

## Cadbury\*

### An Ethical Company Struggles to Insure the Integrity of Its Supply Chain

*Sumana Chatterjee*<sup>1</sup>

*Jaan Elias*<sup>2</sup>

Chocolate had always been considered an affordable little luxury, associated with romance and celebrations. Therefore in 2000 and 2001, revelations that the production of cocoa in the Côte d'Ivoire involved child slave labor set chocolate companies, consumers, and governments reeling. In the United States, the House of Representatives passed legislation mandating that the FDA create standards to permit companies who could prove that their chocolate was produced without forced labor to label their chocolate "slave-labor free." To forestall such labeling, the chocolate industry agreed to an international protocol that would give chocolate producers, governments, and local farmers four years to curb abusive practices and put together a process of certification.

The stories of child slave labor on Côte d'Ivoire cocoa farms hit Cadbury especially hard. While the company sourced most of its beans from Ghana, the association of chocolate with slavery represented a challenge for the company, since many consumers in the UK associated all chocolate with Cadbury. Furthermore, Cadbury's culture had been deeply rooted in the religious traditions of the company's founders, and the organization had paid close attention to the welfare of its workers and its sourcing practices. In 1908, the company had ended a sourcing relationship that depended on slave labor. Now for the first time in nearly 100 years, Cadbury had to take up the question of slavery again.

By the 2005 deadline, the chocolate industry was not ready to implement the protocols and asked for two years more to prepare. Privately, many industry officials believed that the kind of certification sought by the protocols was unrealistic. Because cocoa was produced on over a million small farms in western Africa, insuring that all of these farms, most located deep in the bush, complied with child labor laws seemed impossible. Furthermore because beans from numerous small farms were intermingled before shipment, it was difficult to track those produced by farms in compliance with labor standards and those that were not.

In 2008, a confrontation between U.S. government officials and the industry seemed imminent. Observers argued that this left Cadbury, a company that had done much to improve its supply chain, in a difficult position.

---

\* After a merger in 1969, the company was known as Cadbury Schweppes. In May of 2008, Cadbury Schweppes demerged into "Cadbury," a stand-alone confectionary company, and "Dr Pepper Snapple Group," an independent beverage company.

## Slavery and the Political Economy of Cocoa

### From Bean to Bar in Côte d'Ivoire

Though chocolate today is enjoyed and produced world-wide, the confection was unknown outside of Central America and the Caribbean before European exploration of the Western hemisphere in the 16<sup>th</sup> century. Spanish voyagers first came across chocolate when they encountered the Aztecs in the area of present-day Mexico. The Aztecs had long cultivated and enjoyed a bitter drink made from the cocoa bean. When transported to Europe, the Spanish added sugar to the cocoa drink and the popularity of the concoction took off and diffused throughout the continent. Numerous Europeans further developed chocolate manufacture. In 1828, a Dutch chocolate maker, C.J. Van Houten, invented the cocoa press that helped reduce the price of chocolate and bring it to the masses. In 1876, a Swiss man named Daniel Peter working in his friend Henry Nestlé's baby-food factory discovered a method of combining chocolate with milk to produce milk chocolate. In 1879, Rodolphe Lindt of Switzerland, produced chocolate that melted on the tongue by inventing "conching," a means of heating and rolling chocolate to refine it.

European countries also diffused the cocoa trees that provided the raw material for chocolate, but the cultivation of these trees had special requirements. Cocoa trees only grow in tropical regions with plenty of rainfall. The trees need to be shaded from the direct sunlight and therefore grow best in the "understory" of the forest, shielded by taller trees from the rays of the sun. This distinctive growing arrangement meant that cocoa cannot be grown on monocrop farms that allow mechanized cultivation and harvesting.

Cocoa farming required a good deal of manual labor to get the beans from the tree to the factory. Newly planted cocoa trees require five to seven years of growth before they produce appreciable fruit, but once they mature the trees could produce beans for more than 50 years. Cocoa beans grow inside large football-shaped pods on the branches of the cocoa trees. These pods are manually cut from the branches with long handled knives. Once on the ground, the woody pod is split by machete and then workers scoop out the beans and pulp. Piles of bean and pulp are then covered with leaves or burlap and left out to ferment. It is during the fermentation process that the cocoa beans take on their distinctive flavor. After five to six days of on-site fermentation the beans are uncovered, separated from additional material and allowed to dry in the sun. Once dry, they can be collected and shipped to processing factories.

Because of the increasing popularity of chocolate in Europe, Europeans introduced cocoa trees in the various tropical colonies under their control. The French introduced cocoa trees to Côte d'Ivoire in the 1920s. Côte d'Ivoire (which picked up its name from an earlier trade in elephant tusks) was part of France's extensive colonies in Western Africa that included the present-day countries of Senegal, Mali, Burkina Faso, Benin, Guinea, Côte d'Ivoire and Niger. Owing to varied agricultural exports (which included coffee and palm oil in addition to cocoa), Côte d'Ivoire was the most prosperous region of French West Africa and supported an extensive community of French expatriates. As a result, Côte d'Ivoire became a magnet for migrant laborers from neighboring colonies in present-day Mali and Burkina Faso.

Côte d'Ivoire gained independence from France in 1960. For the next few decades, the country enjoyed relative political stability under single-party rule. Félix Houphouët-Boigny became president of the country in 1960 and remained in this position until his death in 1993.

During independence, cocoa became an increasingly important export crop for the country. For the most part, cocoa farms in Côte d'Ivoire were small family-run operations tucked into the bush. The country did not have an extensive system of property rights. The government proclaimed that the land belonged to whoever cultivated it. In order to stabilize prices and collect taxes, the government created a marketing board that set the farm prices each year for cocoa and licensed independent agents to purchase the beans

from the farmers. The agents were guaranteed a portion of the price as profit and the government then kept whatever was left over once the beans were sold to international cocoa processors.<sup>3</sup> The most prominent U.S. processors included ADM Cocoa (based in Milwaukee and a subsidiary of Archer Daniels Midland Co. based in Decatur, IL), Barry Callebaut AG (headquartered in Zurich, Switzerland), Cargill Inc. (based in Minneapolis), and Nestle USA (in Glendale, CA, a subsidiary of the Swiss food giant).

