s guidelines, describing in detail their entire supply network. Once the company receives this documentation, the process of third-party verifications begins. To determine which members of the supply chain will be assessed, verifiers, contracted by the suppliers, will conduct a stratified random sampling of the supply chain.

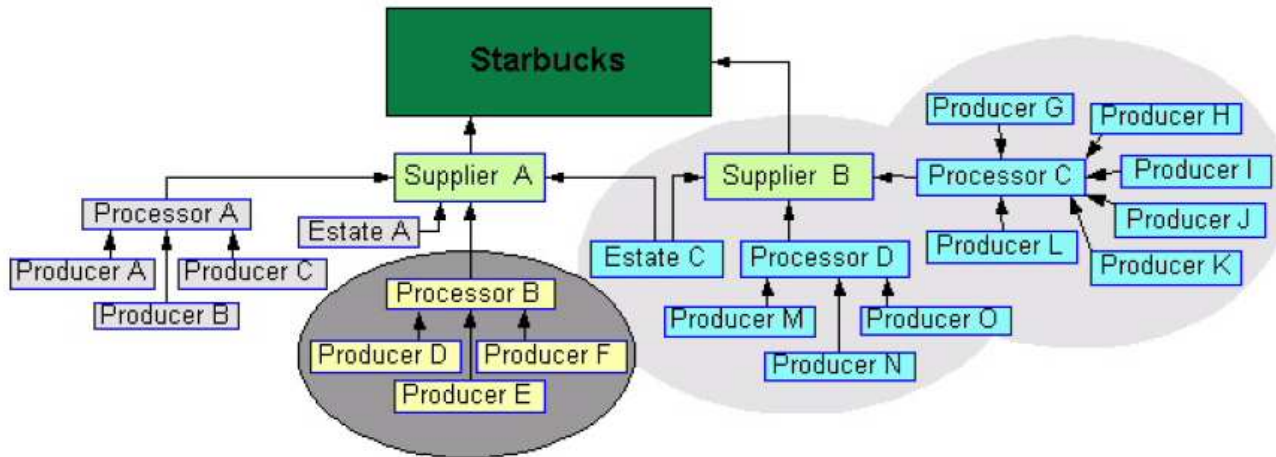


Figure 1: Starbucks' coffee supply chain²⁶

Overall, a total of 100 possible points can be accumulated by suppliers, after fulfilling the economic and quality requirements, with 40 points for social responsibility guidelines and 60 for environmental leadership practices. Depending on the percentage of total points they achieve during the assessment, suppliers are placed in three different categories—strategic, preferred, and verified. For suppliers achieving Strategic status, Starbucks awards a \$.05 premium per pound of green coffee purchased in addition to first consideration in purchasing decisions. If performance is improved by 10 percentage points from one assessment to another (within a year), these suppliers can then also receive an additional premium of \$.05 per pound of coffee sold to Starbucks.²⁷ Ultimately, the goal of the scoring system is to establish a long-term relationship with preferred suppliers, eliminating uncertainty and volatility of prices that dominates the industry. The financial incentives provided to suppliers through C.A.F.E. Practices, or at least a portion thereof, are then intended to be reinvested back into the production system to improve various social and environmental conditions at the producer level, further increasing the opportunity for scoring higher in the points system .

In 2006, Starbucks purchased 155 million pounds of coffee from C.A.F.E. Practices suppliers. The distribution according to supplier category was as follows²⁸:

- Strategic = score of 80% and higher in social and environmental areas = 19%
- Preferred = score of 60% and higher in social and environmental areas = 12%
- Verified = score of less than 60% in social and environmental areas = 69%

Product Quality and Economic Transparency

Broken down into the four categories, first to the C.A.F.E. Practices program is quality, followed by the second category of economic transparency. To assess the quality of the coffee beans, suppliers send samples of their coffee to Starbucks headquarters. To ensure economic transparency, Starbucks requires suppliers to present invoices related to the trading of coffee, both up and down the supply chain. By doing this, Starbucks can ensure that the premium coffee

prices paid by Starbucks are transferred throughout the supply chain, reaching the farmers (producers) at the bottom. However, because the level of transparency varies depending on the supply chain (see Figure 1), all trade related documents may not be available at all times and therefore may not enable the prices to be traced all the way to the coffee farmer²⁹.

Environmental Practices

The third category relates to environmental guidelines. In the C.A.F.E Practices program, the focus is primarily on water and soil protection, providing measures to avoid contamination, erosion, and ensuring continued productivity of resources. There are also a number of guidelines focused on biodiversity and wild animal preservation.

Social Responsibility

The last major category involves components related to social responsibility. In the C.A.F.E. Practices program, these components are further divided into two major subcategories: hiring practices and employment policies and working conditions³⁰.

