Innovations for Healthy Value Chains:
Cases, Tools, & Methods

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Table of Contents

Introduction

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In August of 2007, some forty academic, business, and NGO leaders gathered near Boston to look at the state of "healthy value chains" – those that provide social and economic benefit to all players in the chain while providing greater protection for ecosystems and natural resources. The meeting, convened by the Sustainable Food Lab, WWF, and the Society for Organizational Learning, provided an opportunity for value chain practitioners in several industries – including food, textiles, and energy, among others – to compare notes on common problems and innovative solutions.

This document is an outcome of that meeting, and is offered in preparation for a follow-up meeting to be held in Rhode Island in June, 2008. In the pages that follow, we bring together several case studies as well as descriptions of tools and methods that have been useful to members of this *ad hoc* coalition of value chain veterans. We expect it will be useful, by the way, even if you are unable to join us in Rhode Island.

From numerous examples we have seen that there are three legs to the innovation stool: the governing ideas or framework that guide our work; the innovation strategies and processes that help us make progress; and the critically important process of institutionalizing the change so that it becomes part of the DNA of the organization. We address all three in this document.

Transforming value chains is a complex undertaking that begins with understanding the social and environmental contexts in which we are trying to create efficient supply chains for high quality products. The kind of understanding that leads to improvement is greatly enhanced by *partnerships* that enable us to work beyond our traditional boundaries by bringing together the perspectives of both civil society and business throughout the chain.

These partnerships, in turn, are most effective when we use strategies that enable us to *see the system* in ways that can reveal both current reality and opportunities to create economic, environmental, and social improvement. New insight allows us to *implement improvements* in the value chain and learn from that experience, so that we can eventually *institutionalize the* successful innovations as changes in infrastructure.

What follows is a beginning – an introduction to what some companies and NGOs have tried in order to achieve a variety of goals: to address poverty in producer communities, for example, as Green Mountain Coffee Roasters did, or re-build a brand based on third party certification of its product, as Unilever is attempting with its Lipton Tea.

We hope to build on this body of knowledge over time so that what we learn can benefit all of us doing business in an increasingly complex environment.

Author Bios

Hal Hamilton
Hal Hamilton co-directs the global Sustainable Food Lab, whose members come from more than 70 organizations, including farming, manufacturing, food service and retail leaders, as well as social and environmental NGOs and the public sector. Hal's background includes commercial farming, farm organization leadership, creation of rural development and leadership initiatives, and speaker and consultant to many foundations and agricultural development organizations. Hal's education was at Stanford University and the State University of New York, Buffalo. He has written numerous columns and journal articles and three chapters in books on agricultural policy and change. He is a proud father and grandfather, and he lives in an eco-village on a working farm in Vermont.

Jason Jay
Jason Jay is a doctoral student in the Organization Studies Group at the MIT Sloan School of Management. His research focuses on the leadership and organizational change processes involved in generating sustainable business practices. Alongside his studies, Jason has been active in integrating sustainability into the research, education, and campus operations of MIT - he was the co-founder of the MIT Generator coalition, and sits as graduate representative on the Campus Energy Task Force of the MIT Energy Initiative. He is also an Associate Consultant at Dialogos International, where he has contributed to the firm's action research, leadership education, and organizational change consulting for organizations such as BP and the World Bank. Jason received a Masters in Education and an A.B. in Psychology from Harvard University. He and his wife live in the South End of Boston.

Chris Landry
Christopher Landry, M.Ed is former Director of Development & Communications for the Sustainable Food Lab. He now consults with businesses and NGOs on communications strategy and is producing a documentary film about the global shift toward sustainability. More information is available at **www.christopherlandry.com**.

Mark Lundy
Mark Lundy has formal training as a Social Scientist with emphasis on enterprise development and natural resource management by rural communities. His work focuses on developing knowledge, skills and tools to improve linkages between rural communities and markets for agricultural products. Mark recently completed the first phase of a learning project bringing together 25 development agencies in Central America to improve their understanding and practical use of a range of agro-enterprise development tools to improve rural livelihoods. He is author of several field guides on supply chains, territorial development and market linkages. Mark participates actively in the small holder initiatives supported by the Sustainable Food Laboratory both in Latin America and Africa with a particular focus on innovative and inclusive organizationals models that support sustainable businesses and business models along supply chains.

Daniella Malin
Daniella Malin is a project leader with the Sustainable Food Lab and in charge of the Food Lab's new climate initiative. Daniella has a background in project management, cultural communications, journalism, environmental education, computer science, farming and 6 years of research on a variety of food, agriculture and sustainability related topics. Prior to her work at the Sustainability Institute Daniella wrote software on a three-person team to monitor and control the world's largest millimeter-wavelength radio telescope currently under construction in Mexico. Daniella received her B.A. in Literature and Society from Brown University.

Andrew Murphy
Andrew Murphy is a New Jersey native and a graduate of Georgetown University. He worked as a change management consultant at Accenture before moving to Ghana to serve as a small enterprise development volunteer in the US Peace Corps. After Peace Corps, he was hired to manage a USAID-funded Community-based Ecotourism Project in Ghana. Andy recently completed a concurrent masters program at Harvard Business School (HBS) and the Kennedy School of Government. While at HBS Andrew was a social enterprise fellow for two summers, served as a Board Fellow with Accion International, and was part of the winning team in the pilot track of the 2006 HBS Social Enterprise Business Plan contest. After completing business school, Andrew served as a Service Leader Fellow with the World Wildlife Fund (WWF) and HBS for a year, and since July 2008 has been the Director of Strategy, Research and Development within the Markets unit of WWF's US office . Within the Markets Group he is coordinating planning for WWF's Market Transformation Network Initiative, and developing strategies for identifying and engaging potential corporate partners.

Peter Senge
Peter Senge is a senior lecturer at the Massachusetts Institute of Technology and founding chair of the SoL (Society for Organizational Learning) Council. He is the author of *The Fifth Discipline: The Art and Practice of the Learning Organization*, co-author of the three related fieldbooks, *Presence: An Exploration of Profound Change in People, Society, and Organizations* and most recently, *The Necessary Revolution: How Individuals and Organizations are Working Together to Create a Sustainable World*. Peter lectures throughout the world about decentralizing the role of leadership in organizations to enhance the capacity of all people to work toward healthier human systems.

Don Seville
Don is the co-director for the Sustainable Food Laboratory, a multi-stakeholder project with the mission of innovating ways to increase the sustainability of the mainstream food system. He is leading the Sustainable Livelihoods Initiative, which is developing partnerships between companies and NGOs to pilot innovations that improve the competitiveness and sustainability of small-scale farming systems. Within the food lab Don is also managing the "New Business Models for Sustainable Trading Relationships" project, a 4 year project with NGO and corporate partners to improve market access and livelihoods of small scale producers in Africa in crops including cocoa, dried beans, bananas, and fresh vegetables.

Don received his M.S. in Technology and Policy from the Massachusetts Institute of Technology in 1994 and has worked extensively with the Society for Organizational Learning. In 1997, he

helped found the Sustainability Institute and Cobb Hill Co-housing, a farm based "eco-village" in Hartland, Vermont where he currently lives with his wife and son and is learning to raise sheep.

Susan Sweitzer
Susan Sweitzer is a writer, researcher and project manager for the Sustainable Food Lab whose members come from more than 70 organizations, including farming, manufacturing, food service and retail leaders, as well as social and environmental NGOs and the public sector. Susan's background includes working with organizational development and project management in local, state, and international agricultural policy; creating and implementing joint projects between public health systems and school districts to address medically underserved pediatric populations; representing the Cobb Hill community throughout the building process of the homes; and the Management Director for the Center for Sustainable Systems. Susan has a B.S. in Psychology from Earlham College and a B.S.N. from Eastern Kentucky University and currently lives in a ecologically oriented co-housing community in Vermont.

Case Studies

The Global Forest & Trade Network:
Creating a Path Toward Forest Product Certification
The Global Forest & Trade Network is WWF's initiative to eliminate illegal logging and improve the management of valuable and threatened forests. By facilitating trade links between companies committed to supporting responsible forestry, the Global Forest & Trade Network creates market conditions that help conserve the world's forests while providing economic and social benefits for the businesses and people that depend on them. The GFTN is also WWF's best-developed delivery mechanism for assisting companies to achieve credible certification and serves as a model for WWF teams working on certification and standards for wild-caught fish, aquaculture, and agriculture. The case highlights the history, challenges and lessons learned by the Network and also presents some of the tools developed to facilitate the path to certification for companies involved in the forest trade.

Indicators for Poverty and Hunger in Coffee Supply Chains:
Green Mountain Coffee Roasters Confronts Los Meses Flacos
When Green Mountain Coffee Roasters decided to measure the impact of their CSR programs, they asked the Sustainable Food Lab and the International Center for Tropical Agriculture (CIAT) for help. Together, they went into producer communities to identify useful indicators (in partnership with the growers themselves) that would enable the company to assess the ability of coffee growers to make a living. What they didn't expect was to confront *los meses flacos*, the thin months, the three or four months every year when many coffee growers and their families experience hunger. The case presents the approach the project team used to develop the indicators, and discusses the challenge of addressing poverty and hunger within something as large as the global coffee market.

Certifying Lipton Tea: Unilever and The Rainforest Alliance
Having invested in sustainable tea cultivation for almost a decade, Unilever decided to expand its efforts and communicate its accomplishments to Lipton and PG Tips customers, as part of a larger effort to integrate corporate responsibility into the company's core brands. To make Unilever's claims about sustainable agriculture credible, however, they needed a third party certifier. The Rainforest Alliance was a natural choice for a company sourcing from both large estates and smallholders, and with a compatible approach to sustainability. Rainforest Alliance certification also held the promise of improving the tea industry as a whole by bringing premium prices and additional income to producers worldwide. The two organizations set ambitious targets: all Lipton and PG Tips tea sold in Europe would be certified by 2010, and all Lipton tea worldwide by 2015. The process began with the certification of three key estates in Kenya and is accelerating from there. The case describes the process of strategizing, engagement, and on-the-ground implementation of sustainable agriculture practices in Unilever's supply chain, and poses questions about challenges that may lie ahead.

Unconventional Allies: Coke and WWF Partner for Sustainable Water
Water is the main ingredient directly and indirectly in The Coca Cola Company's products. It is also the center of a growing global crisis – more than 1 billion of the world's people do not have access to safe drinking water and the number is likely to expand significantly in the coming decades. Confronting this challenge, Coke began to study water use and water efficiency with its network of bottlers, starting in 2002. As part of the inquiry, it became obvious that Coke needed to gain a more systemic view – to expand its understanding of the watersheds and ecosystems that surround and feed its operations. Having established a long term relationship with the World Wildlife Fund already, Coke reached out to the WWF for help in understanding the larger "water footprint" of the company's operations. Early on, the WWF exposed a challenging fact – that while 2.5 liters of water directly enter 1 liter of Coke, as much as 200 liters of water or more go into producing the full list of agriculturally-derived ingredients -especially sugar - in that same liter. From this initial insight, Coke and WWF began engaging at multiple levels, from senior executives to individual bottlers near critical river basins. Through the process, they have had to confront the risks, challenges, and learning inherent in bringing together two organizations with radically different cultures and missions, toward the common goal of using water more sustainably.

The Juan Francisco Project – Costco and CIAT's Exploration of Guatemalan Green Beans
French-style green beans flow every day from remote farmers in Guatemala to Costco stores throughout North America. They pass through the Cuatro Pinos Cooperative and the Los Angeles Salad Company, who provide technical assistance to farmers and prepare the beans for sale to North American consumers. A Costco executive, through her participation in the Sustainable Food Lab, began to wonder whether farmers in value chains like this one were getting a fair price, and whether their families got the care and services they needed. Conducting this inquiry required transparency among all the players in the chain, in order to understand how profits from green bean sales were being distributed. Engaging with an external, non-profit research center, CIAT, was critical to building trust, thus providing a neutral observer of value chain activities. Through CIAT's extensive value chain analysis, and a skillfully conducted supply chain summit in Guatemala, it became possible for participants from each of the supply chain companies to see and feel the system of which they were a part. They made a decision to invest in sustaining and upgrading the existing commitments to alleviating rural poverty, through the establishment of a Foundation in Guatemala, funded by green bean revenues. The case study describes this process, and some of the challenges involved in institutionalizing the experiences and insights of the Project.

The Global Forest & Trade Network: Creating a Path Toward Forest Product Certification

Case author: Andrew Murphy, Director of Enterprise Planning, World Wildlife Fund

To transform the global market place into a force for saving the world's valuable and threatened forests, while providing economic and social benefits for the businesses and people that depend on them.

--GFTN mission

On April 10, 2008, Procter & Gamble and Domtar Corporation joined the North America Forest & Trade Network (NAFTN), of the World Wildlife Fund (WWF). NAFTN is the North American arm of the Global Forest & Trade Network, WWF's initiative to eliminate illegal logging and improve the management of valuable and threatened forests. By facilitating trade links between companies committed to supporting responsible forestry, the Global Forest & Trade Network creates market conditions that help conserve the environmental viability of the world's forests while providing economic and social benefits for the businesses and people that depend on them.

"Companies that seriously commit to responsible wood sourcing can have significant positive impacts on forest conservation," said Kerry Cesareo, Manager of the NAFTN, WWF. "WWF is delighted to have two of North America's leading manufacturers of paper and consumer care products join the Network. Their commitments to source fiber responsibly and promote credible forest certification of their sources set an example for other companies to follow."

"WWF has consistently been a great resource for Procter & Gamble and our suppliers as we work to improve the sustainability of our products. I look forward to formalizing this relationship via the North American Forest & Trade Network and to having access to the collective experiences of WWF's global Network," said Celeste Kuta, Associate Director of External Relations for P&G Family Care.

As participants of the Global Forest & Trade Network, companies make commitments in a stepwise approach to phase out all trade in wood from unknown, illegal, and controversial sources, and to phase in wood that originates from sources designated as known, known licensed, and complying with policy, verified legal, in-progress toward certification, credibly certified, and recycled. WWF's Global Forest & Trade Network has participants across 37 countries which are supported by 27 regional Forest & Trade Networks as they work in various capacities throughout the entire forest products supply chain.

The announcement was a major step forward in a 17 year process to build a Network to increase the trade in certified forest products. As of March 2008, the GFTN Portfolio includes:
- **360+ companies** employing over **1.3 million people** and supporting an additional **600 families**.
- **12+ million hectares** of credibly certified forest with an additional **27+ million hectares** in progress to certification.

- **1**% of total productive forest area where GFTN operates and **14**% of the global total FSC certified area.
- **28**% of total volume of credibly certified products traded globally.
- **$44 billion or circa 13.6%** of the global total of forest products traded (by both participants and applicants).

The GFTN is WWF's best developed delivery mechanism for assisting companies to achieve credible certification. According to Cesareo, the GFTN serves as "a conveyor belt funneling companies into the **Forest Stewardship Council** (FSC)" and other certification programs. Other WWF teams look to the GFTN as an exemplary program from which to model their own initiatives. For example WWF's Marine Program currently works with the **Marine Stewardship Council** (MSC) and is exploring the creation of a Sea Food Trade Network that would facilitate the process of MSC certification for producers and buyers of wild-caught seafood. In addition, WWF's Agriculture and Aquaculture Programs are facilitating the creation of production standards for several commodities, such as tilapia and sugar. In the long-term, there will need to be organizations that own and implement these standards. Lessons learned from the GFTN will be invaluable when designing systems to ensure a credible volume of those commodities are produced and traded under the new standards.

Why the GFTN?

Forests are important sources of employment, economic growth, and subsistence. Theoretically, there is enough wood in the world's forests to supply its wood requirements. An analysis carried out by WWF and the World Bank in 2001 indicated that by sustainably managing 60% of the world's forests, at different levels of intensity and for different purposes, we could protect the remaining 40%. The forest products industry uses these forests to generate $186 billion in global trade in primary wood products. At the same time, nearly 60 million indigenous and another 350 million people live in or near forests, depending on them for subsistence and income.[1] Finally, forests are home to at least 80% of the world's remaining terrestrial biodiversity. Unfortunately the industry has not risen to that challenge of managing forests sustainably. Illegal and irresponsible logging practices continue to plague the sector.

Companies that wish to source timber or pulp exclusively from well-managed and legal forest operations can do so by buying from credibly certified forests. Credibly certified and labeled wood products give customers a reliable, independent assurance of sustainability. Unfortunately, convincing suppliers to commit to legality and certification and assisting them through this is often time consuming and difficult due to the high cost and low financial incentive for companies to engage in this process. Alternatively, finding sources of certified products is fraught with difficulties. Producers working in valuable and threatened forests are usually disconnected from international markets and working in remote, complex settings; this often leads to uncertainty in achieving credible certification and an inability to access buyers. These producers need significant investments in time and resources to help them achieve this.

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[1] World Bank's *Theft Prevention: Introduction to Security for Forest Managers report of 2007*

The GFTN supports a framework mechanism to overcome these obstacles by providing the combined service of market stimulation and application of field-based technical assistance. It works in partnership with buyers, suppliers, producers, independent experts, and certification support service providers in key consuming and producing countries worldwide.

Creating the GFTN

The GFTN was established in 1991 when a group of companies in the United Kingdom committed themselves to sourcing from well-managed forests and began to exert pressure through their supply chains to encourage responsible forest management.

These companies came together to form the first FTN, the "95-Group." WWF-UK decided to work in partnership with wood purchasing companies that were committed to understanding where they bought their wood and to support the development of forest certification schemes such as the Forest Stewardship Council (FSC).[2] Thus the Forest and Trade Network (FTN) idea of promoting responsible forest management and trade in order to create higher demand for certified forest products while achieving forest protection was born. By the end of the 1990s there were FTNs across "consumer" based countries in Europe, North America, and Asia, grouped together under the heading of the Global Forest & Trade Network. In 2002 GFTN made a major change to its operating strategy by broadening its scope to include producer countries in Central America, Peru, Bolivia, Africa, Brazil, Russia and South East Asia. Rather than solely creating demand for wood products from well-managed forests, it recognized that forest managers and producers needed assistance in obtaining certification in order to supply the demand that was created by their previous strategy. Today the GFTN is an association of regional FTNs providing leadership, technical support, and communications benefits to participant companies committed to responsible forest management and trade and credible certification.

During the last century, the forestry industry has evolved from being a regional or partly international business to a global industry. The distance between the producer and the consumer has grown over time, supported by efficient logistic and communication networks. Today, the regional market concentration is high, with 25 of the largest wood producing countries covering about 90% of overall wood production. There is a significant mismatch between the geographic concentration of production on the one hand, and consumption which is more widely spread on the other.[3] Therefore issues concerning the forestry industry need to be addressed on a global rather than a local level in order for changes to take effect.

The forest products industry is moderately concentrated.[4] On the one hand, there is a clear assemblage of producers – the 50 largest companies process 43% of the world's annual harvest of industrial wood. On the other hand, there is less concentration at the consumer end, with the

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2 The FSC is an international non-profit organization founded in 1993, mainly dealing with forest certification. It is an association of members consisting of a diverse group of representatives from environmental and social groups, the timber trade and forestry profession, and others. The FSC has introduced an international labelling scheme for forest products, which provides a credible guarantee that the product comes from a well-managed forest.
3 Interpretation Datamonitor, Global Forest Products April 2006, pp. 12; *The Forest Industry in the 21st Century*, pp 3.
4 *The Forest Industry in the 21st Century*, pp 17f.

top 50 consuming companies purchasing only 10% of the annual wood harvest.[5] The industry structure illustrates the challenge of linking concentrated production with fragmented consumer demand and the role the GFTN can play in making such linkages. Consuming companies are interested in being associated with a credible partner and in being involved in sustainable projects and certification efforts due to the reputation of the entire industry being a durable success factor and increasing consumer demand for responsible business practices.[6] Nevertheless, to achieve long-term commitment from all network participants, the GFTN must provide them with clearly defined value-added benefits.

How it works: Results

"The certification process is very long and complex. The GFTN can help by simplifying the process through their manageable stepwise approach"
-Ning Goubin, Shenyu Vice GM, Youhao Forestry Bureau, China

The GFTN provides a framework mechanism for companies; a proven "stepwise approach" which allows companies to develop forest management plans outlining the various steps needed for achieving credible certification within an agreed timeframe. GFTN also helps companies phase out products from unwanted timber sources and increase those of certified sources via this stepwise approach. WWF staff provides local on the ground support to ensure partner companies continuously improve their business practices. Companies seek out the GFTN for: 1) Technical Assistance, 2) Marketing & Communications, 3) Market linkages with other responsible companies and 4) Industry Image.