World prices for cocoa climbed during the 1970s, encouraging further plantings of cocoa trees. In addition, there was a flexible supply of migrant labor from adjacent countries and plentiful land not already under cultivation. During the 1980s, Côte d'Ivoire became the largest cocoa producer in the world; the country's share of world production grew from 23 percent in 1980 to 40 percent by 1998. In the mid-1990s, cocoa contributed 35 to 40 percent of Côte d'Ivoire's exports, 14 percent of its GDP, and more than 20 percent of the government's income.

The increasing volume of production occurred during a declining world market for cocoa. Prices began falling in the 1980s and yet the Côte d'Ivoire government continued to offer high price guarantees. Finally in 1990, the marketing board went bankrupt and appealed to international lending bodies for assistance. The government was forced to halve the producer price to better reflect world prices and help the government repay loans that it incurred while it was supporting the price of cocoa. This meant that Côte d'Ivoire's farmers received a smaller percentage of the declining world price of cocoa than farmers in any other country.<sup>4</sup>

In the 1990s, the political situation also deteriorated. Following the death of Félix Houphouët-Boigny, political tension grew along ethnic lines. Tensions between the Christian south of the country and Muslims in the north led to occasional violence.

The poor world market for cocoa did not reduce the level of production. Instead, farmers scrambled to reduce costs. Families pulled children out of school and it became unremarkable to see children as young as ten toting machetes as they helped harvest cocoa beans. Other farmers turned to human traffickers for child slaves from neighboring countries. A 1998 report from UNICEF, the United Nations Children's Fund, alleged that some Côte d'Ivoire farmers used enslaved children, from Mali, Burkina Faso, Benin and Togo. In 2000, the U.S. State Department's human rights report concluded that some 15,000 children between the ages of 9 and 12 had been sold into forced labor on cotton, coffee and cocoa farms.

### **Exposés of Slavery**

While the reports of UNICEF and the State Department first brought attention to the possibility of child slavery in Côte d'Ivoire, the news was not widely disseminated among the public. However, the reports did alert journalists who found that slavery in the chocolate market provided a strong news hook.

In September of 2000, an investigative team from Britain's Channel 4 broadcast a report on slavery in Côte d'Ivoire. Citing sources in the country, the team alleged that 90% of the cocoa crop was handled by child slaves. However, the story was publicly dismissed. According to the BBC,

The Côte d'Ivoire has rejected allegations that child slavery is widespread on cocoa farms as "nonsense" and "wildly inaccurate." The documentary shown on British television station Channel 4 on Thursday made unsubstantiated allegations damaging the Côte d'Ivoire, said Kouadio Adjoumani, the country's ambassador to the UK. "The absurdity of the claim that 90% of farms use slave labor is shown up by the simple fact that this would mean that nearly every one of the 700,000 farmers employs slaves, patently nonsense as anyone with any knowledge of our country would know." Cocoa producers and international cocoa traders have also criticized the documentary as exaggerating.<sup>5</sup>

As questions of child slavery swirled, on April 22, 2001, international news outlets began to broadcast unconfirmed reports of a small ship off the coast of Benin filled with about 200 children from Mali and

Burkina Faso that were headed to Gabon where the children would work on coffee and cocoa plantations. “It was the perfect storm,” observed one London-based industry executive. “It was Easter, which meant Easter baskets in America and Europe were filled with chocolate. Like other holidays, Easter is a slow news cycle, leaving the 24-hour newshounds hungry for fresh material.” With the story gaining prominence, the industry braced for a consumer backlash. Meanwhile, other news organizations began to look into the story of slave-harvested cocoa.

In June of 2001, the Knight-Ridder chain of newspapers began publishing a four-part story by two reporters, Sudarsan Raghavan and Sumana Chatterjee, on slavery in Côte d’Ivoire. Rather than surveying the situation as the Channel 4 team had done, Sudarsan Raghavan trekked deep into the rural areas of Côte d’Ivoire to bring back stories of children who had actually been held in slavery. The stories, along with photographs by Evelyn Hockstein, ran prominently in Knight-Ridder newspapers across the United States and brought home the realities of slavery. In their first story, the reporters gave this account:

Aly Diabate was almost 12 when a slave trader promised him a bicycle and \$150 a year to help support his poor parents in Mali. He worked for a year and a half for a cocoa farmer who is known as “Le Gros” (“the Big Man”), but he said his only rewards were the rare days when Le Gros’ overseers or older slaves didn’t flog him with a bicycle chain or branches from a cocoa tree.

... Aly Diabate and 18 other boys labored on a 494-acre farm, very large by Côte d’Ivoire standards, in the southwestern part of the country. Their days began when the sun rose, which at this time of year in Côte d’Ivoire is a few minutes after 6 am. They finished work about 6:30 in the evening, just before nightfall, when fireflies were beginning to illuminate the velvety night like Christmas lights. They trudged home to a dinner of burned bananas. If they were lucky, they were treated to yams seasoned with saltwater gravy.

After dinner, the boys were ordered into a 24-by-20-foot room, where they slept on wooden planks without mattresses. “Once we entered the room, nobody was allowed to go out,” said Mamadou Traore, a thin, frail youth with serious brown eyes who is 19 now.

“We didn’t cry, we didn’t scream,” said Aly. “We thought we had been sold, but we weren’t sure.” The boys became sure one day when Le Gros walked up to Mamadou and ordered him to work harder. “I bought each of you for 25,000 francs (about \$35),” the farmer said, according to Mamadou. “So you have to work harder to reimburse me.”

Aly was barely 4 feet tall when he was sold into slavery, and he had a hard time carrying the heavy bags of cocoa beans. “Some of the bags were taller than me,” he said. “It took two people to put the bag on my head. And when you didn’t hurry, you were beaten.”

He was beaten more than the other boys were. You can still see the faint scars on his back, right shoulder and left arm. “The beatings were a part of my life,” Aly said.

At night, Aly had nightmares about working forever in the fields, about dying and nobody noticing. To drown them out, he replayed his memories of growing up in Mali, over and over again. “I was always thinking about my parents and how I could get back to my country,” he said. But he didn’t think about trying to escape. “I was afraid,” he said.

... Le Gros said a Malian overseer beat one boy who had run away, but he said he himself did not order any beatings. One day early last year, a boy named Oumar Kone was caught trying to escape. One of Le Gros’s overseers beat him, said the other boys and local authorities.