A) Hiring Practices and Employment Policies:

There are four criteria under this category, which are meant to ensure that employees are being properly protected and that hiring practices and benefits are fair. Although verifiers assess supplier practices in relation to local laws, suppliers are encouraged to continually improve their business practices and achieve compliance with international standards.

1. Wages and benefits:

Suppliers are not only required to show proof that wages provided to employees, including apprentices, meet or exceed the local legally mandated minimum wage but also that employees receive the benefits they are entitled to by law. Suppliers must also provide equal pay for equal work, avoiding gender and other types of discrimination. Local limitations on work hours and overtime hours must also be respected and in cases where employers make overtime hours obligatory, employees must be informed of this during the hiring process. Moreover, financial penalties cannot be imposed as a form of disciplinary action.

It is important to highlight that these requirements are also included under C.A.F.E. Practices zero-tolerance issues. Suppliers who fail to comply with these requirements risk having their relationship with Starbucks suspended or terminated. Suppliers can be awarded additional points if they provide employees with a living wage- a salary that is above national minimum wage and that covers cost-of-living particular to the employee's location and life conditions- and a pension scheme.

2. Freedom of association and collective bargaining agreements:

Employees in the Starbucks' supply network must be allowed representation before their employer and a formal channel to report grievances without suffering reprisal.

In order to score additional points, suppliers must fully comply with freedom of association and collective bargaining laws and they must also hold regular meetings with employees to discuss working conditions and remuneration. Additionally, if a workers' association has already been established in the region for the coffee industry, a collective bargaining agreement must be in place for the supplier to obtain the additional points.

3. Vacation days and sick leave:

Suppliers must grant employees one day of rest for every seven days worked. In cases where country law grants employees more than one day of rest, local law should be respected. Also, employers must have a paid sick leave program in place for full-time employees.

To obtain additional points, the supplier should extend the sick leave program to all employees and allow them to accrue their paid vacation days.

4. Child labor, discrimination, and forced labor:

In its verification guidelines, Starbucks states that it does not accept direct contracting of any persons under the age of 14 but exceptions are made for family or small-scale farms that do not regularly employ hired workers. Zero tolerance issues relating to discrimination are “on the basis of race, color, national origin, gender, sexual orientation, religion, disability or other similar factors, in hiring practices or any other term or condition of work, including assignment of work, occupational training, promotion, remuneration, granting of social benefits, discipline or termination”³¹. In addition,

“The use of any forced or involuntary labor, either directly or indirectly, by suppliers, contractors or subcontractors will not be tolerated. This includes the use of slave labor, bonded labor, indentured labor or involuntary convict labor. Workers must be free to leave the workplace at the end of their shift and to resign without repercussion. Suppliers must not use corporal punishment or any other form of physical or psychological coercion.” (C.A.F.E. Practices Generic Evaluation Guidelines, 2004)

Besides the age limitation imposed by Starbucks, suppliers must comply with local law regarding the employment of minors, including compulsory school hours, hours of work, wages, and working conditions. Suppliers must have and enforce a policy against slave, forced, bonded, involuntary, and indenture labor. The policy should also include the prohibition to employers to withhold the original personal documents of employees or demand deposits as a condition for employment.

The maximum points under this category are obtained if the supplier has a written or oral policy of non-discriminatory hiring, employment and advancement plan and when he or she sponsors or supports educational programs for its employees.

B) Working Conditions:

The second subcategory under social responsibility includes four criteria that are used to verify the safety of workers and to ensure that they are not exposed to workplace health hazards. The aim is to motivate employers to improve the work and living conditions of employees, not only according to local law, but also according to international best practices.

1. Housing, potable water, and sanitary facilities:

Employers must provide access to clean and sanitary facilities, access to potable water, and garbage collection.

If the supplier provides good living conditions to all employees and their immediate families and also provides garbage collection to all their housing facilities, he or she is awarded the maximum scoring points.

2. Access to education:

Employers should provide to workers' families access to educational programs. If the supplier supports or provides educational programs at the site of work and provides incentives to families to enroll their children in such programs, he or she receives the maximum score for this category.

3. Medical care:

Employers should have transportation or a care plan in place to assist employees in case of emergencies and also have sufficient first aid material onsite. Employers achieve better scores if they provide medical care to the workers' families and local residents as well and if the employer maintains communication with employees in case of a medical emergency.

4. Training and safety protocol for pesticide usage:

Scores depend on the ability of the employer to provide employees with appropriate safety training for the use of equipment and the handling of chemicals. Also, they should provide and ensure the use of personal protective equipment when necessary, at no cost to employees. Better scores are achieved if employers have a contingency plan for pesticide spills and overexposure. Starbucks also verifies if employers have a protocol prohibiting children and pregnant women from handling agrochemicals.