The GFTN has developed several tools to assist both producers and buyers to achieve a path to certification. Figure 2 below depicts the stepwise approach in sourcing beginning from unknown/unwanted sources toward credibly certified. See Appendix 1 for a more detailed assessment of the environmental status of a supply chain.
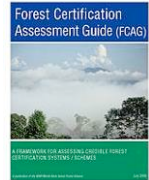
Figure 2: Path to certification

Credibly Certified/ Recycled

Progressing Toward Certification

Known Licensed Source

Known Source

Refer to the **Keep It Legal** Manual for more detail on the progression from Known Source to Known Licensed Source

Unknown or Unwanted

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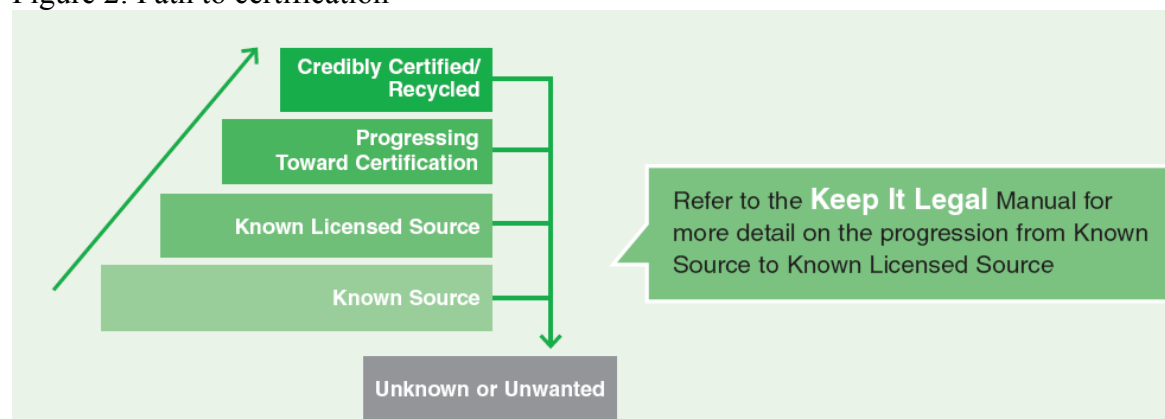
[5] *The Forest Industry in the 21st Century*, pp 17f
[6] *The Forest Industry in the 21st Century*, pp 17f

The following tools have been developed to assist companies that trade in or produce forest products to assess their supply chains and work with them to minimize their environmental risks:

Modular Implementation and Verification (MIV) Toolkit: for the phased application of sustainable forest management: http://assets.panda.org/downloads/mivtoolkit.pdf	
Responsible Purchasing of Forest Products Guide: A guide for organizations wishing to develop a responsible program for the procurement of forest products. http://assets.panda.org/downloads/rpg_nopapercredit12sept2006.pdf	
Keep It Legal Manual: A guide for organizations wishing to extend a program of responsible purchasing to further address difficulties arising from possible trade in "illegal" forest products. (Reducing risk) http://assets.panda.org/downloads/keep_it_legal_final_no_fsc.pdf	
WWF/World Bank's Forest Certification Assessment Guide: A tool for assessing the comprehensiveness of forest certification systems.	

The Relationship between the Responsible Purchasing Guide and the Keep It Legal Manual

The WWF GFTN Keep It Legal Manual deals specifically with legal compliance aspects of the trade in forest products. The manual is directly linked to the Responsible Purchasing Guide and can be used by purchasing companies to tackle issues of legality before, or as a part of, the stepwise approach. The Keep It Legal Manual's systematic approach has been developed for companies with little knowledge of their supply chains, as well as for those companies wanting to investigate legality in more detail. This includes companies that source primarily from countries that have an acknowledged high level of illegal logging activity and in which a significant volume of illegally sourced timber is known to enter the upstream end of the supply chain. Links to these tools and other resources produced by the GFTN can be found at **http://gftn.panda.org/** .

> *"The GFTN provides the right mix of practical tools and hands on assistance to help us phase out wood from unwanted sources and phase in wood with positive environmental credentials"*
> – William R. Jopling, CEO Wood Flooring International, USA

Lessons Learned & Challenges

The GFTN Business Plan for FY08-11 is largely a result of an extensive evaluation of this program involving the International Institute for Management Development in Lausanne, Switzerland and several external consultants as well as a cross-section of GFTN participants. During the process Duncan Pollard, WWF International's Conservation Practice and Policy Director, described the challenges faced by the GFTN:

> *"We are caught in a web of vested interests of different stakeholders such as donors, timber traders/wood producers and consumers. We need to incorporate their opinions if we define ourselves as a membership organization that can cope with a changing environment. It is with the help of our members that we need to redefine our role and scope to set up a sustainable business case for the future."[7]*

There are several internal, external, and operation lessons learned from the GFTN model and experiences described in the following sections.

Operational Lessons

Shifting focus from buyers to sellers to working within existing supply chains
The GFTN went through several phases. The initial focus on buyers resulted in great interest but a shortage of certified product. The ensuing focus on production increased the flow of certified product, but often resulted in mismatches with the GFTN playing a role as a market maker. The GFTN is now seeking to be more strategic in the companies it works with, and to work within existing supply chains to 1) eliminate illegal logging, and 2) increase the trade in certified products.

Cost recovery for services provided
The GFTN has been reliant on donor funding, with some support by participant companies. With declining government support for such efforts, the GFTN will be increasingly challenged to recover the costs of the benefits of services provided. After a recent GFTN presentation, an officer at Morgan Stanley expressed concern that WWF was giving value away through the current set-up of the GFTN. However, with the trend towards the largest 500 companies in the world carrying out half of all timber trade, and the willingness of companies to be involved in and sponsor sustainable projects, the GFTN's strategy of connecting committed producers to willing buyers should be well positioned.

Harmonizing requirements across the network
The WWF Network has created enabling conditions for the GFTN to operate successfully, but it has also enabled a lack of cohesion to exist throughout the program. The GFTN has nested its FTNs in existing offices throughout the WWF global network. As each office operates with an understood level of autonomy, the utilization of these offices has led to inconsistencies in the expectations of GFTN participants across the Network. A recent decision by the GFTN

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[7] IMD Case: "*The WWF GFTN: Aligning Strategy with the Business Environment*," Page 9. March 15, 2007.

Shareholder's Group to review existing relationships with more stringent requirements is expected to result in a short-term reduction in participants, but an overall increase in the quality of remaining relationships. More information on participation requirements can be found at the following link:
http://assets.panda.org/downloads/gftn_participation_requirements_23_nov_04.pdf

Internal Lessons

Managing a global network within a global organization
The GFTN initially focused on the 25 countries that represent 90% of global wood production. As WWF has streamlined its focus around priority places, the GFTN has been forced to reshape its focus. Only one third of GFTN participants have operations within the WWF's Global 35 Priority Places, though the GFTN business plan calls to double this presence by 2011.

Evolving view of standards
There is an evolving debate within WWF around what makes a credible standard. The continuum ranges from a more prescriptive approach to a performance based model. For example, WWF's Aquaculture Program is working with industry players on several aquaculture standards that focus on what the top 10-20% of the industry can currently achieve, with the aim of shifting the rest of the industry to those performance benchmarks.

Had it been created today, the FSC standards would not meet the requirements of the standards currently being developed. However, the FSC is well established, continues to evolve, and has a broad base of support from the industry and NGO communities alike.

External Lessons

What it means to have access to the brand
Through the conditions of participation used by the GFTN, there are strict rules regarding the access rights of companies to both the FSC and the WWF logos. There have been instances where other offices of the WWF Network have initiated licensing agreements that resulted in the perception of a double standard for companies in the GFTN. Since each WWF national office has independent rights to the WWF logo, this has been a particular challenge for GFTN managers, especially as they engage more multi-national partners.

Involvement of other NGOs
As WWF seeks to promote sustainable trade networks in other areas, like sea food, a broader base of initial NGO involvement will be required. WWF will not be in the position to build comparable programs to GFTN in terms of size, scope, and reach in the areas of seafood, aquaculture, and agriculture without such partnerships. Though the FSC is a third party entity, the GFTN is very closely tied to the WWF brand. The GFTN collaborates with other systems that facilitate certification such as SmartWood's Smart Step Program, and the Tropical Forest Trust. As an example, WWF has partnered with the Nature Conservancy to move the furniture sector towards credible certification.

Moving forward - Where is the GFTN heading?

In March 2008, WWF convened a meeting of all FTN managers in Vietnam to set the stage for the next phase of the GFTN. At this meeting a global shareholders group was established which, among other things, will vet all governance issues of the GFTN, and ensure greater harmonization across the various FTNs. As part of the participation requirements all participants of the GFTN are subject to a 3rd party audit of their operations, required to create an action plan, and must sign a Participation Agreement that commits them to producing an annual report on their operations. Bruce Cabarle, Acting Head of the GFTN, expects these more stringent terms will knock some current participants out of the GFTN. However, he is confident the result will be a greater consistency of commitment across those remaining and will lay a stronger foundation for future GFTN participants. See Exhibit 4 for fluctuation in the growth of GFTN participants and coverage.

The GFTN also has a number of trends to confront moving forward, as highlighted by the following examples:

Solid wood products through China and India
China and India will play a larger role in forest product trade. In just ten years, China has moved from seventh to second among all nations in the total value of forest product imports, and is now the leading importer of industrial round wood (logs). India is also experiencing growth in demand for imported wood. Most notably, Indian companies are investing outside India for the first time.

The importance of public procurement
Public procurement is emerging as an important factor influencing forest product markets. In EU countries, government policy is driving the demand for legality certification at the expense of sustainability certification. GFTN works best where international trade is involved, yet many producing countries consume large amounts of forest products in their domestic market. Succeeding in creating a demand for forest products coming from well-managed forests therefore depends upon creating a strong domestic demand.

Increase in importance in plantations in the eco-regions
There are currently 200 million hectares of plantation forests in the world. It is estimated that in Asia, Africa and Latin America, up to 40% of the industrial wood supply will come from Fastwood Plantations by the year 2010. However, these Fastwood Plantations are controversial as much of their expansion comes from the conversion of natural forests and other areas of high conservation value such as grasslands and wetlands. Due to this issue of conversion, these plantations are also not eligible for credible certification.

Pulp in Russian forests
The two most anticipated sources of fiber for market pulp are plantations and Russia's forests. Russia has over 800 million hectares of forest, and low harvesting levels. However, most of these forests are inaccessible, and the development of this resource is likely to continue to be focused

in three locations: north-west Russia, central Siberia and the Russian Far East. The latter two are within WWF's Global 200 eco-regions, while North West Russia contains most of the last remaining untouched pristine forest in Europe.

The growth in engineered wood products
It is likely that engineered products, ranging from Oriented Strand Board to Laminated Veneer Lumber, and similar composites, will have an increased importance to the global forest products industry. This may provide benefits and incentives to producers in countries where GFTN operates and may also provide a cause for concern as demand for fast grown plantation species is created. Companies within this growing sector will be targeted for participation within the relevant FTNs.

Climate change mitigation
Forest conversion and degradation is responsible for 20% of global greenhouse gas emissions, and significant ecosystem and species loss. Ten countries account for 87% of global deforestation, with Brazil and Indonesia alone accounting for 51% of emissions. Without significant, concerted action, including efforts to promote responsible forest management and trade, current rates could generate emissions of 10 gigatons of CO_2 per year for 50-100 years, contributing more than any source other than the combustion of fossil fuels.

Timber trade connected with valuable and threatened forests
A strong correlation exists between timber trade and "valuable and threatened" forests. Malaysia, Congo Basin, Indonesia, Papua New Guinea, Countries of the Amazon, and Russia are major suppliers of round wood, sawn wood and plywood products to major consuming countries, often with intermediate processing in a third country. This makes companies involved in the various supply chains a primary target of the GFTN.

Pulp & Paper Companies
The global paper industry uses over 50% of all industrial wood, and many of the companies are either vertically integrated with sawmilling enterprises, or horizontally integrated with sawmilling companies for wood sourcing. Therefore, success in creating a critical mass of credibly certified round wood supply, and demand for credibly certified products depends on a commitment to the GFTN mission by pulp and paper companies. Historically, much of the global paper industry has sourced its raw material from forest locations in Canada and the United States, which are not of highest conservation priority for WWF. Over the last 10 years pulp and paper companies have begun sourcing their raw materials from WWF priority regions, such as Sumatra. Due to this change in trend, WWF is becoming more strategic in selecting the companies admitted to the GFTN based upon the current GFTN Business Plan. This will positively and directly impact work on the ground in WWF priority places.

Communities
Community-owned and managed forests total at least 377 million hectares, or at least 22% of all forests in developing countries. This is 3 times as much forest as is owned by industry or individuals. The area owned and administered by communities doubled between 1985 and 2000. Community-owned or administered forest areas in developing countries are conservatively expected to at least double again to 700-800 million hectares by 2015. One of the major trends

in the last decade has been the increasing role played by communities across the world in forest ownership and management.

Companies with Brands to Protect and Grow

The forest industry in general does not rely on highly developed brands and branding strategies, though a small number of forest products companies who sell to the public have developed strong brands. In addition, there are many retailers who sell forest products for whom brands and communications around the sourcing of products is key. These companies also need to be able to demonstrate how forest products compare with products made from alternative materials.

Closing questions

The leadership of the GFTN must take these trends and challenges into account as they pursue increasing levels of trade in credibly certified forest products. Three key questions will confront the GFTN in the future:

1) *How will the GFTN ensure it pays for itself while providing recognized benefits to an increasing base of producer and buyer participants?*

2) *How will GFTN adjust its strategies to meet the goals of decreased illegal trade and increased credibly certified timber trade in the face of shifting market dynamics?*

3) *How will GFTN balance remaining strategically relevant to the timber and pulp trade while also staying committed to WWF's priority places?*

The challenge for the WWF Network will be to learn from the evolving lessons of the GFTN as other market-based initiatives in wild-caught seafood, aquaculture, and agriculture are developed.

Exhibit 1: Assessing the environmental status of the supply chain

Working through the Steps of Environmental Status

RECYCLED	Recycled ← Yes ← Recycled?	START
KNOWN SOURCE *and* **UNWANTED SOURCE**	Full traceability? → Complies with policy? → Known → Licensed source?	Unknown or Unwanted / No
KNOWN LICENSED SOURCE	Licensed → High Risk? ← Complies with Policy? / Verified legal timber → Progressing to Certification?	No
PROGRESSING TO CERTIFICATION SOURCE	Progressing → Continued Progression?	No
CREDIBLY CERTIFIED SOURCE	Credibly Certified → FINISH	

Refer to the **Keep It Legal** Manual for more detail

Exhibit 2: A continuous cycle of improvement
Exhibit 3: GFTN Coverage

12 countries in Europe

11 countries in Americas

6 countries in Africa

7 countries in Asia Pacific

28 FTNs operating in 36 countries worldwide

North America
- 4 participants
- 0.7m m3 RWE

Europe
- 163 participants
- 155.6m m3 RWE

Russia
- 20.3 million Hectares
- 48% FSC Ha
- 34 participants

Asia
- 2.0 million Hectares
- 52% FSC Ha
- 83 participants
- 6.2m m3 RWE

Africa
- 2.6 million Hectares
- 15% FSC Ha
- 10 participants
- 1.5m m3 RWE

Latin America & Caribbean
- 2.2 million Hectares
- 94% FSC Ha
- 70 participants
- 0.2m+ m3 RWE

Oceania
- 0.2 million Hectaress
- 100% FSC Ha
- 8 participants

WWF Network Presence

Exhibit 4: Growth of GFTN
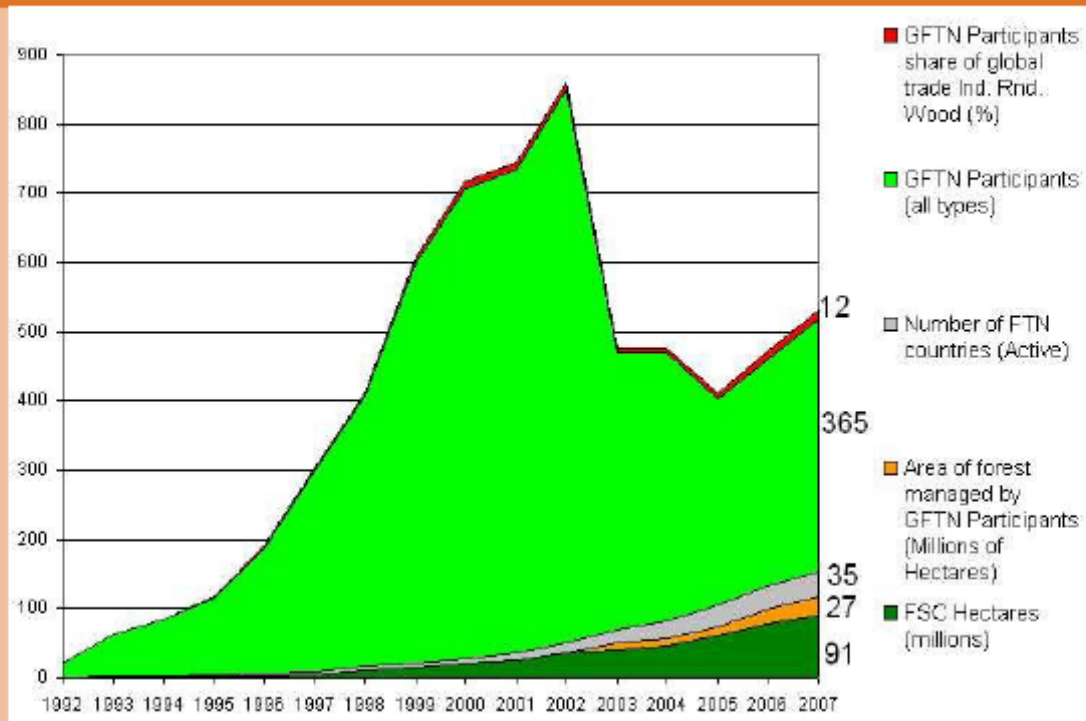
Exhibit 5: Objectives of the GFTN

GFTN global goal:
To mainstream responsible forest management and trade as the standard practice in the global forest products industry.

Objective 1: To promote responsible trade in forest products
- By 2011, the share of the value of globally traded forest products traded by participants within GFTN doubles to 25%
- By 2011, the absolute volume of credibly certified product trade by GFTN participants doubles to 200 million m3, and the % certified shows continuous growth

Objective 2: To increase the area of credibly certified forest, particularly in WWF priority eco-regions
- By 2011, double the area of forest managed by GFTN participants to 50 million hectares, with 60% in priority forest eco-regions.
- By 2011, double the area of credibly certified forest managed by GFTN participants to 25 million hectares.

Objective 3: To build the value and recognition of the GFTN brand within the forest products market
- By 2009, 100% of GFTN participants paying fees or equivalent
- Continually improve the levels of satisfaction for GFTN Participants and Partners (Participants Satisfaction Index (PSI) – See Annex 6)
- 100% retention of companies that are strategically chosen and achieving their targets
- Earned media within trade journals

Objective 4: To ensure the financial viability of GFTN
- GFTN covers 100% of its operational cost
- By 2011, GFTN covers at least 50% of its cost with corporate sources and at least 30% with WWF network sources
- GFTN cost/ ha of forest managed by Forest Participants decreases over time
- By 2009, all participants are paying participation fees or equivalent

Objective 5: To deliver GFTN services to participants in an efficient, coherent and transparent manner whilst contributing to wider WWF objectives
- By 2011, all FTNs score 80%+ on the FTN Performance Index
- By 2011, summary reports on the progress of all participants, as prepared by FTN managers, made publicly available and posted on GFTN's website
- By 2009, report annually on GFTN performance
- GFTN obtains consensus about its respective roles and responsibilities with other WWF units (particularly Network Initiatives) working on forest and trade issues

Certifying Lipton Tea: Unilever and The Rainforest Alliance

Case author: Jason Jay, MIT Sloan School of Management

Setting the Stage at Unilever

It is March, 2006. At Unilever's tea estates in Kericho, Kenya, the home of 18,000 tea pluckers and their families, an eclectic group has gathered for a "Brand Imprint" meeting on Lipton's future commitment to sustainability in the tea sector. Michiel Leijnse, recently recruited from Ben & Jerry's to be the brand manager for Lipton Tea, sits as the primary client, since these conversations will shape the future of the business he is about to join. The other participants span the range of Lipton's activities, from supply chain management to marketing, as well as colleagues from the broader beverage category and other businesses in Unilever, and members of Unilever's Global Corporate Responsibility team. Also present are outside consultants specializing in corporate social responsibility, and Unilever staff who keep the pulse of civil society.