A few days later, Oumar ran away again, and this time he escaped. He told elders in the local Malian immigrant community what was happening on Le Gros farm. They called Abdoulaye Macko, who was then the Malian consul general in Bouake, a town north of Daloa, in the heart of Côte d’Ivoire’s cocoa- and coffee-growing region.

Macko (MOCK-o) went to the farm with several police officers, and he found the 19 boys and young men there. Aly, the youngest, was 13. The oldest was 21. They had spent anywhere from six months to 4 1/2 years on Le Gros's farm.

"They were tired, slim, they were not smiling," Macko said. "Except one child was not there. This one, his face showed what was happening. He was sick, he had (excrement) in his pants. He was lying on the ground, covered with cocoa leaves because they were sure he was dying. He was almost dead. . . . He had been severely beaten."

According to medical records, other boys had healed scars as well as open, infected wounds all over their bodies. Police freed the boys, and a few days later the Malian consulate in Bouake sent them all home to their villages in Mali. The sick boy was treated at a local hospital, and then was sent home, too.<sup>6</sup>

The reporters did not attempt to estimate the extent of slavery in Côte d'Ivoire. Rather they followed the cocoa beans through the supply chain and explained how slave-harvested cocoa ended up in chocolate bars in U.S. supermarkets. In the final installment in the series, the reporters noted the difficulty in affixing blame in the situation:

How could modern society allow youngsters to be enslaved to produce a crop that becomes the very food – chocolate – that symbolizes happiness, luxury and romance?

It can happen because it's nearly hidden. The enslaved boys whom Knight Ridder found worked mostly on small farms scattered in remote parts of Côte d'Ivoire. Few people get to the farms, even those in the cocoa trade. If they visit and see children at work, it's nearly impossible to tell if the children are members of the farmer's family or have been bought by the farmer, who may or may not pay them after years of work.

That allows everyone along the chocolate chain to pass blame and responsibility for the boy slaves to someone else. Farmers who use slaves blame the people responsible for the price of cocoa. Middlemen who deal with farmers say they don't see any slavery. Côte d'Ivoire government officials who enforce slavery laws say it's foreigners who are selling and using slaves in their country. Cocoa suppliers say they can't be held responsible because they don't control the farms. Chocolate companies say they rely on their suppliers to provide cocoa untainted by slave labor. The trade associations blame Côte d'Ivoire's unstable political situation. And consumers don't have an inkling that their favorite chocolate treats may be tainted by slave labor.<sup>7</sup>

### **From Bill to Protocol**

Reading the Raghavan-Chatterjee stories on an airplane flying from Miami to Washington D.C., Congressman Eliot Engel (D-NY) was moved to action. On the back of an envelope, he scrawled out a draft of a bill that called on the US Food and Drug Administration to create a "no forced labor" certification that could be affixed to chocolate by manufacturers who could prove that their supply chains did not use slave labor. On returning to the House floor, he saw an immediate opportunity to gain action on his proposal by offering the bill as an amendment to the House Agricultural Bill. With little debate, the House gave Engel's amendment bipartisan support and passed it by a vote of 291-115.

On the Senate side of the Congress, the amendment drew the attention and the support of the chairman of the Senate Agriculture Committee, Tom Harkin of Iowa. However, by the time the Senate was slated to consider the matter, the Chocolate Manufacturers Association (CMA), which represented all of the US's cocoa producers and major chocolate companies, had become involved. The Engel Amendment had taken the CMA by surprise; they had not had time to organize a response. Now with adoption in the offing, the CMA mobilized to block the legislation. CMA members believed that affixing the "no forced labor" certification to only a few products would imply that all the other chocolate products were produced with

slave labor. CMA members worried that this could lead to a consumer boycott on most chocolate products and be devastating to the big six chocolate companies, which constituted 50% of worldwide cocoa bean consumption.

However Harkin and Engel held the upper hand. The legislation was popular; it would be hard for Senators to oppose a measure against slavery. Unable to kill the bill, the CMA went to Harkin to negotiate an alternative. Rather than a FDA-supervised labeling program, the industry would support an international protocol that would involve all the stakeholder groups in industry, national governments and international NGOs in improving child labor standards and working toward a certification of cocoa harvested without slave labor. Much to industry's chagrin, Harkin and Engel insisted on a time frame of four years for development programs to be in place and for a system of certification that would identify abusive labor practices.

In the end, industry representatives felt that such a protocol would be superior to labeling. In early September 2001, Harkin, Engel, and Ambassador Youssoufou Bamba of the Côte d'Ivoire, reached an agreement with the members of the CMA and the World Cocoa Foundation to establish global standards for child labor. The agreement was signed on September 19, 2001 (the original signing had been scheduled for September 11<sup>th</sup>, but had to be rescheduled given the terrorist attacks that day) by leaders of all of the U.S.'s major chocolate manufacturers and cocoa processors, including Hershey, Nestle, Mars, World's Finest Chocolate, Archer Daniels Midland Co., and Barry Callebaut AG. Observers noted that the protocol marked the first time an agricultural industry has taken responsibility for its product from harvesting to market and could become a model for other industries.

Publicly, the CMA expressed enthusiasm for the protocol. A spokesman told the trade press:

As an industry, we strongly condemn abusive labor practices, and our goal is to be part of the worldwide effort to solve the problem. If one child is affected, that is one child too many.<sup>8</sup>

Another noted,

I think all parties agree that the kind of action [entailed in the four-year plan] is a better and more long lasting solution to dealing with the issue. It addresses the issue in a much more satisfying way than labeling would have.<sup>9</sup>

Privately, many industry executives believed that the protocol was unrealistic. With over a million cocoa farms scattered through West Africa, and the cocoa bean changing hands multiple times, it seemed impractical to industry insiders to expect that any group could certify that no slave labor had been used to produce a cocoa bean. One chocolate executive noted,

In retrospect, I'm not sure that the word "certification" was the right one for the situation, because I think it gives the wrong impression about what is really strictly possible.... I think it [the Harkin Protocol] was possibly the best document that could be produced in that kind of situation, but was very, very unrealistic in what it said it was going to achieve in a four-year period... That's actually quite sad, because surely we could have all worked much more constructively together to achieve a much better result than we currently have, if there had been more constructive engagement.