The preceding guidelines apply to all Starbucks suppliers but are slightly modified for smallholder farms and producer associations. Smallholder farms are those smaller than 12 hectares and which are helped to collect and sell their coffee by producer associations, of which cooperatives are included. The scoring mechanism has been adjusted for these entities to the extent that smallholders and producer associations in compliance with the guidelines will score half a point, or be non-compliant with the indicator. The total points that can be accumulated by smallholder farms are 46, 16 points for social compliance and 20 points for environmental practices. Producer associations can receive a total of 26 points, 17 points for social and 9 for environmental. The decision to score smallholder farms and producer associations differently came from the PSP pilot project feedback. Based on the comments, it was agreed that small farms are managed differently and face different challenges than large estates and should

therefore be under a scoring mechanism that reflects these distinctions. As a result, the smallholder evaluation does not score smallholder farms on aspects such as collective bargaining issues or employee to management meeting protocols (i.e. formal employee grievances mechanisms), as these are not present in smallholder farm settings. This differentiation for smallholder farms allows them to not be negatively impacted and be incorporated into a system that large entities also are a part of.

CRITICISM AND APPROVALS - THE EVALUATION PHASE

Even the most progressive leaders in social responsibility are subject to criticism and Starbucks is no exception. Although the company has also been praised for its leadership in the coffee industry, it has also been criticized for issues within the supply chain.

Criticisms

Starbucks has been accused of intimidating employees who join labor unions and for posing challenges to the cultural identity of the places where its coffee shops operate³². In response to such claims, Starbucks states that it prefers a direct dialogue with its employees, but that it does not reprimand those that choose to join unions. Regarding the issues of cultural identity, Starbucks makes an effort to build and install its stores in a way that respects the original appearance of cities to a minimum.

Regarding Starbucks' sourcing practices, a few NGOs, including Global Exchange, argue that Starbucks does not promote its fair trade coffee enough and that this has resulted in low sales of the product. Global exchange states:

“...consumers have reported an inability to get brewed and bagged Fair Trade Certified coffee in Starbucks stores across the USA. Promotion has been limited by lack of relevant information in stores and other communication channels (ads, website), poor placement of bagged Fair Trade coffee (on low shelves with least visibility), and the availability of only one Fair Trade blend - resulting in lower than hoped for sales.”³³

Put into perspective, Starbucks' total sales only account for a small percentage of total market sales worldwide. Despite the relatively small market, however, Starbucks continues to increase the quantities of product purchased, growing from 2.1 millions pounds in 2003 to 4.8 in 2004, to 11.5 in 2005, and finally to 18 millions in 2006³⁴

Another sourcing issue concerns criticism over a patent issue of its Ethiopian coffee. Oxfam, acting as the lead NGO challenging Starbucks on the issue, states:

“The Ethiopian government launched a project to get legal ownership of its fine coffee names—Sidamo, Yirgacheffe, and Harar. Ethiopia approached Starbucks more than a year ago asking the company to lead by example and

to discuss an agreement that would acknowledge Ethiopia's ownership of these names. So far, Starbucks has refused to sign the agreement, or even talk seriously about it with the Ethiopian government. Oxfam is calling on Starbucks, as an industry leader, to affirm its commitments to farmers by signing the agreement. If Starbucks and other companies signed such agreements, estimates suggest that it could generate an additional \$88 million in annual revenues for Ethiopia.”

Oxfam organized Starbucks Day of Action in December 16, 2006 in twelve different countries. The demonstrators asked Starbucks to honor its commitment with Ethiopian farmers by granting the Ethiopian government the rights to its coffee names.

In response to the issue, Starbucks has stated in various press releases that CEO Jim Donald and his executive team had positive meetings with African coffee farmers, producers and government officials in Kenya, Tanzania, Rwanda and Ethiopia toward finding solutions to the problem. The company also stated “Starbucks has never filed an opposition to the application to register trademarks of Ethiopia's regional names. The applications to register Harrar, Harar and Sidamo have been rejected by the U.S. Patent and Trademark Office.” The reality is that Starbucks does not own these names and so the decision to grant the rights to use them does not belong to the company. The most recent development of the ongoing dialogue between Starbucks and the government of Ethiopia is seen in the following joint statement:

“The Government of Ethiopia and Starbucks have agreed to work together in their shared vision to increase Ethiopian farmer incomes and enhance the sustainable production of fine coffee. Both the Government of Ethiopia and Starbucks recognize that there may be differences in approach to achieving this shared vision. Starbucks respects the right and choice of the Government of Ethiopia to trademark its coffee brands and create a network of licensed distributors. Starbucks will not oppose Ethiopia's efforts to obtain trademarks for its specialty coffees—Sidamo, Harar/Harrar and Yirgacheffe—and its efforts to create a network of licensed distributors.”³⁵