Unilever's executive team has selected Lipton as one of four flagship brands (along with Dove, Lifebuoy, and Flora) to use the newly developed Brand Imprint tool and process, to assess and decide future social, environmental and economic priorities for the brand, and, where relevant, to engage with consumers. In so doing, Unilever hopes to make the corporate mission of promoting "Vitality" more visible to the brands' customers and society at large. The Brand Imprint process inquires into how to make that happen. Developed by the Global Corporate Responsibility team with the help of a multidisciplinary group of business experts, the Brand Imprint process asks two sets of questions. On one side it poses questions about the social, economic, and environmental impacts of the brand's activities, using life cycle and value chain analyses. On the other side it inquires into the market forces driving the brand's success, and its meaning to consumers and key opinion formers and regulators. In so doing, it seeks to systematically and rigorously integrate corporate responsibility into business strategy. Lipton is the first brand to undertake the process, and their work is helping to sharpen the tool.

> *Toolkit Cross-Reference: "Brand Imprint", Page 73*

As these analyses are laid out before them, the Lipton team sees stark challenges and enticing opportunities. The greatest challenge comes from the economics of the tea industry itself. Although Unilever's tea business (mostly through the Lipton and P.G. brands) accounts for about 12% of global black tea sales, and sales volumes are growing at single digits annually, their product is rapidly becoming a commodity. Prices have fallen around 35% in real terms in the past 25 years. Removal of trade barriers has allowed cheap, sometimes lower quality tea to flood the market from China and Vietnam, potentially threatening the value of Unilever's investments in higher-grade tea production in Kenya. This downward pressure on prices puts strains on large tea estates and smallholder farmers alike, and threatens to erode commitments to labor standards and environmental stewardship.

Attention to environmental and social issues in tea production is, however, critical. The tea bush only thrives in a narrow range of high-altitude, tropical locales, in countries such as Kenya, Tanzania, Malawi, China, India, Indonesia, Sri Lanka, and Argentina. In these areas, tea cultivation competes with native, bio-diverse tropical forests, which are too often destroyed to make way for monoculture tea plantations and to harvest fuel wood used to dry the tea. On the plantations themselves, farming practices can degrade the land through runoff and soil loss during tea planting, as well as excessive use of fertilizers and pesticides that ultimately reduce long term soil fertility.[8] Social issues in the tea industry primarily relate to the living and working conditions of tea laborers, many of whom reside with their families on large plantations. Child labor is endemic in many tea fields, particularly when casual seasonal laborers bring their children to work.[9] Wages can differ sharply between adults and children, men and women, and permanent and seasonal laborers. Health and safety hazards exist, from sanitary conditions and fire risk in barracks, to improper protective measures during agrochemical use. In some areas, HIV/AIDS has spread among workers living in close quarters. Workers' ability to organize and address these concerns varies a great deal across countries and locales.

Unilever's chief opportunity in facing some of these challenges comes from the capabilities already present in the Lipton supply chain. Since 1992, Unilever has been working on sustainable agriculture, with a formal initiative launched in 1998. Tea has been the flagship crop, with investments in Unilever's own tea estate in Kericho, Kenya serving as lead pilot for the company's efforts. This estate already meets Unilever's internal Sustainable Agriculture standards, which they have developed through consultation with external experts, including NGO's.[10] Unilever has also started to extend its standards to its external suppliers of tea. Their efforts include deploying self-assessment tools, conducting sustainability assessments as part of regular buying visits, random spot checks, and close monitoring of high-risk suppliers. For small holders, Unilever is experimenting with capacity building to go along with this assessment and monitoring approach. Together with DFID in the UK and the Kenya Tea Development Agency, Unilever has embarked on a program to share and promote sustainability efforts among small holders through "farmer field schools," starting in 2005. The Lipton team is wondering whether it might be possible to strengthen these commitments and to make them more visible to consumers.

In their discussion, the team recognizes that the key challenge in communicating Unilever's efforts to the public is credibility. Internally, Unilever has already been starting to talk about the "consumer as citizen," keeping a close eye on boycott and buycott efforts in closely-related industries like coffee. Would those consumer citizens take the word of a multinational corporation at face value? Sitting around the table at the Brand Imprint meeting, the consensus is that no, they would not, and third party certification might be the best route. The action item coming out of Brand Imprint, which will occupy the Lipton team for several months, is to select an effective and sound third party certification scheme – one that will further promote

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[8] An overview of environmental challenges in tea production has been compiled by the WWF:
http://www.panda.org/about_wwf/what_we_do/policy/agriculture_environment/commodities/tea/index.cfm
[9] For an overview of child labor and related issues in the tea industry, see:
http://www.dol.gov/ilab/media/reports/iclp/sweat4/tea.htm
[10] Unilever's most recent standards for sustainable tea can be viewed here:
http://www.unilever.com/Images/es_2003_Sustainable_Tea_Good_Agricultural_Practice_Guidelines_for_large_tea _estates_tcm13-5307.pdf

sustainability in its supply chain while at the same time provide credibility. They would review several options, including Fairtrade, Utz Certified (formerly Utz Kapeh), and their ultimate choice of Rainforest Alliance.

What is the Rainforest Alliance?

Since its inception in 1986, the international NGO Rainforest Alliance has been committed to developing a new mode of activist engagement, one which could complement the traditional tactics of awareness raising and direct action against environmental offenders. Their approach has been to reward good environmental stewardship, first by certifying forest management and then by certifying sustainable agricultural practices that impact natural ecologies and human communities. By providing a credible signal to the market that farms and forests are being managed sustainably, Rainforest Alliance certification enables consumers and buyers to be more selective. In the coffee industry, which is subject to similar commoditization pressures as tea, this signaling has given rise to price premiums of up to 15% for Rainforest Alliance certified coffee.

Tensie Whelan, Executive Director of the Rainforest Alliance, says that the organization owes its success to the transparency of the certification process. Certification is based on a set of published standards and indicators that are developed, owned and managed by the Sustainable Agriculture Network (SAN); a coalition of NGO's based in producing countries. The Rainforest Alliance serves as Secretariat to the SAN. The SAN standards exist on four levels. The first level is a general set of principles, covering management systems and environmental, social, and economic stewardship:

1. Social and environmental management system
2. Ecosystem conservation
3. Wildlife protection
4. Conservation of water resources
5. Fair Treatment and Good Working Conditions for Workers
6. Occupational health and safety
7. Good community relations
8. Integrated crop management
9. Soil conservation and management
10. Integrated waste management

The second level is a detailed but general set of standards for all crops and locations – the "Sustainable Agriculture Standard with Indicators" – that is revised on a roughly biannual basis. Third, there are special standards for specific crops, e.g. bananas, cocoa, and coffee. Finally, there are interpretation guidelines for specific crops in specific countries. These interpretation guidelines emerge through "interpretation workshops" with local stakeholders, in which the standards are interpreted in light of local laws and unique social and environmental conditions. The Rainforest Alliance uses this interpretation process as a way to build relationships and buy-in with local government and non-governmental organizations, as well as collect feedback about the standards themselves.

Once these interpretation guidelines have been established, The Alliance uses their growing network of NGO's in the producing country to establish an auditing and certification infrastructure. In most situations, farms pay a fee to be audited and certified, which partly defrays the operational costs of NGO's who also draw funding from government and private donations. Once a farm achieves 80% compliance with the SAN standards (and 100% compliance with a core set of "non-negotiables" such as forced labor and a list of forbidden toxic pesticides), they achieve certification. Once a minimum of 30% of the material in a consumer product comes from Alliance-certified farms, the brand is allowed to include the Rainforest Alliance seal ("the frog") on packaging and advertisements. Most companies aim to use 100% certified product — in some cases the product is not fully available, so a company will use 30% and then move toward a great percentage.

The flagship product for the Rainforest Alliance approach has been Chiquita bananas, 98% of which are now sourced from Alliance-certified farms. This first engagement with a large multinational agribusiness company set the stage for The Alliance to work with Kraft on coffee certification. Kraft now displays the Rainforest Alliance seal on many of its mainstream brands. An engagement with Nestlé's spinoff Nespresso brand has begun bringing sustainable agriculture practices to the Nespresso supply chain, without moving to full certification.

As these certification efforts have grown, The Rainforest Alliance has expanded its operations around the globe. The internal staff has grown to 220 direct employees, mostly located in New York and Costa Rica. Colleagues in partner NGO's in the Sustainable Agriculture Network provide local knowledge in producing countries, as well as capacity for auditing and certification of farms. Because SAN has historically been centered in Latin America, Rainforest Alliance is now helping to enroll organizations in Africa and Asia; this will allow the Network to cover the global South where risks to vulnerable ecosystems and communities are most acute. To cover the other end of the value chain, The Alliance has recruited a mix of staff and external consultants who focus on marketing and communications. These personnel are located in the U.S., UK, Netherlands, and other countries that have a significant percentage of consumers interested in sustainability. They work on communications campaigns to directly enhance awareness of sustainability and the Rainforest Alliance brand. They also work closely with the multinational companies that collaborate with The Alliance in order to ensure the integrity of the Rainforest Alliance brand and the accuracy of sustainability information in companies' packaging, advertising, and communications. Prior to the engagement with Lipton, however, neither the Sustainable Agriculture Network nor the marketing and communications teams had worked on tea specifically.

Choosing Rainforest Alliance

Unilever's decision to go with Rainforest Alliance as the certification regime is instructive because it highlights some of the dimensions along which different regimes are competing for engagements with brands. Michiel Leijnse, who had had some experience with Fairtrade through Ben & Jerry's and reviewed the Utz Certified option seriously, gives several reasons for the choice of Rainforest Alliance. First, there was a clear sense that the Alliance standards matched up very closely to the internal Unilever sustainable agriculture standards. Both were

based on similar high-level principles, with particular emphasis on environmental sustainability, and included a set of standards and indicators measurable on both large estates (which account for about half of Unilever's production) and small farms. Utz Certified, although it might also have fit, did not seem to have a clearly defined consumer proposition that could be used in communication around the initiative. Fairtrade, with its emphasis on smallholders and on the social dimension of sustainability, did not fit as well with Unilever's dependence on large estates.

Another concern about Fairtrade was the fixed premium to farmers. In Leijnse's view, fixed premiums can stimulate further oversupply which can lead to lower market prices over time. During the Brand Imprint, Lipton dedicated itself to a mainstreaming strategy where all tea would be certified. They didn't want any compromise on quality for a labeled product. They also wanted to combat the commoditization and continually falling price of tea, and didn't want to do anything that would stimulate further oversupply. For Lipton, the Rainforest Alliance regime's market-based determination of price premiums for certified tea made the most sense.

Laying the groundwork

For the Rainforest Alliance, Lipton's conclusion came as something of a surprise. Rainforest Alliance had historically focused on Latin America, while the bulk of Unilever's tea production occurs in Africa and Asia. The SAN had no standard for tea and had no plans to develop one. When Lipton came to The Alliance, saying they wanted to certify the entire brand and their entire global supply chain, it was a significant request. This was the first time any brand had decided to do things this fast – Chiquita and Kraft had large programs but had grown through a gradual piloting process.

Rainforest Alliance agreed to be in the running for the partnership, however, for several reasons: Unilever's experience with sustainable agriculture, and their apparent seriousness; the Alliance's concerns about environmental and social issues related to tea; the visibility of the Lipton brand; and a growing Alliance program in Africa to handle the certification process. They visited the estates in Kenya, conducted a preliminary review of the Lipton supply chain, and together the organizations came up with two targets. All PG Tips and Lipton Yellow Label tea bags sold in Western Europe would be certified by 2010, and all Lipton tea bags globally by 2015.

Following Leijnse's team's decision to aim for these targets in August, 2006, it took about five months of internal selling to get buy-in at the necessary levels of the Unilever organization. The biggest challenge in this process was another decision that Lipton would pay a premium to farms for certified tea, *but they wouldn't pass that cost on to the consumers*. This was based on the fact that market research shows that two-thirds of consumers claim to care about how brands behave, but a far lower proportion actually buy more expensive products that are certified as organic or fair trade.

> *"There are price and availability barriers. But we can remove those barriers. As a consumer goods company we are supposed to be good at that. We want certified products to be in all the major chains. So that's one of the reasons why we wanted to*

keep the price as it is. We wanted to make this part of what the brand stands for. We want consumers to get what they want – the same quality they always wanted and always got and give an additional guarantee of how it's produced."
                        -Michiel Leijnse

In essence, Lipton believes that by certifying the tea and enhancing the brand, they can rebuild Lipton's market share, and recover the additional supply cost through growth.

Another controversial point is that Rainforest Alliance certification is an open standard, with gains that can't be wholly captured by Unilever. Once a farmer has been certified, he can sell to whomever he likes in an effort to get the best price. For Lipton, however, this has become a Unilever strategy for shifting the entire tea industry. If tea producers around the world move to certified sustainable agriculture with a price premium, and the major brands like Tata and Twinings also shift to those sources, it will allow all consumer tea prices to gradually rise and reverse the trend of commoditization. Unilever, with by far the largest market share, has plenty to gain, both from its position as first mover, and from changes to the industry as a whole.

Once the decision was made, Rainforest Alliance's production and communications networks went into action. NGO members of SAN visited the Kenyan tea estates and reviewed industry best practice in Unilever and beyond. In March 2007, they launched the standards for tea, building off the coffee standards and their research. They then went to work on certifying Unilever's source estates in Kenya, using these standards. After the first certification occurred, the communications team began working with Unilever to review potential marketing and PR materials. It was in this interface at the technical and communications level that some of the critical trust building occurred, as the two organizations dialogued on conditions on the estates, and began sending earlier drafts and co-authoring materials rather than simply reviewing them after production.

> **Toolkit Cross-Reference: "Communications Partnership", Page 79**

Going public

Unilever and Rainforest Alliance went public with their commitment in May 2007. Several months later they were able to announce the successful certification of three large Kenyan estates that supply Lipton and P.G. Tips tea in the European market. The first of these was the massive 75 km wide estate in Kericho, which had been the first to undergo Unilever's own sustainable agriculture process. On that estate, Unilever boasts that the 18,000 workers and their 80,000 dependents are covered by free health care operated in an 85 bed hospital and a number of clinics and dispensaries run by Unilever. Children of the workers go to schools owned by Unilever but with government-provided teachers. 97% of the electricity comes from renewable hydropower. And 600,000 trees have been planted on the estate and in surrounding communities as part of a reforestation and education program.

While only three estates were certified in the first wave, these could provide a substantial proportion of the Unilever tea sold in Europe. Starting in February, 2008, certified P.G. Tips and Lipton Yellow Label tea has begun to land on European supermarket shelves. To reach the goal

of certifying all Lipton tea 2015, Unilever and Rainforest Alliance must continue to work their way through the 250 estates that provide Lipton tea.

With this delivery of certified tea comes a price premium to growers that is already adding to estates' bottom line. At present, Unilever is paying US$ 0.10/ kilo as a premium for certified tea in an effort to jump-start the market. This is a 5-6% supplement to the price contracted with Unilever's suppliers, which is based on auction prices that averaged US$ 1.95/kilo globally in 2007.[11] In 2008 Unilever anticipates buying 17,000 tons of certified tea, bringing an extra US$ 1.7 million to producers in Kenya, Tanzania, and Argentina.   By 2010, the hope is that a significant quantity of certified tea will be heading to the open market, purchased by buyers other than Unilever. At that point, the market price for certified tea will determine the additional revenues for producers. Based on the experience that Rainforest Alliance has in coffee, it is Unilever's expectation that a premium of up to 10-15% could develop for certified tea. Unilever itself expects to be paying € 2 million in premiums annually by 2010, and € 5 million by 2015. These additional funds reward producers for investments in sustainable agriculture and potentially fund further development.

Challenges ahead

The rapid launch of the collaboration between Unilever and Rainforest Alliance, and the easy certification of the first few estates, may herald the beginning of a successful partnership that achieves its ambitious goals. At the same time, there are critical challenges looming on the horizon that will require much further work, owing to the scale and scope of Unilever's tea supply chain.

The basic operational model is that Unilever will continue to extend its sustainable agriculture program through its supply chain. When farms reach a threshold level Rainforest Alliance partners will go in for certification and the seal will find its way onto more supermarket shelves. The challenge is that Unilever's tea comes from a variety of countries on three continents, including Kenya, Tanzania, Argentina, India, Sri Lanka, and Indonesia. All together, Unilever sources from about 750 estates (500 in India for domestic consumption and 250 around the world for export under the Lipton brand). There are also about 500,000 small farms globally serving as direct providers or outgrowers to large estates. In total, more than 2 million people are directly involved in this supply network globally, which does not include family members and dependents. While Unilever's sustainable agriculture program has been steadily progressing for the last ten years, there is a limit to the speed with which it can move.

For the Rainforest Alliance, the challenge will be a matter of keeping up with demand for legitimate certification. On one front there is the shear scale of the Lipton supply chain itself, most of which operates in countries where The Alliance has minimal experience. On the other front, there is the visibility of Unilever and Lipton, and the demand from other companies that this buzz is likely to create. Building the capacity of its 220 person staff, and the associated certification and communication networks, will be a significant feat of institution building.

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[11] UN FAO, "*Tea prices to maintain upward trend in 2008*",
http://www.fao.org/newsroom/en/news/2008/1000784/index.html

Furthermore, the structure of the tea supply chain is quite complex, with several key barriers to any certification regime. The Kericho estate certified in 2007 is the simplest case; it is owned by Unilever and much, although not all, of its production ends up in Unilever products. From there, the industry looks progressively more fragmented – much of the tea goes through tea auctions from a mix of estates, estates with smallholder outgrowers, smallholders selling to cooperative factories, and specialty smallholders selling directly to tea auctions. Although Unilever purchases single-source tea in bulk from this variety of sources, they then transport the tea to packing factories where it is mixed and blended to improve quality. This means that certification will require assuring chain of custody for certified tea through the process. Unilever has developed tools to manage this complexity, including an Advanced Planning and Scheduling IT system for tracking tea purchases globally, with an offshoot database for tracking the auditing and certification of farms. But "seeing the system" and changing practice on the ground are two very different activities.

Smallholder outreach with the KTDA

The case of Unilever's engagement with smallholders in Kenya is illustrative. Starting in 2005, Unilever partnered with the Kenya Tea Development Agency (KTDA), a formerly state-owned company that manages 56 tea factories, each of which buys from thousands of smallholders around the Kenyan countryside. The two organizations secured funding from UK's Department for International Development (DfID), and set up "Farmer Field Schools" – groups of 30 farmers at each of 4 pilot factories, over the course of 3 years from 2006-2008.

In the Field Schools, farmers are introduced to better management practices that meet Unilever's sustainable agriculture guidelines. In the process, they are made aware of the price premiums that will be available for certified tea, and the general trend in buying markets toward responsible consumerism. Through this process, Unilever hopes to build demand among farmers for further sustainable agriculture services from the KTDA extension services. The idea is that with the KTDA's help, practices will diffuse and lay the groundwork for smallholder certification by the Rainforest Alliance.

Nevertheless, this process, which builds organically, is naturally slow. Farmer Field Schools are designed to overcome barriers to innovation diffusion by employing a high-touch approach. Farmers adopt practices tentatively, conducting experiments on their farms, and then discussing the results. The schools start with practices that increase short term profitability, for example pruning the leaves weekly instead of monthly to get higher yield, or trimming bushes less heavily to ensure better shade and less need for costly herbicide. Only once trust is built, the schools can move to practices with longer term benefits (water preservation) or off-farm benefits (e.g. greenhouse gas reduction, biodiversity).

Farmer Field Schools are well designed to build social capital and foster self-sustaining diffusion of better practices. But this three year pilot has only reached 120 of the hundreds of thousands of farmers in the KTDA network. Diffusion, although it can accelerate rapidly, does cost money: for transportation of farmers to sustainably managed farms so they can see results for themselves; and for investments in farm infrastructure in some cases. Once the DfID project runs

out, it will be up to the KTDA to carry it forward. It remains to be seen how fast these practices will diffuse in the absence of the DfID money.

It is also worth noting that even getting this far has required overcoming political challenges. Unilever ran into fears that in conducting the outreach to farmers, the company might seek to eliminate intermediary players. They had to delay the project by a year (hence starting in 2006) while they worked to engage stakeholders with unanticipated opposition.

Looking forward

Unilever is striving to learn from the KTDA experience, and is building alliances around the world to make their dream of sustainable tea production a reality. Some lessons however, will be less transferable because structures and issues in each country are different – two examples are: a state-owned tea management company in Indonesia and large estates with smallholder outgrowers in India and more acute labor issues in India.   Given this complexity, Unilever and Rainforest Alliance are set up to make progress, but the journey ahead will require continuous learning and innovation if they are to meet their 2010 and 2015 production targets. It may be that the vast majority of certified tea will come from large estates and plantations for a few years while the challenge of smallholder outreach is overcome.