## Cadbury's Ethical Legacy

The allegations of slavery in the cocoa supply chain hit the venerable British firm of Cadbury Schweppes particularly hard. The many generations of Cadburys that had guided the firm were staunch members of the Religious Society of Friends (Quakers) and the company's policies had reflected the founders' religious roots. While Cadbury Schweppes had passed out of the direct control of the Cadbury family,

observers noted that “in the public eye, and also among its employees, Cadbury Schweppes still has a strongly ethical reputation which owes a great deal to the persistence of the Quaker legacy.”<sup>10</sup>

Cadbury had started modestly enough. In 1824, at age 22, Birmingham, England, John Cadbury, one of ten children of a prominent Quaker family, opened a small grocery store on fashionable Bull Street next to his father’s silk drapery shop. The grocery was stocked with English staples of tea and coffee as well as mustard and hops. As a sideline, he also sold cocoa and drinking chocolate, both considered luxury goods only affordable by the prominent and wealthy. According to Cadbury lore, John prepared the drinking chocolate using a mortar and pestle, experimenting with cocoa beans from South and Central America and adding sugar. He soon was selling a range of cocoa and mixing a variety of drinks.<sup>11</sup> By 1831, John Cadbury had rented a small factory to manufacture drinking chocolate and cocoa.

John Cadbury’s success in business as well as his involvement in civic life allowed him to pursue his interests in social reform. Like his father before him, Cadbury served as an overseer of Birmingham, worked to improve the Birmingham General Hospital, encouraged the creation of the Post Office Savings Bank to allow working people to build savings and campaigned against child labor. He also was an early advocate of the prevention of cruelty to animals and even installed mechanisms to help control the amount of smoke emanating from his factory’s smokestacks (and encouraged other businessmen to follow suit).<sup>12</sup>

This mixture of business and civic activism was not unusual among members of the Religious Society of Friends. In the 19<sup>th</sup> century, Quakers were not allowed to enter Oxford and Cambridge, which in the 19<sup>th</sup> century were closely linked with the Church of England. This barred entry into to the established professions such as law and medicine. Instead, Quaker energies and talents were often directed towards business and social reform. Close ties between Quaker families engaged in business also proved helpful for these concerns as the connections provided a ready source of advice and occasionally of capital. Many Quaker families made their mark on the British business scene – in addition to the Cadburys, the Frys of Bristol and the Rowntrees developed the confectionery business; Sampson Lloyd of Birmingham founded Lloyds Bank; the Hanburys brought tinsplate to Wales; and the Darbys of Coalbrooke founded the British iron industry.<sup>13</sup>

John’s business passed to his two sons Richard and George and the Cadbury Brothers established a London office and “received the Royal Appointment as Cocoa Manufacturers to Queen Victoria.”<sup>14</sup> The brothers’ business took off in 1866 when Cadbury became first British chocolate maker to purchase a cocoa press that allowed them to sell ‘pure cocoa essence’ that was not adulterated by starches. In 1875, the company began to produce chocolate eggs for Easter, which it perfected in 1923 with a whipped fondant recipe that is the basis of the now-iconic Cadbury Creme Egg.

Richard and George Cadbury inherited their father’s concern for workers. When the time came to expand manufacturing to meet growing demand, they combined practicality and ethics by building the new factory in a rural area outside Birmingham. Next to the factory, the brothers constructed a model village (Bournville) for workers from their own firm as well as other companies. Unlike the urban ghettos most workers resided in at the time, Bournville featured mixed income developments, integrated public schools, and parks and open space. George Cadbury’s grandson and former Chairman of Cadbury Schweppes, Sir Adrian Cadbury, noted about Bournville:

It was an opportunity to show that you could build a factory which would provide a much better working environment than was normal, in those days, and yet would not interfere with the efficiency of the business. It wasn’t philanthropy. In a sense, it was sort of humanity and common sense, combined. The welfare of the individual at work and the welfare of the business were two sides of the same coin. And the move out here was a very enterprising initiative, because it did mean building a factory in the countryside. But, in fact, it also proved to be a very good decision in terms of the running of the business. I’m quite sure that in making the move, the prime consideration really was to provide a better place to work, with light, and air, and

space for recreation, and so on. But, as always, there's a balance, and they also saw it as being a better way of working, in terms of the efficiency of the company, as well.

Once in operation, Bournville became an international sensation. George Cadbury ensured that the village was independently administered by a trust whose charter articulated the objective "to provide decent quality homes in a healthy environment which could be afforded by industrial workers."<sup>15</sup> The trust kept a tight grip on the development of Bournville. It held title to all of the land and properties – workers could only lease their apartments.

The founders' beliefs permeated the village in other ways as well. For example in keeping with Cadbury's Temperance Society ethos, the village prohibited the sale of alcoholic products, a prohibition that continued to the present. In March 2007, the Bournville Trust, comprised of villagers and members of the Cadbury family, voted in 2007 to keep the village "dry" by rejecting a permit for a national chain grocery store to sell alcohol within its limits.<sup>16</sup>

The Bournville manufacturing plant became the home for a number of innovations in industrial organization. The Cadbury Brothers were the first firm to introduce the five-day week. Employees were given the opportunity to attend courses and the company provided extensive medical care and recreational opportunities. Employee work committees were established to discuss issues with management. In 1912, George Cadbury's son Edward penned *Experiments in Industrial Organization* detailing the innovations at Bournville. In his forward to the book, Professor W.J. Ashley noted, "Everyone who is acquainted at all intimately with the Bournville Works and with those who direct them knows full well that the mainspring of their policy has been a sense of social duty." However, he argued that the innovations had paid off in a practical sense in two ways:

For first -- I see no reason why we should not be quite frank in the matter -- it has been a splendid advertisement. Instead of cynically pooh-poohing it for that reason, I think this is a particularly encouraging fact, and highly creditable to human nature. It shows there is such a thing as a consumers' conscience... And, secondly, it has reduced the expenses of manufacture. An atmosphere of good-will in a shop makes every operation run more smoothly: and the better the work and the mental and physical powers of the operatives are adjusted to one another, the less there is of lost time, and of a score of those other occasions of expense which do much to swell "general charges."<sup>17</sup>

Quaker beliefs, particularly that there is "the light of God in every individual," often put Cadbury in opposition to popular opinions in England. Concerned with social justice and human rights, George Cadbury was a pacifist and opposed the Anglo-Boer War. Sir Adrian Cadbury recollected:

I read a piece, once, about my grandfather, who had the order from Queen Victoria for the chocolate for the soldiers in the Anglo-Boer War in South Africa in 1900. He was bitterly opposed to the war... And the way that he got round his concern about profiting from what he saw as an unjust war was that he fulfilled the order for Queen Victoria, and the little tins of chocolate were sent out to the troops, but he did it at no profit. So the factory had the work [and] the soldiers had their chocolate.