Approvals

While subject to a fair amount of criticism, Starbucks is also the recipient of accolades from many fair trade advocacy NGOs such as TransFair USA, as well as various business associations and research groups. For instance, in an assessment conducted by the Centre for Corporate Citizenship at Boston College on Starbucks' responsible sourcing programs, 11 suppliers around the world were visited and stories gathered about how suppliers' lives have benefited from working with Starbucks. According to the author of the study, most of these improvements were due to the premium prices paid for the coffee, the credit loans, and the agronomic technical assistance provided by Starbucks in the field. Although the author acknowledges that not everyone has been able to benefit from the Starbucks' program and that implementing C.A.F.E. Practices guidelines can be costly, he states:

“If Starbucks were running for political office and pollsters asked farmers if they were better off today under its influence than they were four years ago, the overwhelming majority would certainly say yes. That’s a good sign that the effort so many companies struggle with—to embed the principles of corporate social responsibility into everyday core business practices—is well under way at Starbucks.”³⁶

The leadership role Starbucks has taken in the industry has also been noted. "With these guidelines, Starbucks is taking a leadership role in addressing the environmental and social issues surrounding the global coffee industry," said Glenn Prickett, executive director of The Center for Environmental Leadership in Business. "We hope that the success of this program demonstrates to the rest of the coffee industry that they can benefit by producing coffee in a way that protects global biodiversity and improves the livelihoods of coffee farmers."³⁷

One of the biggest testaments of support for Starbucks comes from the business world and various investments indexes. In total, the company has been listed in twelve socially responsible investment indexes, which include the Calvert Social Index, FTSE4Good, Domini 400 Social Index, and the Dow Jones Sustainability Index.

STARBUCKS’ NEXT BREW – THE COMPANY’S FUTURE CHALLENGES

Starbucks has taken a leadership role in the coffee industry. Its practices have shown the willingness and the commitment of the company to ensure that human rights are not only promoted in its coffee shops, but also throughout its supply chain. As a large multinational corporation with a diverse global supply chain, Starbucks will continue to face challenges to its growth and to its responsible sourcing programs.

One immediate challenge to be faced by Starbucks in the near future, relates to the implementation of its Socially Responsible Cocoa Sourcing program and the initial challenges faced when entering a new supply network. By building on lessons learned from the C.A.F.E. Practices program and by maintaining cooperative relationships with other stakeholders working on the initiative, Starbucks will be well positioned to move forward on the initiative and improve the livelihoods of those in the supply chain.

Another challenge relates to fair-trade purchasing and the continued efforts to increase the amount of coffee purchased under such guidelines³⁸. However, if consumers are not demanding this particular type of coffee, this will be difficult for Starbucks to implement. Instead, the company and NGOs must continue to educate customers so they too understand the importance of Fair Trade Certified Coffee to the coffee producing communities and create the demand for it.

C.A.F.E. Practices

In terms of the C.A.F.E. Practices program, major challenges relate to encouraging continuous improvements, improving transparency and keeping an equitable balance to social and environmental practices implemented on the farm. The first challenge with C.A.F.E. Practices is ensuring continuous improvement in its supply chain, as well as providing sufficient incentives for farmers to continue to advance their practices, especially once they have achieved strategic supplier status. For example, if a farmer has achieved a score of 80%, incentives must continue to be provided to ensure that they will continue to improve production practices and strive towards an even higher score.

The second challenge is the continued pressure for transparency in the supply chain. Further transparency of payments both up and down the coffee supply chain is one way that the company can truly ensure that farmers are receiving the benefits of the premium prices the company pays for its coffee.

Finally, there is the challenge involved in maintaining a balance between the environmental and social guidelines. In the past, Starbucks partnered with Conservation International to ensure that credible and objective environmental principles were applied to its supply chain. Similarly, Starbucks provides technical assistance to suppliers through its Farmer Support Center in Costa Rica, which assists their production mechanisms to ensure more environmentally sound coffee production. By duplicating these efforts on the social side, such as by forging a similar partnership with a social and labor compliance institution, the program's social responsibility indicators could be further developed and enhanced. Equally, a partnership with a social labor institution could also be used to provide assistance at the farm level in order to increase labor compliance, through training and education of farmers.

CONCLUSION

By providing financial incentives to suppliers to continuously improve their social and environmental practices, Starbucks endeavours to promote human rights in the coffee supply chain. Optimistically, companies will follow Starbucks' footsteps of providing incentives to suppliers and creating enduring relationships with them to secure long-term improvements. This way, Starbucks' true mission of improving the lives of coffee growing communities and other communities that surround its business practices will surpass the company's sphere of influence and start shifting the industry as a whole toward more responsible sourcing practices.

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