Closing questions

Three key questions thus remain for the two organizations:
- What will it take to support the rapid learning and extended reach of Unilever's sustainable agriculture program?
- How can Rainforest Alliance grow its capacity to help govern this complex supply chain, along with other brands that may follow from their success with Lipton?
- Will small producers be able to make the changes required by the standard in a timely manner?

Indicators for Poverty and Hunger in Coffee Supply Chains:
Green Mountain Coffee Roasters Confronts Los Meses Flacos

Case authors: Susan Sweitzer, Daniella Malin, Chris Landry, Sustainability Institute

Evaluating Corporate Social Responsibility Programs

Returning to Vermont from a trip to coffee growing communities in Nicaragua, Rick Peyser looked out the plane window and felt angry. Most farmers he had just interviewed answered *yes* to the question, "Over the last year have you had any periods with extreme scarcity of food?"

If the problem of hunger was so pervasive in coffee growing communities, Peyser wondered, why wasn't everyone in the industry talking about it? In the twenty years he had been intimately involved in the coffee industry, despite his fluency in Spanish and numerous trips to coffee-growing communities, he had never heard of *los meses flacos*.

Los meses flacos: the thin months, the growers' shorthand for the season, often lasting 3-4 months, when many coffee growers can't afford adequate food for their families.

As Director of Social Advocacy and Coffee Community Outreach for Vermont-based Green Mountain Coffee Roasters, Peyser is responsible for the company's outreach into coffee-growing communities throughout their global supply chain. He is past president of the Specialty Coffee Association of America (www.scaa.org) and is on the board of the Fairtrade Labeling Organizations International (www.fairtrade.net) and Coffee Kids® (www.coffeekids.org).

He hadn't expected this trip to Nicaragua to point so clearly to hunger as the issue on which the company would need to focus its attention.

Green Mountain Coffee Roasters, Inc. (GMCR) is a publicly traded company with sales in excess of US$ 341 million and customers and consumers in every state in the nation and in over 20 countries around the world; the equivalent of more than 3.2 million cups of Green Mountain Coffee is consumed every day.

GMCR consists of two business segments. The Green Mountain Coffee division (the GMC segment) sources, roasts and sells over 100 selections, including estate, certified organic, Fair Trade Certified™ signature blends, and flavored varieties under the Green Mountain Coffee and Newman's Own® Organics brands. Most of the GMC segment's revenue comes from its wholesale business, but it also operates a direct mail business and an e-commerce web site. The Keurig segment has pioneered, and is a leading manufacturer of, gourmet single-cup brewing systems. The Keurig® Single-Cup Brewing System has caught on all over the country and become one of GMCR's main growth engines.

The company takes corporate social responsibility (CSR) seriously. It contributes at least 5% of its annual pre-tax profit to support socially responsible initiatives and was ranked Number 1 on The CRO.com's list of "100 Best Corporate Citizens" in 2006 and 2007. GMCR's self-described "higher purpose" is to "create the ultimate coffee experience in every life we touch from tree to cup – transforming the way the world understands business."

While they believed they were having a positive impact on coffee-growing communities through their social and environmental programs, they challenged themselves in 2004 to measure the effectiveness and impact of their efforts. In a sense, they were striving to create a quality assurance program for their CSR initiatives.

That year, the company decided to consider what they would learn by asking the following questions about their CSR work:
- Have these programs had the intended impact, and if so, how do we know?
- Can these programs be more effective, and if so how?
- What does success look like, and how do we measure it?

These questions led them, the following year, to formally identify their social and environmental bottom lines, aligning them with the U.N.'s Millennium Development Goals. They chose to focus their CSR work into four bottom line areas: reducing poverty, hunger, and waste, and promoting responsible energy use. Reduced energy consumption and waste generation can be measured fairly easily using established targets and widely accepted indicators such as kilowatt hours, CO_2 emissions, tons of waste generated, and so forth. Hunger and poverty aren't so easy to quantify.

Over dinner at the Skunk Hollow tavern in Hartland, Vermont on a snowy evening in 2005, Don Seville from the Sustainable Food Lab and Michael Dupee, VP for Corporate Social Responsibility at GMCR, dreamed up the idea of partnering with a Colombian based research institution, the International Center for Tropical Agriculture (CIAT), to do a study of GMCR supply chains in Central America. The study would provide hard data on what was happening in those communities and attempt to establish indicators for measuring progress on poverty and hunger reduction.

The Sustainable Food Lab (SFL) - an organization facilitated by staff of the Sustainability Institute - whose business and NGO members come together to find ways of mainstreaming environmental sustainability and ethical trading, was developing expertise in designing small pilot projects like this, that involve multiple partners in assessing and improving supply chains and then sharing lessons learned with others in the industry. Both GMCR and CIAT (which conducts research aimed at reducing hunger and poverty and preserving natural resources in developing countries) were members of the SFL.

Setting up the study caused GMCR to ask the hard question not only of how to measure poverty and hunger, but how to do so in ways that would be meaningful to the communities experiencing them. It was that aspect of the study – involving the farmers and communities themselves in determining what could make a positive difference in their lives – which was unusual in the development of Key Performance Indicators (KPIs). Dupee was fairly sure that the most meaningful indicators for growers would translate into the most effective leverage points for reducing hunger and poverty, and he was particularly interested in whether these grower-developed measures would translate into meaningful indicators for GMCR business decisions.

In the summer of 2006, the three partners initiated the study and fieldwork, using funding from GMCR, project management support from the Food Lab, and the analytical skills of CIAT's staff, which includes anthropologists, agronomists, and other researchers. The focus of the study was on developing KPIs that measured (and would help facilitate the reduction of) poverty and hunger in coffee-producing communities and that offered insight regarding the potential impact of coffee sourcing practices on those communities.

For this initial study, GMCR focused on two countries — Guatemala and Mexico — which are important GMCR coffee sources. They collected data across three different production models: Fair Trade, organic, and conventional (neither Fair Trade nor organic).

CIAT researchers Thomas Oberthür and Sam Fujisaka initiated the field work by traveling to producer communities and asking coffee growers to talk about what their lives were like in both good and bad years, defining "good" and "bad" as years when coffee prices were high or low, respectively. Understanding the differences between good years and bad years helps highlight the things that change most dramatically between good coffee prices and bad coffee prices (indicators) and provides a map for creating conditions that will lead to more good years.

> *Toolkit Cross-Reference: "Participatory indicator development", Page 83*

The researchers conducted the meetings in Spanish and met with groups of farmers to identify general indicators which would be signs of sustainable livelihoods. From the facilitated participatory investigation in small group interviews, the communities themselves developed the list of indicators.

The work by Oberthür and Fujisaka led to the hypothesis in the fall of 2006 that the most useful indicators of the economic viability of a coffee grower's enterprise are:
1. the contribution of coffee to livelihoods;
2. the ability of a grower to stay on his own farm, rather than hire himself out to work on other farms during the season;
3. the ability to re-invest in farm enterprise improvements (including hiring in labor);
4. the grower's reliance on remittances (payments sent back to the family from relatives working in the US); and
5. access and use of heath care, education, and year-round food

Together, these indicators suggested that the manifestations of a good year for coffee farmers are the ability to: stay on their farms (rather the migrating to work on other farms), re-invest in their farms, not overly rely on remittances for survival, and have access to heath care, education, and year-round food.   If these things are present in any market condition, good or bad, then farm-based livelihood is likely to be sustainable.

Just as they had in originally launching the study, GMCR consulted widely with other stakeholders on the findings and recommendations of these preliminary indicators. At a summit facilitated by the Sustainable Food Lab in 2006 at GMCR offices in Vermont, CIAT presented the findings of the study to representatives from a number of business and NGO partners,

including Rainforest Alliance, Heifer International, Ecologic Finance, ForesTrade, Seventh Generation, Sustainable Harvest, and Transfair USA.

During this meeting, the indicators were discussed relative to GMCR's goal of partnering effectively with its source communities. Many potential uses for the indicators were discussed, including linking them with other developing sustainable development indicator systems.

However, the overall group consensus was to focus on the simplest set of indicators that would both be useful to the coffee-growing communities and provide meaningful feedback to GMCR. These were:
1. The ability of a grower to stay on his own farm, rather than hire himself out to work on other farms during the season; and
2. The ability to re-invest in farm enterprise improvements (including hiring in labor).

These indicators would provide (a) clear feedback as to the viability of coffee production as part of the household livelihood strategy and (b) a clear signal to GMCR as to the health of its supply chain in a particular community or geography. While they would not necessarily point to a solution, they could prompt deeper and more focused inquiry by GMCR as to how they might be able to help.

Phase II

The results of the initial study gave GMCR confidence that it now had a pair of meaningful indicators with the potential to monitor the risk of poverty and hunger in coffee producing communities. As Peyser said, "To me, having visited a lot of coffee communities, they were not a surprise. They made sense. They were good indicators in general terms."

The next step after deciding on the high priority indicators was to develop and test a system for collecting data in source communities in a cost-effective and appropriate way. Oberthür and Fujisaka recommended testing the validity of the indicators developed at the group level with individual households, gathering baseline data in the two original regions and a new region (Nicaragua), and deciding on a system for regular data collection.

While the primary focus of the household questionnaire designed by CIAT was to collect information on the two primary indicators, the research team recommended also collecting the greater breadth of information suggested by the earlier research to provide more clarity on the connection between the farm-based indicators and other direct poverty and hunger indicators. Therefore, the questionnaire included questions on:
- size of family
- level of education,
- amount of land owned,
- types of coffee grown,
- certifications achieved,
- family income in last year from coffee,
- how they felt about prices,
- whether they had to migrate to work off farm,

- whether they would have preferred to stay on the farm,
- whether they were able to invest in their farm (and how much),
- any serious health problems and how they were addressed in last year, and
- whether and for how long the family had any periods with extreme scarcity of food in the preceding twelve months.

In the fall of 2007, Seville and Peyser accompanied the researchers on part of the piloting of the household questionnaires in Guatemala, Mexico, and Nicaragua. While the interviews uncovered a great deal of information about households (including unexpectedly good access to medical clinics), by far the dominant impact on Peyser and the rest of the team was the pervasiveness of *los meses flacos*. Fluent in Spanish, Peyser conducted his interviews without translators. He describes part of that experience:

"I was sitting there talking to people in their homes, sometimes with their kids running around, who can't sustain themselves at a minimal level for at least three months of the year. In other words, they are eating, but their nutrition is not adequate. In the best of times their nutrition isn't the greatest. But now they have to water down, at best, what they are eating for a few months of the year. It really bothered me. I was angry I hadn't known about it. I felt stupid. How could I be in the industry for so long and not know about this? When I got back, this anger had turned a corner to a point that I really wanted to be proactive. It was a real motivator to me. And has been ever since."

Los meses flacos, the thin months, are the months of June, July, and August when farmers are caught between coffee payments and the harvest of basic staples like corn and beans. By June, most of the funds from coffee are depleted (coffee is harvested through February in Central America) and the harvests of basic staples which are ready in the late summer, so supply is scarce and prices are high. Peyser said families have four strategies for dealing with this: consume less of the same foods, eat less expensive and less nutritious foods, increase consumption of non-typical edible "things" gathered in forests and plantations, or go into debt for food.

Most families Peyser talked to had three or more months of extreme food scarcity each year, in the months when the coffee money was gone but their own food staples were not ready to be harvested. In all, more than 50% of the 179 farmers interviewed in Nicaragua, Mexico, and Guatemala by the research team experienced at least three months of hunger.

The overall picture gathered from the household interviews was very interesting – access to education and health were fairly prevalent in all three countries. Most farmers were able to invest in improving their farms (around 75% of those interviewed). Coffee yields (a dominant factor in coffee income) were quite variable, and were particularly low for some of the small scale organic producers who also frequently reported lack of access to effective technical assistance. Credit was generally available, yet the cost of credit was very hard to identify because of the price deduction systems used.

The consistent thread through these quite varied findings was that the coffee farming families had to change their diet in response to insufficient income from coffee to cover high food prices for a substantial part of the year.

Peyser and the Food Lab's Seville came away from the experience determined to understand how they could find opportunities to support increasing family income and reduce hunger.

Once CIAT had written a report on this phase of the study, GMCR convened a second summit in Vermont. This meeting, attended primarily by GMCR buyers and a few outside experts, addressed the questions, "What do the results of these household interviews mean for GMCR strategy for working with producer communities? Was our investment in this supply chain study worthwhile? Was this something we should continue doing?"

After the presentation of the data, the Food Lab's Seville, an MIT-trained systems thinker, diagrammed the factors that contribute either to rising or falling income – such factors as access to technical assistance, the cost of credit, yields, and so on –based on the data gathered in the household interviews, in order to create a shared visual representation of the challenge and the different intervention points.

Toolkit Cross-Reference: "Systems Thinking", Page 86

For some of those who attended the summit, the data brought them through the same cycle of shock, anger, and determination to act that Peyser had already traveled.

Said one person there, "I think people at the meeting were a little astounded. They were like: *hunger*? How can you deal with hunger? It's such a big issue."

As the reality of the problem set in, the buyers in attendance considered what was possible in terms of increasing producer income levels, including prices, yields, organization strength, quality of production supported by the systems map of intervention possibilities. What was possible, given company buying practices and community support programs?

GMCR buyers came to believe that the company could reduce hunger most effectively not just by working with farmers to increase quality of coffee that already meets their minimum purchasing specifications but by focusing on helping farmers increase the quantity of good coffee they produce through technical assistance and by helping improve the strength of cooperatives to support farmers and contract effectively.

"If we spend money on increasing quality it needs to be the quality of the production," said one employee. "That was one of the things we learned from the interviews. Many of the farmers desperately needed technical assistance on the ground. So all of it began to tie together."

Phase II was notable partly as a result of Peyser going into the field to collect data with the research team, instead of simply receiving a report. This was seen as very beneficial in building a sense of ownership in the project on the company's part. In fact, GMCR concluded that this was so important that future data collection would be done by teams of GMCR employees

working with researchers. Process, they agreed, was as important as the data itself in building internal commitment to addressing the problems.

The report, with its conclusive data on hunger in the communities where the company buys its coffee, was clearly a call to action. But it also raised at least five questions.

First: *What impact would this study have on GMCR's philanthropic efforts?*

Would all their funding go to this one issue, or would they continue to support a portfolio of projects in coffee-producing countries and in the US? Peyser, for one, had an answer:

> *"In the past we used the money for a variety of purposes, all of them good, but I started having a sense that we need to get really focused. I came back and put together a proposal with a vision, mission and tactics for these funds, with a real focus that basically indicates that the funds have to touch farmers and their families and that impact on hunger would be a primary focus. We are no longer going to fund any program that relies on trickle down."*

The goal of a GMCR supported programs would not be direct food aid, but would be to assist communities in developing sustainable responses to seasonal food insecurity such as improving and/or diversifying incomes, reducing risk, and using infrastructure such as storage facilities to store food through to the vulnerable parts of the year.

Second: *How could the company most effectively help reduce hunger in coffee communities?*

While the research team and GMCR generated many ideas about how GMCR could be a good partner in raising and addressing these issues with their suppliers, they realized from the beginning that the real ownership over the discussions and potential solutions would have to come from the coffee growers themselves. So, with endorsement from his team, Peyser is now investigating the feasibility of pilot projects to address seasonal food insecurity that would be owned and managed by local coffee cooperatives. GMCR would provide financial and technical support in partnership with other local, national, and international NGOs. To date, two cooperatives have expressed strong interest.

The cooperatives that take on these projects will generate their own ideas for what to do, and some ideas have already surfaced: provide farmers with help to diversify their incomes so that families are not entirely dependent on coffee, provide education on better organic compost management techniques so that farmers can increase yields without turning to expensive chemical fertilizers, and establish community vegetable gardens and/or communal silos where communities could purchase staples when the price is low to tap into when the price is high.

Third: *How could the company talk about what it had learned about hunger in coffee-growing communities productively, both internally and to its stakeholders?*

What the GMCR study revealed – hunger among growers in the south supplying markets in the north – is not unique to its operation, or to the coffee industry. Yet, coffee has increasingly been

under scrutiny by consumers and activists. As a company facing the issue of hunger head-on, how much could GMCR say about it?

As one employee put it, "Do we want our customers to know that coffee farmers struggle to put food on the table year round? That is not a pretty scene."

The study group was also concerned about how their colleagues would feel about the study's findings. Many would be upset by it, they assumed, but they also knew it would have to be dealt with carefully.

GMCR's corporate social responsibility report has since proved to be an important vehicle for sharing this journey because it allows issues to be shared in much more complexity than is possible through typical advertising mediums. In this report, GMCR describes the origins of the project, the stages they have gone through, where they are at now, and where they hope to go.

Fourth: *How widely would the company define its sphere of responsibility?*

GMCR chose to initiate conversations with cooperatives about persistent hunger and their willingness to partner with the company on solutions, knowing that the company could not solve the problem on its own. In doing so, they chose to look well beyond the direct effects of their purchasing practices at a larger number of factors that drive persistent hunger. Not all companies are willing to take such risks, to think more broadly about their relationships to producer communities. Growing consumer concern about "fair" and "green" may compel more to do so.

Finally: *What did the study reveal about the entire coffee industry, and how much impact could GMCR have on the overall coffee industry?*

The study provides clear evidence that many producers in Central America are not making a sufficient livelihood – even with sales in premium coffees – to sustain themselves and their communities. No one in the industry is unaware of poverty among growers, but persistent, predictable hunger among the farmers seems to be a reality not spoken of in coffee buying circles.

"It is a big issue and it is a mystery to me that something so commonplace at origin is not spoken of in the halls of the industry," Peyser said.

GMCR's annual sales may be modest compared to mainstream industry giants such as Kraft, which has sales of $4.2 billion, but as the largest buyer of fair-trade coffee in the US, they have the power to bring attention and partners to the issue.

"I would love to see [our work] snowball beyond one coop with a few communities, grow a little, then in a year transplant to other communities to where it grows across national borders," said one employee who attended the summit. "I mean it is just a dream, but…"

Said another, "It is a huge issue, but if we can find a model bringing in micro-credit, technical assistance, food storage, all that and more, we are developing a tool box, in a sense, that

depending on the needs of the community can be put to use. In every community it will be different and each country will be different."

Peyser is hopeful that the methods of dealing with this issue will have ripple effects on other issues affecting the health of individuals and communities.

"With the right resources, things can change. Just because its part of life now doesn't mean it has to be," he said, adding, "It just seems within our reach as a company and as a society to demonstrate that seasonal food insecurity isn't something families have to put up with."

Unconventional Allies: Coke and WWF Partner for Sustainable Water
Case Author: Peter Senge, MIT and SOL

In early July, 2007, CEO and Chairman E. Neville Isdell of the Coca-Cola Company, addressing the thousand plus attendees of the tri-annual summit of the UN Global Compact, including the UN Secretary General and the world press, said that Coke's guiding principle in growing its business in the future must be that "We should not cause more water to be removed from a watershed than we replenish."

At the same time, Isdell and Peter Brabeck-Letmathe, the CEO of rival Nestle, announced the "CEO Water Mandate" and asked other CEOs to join them in confronting one of the world's greatest challenges— responsible management of the severely stressed resource.

For those who know Coca-Cola, one of the largest consumer goods companies in the world, this announcement represented a big step in a long journey to put water sustainability at the center of its business. "Coca-Cola has been focused on water management for about 120 years, really since the origin of the business," says Global Water Initiative Director Dan Vermeer, a member of Coke's corporate water and environment staff. "But in the past, the emphasis has been on operational performance: efficiency, waste water treatment, managing water within the plant."

Traditionally, little attention was paid to where or how plants got water for their bottling operations or overall conditions of water availability for the larger community. "It took a real wake up call," says Jeff Seabright, Coke's VP for Environment and Water Resources, "before we started to think beyond the four walls and pay attention to the larger system." As Vermeer adds, "It really doesn't matter how efficient you are if there's no water."

Behind Coke's new commitment lies a journey of awakening that has spanned years, led by internal corporate change agents and operational leaders throughout the company and its sister Coca Cola Bottling companies around the world, and that, more recently, was spurred on by a unique partnership with WWF, The World Wildlife Fund.[12]

Indeed, the unusual partnership between one of the world's largest corporations and one of the largest and best known non-profit environmental activist organizations represents a shift as significant, in a sense, as Coke's commitment to integrative water management.