George Cadbury's opposition to the Anglo-Boer War as well as his desire to promote various ideas to promote the social welfare of workingmen (such as a National Pension) led him to purchase the *Daily News* in 1901 to argue these ideas to a national audience. In 1911, George formed a family trust to take over the shares of the newspaper and stated that the purpose of the newspaper was to:

... be of service in bringing the ethical teaching of Jesus Christ to bear upon National questions, and in promoting National Righteousness; for example, that Arbitration should take the place of War, and that the spirit of the Sermon on the Mount -- especially the Beatitudes -- should take the place of Imperialism and of the military spirit which is contrary to Christ's teaching ...

Much of current philanthropic effort is directed to remedying the more superficial evil. I earnestly desire that the Daily News Trust may be of service in assisting those who are seeking to remove their underlying causes.<sup>18</sup>

Adherence to Quaker principles also continued to shape the direction of the chocolate company. At the turn of the 19<sup>th</sup> century, Cadbury sourced its cocoa from São Tomé, a Portuguese colony on the western equatorial coast of Africa. In 1901, reports began trickling out that São Tomé cocoa plantation owners employed slave labor to plant and harvest the colony's most profitable crop. This information was of special concern to the Cadburys, since Quakers were strict abolitionists that had historically opposed slave labor in Britain and the United States.

William Cadbury traveled to São Tomé to inspect the situation and began to negotiate with the Portuguese government over slavery on the island. The talks went on for six years as Cadbury implored the Portuguese planters to end their dependence on forced labor. Finally, Cadbury quit sourcing cocoa from São Tomé and cultivated new cocoa sources in the British colony of the Gold Coast, now known as Ghana. In addition, he persuaded other European chocolate makers to “boycott cocoa from enslaved plantations of Portuguese colonies of West Africa.”<sup>19</sup> Because of his efforts, São Tomé ceased to be a major cocoa producer, though the practice of forced labor persisted there until the 1970s.

While the Cadbury's legacy continued to influence the company, the governance of the company during the 20<sup>th</sup> century gradually evolved to a larger group of shareholders. The company went public in 1962. In 1969, Sir Adrian Cadbury (chairman of the company 1965-89) led the merger of Cadbury with the soft drink manufacturer Schweppes, an action that gave the merged entity important strategic advantages but further diluted familial control. Indeed, George Cadbury's grandson Dominic Cadbury was the last Cadbury to actively manage the company, stepping down as chairman in 2000. The change in ownership structure brought changes in how decisions might be made. Reflecting on his grandfather's decision to forswear profits from selling chocolates to the army during the Anglo-Boer war, Sir Adrian Cadbury wrote that the decision would not have been as easy for the public-owned Cadbury-Schweppes of today:

My grandfather was able to resolve the conflict between the decision best for his business and his personal code of ethics because he and his family owned the firm which bore their name. Certainly his dilemma would have been more acute if he had had to take into account the interests of outside shareholders, many of whom would no doubt have been in favor both of the war and of profiting from it.<sup>20</sup>

## Cadbury's Reaction to Revelations of Child Slavery

In September of 2000, Tony Lass, Cadbury's Director of Global Cocoa Supplies, braced himself for the broadcast on Channel Four. He had been forewarned to be shocked, but nothing could have prepared him for the news report, which alleged 90% of the children working on cocoa farms in Côte d'Ivoire were enslaved. Lass remembered,

Cadbury was in a state of shock about the whole of this, because it really went to the core of our business. There was a feeling of tremendous shock in all the big companies operating in the UK market – because the allegation that 90% of the farmers in Côte d'Ivoire used slaves was something that we could not comprehend. Genuinely, we could not comprehend. All of us in the industry asked ourselves, genuinely, can this really be true?

In my case, I'd been visiting cocoa farms for 30-something years and I had never seen anybody walking around a field in chains. And I had never seen anybody being abused by a farmer. And I assumed – and as it transpires, somewhat naively – that they were all members of the extended family, which is sometimes true, but is not always true, in retrospect.

The number 90% was used without any sanity check that it was a fair number. And I understand that journalists like to make sensational stories and it did grab the attention of a very significant number of people in our businesses. And the question, which everyone in the industry asked, was “Can this be true?” Can there be children in these circumstances, regardless of whether they were 90% of farms, or not? Are there children in these circumstances? Because, if there are, then we have to do something about it.

A number of people in the industry considered what they should do. With civil disturbances starting in Côte d’Ivoire, sending a group of industry people to investigate would be too dangerous. Getting to the heart of the truth would be difficult. So the U.K. chocolate industry commissioned a well-respected economist and an international development expert to assess the issue. After several months of research, their conclusion was that circumstances existed in Côte d’Ivoire that make child slavery on cocoa farms possible. Lass noted,

It became clear to us that what we had been shown on the Channel 4 was, indeed, possible. I had never heard of the concept of trafficking children. I had never heard of ILO 182.<sup>⊗</sup> Genuinely, I hadn’t. Why would we have ever thought of it? To the average Western mind, the concept that a child is sold by his parents for a trivial sum of money because they’re so poor that they simply cannot feed that child, is something that simply had not crossed their minds. These kids are being forced to work under circumstances that are completely unacceptable.

The industry already had been working with cocoa-producing nations to educate farmers on sustainable agriculture methods. Lass maintained,

In 1998 we were saying, “Let’s work on the economics and the environmental issues first.” So we literally put social issues on the back burner, because we didn’t believe there was a problem. We could understand the economics and the environment, but social things were something we simply didn’t have a handle on – “we” as, collectively, industry, in that respect. And we, somewhat naively, believed social issues are probably the responsibility of the government. At the time, we considered that governments have a role but now we asked what responsibility did users of a raw material have? Do we believe that we have a responsibility, as an industry, for the social circumstances of the grower of the primary raw materials?

In 2001, we were working to develop plans on the economic and environmental sustainable development of cocoa, and along comes this big social issue that took us by surprise. So during that early part of 2001, we were starting to realize that, actually, the only way was to try and deal with all three at the same time. It took a while to persuade other companies of this need. Companies with significant U.K. businesses were significantly more sensitive to this issue than were the others.

When the public learned of the possible slave ship of children during Easter 2001, attention focused squarely on the cocoa industry. (Reports of the slave ship later turned out to be false.) Three weeks later, just prior to the annual Cocoa Dinner in May, the British Foreign Office called in industry executives to explain themselves. Replete with expletives, the highly contentious meeting left executives certain that everyone, including the UK government, had the impression that the cocoa industry could fix the problem unilaterally.

That night, the mood of the usually festive Cocoa Dinner was dampened as attendees recognized that Côte d’Ivoire, which was becoming preoccupied with civil war, was in a state of denial about the seriousness of the international consequences of the child slavery problem. Minister of Agriculture Alfonse Douaty addressed the ballroom softly but clearly in French, “Thank heavens, the proportion of this type

---

<sup>⊗</sup> ILO 182 stood for the International Labor Organization’s Worst Forms of Child Labor Convention, 1999.

of criminal farmers remains low still.” He then blamed depressed prices for farmers that may create “conditions that lend themselves to the development of slavery in whichever form it presents itself.”

It was already the first week of May, over six months since the first reports were broadcast but there had been very little progress or constructive engagement. Lass recalled:

It became clear that we were stronger by working as a collective on the industry side and working with the governments of Ghana and Côte d’Ivoire to resolve this problem as best we could. We were genuinely anxious about how we were going to do that. Then two American journalists published stories in last week of June that suddenly engaged people in the U.S. And then along came the protocol.

Even before these revelations, Cadbury had decided to give responsibility for all its human rights, ethical sourcing, and environmental oversight to a select committee on its Board of Directors, chaired by a non-executive board member, Baroness Wilcox, the former chair of the National Consumer Council. The Corporate Social Responsibility Committee featured the Chairman, CEO, human resources and legal officers, plus two more non-executive members to ensure greater independence and leeway in asking tough questions.

### **Working with Ghana**

One hundred years of relationship building in Ghana had put Cadbury in a unique position to improve conditions in the country. Relations forged over the years had helped gain much needed support for child labor and education initiatives of the International Cocoa Initiative (ICI, a coalition created to help implement the Harkin-Engel Protocol) as well as Cadbury’s own economic and development projects. Cadbury had helped local government build schoolhouses and buildings alongside community efforts. In 2002, Cadbury had begun providing wells in cocoa communities, digging some 350 in five years. In 2007, the company announced that it was increasing its efforts and would complete a well every day for the next twelve months.

David Croft, Director of Conformance and Sustainability, joined Cadbury to coordinate ethical sourcing at the senior level of Cadbury, independent of other business activities, particularly Procurement Business Services, where the sourcing responsibility rested prior to 2001. Croft noted,

Looking at our cocoa supply chain in Ghana, we considered how to develop sustainable cocoa farming in the future. Our approach is holistic, and follows independent value chain research into cocoa farming communities and other Ghanaian stakeholders. This research considered the socio-economic challenges that face farmers and significantly informed our program. Within our work, we are supportive of all activities to address the worst forms of child labor which is one of the cross-cutting themes that our program addresses. Our approach recognizes that we are as dependent on those small farming communities for their crops as they are upon us as a customer for their cocoa. Although the Ghanaian system means that we don’t buy directly from farmers, our long history in Ghana and the relationships we have there, right down to farmer and village level, create a strong connection for us. Our approach means that the Cadbury values are visible in our work today just as they were through the Cadbury founders in Ghana some 100 years ago.

Using its leverage in the industry, Cadbury also engaged the United Nations and other development organizations to look at how the policy agenda was created and how it translated from the government level to farm level. Cadbury sought to play a role in the way industry helped deliver those policies, or aligned activities on the ground to support those policies.

## Palm Oil Protest

With their efforts for ethical sourcing successfully focused on cocoa, their key ingredient, Cadbury executives were caught off guard at the annual shareholders' meeting in May 2004. Friends of the Earth protestors lined the London streets denouncing the leading chocolate maker and distributing candy bars with fabricated labels warning of environmental degradation caused by palm oil, a minor ingredient in Cadbury's chocolates. The labels read:

Ingredients: PALM OIL (vegetable oil produced on tropical estate plantations). 48 per cent of Indonesian and Malaysian plantations established on forestland, leading to major deforestation in Indonesia and East Malaysia. Labor rights conflicts, 25 pesticides used on plantations, forest fires, wages below minimum wage, land stolen from local communities. Where produced for UK and Ireland: source probably Malaysia. Where produced for markets elsewhere: source unknown.

WARNING: May contain traces of deforestation and exploitation

Executives at Cadbury's shook their heads in dismay. Palm oil represented less than .001% of its source ingredients. Yet Friends of the Earth was able to galvanize the media public opinion against the company. Lass commented:

We were targeted because we are a well-known household brand in the UK.... It didn't matter that other companies might have used more palm oil in their products. What that told us was that just being a buyer from a small tonnage did not make us immune from scrutiny.... What this told us was this controversy wasn't just a cocoa thing. We needed to make sure all our suppliers were acting in our business interests.

The palm oil protests were a wake-up call. Cadbury realized that the entire supply chain of 40,000 suppliers located around the globe required risk assessments, rigorous examinations and verification of compliance to Cadbury's Ethical Sourcing Standards, which were established in 2003, and its Human Rights and Ethical Trading Policy. It set the goal to achieve sustainable agriculture programs in at least 50% of those crops by the end of 2010. Croft said:

We identified the key crops upon which our business is most reliant and where we estimate the most likelihood of risk within that supply chain, based upon human rights, environmental, agricultural and socio-economic risks. We have now begun to tackle these through a template developed with a broad range of stakeholders from civil society and based upon other existing sustainability programs. In addition, we work with groups such as the 'Roundtable for Sustainable Palm Oil', and are engaging with the 'Better Sugar Initiative' - the sugar roundtable process, while we also work within our own sugar supply chains in southern Africa and Latin America. In other sectors, we are evaluating dried fruit and nut suppliers in Turkey, and looking at mint suppliers in the Midwest of the US and smallholder mint farmers in the Punjabi region in India. We still have question marks around how we might tackle some issues and some ingredients; licorice for example, which we source from the Middle East, and also gum arabic, which has a very complex supply chain from nomadic farmers in countries such as Chad, and Nigeria in our case. The challenges in the supply chains in that part of the world are not insignificant.