Traditionally, leading activist NGOs (non-governmental organizations) have been far more likely to attack than work with huge global corporations. But times are changing, and a small number are recognizing that they must alter their strategies if they expect any real change to occur. As WWF US's Chief Operating Officer, Marcia Marsh, says, "The simple fact is that we are failing relative to our larger goals. Despite our successes in raising public awareness and funding, species are disappearing at historic rates. Habitat continues to be destroyed. Working alone, NGOs are simply unable to reverse the tide of global change. To do this, we will have to develop

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[12] WWF is the brand image for The World Wildlife Fund. WWF is a global federation coordinated by WWF International, based in Switzerland, with major organizations based in the U.S., Germany, the Netherlands, and the U.K. By some indicators like total budget and brand recognition, it could be regarded as the world's largest NGO.

new partnerships with businesses and governments, partnerships whose scale of impact is commensurate with the problems we face."

Moreover, today, a growing number of major corporations like Coke have come to the same conclusion, that the expertise, stature, and combined public and commercial influence of the two sectors working together may be crucial to fundamental sustainability challenges like water.

Two Journeys, One Destination: Confronting Our Most Basic Need

But the partnership would never have come into being had it not been for deep changes in both organizations over the preceding years, changes brought about by the growing global water crisis.

People can live for weeks without food, for months without shelter, and forever without video games and television. But we cannot survive more than a few days without water. Nowhere is the need for working together more essential than when it comes to water, arguably the most pressing problem for the world today. About 1.1 to 1.2 billion of the world's people lack reliable access to safe drinking water.

Water shortages are widespread, especially in water scarce areas like India, many parts of Africa and the Middle East, Eastern Asia, and increasingly many parts of the southern and western U.S. The World Commission on Water, established by the World Water Council (an international multi-stakeholder platform) and cosponsored by UNESCO, UNICEF, the World Health Organization, estimates that in 2025 some four billion people, almost half the global population, will be living in areas that will be "severely water stressed."

The report notes:
> The arithmetic of water still does not add up. In the next two decades, it is estimated that water use by humans will increase by about 40 percent, and that 17 percent more water will be needed to grow food for a growing population. In addition, the water demand for industry and energy will increase rapidly.

Creating a truly comprehensive and responsible water management approach is not only crucial for many organizations, it is crucial for the future in general. For Coca-Cola, awakening to water as a strategic issue that would shape its future, as is often the case for very large and successful organizations, came through a complex journey of internal change and external shocks. Simply by virtue of its size and presence around the world, Coke was sure to collide with water problems.

And this is exactly what happened in 2004 and 2005, in the state of Kerala in southern India. The region was going through a three-year drought. Many farmers were running out of water. All the while, Coca Cola's local bottling plant was operating smoothly. "People drew the logical conclusion that Coke was taking their water," says Seabright. "Here they are struggling to make ends meet, and Coke's bright red trucks are pulling out of the plant with no apparent difficulty." In fact, Coke's plant was drawing water from a deep aquifer unrelated hydrologically to the surface water most of the farmers depended upon.

"But we missed the point," says Seabright. "Regardless of whether we were technically right, we should have realized that we were a big symbol of water use and we should have been more involved in helping the community solve its problems." The fallout from the incident was significant reputationally in that Coke became linked in many people's eyes with water scarcity. "It was a big issue on a lot of college campuses," said Seabright.

Fortunately for Coke, by the time this sort of incident was starting to occur, many inside the company had been working to understand water shortages and their implications for the business.

"We did a project on the future of fresh water in 2002," says Vermeer. "Soon, we and others in the company began to understand the state of fresh water resources and the depletion of aquifers, risks of costs rising, and the increasing competition for water. It was clear that this was one of the great sustainability issues."

Yet at that time, water was not a strategic priority for many companies. Indeed, there was little global attention on water and it had not coalesced as a critical issue for any of the sectors - business, government or civil society. Partly this was because water is a local issue, with conditions differing dramatically from one region to another, even in a country with hundreds of millions of chronically dehydrated people like India. Local conditions are also affected by many factors like drought, floods, contamination of groundwater, and lack of infrastructure.

Finally, in late 2003, as part of a broader commitment to sustainability issues, Seabright, formerly of the USAID, was hired into a new Vice President for the Environment and Water position.

"I asked right away about the company's water strategy," says Seabright, "and what I got back were several thick reports, each a detailed analysis in reaction to a different problem or crisis. They were informative, but they also, not surprisingly, had not had much impact strategically."

In order to develop a more strategic perspective Seabright and Vermeer and their colleagues began conducting interviews with more than 250 people throughout the company about their perspectives on water issues, the challenges they saw, and "friction points in the local communities" around water issues.

As initiative members talked with people, "We began to realize that there was a lot of concern around this issue, and people were eager to talk," says Vermeer.

But, just as members of the initiative realized that they had started to engage operations people around genuine concerns, they also discovered that the information they were developing was not yet that useful for them. Their "top level view of water risk" in broad geographic regions was not getting close enough to the local realities that operational people faced. For example, "Field people came back," according to Vermeer, "and said, 'you're telling me about water risk in Southeast Asia. I don't manage plants in Southeast Asia, I manage them in Rungsit, Thailand.' We had all this information about the broad context, but they couldn't do anything with that

information. People needed information regarding water in specific locations and we didn't have that type of information."

So, the team decided to create a detailed local survey for bottling plants. The only problem was how to get people to do it. They discovered, almost immediately, that the survey evoked a basic problem with most corporate-led change efforts: suspicion as to why headquarters needed all this information. "We created a three-hundred question survey," says Vermeer, "asking for all sorts of information that people had never been asked before. When people saw it, they told us that if we got 10% of the local bottlers to fill it out, we would be doing great."

Working with consultants and other Coke staff, the team focused on local operating people they knew from their interviews and got a few to complete the survey. The survey took 10 hours per plant, and many questions explored areas where even experienced people had little operational knowledge.

Gradually, it became evident that the reality for the operating people was that if, for example, you were getting water from a municipality, that was assumed to be an assured supply. Vermeer adds, "There was no transparency beyond the municipality, to where they got their water. That was a question that most people, in Coke and beyond, had not asked. So, asking was important – even if there was no way to expect even experienced operational people to have all the answers."

It became apparent that, while many plant managers were aware of issues in the larger watershed they were part of, by and large, "they had no framework for addressing them, nor clear support in doing so." But, as local operating people became engaged in the survey, they wanted Vermeer and his colleagues to assure them that their efforts would be worthwhile. "People said, 'Look, we just worked really hard to provide this data for you. Don't be corporate.'"

In most big companies, local managers providing this sort of detailed and potentially important information to corporate headquarters have learned that two types of things usually happen. Either corporate staff do nothing with the information or there is a witch hunt. The first wastes everyone's time. The second is worse. Somebody writes a report and it goes to the CEO, pointing to divisions who have operational problems. The CEO then calls the division president, who then calls the technical people responsible, who will then typically say, "We don't know how they reached their conclusions."

To circumvent these concerns, the corporate water team created a two-day workshop for each business unit based on their own facilities' survey responses. "The workshops were amazing," says Vermeer, "because people came together to study their own information, so it was grounded in the information they had given us, which we had analyzed to identify priority water issues for each site and geography."

Toolkit Cross-Reference: "Inquiry and Engagement Workshop", Page 75

People began to see connections between the data and the actual risks to their operations. "You could tell that it all started to become real to them when they stopped speaking English and started to talk to each other in their native language - Spanish, Thai, whatever. Suddenly, they

would say, 'We need to discuss this amongst our team. When we've got this resolved, we'll come back to tell you what we've decided.'"

The water team conducted 30 workshops in six months, one in each of their 23 divisions worldwide, plus seven with key bottlers. The workshops started to build a critical mass of engagement, and more surveys started to come in. Soon, they started to post practical insights and stories from different locations on their internal website, along with survey response rates, like which regions had 70% response rates and which had 10%. "We just published the information every day, and business units began to recognize that they were going through this process in parallel with other units around the world. Knowing that the whole global system was going through this process simultaneously created excitement, and some peer pressure too."

Eventually, they reached a 92% response rate from their 875 bottling plants around the world. "We figured at 10 hours per plant for over 800 plants, that was a pretty significant investment in asking questions no one had ever really asked before."

As this sphere of engagement grew, they were learning one other thing about systemic change. "Often, it's hard to get busy people to engage. We learned that sometimes you have to try to solve a bigger problem, create a bigger conversation that engages even more people - like how to get the whole Coca-Cola system to engage around water in a very short period of time. By doing this, many new connections among people who otherwise would have not been talking with one another happened and synergy effects started to emerge across the whole system. It was a pretty transformative experience watching this start to happen."

The process also served to develop the strategic perspective Seabright knew was needed for corporate management. Eventually, "a strategic framework around four dimensions emerged," says Seabright. "It all starts with **operational excellence**, because if we are wasting water or polluting we have no legitimacy to stand on. But we could also see that **understanding watersheds** was crucial, as was the **social community context**, and that, as a global brand, we have a responsibility **to speak out on the global stage**."

This also laid the foundation for expanding a relationship with WWF that had already existed for many years. "It became clear now that we needed expertise in understanding the broader systemic issues of ecosystems and watersheds," adds Seabright.

For WWF, becoming open to a long-term partnership with a multinational like Coca-Cola was much less about discovering water as a global issue and much more about rethinking their own purpose. Although WWF had long received significant donations from large corporations, "We didn't have much of an idea as to why you might really work together," says Suzanne Apple, the WWF coordinator of the Coke project. Apple, who previously worked on sustainable forest products at Home Depot, adds, "The established NGO model is funding, not partnership. Beyond money, you have to help people see the talent and knowledge within the corporate sector. We may know all about watersheds but we discovered that they had some very sophisticated watershed analysis as well, and they know a lot more than we do about commercial decision-making, which matters also."

Apple also had to help WWF staff appreciate the enormous potential impact of companies like Coca-Cola through their purchasing power. "Coke is a leading buyer of sugar in the world. They are a major buyer of aluminum cans and of citrus, and one of the largest purchasers of coffee, as well as glass. That doesn't include tea and cocoa and a lot of other things they buy. You help a company like Coca-Cola move and this has a huge impact."

Doing this effectively, however, would require a lot of learning, on all sides, to see the larger systems of which these organizations were part.

Seeing the Larger Business System

Finding how the Coke corporate giant and the WWF panda could actually start to dance together first required that each face stereotypes on both sides and, then, that they find a dance floor. WWF's broad knowledge of ecosystems could make Coke's focus on business performance seem narrow and pedestrian. Likewise, Coke's passion for operating detail and efficiency could cause WWF's scientific knowledge to seem academic and "ivory tower." Fortunately, WWF had identified "value chains" as one strategic focus for its work going forward, which dovetailed with Coke's growing interest in a bigger picture view of water.

"Very few companies have much of any idea of the social and environmental footprint of their value chains," says WWF's resident expert on food systems, Vice President Jason Clay. "But it is not too hard to get them to see that they ought to."

Clay is right. Value chains are the glue that connects disparate businesses, whether they are local, regional or global. Suppliers matter to any business because they determine cost, quality and reliability of supply (the "upstream"), just as the "downstream" relationships with those who stand between you and your ultimate customers shape your success in the market.

Because value chains reach beyond the boundaries of individual businesses, they also present a window for seeing a company's ecological and social impact and its overall health. Working together to comprehensively assess the health of value chains creates a place where ecological, social and business concerns meet.

This became evident to Coca-Cola in the first phases of the partnership.

The company had been working for several years around specific targets to improve water efficiency in its bottling plants. "These were viewed as real stretch goals," says Vermeer, "in some cases, reducing water use 20% to 40%, including water contained in our products, water used for the cleaning and processing, and all the water usage for sinks, toilets, and watering systems on the plant grounds. But, we were looking mostly just within our four walls."

Coke's targets for improved water efficiency were put into a new context when compared to the total water use, or "water footprint", embedded in the product's ingredients as well. Though the exact size of this footprint is still being debated, and varies by region, Clay's measurements represented an order of magnitude shift in view.

The company was working to bring down the average liters of water it takes to make a liter of Coke from about three plus liters to 2.5 or less. When Clay looked at the whole value chain, however, he concluded that it takes 200 liters of water or more to grow the ingredients that go into a liter of Coke, much of it for the sugar. "Sugar cane is one of the most water intensive crops there is," says Clay.

While the validity of Clay's broad brush estimate was and still is debated internally within Coke (there is considerable variation in the "embedded water" in a crop like sugarcane based on geography and type of production, like rain fed versus drip irrigation), the point had been made: looking at the total water footprint became a touchstone for thinking in the company. It wasn't just that Coca-Cola didn't know their water footprint, no one else did either. Few of us, as individuals or companies, think of this in regard to products in general, like cotton tee shirts, or food, or car tires, or ethanol from sugar cane. For example, a cup of coffee takes 140 liters of water to produce, a typical gallon of milk about 800-1000 gallons.[13] The challenges are institutional not just technical. Looking at the total water requirements of a business requires suppliers and customers to see how they are all part of an integrated system whose total impacts must be measured and improved. It also points to the imperative to reach out to engage many partners in building political will for more comprehensive water management, through initiatives like the "CEO Water Mandate."

The basic need is clear: regions and municipalities must understand watersheds in truly comprehensive terms, so that it might become possible to account for all the major uses of water relative to the rates at which water is replenished. This is a bigger goal than even Coke and WWF can accomplish, but they can point the way by showing how water can be managed more responsibly in particular areas and by becoming vocal advocates, locally and globally, for broader commitment. Water, after all, is the archetypal regenerative resource, but we cannot manage it as such without a truly systemic picture of how much water is being used, and by who, and how rapidly it is being replenished. It is safe to say that few if any governments or regions in the world can do this today.

Getting to Know Your Neighbors

The Coke-WWF partnership transitioned from primarily a philanthropic relationship to a more collaborative partnership in early 2006, with a series of planning workshops in the field. These quickly led to important insights into the cultural barriers in both organizations to advancing their partnerships – and how to start working with and around them.

"Our first task was to find a way to connect productively with Coke's global presence," says Apple. "We identified seven major watersheds in the world, in very different but equally crucial locations. We then brought WWF and Coke field people together in organizing meetings in each region. We knew we couldn't do all the places that matter, so we picked these seven to see what

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[13] Chapagain. A.K. and A.Y. Hoekstra, *Water Footprints of Nations*, vols 1 and 2. Unesco-IHE. *Value in Water* research report series no. 16. Available: http/www.waterfootprint.org/publications.htm. *A Briefing*, Feb 2007, Joanne Zygmunt, Waterwise.org.

it would take to bring in bottlers and our freshwater people and do some things together in a big way."[14]

As the first meeting in the Mekong region in southeastern Asia approached, Apple quickly discovered a number of challenges, starting with convincing WWF staff why they should even participate in such meetings.

"Our people immediately thought this was about getting Coca-Cola money to do the work that they had already planned to do," says Apple. "We had to say, 'No, you need to think about what work you plan to do together and how you shape a body of work that you all agree to do. It's not just about Coke funding your existing plan to study catfish in one estuary of the Mekong.' People responded that, 'We don't want to talk to them locally. We just want their money.'

"It was an interesting process facilitating WWF people talking about what we're planning in the Mekong and Coke talking about its growth in the region, and then identifying certain things we could do together that were consistent with both of our missions."

Toolkit Cross Reference: "Local bilateral engagement", Page 99

These initial meetings proved as much of a culture shock for the Coke participants. Most had no history of working with an international NGO like WWF beyond corporate contributions. Moreover, many were uncertain how much latitude they actually had to engage in substantive discussions about conditions in their regions. "It was quite surprising," says Vermeer, "to see that something we took for granted – for example, the permission to engage transparently with international NGOs - was something that wasn't necessarily natural at the local level."

 "When I heard this," adds Apple, "I knew the partnership was on the right track."

"One of the truly profound lessons that WWF has been learning over the past decades is that habitat protection and community protection are two sides of the same coin. People who are struggling to survive cannot be stewards for their environment. Yet, most desperately want to do that. Their history and culture are bound up with the larger living world, and they usually feel a deep kinship around the animals, fish, plants and trees of their homeland.

"If successful local business people like the Coke bottlers, most of whom come from these local communities, can be freed up to engage with their communities around these issues, it can be a huge win-win for everyone."

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[14] The seven major regions are the Danube; the Rio Grande and Rio Bravo in southwestern US and Mexico; Southeastern rivers and streams in the US; rivers and lakes of Eastern Africa; the Mekong in Laos, Thailand, and Cambodia; the Yantgze in China; and the Mesoamerican Reef that stretches along the western shore of Central America.

Getting to What Really Matters

As the process has continued, it has unleashed "a lot of creative energy," according to Vermeer. But, to make it work, "Your bias should be towards engagement and understanding one another, not to trying to make all our objectives align too quickly. This takes patience. There is really a large gulf separating the reality of these two organizations and you need time to appreciate and start to bridge the gulf."

For example, "people in the company understandably have a hard time seeing the business relevance of the biodiversity issue. They say: 'OK. I may really care about the panda in China or the catfish in the Mekong. But I don't know why my business cares about that.'"

An issue like biodiversity can easily be polarizing. Because people in an organization like WWF can feel very strongly, they may naturally try to impose their passion on the other. As Vermeer adds, "If you get rigid and demand that people care, it will backfire. But if we build enough foundation in terms of why we care about water and why we care about the systems that renew water and regenerate water, and how biodiversity is part of a healthy larger watershed in which we operate, there is hope.

"The discussion has to unfold naturally. If we are patient enough, it will be very interesting to see how these paradigms begin to mingle into a fabric that makes a larger sense. It'll take a lot of constructive work."

WWF likewise has had to evolve its own views. "I think we are migrating from a focus on species protection and biodiversity, to focusing on the broader context in which diversity can be sustained," says Apple. "But we too need to continue the conversation, so we can really learn about how to achieve this. One danger is to panic and think, 'There's just no time to get everyone on board – we have to do it by ourselves.'

"This is why experiences like we had in China are every bit as meaningful to us as to Coke team."

Apple is referring to a planned launch event for the Coke-WWF partnership work in the Yangtze River basin, which she had been warned would be postponed and was not happy about.

"The Yangtze was one of our big, iconic river basins that we were going to work in and it was a major part of our overall global plan." [15] But before she ever got started with serious planning, "I heard from one of the Coke people that, 'There was just too much going on in China. There are too many other demands on their time. And the Olympics were coming.' And on it went." Greg Koch, senior water director at Coke, asked that Apple meet C.B. Chiu, the man who led the

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[15] Part of WWF's global plan is to focus on seven major river systems as a laboratory for developing more integrated water management. Coke is also part of one of these projects in the US, the "southeast rivers and streams."

environmental work for the China business and was pushing Coke headquarters and WWF to focus more on the Yangtze.

Still, after an initial short meeting, Apple's uneasiness persisted. Although people seemed positive, there was no real time to get to know each other, and the two organizations had never worked together; and it was clear that their cultures were very different.

When WWF and Coke started to plan the launch event, Apple learned that there would be no bottlers there. "The message I took from that was that, 'they didn't really want us talking to the bottlers.' So we went through this whole dance of how we get the right people there."

Still, Apple and the Coke people involved in the planning went ahead with their basic plans. Early on, they had decided that "this meeting was about getting outside of our comfort zones, getting outside of the corporate office, getting outside of the WWF office. So we decided the team would see our work in the headwaters of the Yangtze, in the Quiangy Nature Preserve, which is four hours north of Xian. So everybody had to fly to Beijing, fly to Xian, then take a bus for four and a half hours up into the mountains into this nature preserve. We would be holding the meeting and staying at a Chinese summer camp facility up in the mountains that had little cabins with outdoor plumbing for three days."

As the group pulled out of Xian into the countryside, Apple was sitting with Chiu on the bus. Born and raised in Hong Kong, he had worked for The Coca-Cola Company for 27 years and now lives in Shanghai, but had never been this far outside of Xian or to the Preserve. "WWF has worked for years to help the people there support themselves in ways that allow them to really protect the habitat, and CB was very impressed. 'Wow,' he said, 'This is amazing - the way people here care very much for the environment is something very new for me.'"

Over the next three days, the local residents who lived in the nature preserve cooked all the food for the group, food they grew on the preserve. "We had lunch with people and visited them in their homes. This is actually a sort of bed & breakfast program we established, to create income for the farmers so they can manage with their existing farm land and not need to cut more forest.

"One day, we hiked up this ridge and visited a family that had lived there for four generations; they served us lunch that afternoon in their front yard.

"Over the course of three days, we began to really relate to each other. We began to understand each other's work. Everyone developed a whole different sense of what it meant to preserve habitat and community. They began to understand where the water comes from and where it goes. And they saw first-hand some of the challenges.