Checking on 40,000 suppliers was no easy feat. Using SEDEX (Supplier Ethical Data Exchange), Cadbury asked companies to provide critical data confidentially for a "desk review," which could be followed by on-site inspections by specialists, independent auditors, or NGOs. In 2006, Cadbury began developing its last step in the verification process. Which companies were scrutinized first depended on the critical nature of the raw material: the greater the importance of the ingredient to the core product, the higher the priority for examination. Cadbury focused first on 90 companies, the Tier 1 Priority, such as

Cargill, ADM and cocoa processors; then it turned to 2,100 Tier 2 Priority companies, asking each of these companies to verify the ethical sourcing of its own supply chain. About 38,000 companies fall into Tier 3.

Now retired, Tony Lass reflected on the roller coaster ride since the Channel 4 broadcast in 2000. The changes in the sourcing and the engagements in producing countries might have organically evolved over time. But the media attention, informal collective of European chocolate makers, the American involvement, and the full commitment of Cadbury pushed the issue faster and harder than anyone ever imagined.

Certainly, not everything was perfect. Implementation of certification loomed as an enormous challenge. As noted earlier, perhaps with time and more deliberation, the stakeholders would have agreed to a different approach that could have delivered benefits to cocoa growers much more quickly. Still, some stakeholders, inside and outside the industry, were reluctant to get involved in the ICI. However, collective action, Lass observed, is where real leverage comes from. “One of our tasks, now, is to make sure that anybody of any size is engaged.”

## The Dilemmas Facing an Ethical Company

In its initial form, the Harkin-Engel Protocol was to have gone into effect in 2005, but as the deadline rolled around the major chocolate companies begged for more time. Writing in the *Los Angeles Times* on Valentine’s Day of 2005, Senator Harkin and Congressman Engel lamented:

There are an estimated 1.5 million small cocoa farms spread across four desperately poor countries in Africa, including Côte d’Ivoire. The protocol established a public-private partnership enlisting government, industry, labor unions, nongovernmental organizations and consumer groups. The U.S. government’s role is to ensure that whatever certification plan emerges from this process is credible and effective in eliminating abusive child- and slave- labor practices in the cocoa industry and ensuring the rehabilitation of the victims.

We have done our best to accommodate the chocolate companies. We preferred a two-year deadline for the creation of an industry-wide certification regime, but agreed to four years. We all agreed that the regime was to be completed on July 1, followed by rigorous implementation.

Last month, however, the companies informed us that they would not meet the deadline. Instead, they planned to initiate a small pilot program in Ghana and, perhaps, in Côte d’Ivoire. Although this is certainly a positive step, it falls woefully short of the robust action promised in the protocol.

The time for talk has passed. Children are suffering. Will the chocolate companies redouble their efforts and make good on their commitments? Or, as with blood diamonds, will legislation be necessary? Our preference is for the chocolate industry to take charge of its own destiny. But if corporate responsibility is lacking, government will have a responsibility to act.<sup>21</sup>

Two years later in 2007, a rigorous certification scheme had yet to be described, much less implemented. NGOs were increasing their pressure. In Great Britain, a group called “Stop the Traffik” was calling for a boycott of all chocolate that was not certified as being “traffik free.” They urged chocolate manufacturers to adhere to a four-point program<sup>22</sup>:

1. Transparency in the cocoa supply chain to the farm level.
2. Independent verification of no trafficking, debt bondage and other forms of child labor in the supply chain.
3. Purchasing practices to ensure that farmers received a good price for their product.

4. Commitment to financing the rehabilitation, reintegration and education of children who have been exploited on cocoa farms.

A number of prominent individuals had joined the cause. Dr. John Sentamu, the Anglican Archbishop of York, urged consumers “to buy only Fair-trade chocolate from now on.” He added “If you can’t find it in your favorite shop, ask to see the manager and say that you will only buy goods which are free of slave labor. Say you want to trade fairly. If you keep that promise, you could be playing your part in ending a 21<sup>st</sup> century inequity.”<sup>23</sup>

With its supply programs, Cadbury argued that it had done a great deal to improve the lot of all of its suppliers. In January 2008, Cadbury launched the Cadbury Cocoa Partnership, a £45 million investment to secure the future of cocoa production in Ghana, India, Indonesia and the Caribbean. The partnership was to oversee a 10-year program addressing socio-economic factors affecting the long-term sustainability of cocoa. The program focused on community-centred activities that lead to improved conditions in rural areas that support a sustainable cocoa supply chain.

Globally, the Cadbury Cocoa Partnership was managed by a multi-stakeholder International Board consisting of Cadbury’s executives and representatives of the UN Development Programme, Anti-Slavery International and the International Cocoa Initiative. The international board set the program’s strategic objectives; established governance systems and oversaw on-the-ground implementation. Locally (e.g. in Ghana), the program was managed by a local management board comprising government representatives, farmer representatives, international NGOs and development organisations.

However, the large chocolate manufacturers, working through their trade associations, continued to oppose efforts to label chocolate that came from regions with slaves or otherwise poor labor conditions. The industry associations argued that with over a 1.5 million small cocoa farms in West Africa, it would be nearly impossible to monitor compliance of any labor standard. The farms were not under the control of the chocolate manufacturers and therefore the companies could not enforce working conditions. Indeed, the companies argued that labeling chocolate from West Africa would only decrease demand for beans from this region and therefore further depress the market, making poor labor practices even more likely. Many of the chocolate companies pointed the finger at the governments in the region as being in a better position to change child labor practices.

While the chocolate industry presented a united front to the public, behind the scenes, companies differed as to their commitment to improve conditions for suppliers. Cadbury had worked well with some of the companies in the cocoa chain (especially in Europe) to coordinate development efforts, yet a number of other major cocoa processors were notably reluctant to follow suit. However, interlocking distribution and manufacturing agreements between major producers (for example, Cadbury’s U.S. chocolate was manufactured by Hershey) as well as relationships with governments in growing regions made it difficult for companies to break from the industry consensus. In the international market, it was also difficult to differentiate beans coming from areas with questionable labor practices from others. Furthermore, there was the danger that consumers would not differentiate one major producer from another and the entire chocolate category could suffer.

A few small firms had bucked the industry consensus and produced organic, “fair-trade” chocolate. These companies sourced their cocoa beans from small co-operatives and paid farmers premium prices to insure organic farming techniques and adherence to labor standards. Sales of these fair-trade chocolate bars had skyrocketed in the 2000s, but the companies represented a tiny sliver of the chocolate market and charged premium prices for their products. Cadbury had taken note of this trend and purchased the largest of these boutiques brands, Green & Black’s, in 2005. Cadbury agreed to run the business as a stand-alone entity. A company spokesman noted “We’re not buying reputation. Most people think of Green and Black as a quality organic producer. We like to think that over the years people have come to value the Cadbury quality as well. They will gain from us and we will gain from them.”<sup>24</sup>

Owing to its past, the press and public were focused on what Cadbury would do. In stories about the Green & Black takeover as well as other articles about cocoa sourcing, reporters would frequently note Cadbury's long history as an ethical concern whose traditions were rooted in religious principles. In its story, *The Times* of London's reporters wrote:

As Quakers, the Cadbury family championed social equality and an end to poverty. In the early 1900s, Cadbury shifted cocoa sourcing from Angola, Sao Tome and other Portuguese territories to the Gold Coast, now Ghana, because of concerns over slave labor. But with more than 55,000 employees and a stock market value of £10 billion, the modern Cadbury Schweppes empire faces a constant struggle to ensure that sound values run all the way through the organization.<sup>25</sup>

This Yale School of Management case has been made possible in part by the generous support of the Robert J. Silver '50 Fund for Innovation in Management Education at the Yale School of Management.

The authors wish to thank Sir Adrian Cadbury, Sir John Sunderland and other officers of Cadbury for their assistance in preparing this case study.

This case has been developed for pedagogical purposes. The case is not intended to furnish primary data, serve as an endorsement of the organization in question, or illustrate either effective or ineffective management techniques or strategies.

Copyright 2008 © Yale University. All rights reserved. Not to be reproduced or electronically posted in any manner without the express consent of the Yale SOM Case Study Research Team, PO Box 208200, New Haven, CT 06520.

## Endnotes

<sup>1</sup> Yale School of Management '08.

<sup>2</sup> Director of Case Study Research, Yale School of Management

<sup>3</sup> Catherine Boone, "The Social Origins of Ivoirian Exceptionalism: Rural Society and State Formation," *Comparative Politics*, v27,n4 (July, 1995), p, 445-463.

<sup>4</sup> John McIntire and Panos Varangis, "Reforming Côte d'Ivoire's Cocoa Marketing and Pricing System," World Bank Report, 1999.

<sup>5</sup> "Cocoa farm slavery 'exaggerated'" BBC News Report, Friday, September 29, 2000, accessed at <http://news.bbc.co.uk/2/hi/africa/948876.stm> on November 10, 2007.

<sup>6</sup> Sudarsan Raghavan and Sumana Chatterjee, "Slaves Feed World's Taste For Chocolate" *Knight Ridder News Service*, June 24 2001.

<sup>7</sup> Sumana Chatterjee and Sudarsan Raghavan "Bitter Trail," *Knight Ridder News Service*, June 24, 2001.

<sup>8</sup> Jessie Ray Sectzer, "CMA broker pact addressing child labor abuses in West Africa" *Candy Industry*. Oct 2001, v166, n10, p. 13.

<sup>9</sup> Ibid.

<sup>10</sup> Carol Kennedy, *The Merchant Princes*, London: Hutchinson, 2000, p111.

<sup>11</sup> [http://www.cadbury.co.uk/EN/CTB2003/about\\_chocolate/history\\_cadbury/](http://www.cadbury.co.uk/EN/CTB2003/about_chocolate/history_cadbury/).

<sup>12</sup> Kennedy, p19-20.

<sup>13</sup> [http://www.cadbury.co.uk/EN/CTB2003/about\\_chocolate/history\\_cadbury/](http://www.cadbury.co.uk/EN/CTB2003/about_chocolate/history_cadbury/).

<sup>14</sup> [http://www.cadbury.co.uk/EN/CTB2003/about\\_chocolate/cadbury\\_milestones/milestones\\_summary.htm](http://www.cadbury.co.uk/EN/CTB2003/about_chocolate/cadbury_milestones/milestones_summary.htm).

<sup>15</sup> <http://www.bvt.org.uk/>.

<sup>16</sup> Rhona Ganguly, "Village victory as Tesco refused alcohol license," *Birmingham Post*, March 27, 2007.

<sup>17</sup> W.J. Ashley, "Forward" in Edward Cadbury, *Experiments in Industrial Organization*, London: Longmans, Green and Co.: 1912. p.xii-xiii.

<sup>18</sup> Kennedy, p51.

<sup>19</sup> <http://www.chocolate-week.co.uk/history-chocolate.php>.

<sup>20</sup> Sir Adrian Cadbury, "Ethical managers make their own rules," *Harvard Business Review*, September-October 1987.

<sup>21</sup> Tom Harkin and Eliot L. Engel, "Commentary: Taking Child Slavery Out of Valentine's Day," *Los Angeles Times*. Feb 14, 2005. p. B11.

<sup>22</sup> [http://www.stophetraffik.org/chocolateDownloads/stt\\_pledge.pdf](http://www.stophetraffik.org/chocolateDownloads/stt_pledge.pdf) accessed August 10, 2008.

<sup>23</sup> Ruth Gledhill, "If that Chocolate is not Fairtrade, then don't but it, says the Archbishop of York." *The Times*, October 31, 2007, pg 27.

<sup>24</sup> Peter Klinger and Jon Ashworth, "Snack Attack as Cadbury Wolfs down Organic Chocolate Firm," *The Times*, May 13, 2005, pg 6.

<sup>25</sup> Ibid