"By the last night, after we'd done a little karaoke organized by the local Chinese people, C.B. stood up and offered a toast and said, 'The last 48 hours has helped us all understand our work and to understand China. I want Yangtze to be WWF's leading river basin project in the world. I want you all to come and meet with our Shanghai bottler and visit the largest bottling plant in

China. It is also a good opportunity for us to discuss while in Shanghai the whole issue around climate change and to work together with you on managing supply chain carbon footprints.'" (Coke recently joined WWF's Climate Savers program, a small group of corporations leading by example with carbon footprint reductions – see **www.worldwildlife.org**/climatesavers/)

Apple: "Given my apprehensions leading up to the meeting, CB's comments meant so much to me, and I think to everyone there. In the end, I could see it was our (WWF's) view that the bottlers had to be included in this first big meeting, but the Coke people were right. They know their culture and we don't - we needed to become a team first, to open up to each other. As I see more of these sorts of gatherings, I think the powerful learning is that we have to allow time for people to really enter into each others' lives, to walk in each other's shoes a little bit, and to allow their hearts as well as their minds to open.

"CB just reminded us that water really matters. The people who live in these delicate habitats near the sources of our water really matter. Even though we may have lived in ways that separated us from this reality, it is still possible to reconnect to it if we have half a chance."

As this work unfolds, so too does understanding of its purpose. "We don't need to force a superficial connection between what Coke would say is their business priority and what WWF would say," says Vermeer. "It may be more that we just need to see how our successes really depend on the same things. I think we are discovering that all we have to say is, 'Look, we don't have exactly the same set of objectives, but there's enough of a common ground if we think systemically about this that there really is a basis for working together. This is in the interest of all of us."

The Risks

As promising as partnerships like this are, they are not without risks.

By merely teaming up with WWF, Coke acknowledges that the water crisis is real and could impact the soft drink industry. It is bringing attention to an issue—the amount of water used by soft drink companies in their entire supply chain —about which many people are unaware. As more people recognize this issue, they will want to know what percent of a country's water, especially for water scarce countries like India, is being used for what purposes— and even though the percentage for soft drinks is low, it puts companies like Coke in the spotlight and could put them on the defensive.

Moreover, as part of their partnership, Coke has agreed that WWF will be able to report without interference on what it learns of Coke's present and future water footprint. Over the past two years, this has included, for example, the two organizations even working together to set targets for improved water efficiency and overall water use at Coke. "They are challenging us to set hard operational targets," says Greg Koch from Coke, who manages the partnership, progress toward which will be reported publicly and which "WWF will hold Coke accountable to meeting."[16]

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[16] Current targets and progress can be found on both Coke and WWF's websites.

In many ways, WWF has just as much at risk— namely their greatest asset, their public reputation and credibility as a leading environmental NGO.

In 2006, the Center of Media and Democracy, a "non-profit, non-partisan, public interest organization that strengthens participatory democracy by investigating and exposing public relations spin and propaganda," wrote:

WWF, the corporate-funded environmental giant often accused of taking greenbacks in return for **greenwashing** its corporate benefactors, has a new partner. WWF and the **Coca-Cola Company proclaimed a "bold partnership"** that has Coke paying WWF $20 million. WWF **touts the deal on its website**. A full-page *New York Times* advertisement announcing the deal is headlined "This is our drop," a phrase that Coke has trademarked. For Coke, $20 million is just a drop in the bucket, a cheap fee for the PR boost from its WWF partnership.

"We knew there were risks in approaching this partnership," says WWF CEO Carter Roberts , "but without taking risks nothing much will change."

For Seabright, partnerships like those with WWF go beyond gaining access to expertise. "A partnership is a different relationship from what you have with a consultant you hire. WWF has really stretched us to go outside our normal ways of seeing things. They've been real thought partners."

The two are embarked on a noble and undoubtedly treacherous venture. The upside of working together are considerable, combining WWF's expertise on larger food systems and public credibility and Coke's understanding of the commercial system and a vast distribution network, political clout, and financial resources (and, of course, a deep incentive for good water management for both economic and public relations reasons). One thing is sure, if they can be successful, – the successes and stumbles of the budding partnership will be watched closely, including by those who understand that such partnerships will be crucial for our common future.

Either We All Hang Together or We'll Hang Separately

This famous line of Benjamin Franklin's was used to entreat squabbling American colonists to join in fighting for independence. But it describes equally well our situation today. No one entity—no individual government (local, state, regional or national), corporation, or NGO— alone can address the sustainability issues we face. No one has sufficient resources. No one has sufficient understanding. And no one has sufficient credibility and authority to connect the larger networks of people and organizations that real change must engage.

Partnering across sectors will be crucial in dealing creatively with all the core sustainability issues like food, water, alternative energy and transportation, and climate change. Companies can offer market clout and financial resources. NGOs can offer not only their credibility but also

knowledge of the larger system. Governments have regulatory power. All will be needed to make any real progress.

Recognizing this, similar collaborations are unfolding around the world: Unilever (another of the largest global food companies) and Oxfam have worked to assess Unilver's impact on poverty in Indonesia, Unilever and Rainforest Alliance are now working on Unilever's tea business worldwide, American retailing giant Costco and local NGOs in Central American farming communities are building partnerships for sustainable farming, BP and Indian NGOs are working to bring heat and power to off-grid villages, IKEA and NGOs in Brazil to assure sustainable logging in the Amazon, Nike and NGOs in Thailand are trying to enable apparel makers to work in their homes rather than migrating to urban factories. But, its important to remember that all are in their infancy.

As our earlier stories illustrate, it is enormously difficult to actually build the capacity for successful collaboration. Mutual distrust runs rampant between NGOs and corporations. Most governments have little history of building such collaborative efforts with the other sectors, and most, sadly, still see little need. Typically, organizations from these three sectors have different technical know how, speak different languages, and focus on different stakeholders. There is little to bring all of them together—other than the urgent need to do so.

Still, collaborations like these are also enormously encouraging. "If you look at the ranking of the most trusted brand in the United States, Coca-Cola is number two and WWF is number eight; in Europe, WWF is number two and Coca-Cola is number eight," says Apple. "What might these two brands do together? If we do the right substantive work, and really focus on results, we could create a movement around water together that could really get the message out, not just to our own members and our own consumers, but much more broadly."

Time will tell. Where there is genuine intent to learn how to see larger systems and reflect together on taken-for-granted ways of thinking and acting, partnerships like this could become a cornerstone for life beyond the Bubble.

The Juan Francisco Project – Costco and CIAT's exploration of Guatemalan green beans

Case Authors: Jason Jay, MIT Sloan School of Management; Mark Lundy, CIAT

An Unusual Gathering

It is January 8, 2007, in the town of Antigua, Guatemala. In a large outdoor chapel called the Casa Santa Domingo, amidst the ruins of an old convent, two dozen people sit on chairs arranged in a circle. Among them are representatives from each link in a value chain, one that carries French-style green beans from the Guatemalan soil to produce shelves in Costco stores across North America. The participants have just come from a Catholic mass honoring the life and death of Juan Francisco Garcia Comparini; he was a beloved member of the Santiago community and son of Tulio Garcia, the head of the Cuatro Pinos cooperative that prepares the green beans for export. Juan Francisco is also the namesake of this gathering and project.

Each person gets a turn to speak uninterrupted, following the Native American tradition of the Peacemaking Circle. Farmers from the area are represented by elected officials from the Cuatro Pinos cooperative. The cooperative itself is represented by Tulio Garcia and his family, whose leadership and contribution to rural development has been recognized by the UN Food and Agriculture Organization. Their buyer is next – Bob Hana from the Los Angeles Salad Company – who imports and markets the beans with their brand in the United States, and provides technical assistance to Cuatro Pinos. Finally there are three people from Costco: Sheri Flies, former corporate counsel and now working in the buying organization; Frank Padilla, head of buying for Costco's produce division; and Dale Hollingsworth, the person who buys the beans everyday.

Sitting with these representatives of the supply chain is Mark Lundy from CIAT, a non-profit international agricultural research center focused on reducing hunger and poverty and preserving natural resources in developing countries. With the support of the Sustainable Food Lab, Lundy has recently completed a detailed report on the French bean supply chain. It describes the services contributed by each player, the prices and revenues they receive, and the impact on rural poverty in Guatemala. The purpose of this gathering – a supply chain summit – is to review and make sense of his findings, in an effort to collaboratively improve the sustainability of the supply chain and the livelihoods it provides.

Following this summit, the group boards Jeeps for a six hour drive into the Department of Quiche in the Guatemalan highlands. There, in a clearing shaded by pine trees, over a slow-cooked soup prepared by women in the community, the American buyers encounter the ultimate link in the supply chain. An indigenous farmer, speaking Quiché that is translated into Spanish and then English, describes the impact of French bean export on her family. In addition to schooling and shoes for her children, the income means that her husband no longer leaves home for months at a time to do migrant labor in the sugar cane fields. This encounter strikes a deep chord, and conversations begin about how to further contribute to these farmers' sustainable livelihoods.

Origins

To understand the events that brought this group together, we must turn the clock back two years, to April, 2005. Sheri Flies, corporate counsel for Costco, has flown to Salsburg, Austria for her first meeting with the Sustainable Food Lab. There she joins a consortium of companies and NGO's seeking to improve the social, economic, and environmental sustainability of global food production. At the meeting, she encounters Mark Lundy, who facilitates a discussion between her and and Carlos Vargas from Oxfam Great Britain about possible product links between Oxfam and Costco. In the conversation, a number of questions arise – not only about new product offerings (such as Fairtrade produce) but about Costco's existing value chains. Having worked on writing Costco's Vendor Code of Conduct after visiting Viet Nam, Flies was acutely aware of the poverty that can be endemic even with revenues from global trade. She starts to wonder whether Costco's ultimate suppliers are getting a fair price, and whether children of farmers are getting adequate care. Through her conversations with Lundy and others, she learns about the method of participatory analysis of value chain impacts in developing countries. This seems a viable route toward exploring an answer.

Upon her return, Sheri begins to scout around Costco for a value chain amenable to an impact analysis. Word of her quest quickly makes it to the ears of Scott Breckenridge, an assistant buyer who overlapped with Sheri in the legal department several years prior. Scott and the buyer he assists, Dale Hollingsworth, are intrigued by the idea – they have recently set up a supply line for French beans from Guatemala, and believe it could be a viable site. In October, 2005, they fly to Guatemala with Michael Bendix from Los Angeles Salad Company for a visit to the farmers and packing facilities. The experience is transformative for Dale, who has never seen the kind of rural poverty he encounters there. Scott is similarly moved, and enrolls Michael in the idea of doing a joint research project. On a long jeep ride to a remote farm, they propose the idea to Hollingsworth and Tulio Garcia from the Cuatro Pinos cooperative, the main partner in Guatemala. Garcia tentatively agrees. On a conference call the next day with Sheri Flies and the head of LA Salad, Bob Hana, the key partners decide to give it a try.

Following this tentative decision, however, there was still some distance to travel. A value chain analysis would mean a tremendous degree of transparency – a willingness of the companies involved to open their books, expose their revenue and cost structure, and justify their share of the profits in the value chain. Only then could they answer the core question: are indigenous farmers getting a fair price for their product, and one that fosters a sustainable improvement in their lives? This kind of transparency, however, carries tremendous risks. Would Costco use the information about the value chain to squeeze out the "middle men", in this case LA Salad and perhaps even Cuatro Pinos? Would these companies be able to conduct an honest, objective assessment of the social, economic, and environmental impacts of French bean farming? Would information about the businesses leak to competitors in the French bean business in Guatemala, Mexico, and the United States?

The project seems to owe its successful completion to three key moves that overcame these hurdles. The first was the naming and dedication of the project, which represented a personal connection and a way to build trust and commitment beyond the business logic of the work. In January, 2006, Tulio Garcia and his wife visited Seattle to further discuss the possibility of

conducting a joint research project. Over dinner, in an informal conversation, Tulio shared with Sheri his struggles over the death of his son Juan Francisco two years prior. Sheri resonated deeply with his sense of loss, having lost her brother a number of years earlier. She tentatively suggested the idea of dedicating the project to Tulio's son and christening it the Juan Francisco Project.

> *"I went to the business people and said, 'If we do this and name it in honor of this man, we can never go back. You can't name something after someone and then not finish.' They looked at me and said, 'Is that wise?' And I said, 'Do you really want to do this or not?' They said it would be a nice gesture to the family… Two years later the name kept me going when it got tough. I kept thinking, we have to do this for Juan Francisco – we can't let these people down."*
>
> *-Sheri Flies, Costco*

Tulio's family was incredibly moved by the gesture, which cemented their feeling that Costco's heart was in the right place, and that the company was not interested in using the project to forward its own narrow business goals.

The second move was the selection of Mark Lundy from CIAT as the NGO partner to conduct the analysis. Mark had been part of Sheri's initial conversations at the Sustainable Food Lab. A resident of Colombia, he had conducted several analyses of rural poverty in Latin America and the impact of agricultural export revenues. Most importantly, CIAT was seen by the Guatemalans as being objective: CIAT is a research center, not an advocacy NGO; they also had enough experience and expertise in Latin America without the political commitments that longer-standing activist NGO's had formed in Guatemala. CIAT was also quick to recognize its own limitations – to do field interviews with indigenous Quiche-speaking farmers, it would take a specialist anthropologist. Counterpart International, an American NGO with ties to the Sustainable Food Lab, was able to contribute an anthropologist to the project.

The third move was the contractual structure of the Juan Francisco Project, which allayed concerns about the confidentiality of the information produced. A Memorandum of Understanding described the governance of the study and the rules for information sharing. It specified a steering committee with representatives from Cuatro Pinos, LA Salad, Costco, CIAT, and Counterpart International. This steering committee would ensure the preservation of four tiers of information to be shared among the actors in the supply chain:

- What is only to be shared between actor and NGO as part of the research process, at the NGO's discretion
- What can be shared within the steering committee but not more broadly in the organizations
- What can be shared among the participating organizations
- What can be shared with funders, in this case the Sustainable Food Lab

Having established these guidelines, the companies were ready to begin, and the two NGO's began their research in the summer of 2006. Their work proceeded in three phases. The first involved interviews and document review across the entire supply chain to understand the volumes of beans moving through different pathways, the prices paid at each stage, and the revenue and profits of each player. This analysis produced a visual picture of the supply chain, below, and tabular display of revenue, costs, and profits for each actor in the chain (confidential).

Figure 1. The French bean supply chain in Guatemala
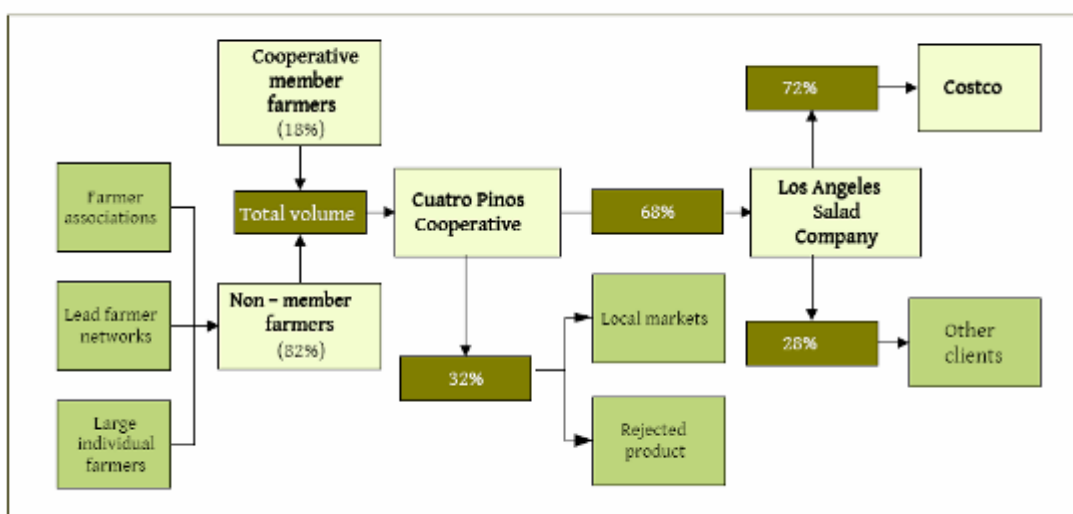
The second phase focused on the Cuatro Pinos cooperative, the services it provided to its members, and its overall health as an organization. The third phase focused on the rural farmers themselves, and the ethnographic interviews that sought to understand the impacts of French bean farming on the local economy, culture, and family life.

The final report, completed at the end of 2006, gives details about the distribution of benefits and the impacts on rural poverty[17]. Some highlights:
- Overall distribution of revenues (not profits): *farmers receive 24% of the final sales price, Cuatro Pinos 22%, LA Salad 11% and Costco 9 %. An additional 35% of the final sales price is shared by all chain actors and covers such things as the settlement account, packing, shipping, product degradation and loss at the retail end of the chain.*

- Profits for farmers: *Farmers receive a final benefit of approximately US $ 0.28 per two-pound bag of product.* These profits are as much as 4 times the $/acre that they get from maize production, which is the traditional cultivation.

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[17] Lundy, M. 2007. Assessing smallholder participation in the French Bean supply chain in Guatemala. Cali, Colombia: CIAT.

- Poverty impacts: In municipalities with higher rates of poverty ($2/day) and extreme poverty ($1/day) than their departments in Guatemala (i.e. the poorest of the poor), the annual family income from French beans is $1,504, which is $4.12 per day.

The report also includes a detailed breakdown of the "services" provided by each actor in the supply chain, including credit provision to farmers (Cuatro Pinos), technical assistance with American food safety standards (LA Salad), risk management (LA Salad and Cuatro Pinos), and packaging and marketing for American consumers (LA Salad). In particular, Lundy uncovered a key innovation in the supply chain, which is a reserve fund maintained jointly by Cuatro Pinos and LA Salad. This fund has been set aside from a steady portion of green bean sales to cover a range of risks in the supply chain. It covers technical assistance with food safety and packaging upgrading to preempt food safety risks; and it covers farmers' losses in case of shipping and transportation problems, or crop damages from weather and pests. The fund allows more flexible and responsive decision-making than a traditional insurance policy, and serves as a critical cushion for subsistence farmers with plots of land no larger than a suburban lawn in the USA.

Toolkit Cross-Reference: "Risk sharing fund", Page 110

This analysis of services by supply chain actors is intended to provide justification for the margin that those actors capture. In this sense it could serve as a defense against the tendency to eliminate intermediaries: such moves might save money in the short term, but cost more in the long term because the services must be internalized upstream or downstream. In the process, however, Lundy's analysis also highlighted just how unusual this supply chain is for Costco, because the services are so distributed across the supply chain. The company's usual *modus operandi* is to engage with a turnkey supplier in the country of origin who takes a spec sheet and an order from Costco and delivers the product. Those larger scale agribusinesses don't need as much technical assistance or dedicated risk management as the Guatemalan smallholders. As will be discussed below, working with this more complex supply chain has required a certain degree of adaptation and accommodation while its capabilities grow.

Upon completion of the report, Costco and LA Salad arranged a visit to Guatemala for a supply chain summit to discuss the findings, bringing us back to the beginning of our story. In convening the summit, Sheri and her new colleagues wanted to make sure that each of the representatives from the supply chain would have a voice. Sheri had encountered the Peacemaking Circle method through a friend[18], and believed it would be a good fit, particularly since it originated from Tagish Tlingit Native American traditions not so distant from those of the indigenous farmers. In a Peacemaking Circle, the host poses a question, and then the participants pass a talking piece clockwise around the circle, giving each person a chance to speak their mind while others listen quietly, or pass until the next round. It is also a tradition to open the circle with a prayer, poem, or other invocation; in this case, Tulio invited a priest into the conversation, and the invocation grew into a mass in honor of Juan Francisco.

Toolkit Cross-Reference: "Peacemaking Circle", Page 92

area.
Roca employs peacekeeping circles for internal deliberation, with at-risk youth, and with other agencies and organizations that impact the lives of youth and their families.

Mark Lundy emphasized, based on his experience with other supply chains, that the Peacemaking Circle was an important intervention for the summit, even though it slowed down the conversation. First, it was a reversal of the normal power dynamics in global supply chains, where big buyers are "captains" and have a strong voice. For example, it gave technical assistants from Cuatro Pinos a chance to talk about the work they do and the challenges they encounter, clarifying the important roles for supply chain intermediaries. It also set the tone for the visit to Quiche, in which farmers had the opportunity to talk about their experiences; this further clarified the visceral sense in the Americans of the "reach" of the supply chain. Second, it gave the buyers a human face to the farmers, who didn't know to whom they were selling. Finally, it slowed everyone down and forced them to listen to each other's concerns.

For many in the circle, it was an opportunity to raise issues of trust, and to name their fears that others in the supply chain might take advantage of the information they shared. Frank Padilla, the head of produce buying for Costco, emphasized his desire to ensure that money from French bean sales was ending up in the right hands, and having the greatest possible impact on rural farmers' livelihoods. While these concerns have yet to be completely dispelled, the circle offered a context to air them and begin an ongoing dialogue across the supply chain.

Outcomes of the Juan Francisco Project

In addition to Mark Lundy's reports, there have been presentations about the Juan Francisco Project that seek to share the learnings and extend the work. In 2007 Sheri Flies gave presentations to the Society for Organizational Learning and the Sustainable Food Lab. Frank, Sheri, and others have given presentations within Costco, both to an assembly of buyers and directly to the CEO, in an effort to enroll more of Costco's supply chains in a similar process. An article about the Project was published in Costco's newsletter to its member customers, emphasizing their commitment to poverty reduction in the developing world. This case study seeks to continue that communication and learning process.

The most significant impacts, however, are occurring within the French bean supply chain itself. Most tangible has been the chartering of the Juan Francisco Garcia Comparini Foundation. Ultimately, the Foundation will support health care access and educational scholarships for workers' families in Guatemala. It is intended to target the most vulnerable populations – farm and packinghouse workers who participate in Cuatro Pinos' production but are not co-op members. This Foundation will build upon the legacy of projects already begun by the Cuatro Pinos Cooperative, and now overseen by Vanessa Garcia, an English teacher who served as translator during the supply chain summit. These projects include:
- Community computer labs in Sacatepequez (at Cuatro Pinos headquarters) and the smaller village of San Rafael el Arado.
- A low-cost ophthalmology clinic in remote Uspantan, Quiche, supplied by a government hospital and staffed a Nicaraguan doctor.
- The revitalization of a children's playground in Sacatepequez, and plans for community playgrounds in the smaller surrounding villages.

More extensive work, particularly in the remote green bean farming communities, awaits the attainment of non-profit status from the Guatemalan government. Once the Foundation has been more firmly established, funding will come from all of the supply chain actors based on a number of dollars per case of product sold. It will be governed through an on-going auditing, monitoring and evaluation system for the poverty impacts of these funds. In this sense, the Foundation is not a charitable contribution, but an additional service provided as part of the supply chain.

> **Toolkit Cross-Reference: "Collaborative Foundation", Page 111**

In addition to this new organization, more subtle shifts in mindsets and business decisions seem to have occurred. For the buyers at Costco, who have developed interpersonal connections with their counterparts in LA Salad and Cuatro Pinos, and a greater understanding of the Guatemalan context, the Project has changed the way they manage issues in the supply line. This supply chain is not without its problems – from weather-related disruptions of production and transport, to USDA and Homeland Security inspection delays at the port in California. Delays, product loss, and price increases have all ensued from the unique challenges of importing from rural suppliers in the developing world. These have come to mean something different in this context, however.

> *This commitment we have with Cuatro Pinos is different than any other way that we do business. We are having to step back and look at the whole situation from a different perspective. For example, sometimes we have to look at additional reasons behind why they may need a price increase on their end. It's very unique, and very different… What makes it unique? The people. This is all about the people. I know why we are buying this product. We are buying it so that people in indigenous countries, over in Guatemala, are improving their lives and educating their children for a better tomorrow. They are getting resources, they are being educated… this is more than just business, this is about livelihood. We must look at it that way.*
> *Dale Hollingsworth, Costco buyer*

Emphasizing their commitment to the most vulnerable population of remote farmers, Costco has also expressed a desire to have their French beans purchased from non-member farms as much as possible.

This shift in mindset resulting from the Project is not limited to Costco, however, but extends to the NGO involved as well.

> *This is my first exposure really to the potential of working with large scale buyers to effect change that is favorable for small scale producers… Personally it was very much an eye-opener. I had to deal with my own assumptions, particularly in terms of big box retailers, and things like that in the US. You know, growing up in California, I'm a good anti-big box person. Having to sort of revise a lot of how these systems work and how modern retail functions… and begin to have a much clearer understanding that these business organizations that we see as sort of monolithic from the development side of things are actually a collection of people, who often times are making the best decisions*

*they can with very limited information. So often times they are facing exactly the same
kind of constraints that small farmers or farmer associations or NGO's face. So for me it
was very powerful to see that and it brought home the message very clearly that there are
no good guys and there are no bad guys. We are all in the same system and we are all
operating under constraints, particularly information constraints. And that negatively
affects how the whole system performs.*

Mark Lundy, CIAT

Based on this insight, Mark is eager to further explore the possibility of collaborating with large
retail chains. He believes that efforts like the Juan Francisco Project might be able to "pull"
inclusivity and sustainability through supply chains. Most research on large retail chains, by
contrast, highlights their *exclusionary* effects in developing countries, where "pushing" standards
and requirements increases transaction costs beyond what small scale producers can handle. The
Juan Francisco Project represents a potential paradigm shift that merits further experimentation.

Remaining challenges and questions

The Juan Francisco Project is a clear success story about cultivating partnerships and "seeing the
system" through a mix of analytical and relational means. It has generated shifts in attitudes and
mental models, and there are moves to establish a new organizational structure – the Foundation
– to support ongoing collaboration and support for farmers. When it comes to
institutionalization, however, and the sustainability of the effort itself, there are critical questions
to be resolved at several levels. These questions are not unique to this supply chain, but
illuminate more general issues in value chain innovations of this type.

The first level is the Project itself, and its continuation through the Juan Francisco Garcia
Comparini Foundation. Although the supply chain actors have agreed, in principle, to set aside a
number of dollars per case of product sold, this process has not yet begun as of the writing of this
case study. Negotiating with the Guatemalan Ministry of Governance, and securing non-profit
status, has created an initial delay of almost a year. That status is a prerequisite for Costco's
participation, along with a rigorous auditing infrastructure, and the company is eagerly awaiting
its creation. In the interim, some projects like the computer labs, ophthalmology clinic, and
playground will continue, but these are managed by Cuatro Pinos as well as the Foundation. Do
the challenges with the Ministry foreshadow any further obstacles to upgrading the value chain?
What analogous barriers exist for similar attempts in other contexts? Once the Foundation is set
up, what additional challenges and lessons might lie ahead in collaboratively managing the
funds, and ensuring that money is getting to the farmers in greatest need?

The second level is the companies involved, and internal pressures that could threaten the
partnerships. Among these is Costco's own internal momentum to improve profitability and
lower prices by removing intermediaries from their supply chains. Frank Padilla, head of
produce buying on a global basis for Costco, was candid about this tension. His participation in
the supply chain summit yielded two lessons. The first was the importance of French bean
production to poor Guatemalan farmers, making Padilla an ardent but vigilant supporter of the
Foundation and its ability to get money to people in need. The second lesson, however, was that

this supply chain is "unbelievably convoluted" relative to the usual *modus operandi* in Padilla's division and Costco more broadly.

> *Costco is used to going to find somebody… if you make t-shirts or blouses, we just go to the person who is at the factory and we design it and we give them the colors and the quality and the thickness and tell them how to make it, and we pay a price for it, and that's it. This has so many links and connections to it, it's just ridiculous… Those individual farmers I described to you, there is no way that on their own they have the infrastructure to get product not only grown, but packed, cooled, shipped, you know, moving all the way on their own. They need a lot of help, a lot of help, to get that moving. So, what would I like to see? I wish I could coordinate all 1800 growers or however many there are myself, but I can't… Most growers we deal with usually have large infrastructure in land and volume, and we teach them how to get bigger and more efficient and grow the business.*
>
> *-Frank Padilla, Costco*

Here we see the traditional mechanism of large retailers gravitating toward (and actively cultivating) large agribusiness partners in the developing world. Those businesses are "modular" or "turnkey" suppliers who do not need intermediaries to provide technical assistance, and can offer their own brand or sell product into Costco's private-label Kirkland brand. How can Costco manage the internal drive to simplify supply chains while maintaining their commitment to Guatemalan farmers and the spirit of the Project? This is one of the pivotal questions of this whole case – how can large scale, price-driven modern retailers integrate their businesses with the world's poor?

Surrounding and enhancing this organizational pressure is the market pressure on the supply chain as a whole. French beans have enjoyed rapid growth in customer demand. These beans are increasingly being seen as a high value, center-of-plate item by chefs in home, restaurant, and food service contexts. Given the need for large-scale production to meet this demand, the Cuatro Pinos supply chain faces dual challenges of reliability and volume when sourcing from remote smallholders. While these challenges are being overcome, LA Salad and Costco will be under increasing pressure to cultivate alternative lines of supply. LA Salad has invested in farms in the relatively more developed context of Mexico, and Costco buys French beans from Alpine Fresh; both of these producers compete directly with Cuatro Pinos. In this context, buyers like Dale Hollingsworth operate amid increasing tensions between demand from customers and their desire to maintain trust and steady income for the Guatemalan producers. These tensions are visible in the output of the Juan Francisco Project itself: it is significant that the map of the supply chain in Lundy's report is a strictly "feed forward" view from the specific Guatemalan farmers to Costco. It does not include the volumes or percentages of beans coming from alternative suppliers to Costco and LA Salad. These numbers were not disclosed by the participating organizations because they revealed too much about the competitive landscape. How can the organizations cultivate and maintain multiple lines of supply while sustaining trust in each of them?

Going forward, sustained transparency is likely to be the key to surmounting these challenges in the French bean supply chain. This includes communicating throughout the chain about these

challenging issues: management and distribution of funds in the Foundation; Costco's desired trajectory for simplifying the supply chain; and Costco and LA Salad's cultivation of alternative lines of supply. Tremendous steps have been taken through the Juan Francisco Project to share information about organizational processes and performance at a single moment in time. It remains to be seen, however, what mechanism – for example regular studies and summits, IT systems, etc. – will allow that transparency to continue in the future. Once again, this touches on a more general question – how can supply chain actors create sustained transparency and collaboration while grappling with competitive pressures?

As these challenges are faced and overcome in the French bean supply chain, the next stage of challenges will be the replication and scaling of similar approaches in other supply chains. Within Costco, there are two potential hurdles to overcome. The first is that the Juan Francisco Project has clearly drawn its strength from the personal connections and shared experience enjoyed through visits to Guatemala, collaborative research, and the supply chain summit. That strength is also a risk, however, in that it relies on the individuals involved. The Costco buyers who participated, for example, commented that others in their department don't always understand the meaning and importance of Guatemala and the Juan Francisco Project. If one of those colleagues were to take over management of French beans, sustaining the commitment might take a renewal of the insights and connection. By contrast, supply chain approaches that depend on more institutional mechanisms like certification might be more resilient to changes in personnel – this remains to be seen. What are the routes to institutionalizing Costco's commitment to the spirit of the Juan Francisco Project?

The second hurdle to scaling within Costco will be about how best to communicate and frame the company's commitments to sustainability, in order to enroll more employee participation and customer enthusiasm. For example, when the Project was presented at a national meeting of Costco buyers, it appeared alongside a number of environmental sustainability projects targeted at packaging waste and energy efficiency. Yet these initiatives were not integrated beforehand and several defined sustainability independently. In this context, the relative lack of emphasis on environmental impacts of green bean farming might make the Juan Francisco Project seem unrelated and thus hindered in competing for buyers' mindshare. With customers, there is a similar challenge, in that Costco intentionally has not publicized its sustainability programs and initiatives because Costco believes that sustainability should be an embedded buying function and not a marketing tool. This stands in sharp contrast to Wal-Mart and its Sam's Club chain (Costco's major competitor), which has undertaken a highly publicized sustainability campaign. That campaign even includes a $2.2 million investment in capacity building among rural farmers in Guatemala, in partnership with MercyCorps and USAID.[19] How can Costco tell the story of the Juan Francisco Project in a way that conveys both its significance to the people involved and its role in a larger trajectory of work on sustainability?

Fortunately, Costco is blessed with skilled and dedicated champions, such as Sheri Flies, for whom these challenges have become a key motivator. In January, 2007 Flies made a major career shift, transferring from her position as Corporate Counsel to a position in Costco's buying organization where she is responsible for billions in sales. Through this position she hopes to understand the day to day business constraints of buyers, gain further credibility in the company,

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[19] http://walmartstores.com/FactsNews/NewsRoom/8024.aspx

and effect change from within the core business. In this capacity, she has helped begin conversations in other supply chains, such as cashews and shrimp, about conducting similar value chain inquiries and improvements. Through these initiatives, and Costco's ongoing participation in the Sustainable Food Lab, Flies hopes to expand the circle of inquiry and impact.

In parallel, Mark Lundy at CIAT is bringing his experience of the Project to other contexts as well, from his perspective as an outside researcher. Lundy facilitates a network of nineteen NGO's in four Latin American countries, and is encouraging a paradigm shift – rather than pushing change from the farm, might it be possible to pull change from socially responsible buyers? The action research he conducts will hopefully provide additional answers to this critical question that underlies the Juan Francisco Project.

Healthy Value Chains Toolkit: Learning from Practice

Process Innovations (tools and methods used to bring about change):

a. *Strategizing* – identifying opportunities for action appropriate for the organization and for the market & sustainability context.
  i. Brand Imprint (Lipton Tea Case)
  ii. Inquiry and engagement workshop (Coke-WWF Case)

b. *Building partnerships*—along the value chain or with civil society organizations, enabling depth of understanding the system and seeing possibilities
  i. Memorandum of Understanding (Juan Francisco Project Case)
  ii. Communication Partnership (Lipton Tea Case)

c. *Seeing the System* --- Tools and methods for uncovering current reality in the system, in ways that both build understanding and ownership over the situation and help identify opportunities for change.
  i. Third Party NGO analysis of Value Chain (Juan Francisco Project Case)
  ii. Participatory Indicator Development (GMCR poverty indicators case)
  iii. Systems Thinking (GMCR poverty indicators case)
  iv. Learning journey (Coke-WWF Case) – (to be developed)

d. *Dialogue, Participatory Engagement, and Decision Making* – ways to more deeply engage with partners to build ownership and set the foundation for decision making
  i. Peacemaking circle (Juan Francisco Project Case)
  ii. Ladder of inference
  iii. Four player model

e. *Institutionalizing* – ways to move from single projects to organization change
  i. Local Bilateral Engagement (Coke-WWF Case)
  ii. Local Interpretation Workshop (Lipton Tea Case)
  iii. Joint Target Setting (Coke) -- (to be developed)
  iv. Modular Implementation and Verification (MIV) Toolkit (GFTN case)
  v. Guide to Responsible Purchasing of Forest Products (GFTN case)
  vi. Best Practices for Keeping Illegally Harvested Timber Out of Your Supply Chain (GFTN case)

Structural Innovations (changes in infrastructure that enable healthy value chains):
a. *Value Chain structure*
  i. Risk Sharing Fund (Juan Francisco Project Case)
  ii. Collaborative Foundation for Chain Upgrading (Juan Francisco Project Case)

b. *Organizational Structure*
  i. Sustainability Manager embedded in buyer group (Juan Francisco Project Case)

Innovations	Guiding Ideas	Tools and Methods	Supporting infrastructures	Strategizing	Partnerships	Seeing the system	Dialogue and decisions	Institutionalizing	Value Chain structures	Organizational structures
Brand Imprint	CR as core biz strategy	Brand imprint wheel, analytical tools	CR group as facilitator, expert resource	X		x				
Inquiry and engagement workshop	Collective intelligence, participatory strategizing	Survey, workshop, response rate competition	Core inquiry team facilitating workshops with accountability for strategy	X		x				
Memorandum of Understanding	Incomplete contracts, trust building	MoU document and process of co-authoring	Governance/steering group		x					
Communications Partnership		Matched communications teams			x			x		
Participatory Indicator Development	Democratic development	Indicator creation	Research organization, commitment of company personnel to research			x		x		
Systems Thinking	Feedback, accumulation, interconnectedness	Causal loop diagrams	Training and practice fields			x				
Third Party NGO analysis of Value Chain	Seeing the system	Value chain analysis, ethnography	Governance through MOU, steering group, confidentiality rules		x	x				
Learning journey	Holistic engagement, seeing and feeling the system	Learning journey activities	Money and time for journey, reflection, and capture/sharing		x	x				
Peacemaking circle	Equal participation and voice	Talking piece; rules for speaking					x			
Local Bilateral Engagement	"Glocalization"	Workshops, learning journeys	Local accountability for partnership outcomes				x	x		
Ladder of Inference	Construction of reality	The ladder	Training and practice fields				x			
Four Player Model	Balance in family and human systems	The diamond model	Training and practice fields				x			
Local Interpretation Workshop	"Glocalization"	Workshop, interpretation guidelines	Secretariat, local partner organizations					x		
Joint Target Setting		Governance processes			x			x		
MIV Toolkit	Achieving credible certification	MIV toolkit itself	FTN representatives, website, other tools and materials					x		
Guide to Resp. Purchasing of Forest Products	Evaluating purchase policies and practices	The Guide	FTN representatives, website, other tools and materials					x		
Best Practices for Keeping Illegally Harvested Timber Out of Your Supply Chain	Avoiding illegal sources in the supply chain	The Guide	The responsible Purchasing Guide, FTN representatives, website, other participants					x		
Risk Sharing Fund	Shared risk	Settlement account			x				x	
Collaborative Foundation for Chain Upgrading	Managing the commons	Foundation funding from product revenues; shared governance	Non-profit status; board with company reps				x	x	x	
Sustainability Manager embedded in buyer group	Translation between business and CR knowledge		Embedded sustainability advocate within buying organization	x			x			X

Section 1: Process Innovations (tools and methods used to bring about change):

Tools & Methods for Strategizing

Brand Imprint

Tags and keywords: Strategy, branding, corporate responsibility, inquiry, process, life cycle analysis, value chain analysis

Context: This is a proprietary process developed in Unilever by the Global Corporate Responsibility team, in consultation with the help of a multi-disciplinary group of experts. The lead developer and implementer has been Santiago Gowland. It has been used to inquire into brand strategy for four key brands: Lipton Tea (leading to the decision to certify with Rainforest Alliance), Dove, Lifebuoy, and Flora. Other brands within Unilever are now undertaking the process as well.

Description: Brand Imprint is an inquiry process designed to bring corporate responsibility more fully into core business strategy for consumer-facing brands, by holistically inquiring in to the "Impacts by" and "Influences on" a brand. Brand Imprint involves up-front analysis in partnership with the Corporate Responsibility team and outside consultants, followed by facilitated conversation to make sense of the analysis, generate alternative strategies, and converge on an integrated brand strategy. Participants in the Brand Imprint process should include leadership from all key areas of brand management, from supply chain management to internal operations to marketing to support functions; it should also include outside advisors capable of describing and representing outside stakeholders.

Brand Imprint is organized around a "wheel" of Impacts and Influences. On the Impacts side, Brand Imprint examines the "inside-out" social, economic, and environmental impacts of the brand's activities, using two analytical methods:
- Life cycle analysis of products and brand activities
- Value chain analysis (building on the methodology of Oxfam's study of Unilever Indonesia, and INSEAD's analysis of Unilever South Africa).

On the Influences side, Brand Imprint inquires into "outside-in" effects:
- Consumers (drivers of consumption patterns, trends in consumer behavior, and expressions of the focal brand and other brands as those trends unfold)
- Market forces driving the brand's success (e.g. Porter's five forces)
- Key Opinion Formers and the meaning of the brand to them (media, NGO's, regulators)

In so doing, it seeks to systematically and rigorously integrate corporate responsibility into business strategy.

Example of Application:
Lipton was the first brand to undertake the process, and their work has helped sharpen the tool. Santiago Gowland from Global Corporate Responsibility facilitated the process. Michiel Leijnse, the brand manager, was the primary client. Other participants spanned the range of

Lipton's activities, from supply chain management to marketing, as well as colleagues from the broader beverage category and other businesses in Unilever. There were also outside consultants specializing in corporate social responsibility, and Unilever staff who keep the pulse of civil society. In the discussions, the Lipton team considered the challenge of commoditization of the tea industry, increased export from East Asia, and resulting downward pressure on prices (Market Forces). They also considered the social and environmental impacts of traditional tea production and the progress that Lipton had made through Unilever's sustainable agriculture program (Impacts). This assembly of factors made outside certification of the supply chain very attractive - it would re-position the brand from a classic to a progressive brand (capitalizing on Consumer Trends toward ethical consumption), and would cement the commitment to sustainable production. However, to avoid Lipton becoming a niche product, the decision was made to pay a premium for certified tea but not raise prices for the customer. Doing so would differentiate the brand, allow Lipton to guard against further erosion of price, but maintain the brand's mass appeal. As certified tea became a norm in the marketplace, it could differentiate quality tea as a whole and guard against commoditization more broadly.

Additional Documents about this tool/method:

Links to other tools, methods, cases:
Case study - Certifying Lipton Tea, **Page 26**

Contacts for further information:
Santiago Gowland, Unilever

Inquiry and Engagement Workshop

Tags and keywords: Survey, inquiry, participation, collective intelligence, strategizing, seeing the system

Context: Inquiry and engagement workshops were used by The Coca Cola Company in deploying a survey about water issues among bottling plants, and engaging bottlers in a large-scale process of inquiry that identified key strategic priorities in water management.

Description:
Sustainability issues in value chains are inherently complex – they involve the web of relationships between organizations, communities, and the environment, and they can involve highly distributed and localized decision making. Just gathering information about operational "footprints" can be a daunting task, let alone making sense of the data, articulating an overarching strategy, and developing locally appropriate actions. Doing so requires tapping the collective intelligence of a large organization.

Conducting inquiry and engagement workshops is one method for doing so, by engaging local decision makers in tackling tough strategic issues. Steps in the process include the following:

1. Form a core team who is tasked with understanding the issue, engaging the organization, developing a strategy, and taking high leverage actions.
2. Deploy a survey by web, paper, or phone interview, which gathers information and perspectives from the full constituency who touches the issue (e.g. line managers in local facilities). What aspects of the problem are they currently measuring? What is the data, and trends over time? What does the data tell them? What do they see as the critical issues?
3. Summarize and package data from the first batch of responses into a succinct pre-read document.
4. Host workshops – one for each key constituency (e.g. business units or divisions). Workshops should include people who have authority over the issue, but who may not have a systemic view on it (e.g. a mix of line and staff leaders). In the workshop, facilitated by a member of the core team, present the data and discuss the implications – what does this mean? What about this is surprising? What would we like to have happen? What more do we need to learn?
5. Encourage workshop participants to refine the survey and deploy it more broadly in their organizations to get the response rate and precision higher.
6. Publicize response rates to the survey, or participation rates in the workshops, to foster friendly competition in the engagement process.
7. Take notes at each of the workshops and bring them back to the core team. Synthesize emerging insights with new data from later batches of surveys.
8. Articulate a core set of strategic priorities and test these with the workshop participants iteratively, either virtually or through follow-up workshops.

Through this process, if the inquiry catches people's attention and passion, it will produce both strategic insight and the leadership energy to enact the strategy it develops. One of the key

outputs of such inquiry may be an identification of things "we didn't know that we didn't know", and that necessitate partnership with other organizations, either in the value chain or in civil society.

Example of Application:
In their journey to understand their water "footprint," The Coca Cola Company wanted to survey their network of bottlers to understand their water management practices, outcomes, and emerging water-related issues. Traditionally, such surveys were reported back to senior management, who either never took action or took punitive action on low performing business units. As a result, response rates were low. Using inquiry and engagement workshops allowed Coke to reverse this dynamic – it put the results of the survey back in the participants' hands, and invited them to strategize and take action. This invitation to leadership galvanized the organization – through competition among business units, the response rate ratcheted up to 92%, and a set of core strategic priorities were identified that shaped the water agenda at Coke. One of these, the need to better understand watersheds, led Coke to deepen its partnership with WWF.

Additional Documents about this tool/method:

Links to other tools, methods, cases:
Coke and WWF, Page 44

Contacts for further information:
Peter Senge, SOL

Tools & Methods for Partnering

Memorandum of Understanding

Tags and keywords: Convening, governance, partnering, boundaries, documents

Context: Engagement across organizations in a value chain, and/or between an NGO and value chain actors.

Description: In the early stages of a partnership across organizations in a value chain, there can be a great deal of uncertainty and ambiguity. There may be a general understanding of why and how to work together, but important details may be unclear. This lack of clarity can be a barrier to the development of trust, which is critical to successful collaboration. For example, what are the goals? What is the scope and timeline of activity? What personnel and resources are needed from the organizations? How will joint activities be governed? What are the guidelines for confidentiality and information sharing among the partners and beyond?

Drafting a Memorandum of Understanding can be critical in setting the "container" for a trusting and effective relationship, for three reasons. First, the *content* of the document can clarify some of the initial ambiguities by preliminarily defining the goals, scope, timeline, resources, and governance for the partnership; this sets the stage for common language and routines among the people involved. Second, the MoU's *existence* as a quasi-legal document allows people to refer back in case any disputes arise. The artifact provides for some basic assurance and accountability, an intermediate step on the way to trust. Finally, the *process* of drafting and committing to the document can be important in building trust – it may be the first shared endeavor and product to come out of two partners' collaboration.

The particular content of the MoU will depend on the nature of the relationship and activities among the organizations. A few points are worth considering, however:
- There is no template – the process of drafting the document should be a process of clarifying intent and boundaries among the authors, and developing a common language.
- An MoU is what economists would call an "incomplete contract". It defines the spirit and ground rules of the engagement, and specifies commitments by each party, but it recognizes the open-ended nature of inquiry and innovation. For this reason it can be valuable to specify a governance body (e.g. with representatives from each organization) to handle unforeseeable issues and reshape the MoU if necessary.
- While some involvement of legal staff may be unavoidable in reviewing the document, the basic text should come from the people most directly involved in managing the relationship.

Example of Application:
Costco imports French-style green beans from Guatemala, which move through the Cuatro Pinos cooperative, and the Los Angeles Salad Company. To understand the impacts of green bean revenues on indigenous Guatemalan farmers, these organizations wanted to engage CIAT – a third party NGO – to conduct a value chain study. In the first phase of the partnership across

these four organizations, a preliminary sense of agreement was developed through one-on-one conversations. Some concerns, however, particularly about information sharing around the study, still remained. To assuage these concerns, the organizations worked together to draft a Memorandum of Understanding that defined the goals, scope, timeline, resources, governance, and information sharing guidelines for the project. It specified a steering committee with specific representatives from each of the organizations and gave that committee the authority to define four tiers of information:

- What is only to be shared between actor and NGO
- What can be shared within steering committee but not more broadly in the organizations
- What can be shared among the participating organizations
- What can be shared with wider audiences

Although it took a few months to get the MoU signed, it provided the operating framework within which the Juan Francisco Project could proceed.

Additional Documents about this tool/method:
Mark Lundy Summary Report of the Juan Francisco Project: French_bean_summary_Final.pdf

Links to other tools, methods, cases:
Juan Francisco Project case, Page 57
3rd party NGO analysis of value chain, Page 81

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Jason Jay, MIT
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Communications partnership

Tags and keywords: Method, partnership, collaboration, public relations, marketing, communications, alignment

Context: This method description synthesizes from several cases in the Healthy Value Chains Network (Coke-WWF, Costco-CIAT, and Unilever-Rainforest Alliance), as well as general approaches to good cross-boundary collaboration.

Description: Partnerships between companies and NGO's have a critical component of public relations, communications, and marketing. Both organizations can benefit from public awareness of their joint activities, but both also face risks. It is critical to manage expectations by key opinion formers, and to provide accurate information about activities and impacts without disclosing confidential or proprietary information. In order to manage communication, the following lessons and methods might help:

- Both corporations and global NGO's can be decentralized, with business units and partner offices around the world, each of which may have its own communications and public relations personnel. In order to maintain alignment of messages in these diverse global contexts, it is helpful to build out a communications organization capable of pairing company and NGO teams in each of these contexts (NOTE: see also **Local Bilateral Engagement**).
- Initially, collaboration among these parallel personnel may take the form of sending completed documents (e.g. press releases, web sites, advertisements) to the other organization for review. Gradually, however, the process becomes more efficient if earlier drafts can be shared, before investments have been made in typesetting, production value, etc, in case there are changes to be made. This progression towards joint authorship requires trust, because earlier drafts may contain messaging or confidential information not approved for release by internal stakeholders.
- Building trust is an organic process but can be achieved through some of the following means, although the fit will depend on the particular organizational cultures involved:
  - Develop clear guidelines as part of a blanket agreement between the organizations, which define common goals and governance practices (e.g. a Memorandum of Understanding) that are transparent to all involved personnel
  - Be clear from the start about the personnel requirements for sustaining a communications partnership - document/collateral production can happen on a rapid cycle, and people must be available for review. Periodic review of the personnel and budget requirements may be necessary in order to ensure mutual responsiveness and avoid falling into a firefighting trap.
  - When issues do arise, from actions that might appear out of step with the blanket agreement, employ tools of good communication to confront and resolve the issue. Of particular use are balancing Advocacy and Inquiry (ask good questions about intent and cause while cleanly asserting your interests and perspective), and the **Ladder of Inference [LINK]** (focus on the data of what occurred and avoid premature attribution).

- o Actively cultivate an understanding of the partner's context and mental models, for example through a few weeks of personnel exchange between the organizations (keeping in mind the costs this might impose, particularly on organizations with limited resources).
- o Honor your word even when you can't keep it. Sometimes deadlines will be missed, information will be accidentally released, and other mistakes may occur - it is not always possible to keep one's word, especially in fast-moving, resource-constrained contexts. The key to trust building is to *honor* your word - inform partners of delays or mistakes as soon as you know of them, take verbal responsibility for the consequences, and offer concrete actions to remediate problems that may ensue. If such incidents occur repeatedly, explore the root causes (e.g. match between commitments and resources available to fulfill them).

Example of Application:
Certifying Lipton tea with the Rainforest Alliance standards is a significant undertaking and investment by both Unilever and the Rainforest Alliance. Part of the engagement between the two organizations is a communications partnership. Rainforest Alliance has a network of communications professionals in Europe, some of whom happen to be located near the major Unilever offices, and who are tasked with reviewing PR materials from Unilever about the certification process. Gradually the interaction between these teams has evolved from reviewing completed documents, to early review and co-authoring documents, to an increasing confidence in the consistency and integrity of each other's messaging.

Additional Documents about this tool/method:

Links to other tools, methods, cases:
Case Study - Certifying Lipton Tea
Case Study – The Juan Francisco Project
Case Study – Coke-WWF

Contacts for further information:
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Tools & Methods for Seeing the System

Third-party NGO analysis of value chain

Tags and keywords: Strategy, Seeing the system, analysis, NGO partnership, transparency, information

Context: "Juan Francisco Project" - Inquiry into French green bean supply chain originating in Guatemalan and ending with Costco; CIAT and Counterpart International as NGO third parties

Description: To help gain greater visibility on the social, economic, and environmental impacts of a value chain, it can be valuable to enlist the support of a third party - an NGO or research organization - whose job is to gather and analyze data and provide an "objective" analysis. There are two elements of this: Process and Product.

Process: The biggest challenge in this process is building trust and transparency to allow information sharing. Methods for doing so include:

- Laying the groundwork through one on one relationship building (including mutual face to face visits) among key decision makers in the value chain
- Selection of third party with regional expertise, analytical capability, and seen as an honest broker by all involved
- Drafting a Memorandum of Understanding with clear policies about governance and information sharing during and after the study
- Formation of a steering committee with representatives of each major actor and the involved NGO(s)
- Designation of tiers of information:
  - What is only to be shared between actor and NGO
  - What can be shared within steering committee but not more broadly in the organizations
  - What can be shared among the participating organizations
  - What can be shared with wider audiences
- Data gathering and analysis from a mix of sources: company records; phone and field interviews; field visits and observations
- Value chain summits at which representatives from across the supply chain review draft documents and discuss findings
- Co-design strategies for improving the supply chain

Products of the analysis might include:

- A picture of the product flows through the value chain, such as the one below:

Figure 1. The French bean supply chain in Guatemala
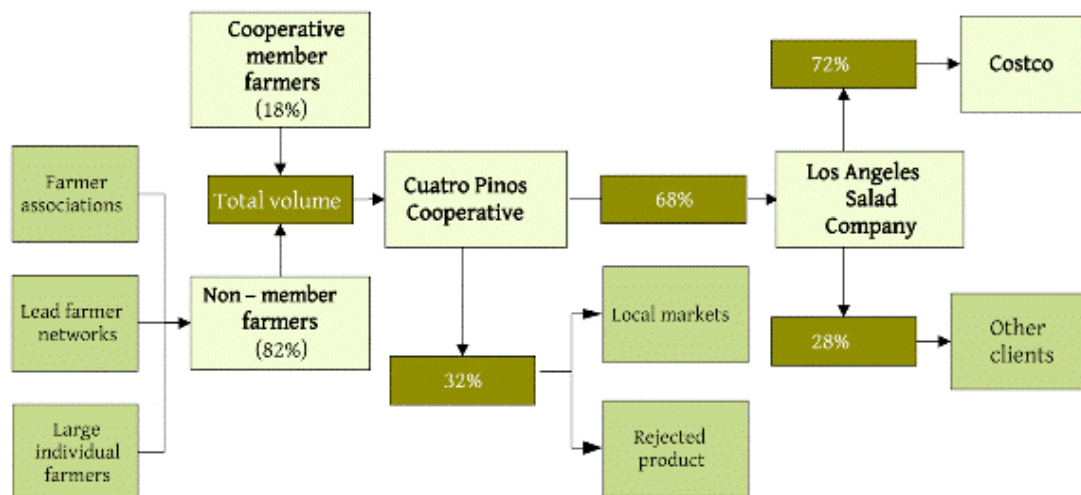
- Descriptions of the **services** provided by each of the actors in the supply chain (e.g. production/processing, technical assistance, market information)
- **Revenue, costs, and an estimate of gross profitability** of each actor in the supply chain to see if a "fair" distribution of benefits is occurring
- **Direct economic and social impacts** of income from value chain on community actors
- **Indirect economic and social impacts** of value chain activities
- **Environmental impacts** of primary production (soil health, biodiversity, waste, water, emissions), transportation, built infrastructure, etc.

Example of Application:
Researchers from CIAT and Counterpart International conducted a study of the french green bean supply chain originating with indigenous farmers in rural Guatemala and proceeding through the Cuatro Pinos cooperative, the Los Angeles Salad Company, and Costco. The analysis was conducted using the method described above. The final document served as focus for a supply chain summit in Guatemala, using the "peace circle" method for facilitation and ensuring of equal voice for indigenous farmers. As such this analytical way of "seeing the system" was complemented with literally seeing and listening to the people who comprise the system. From this analysis and dialogue, an opportunity was identified to create the "Juan Francisco Foundation" to support community development activities. The Foundation is funded through fixed-percentage contributions from the profits of the French beans by the involved companies ("collaborative foundation for chain upgrading").

Additional Documents about this tool/method:
Mark Lundy Summary Report of the Juan Francisco Project: French_bean_summary_Final.pdf
Mark Lundy and colleagues give a detailed description of their methodology in "Increasing the Competitiveness of Market Chains for Smallholder Producers: A Field Guide": market_chain_manual_v2.pdf

Links to other tools, methods, cases:
Juan Francisco Project case
Peace Circle

Contacts for further information:
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Sheri Flies, Costco
Jason Jay, MIT
Don Seville, SFL

Participatory Indicator Development

Tags and keywords: Indicators, KPI, poverty and hunger

Context: Green Mountain Coffee Roasters project to develop indicators of poverty and hunger in their supply chain to improve their capacity to partner with source communities. Sustainable Food Lab and CIAT were third party facilitators and researchers.

Description: There are several approaches to indicators of poverty, ranging from single criteria to long lists of welfare variables to criteria elicited from the poor themselves. The World Bank has used single indicators (e.g., income of less than $2.00 a day) based on census estimates to establish baselines and to measure change for large numbers of people. Although widely criticized, the approach has served as a district, national and regional level litmus characterization. Other single specific measures include childhood stunting as *the* poverty measure for our global work on both crop biofortification and development of drought tolerant cultivars (Hyman, Fujisaka, Jones 2006).

Large researcher-determined lists of indicators have been used to measure impact. Data elicited through large sample surveys include income sources and amounts, self-employment, seasonal and occasional labor, land and livestock holdings, costs of farm/enterprise inputs including family labor, housing and housing construction materials, holdings and value of different assets from radios to domestic appliances and motorcycles, levels of education, literacy, health measures, debt and savings, and access to water, power, health care, education, roads, and markets. Such data can be subjected to econometric analysis with results that are not always convincing but almost always expensive to come by.

In reaction against measures thought to be locally inappropriate, researchers have used different forms of indicators elicited from the poor themselves, called <u>participatory indicator development</u>. This approach asks people about their classificatory systems regarding poverty and wealth. Once categories are elicited, definitions of each category are elicited; and these latter serve as locally appropriate indicators of poverty. In village x, for example, housing material may be irrelevant to local definitions of poor or rich; and the number of educated sons may be all important. The recommendation would be to use the locally agreed-upon indicators.

Example of application: To get locally relevant indicators on poverty and hunger in coffee growing regions, we focused on eliciting of livelihood circumstances in good vs. bad years and of the use or allocation of good year resources. Groups of small-holder coffee producers were interviewed using participatory methods by the researchers working in pairs--required up to 21/2 hours; were preceded by an explanation of objectives and methods, possible outcomes, and a request to continue. Interviews ended with questions and concerns of the respondents. Group participation was universally lively and enthusiastic. Where strong, people would conduct heated discussions in their indigenous languages before turning back to provide decisions in Spanish. Both males and females participated. Each and everyone were encouraged to participate. Elicited and prioritized in the group interviews were:

- *Livelihood activities or resources used in good and bad years*, with "good" and "bad" defined in terms of coffee production and price. The elicited responses identified the different enterprises, activities, and income sources that producers relied upon and their relative importance in both good and bad years. As a set of potential impact indicators, projects or programs such as fair trade payments and organic certification and premiums would strive to reduce "bad" year outcomes and to increase years approximating what farmers described as "good" years.
- *Allocation of resources gained in "good" years*. Farmers' real or desired investments in good years provide insights into desired outcomes that, if and when met, can serve as indicators of impact.
- *Coffee production and coffee-related problems*. Solution of prioritized problems related to coffee production, processing, and marketing would have clear, positive impacts on the lives of farmers. Work on increasing benefit-cost ratios via problem solution and improvement of returns to factors of production within the coffee enterprise could be achieved through technical programs (not encountered in the course of the research).
- *Rough estimation of costs-benefits*. Farmer provided very rough estimates of yield, production costs, prices paid for conventional specialty vs. organic/fair trade specialty coffee. Detailed enterprise budgets would have been desirable but were not possible to elicit given the limited time in the field and the number of researchers.
- *Community problems*. Groups identified and prioritized community level problems. Programs seeking to ensure that price premiums benefit local producers could easily invest in community rather than individual needs.

In each of the above areas—except for the estimates of cost-benefits—respondents quantitatively prioritized the elicited items by distributing counters (100 beans or kernels of maize) relative to perceived importance.

Table 1b. Means, good and bad coffee year livelihoods		
	Good	Bad
Coffee	40	14
Laborer (hire out)	15	24
Remittances	8	22
Maize-beans	7	7
Forest products	5	6
Home products	2	4
Chickens/pigs	2	3
Assistance	2	2
Cardamom	5	5
Nurseries	2	2
Cattle	0	0
Other	11	12

Additional Documents about this tool/method:
Impacts and indicators of impact of fair trade, fair trade organic, specialty coffee, Sam Fujisaka, Thomas Oberthur, Raul Rosales, Herman Usma, and German Escobar, October 18, 2006

Links to other tools, methods, cases:
Indicators for Poverty and Hunger in Coffee Supply Chains: Green Mountain Coffee Roasters Confronts *Los Meses Flacos* by Susan Sweitzer, Daniella Malin, Chris Landry, A Healthy Value Clinic Case

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Systems Thinking: Causal Loop Diagramming

Tags and keywords: systems thinking, systems modeling, systems mapping

Context: Systems thinking is one of the core disciplines of Organization Learning and is used primarily to help elicit and create graphic representations of individual or group understandings of the cause and effect relationships that cause systems to change over time. Key questions are: *What has been happening over time? Why has that been happening? What is it likely to look like in the future? How can the future direction be changed?* Making cause and effect assumptions explicit in a diagram helps groups increase the breath of their analysis by looking at multiple causal factors at once, increase their time horizon, and help them look at feedback – closing the loop between actions, results, and the information and conditions that drive actions.

Description: At its broadest level, systems thinking encompasses a large and fairy diverse body of tools, methods, and principles that are oriented towards understanding the interrelatedness of forces. One form of systems thinking that has proved particularly valuable as a language to help groups understand and devise strategies for changing systems stems from the field of system dynamics developed by Professor Jay Forrester and his colleagues at MIT. System dynamics is a vehicle for developing understanding of how complex feedback processes can generate problematic patterns of behaviors in physical, social, and economic systems.

The causal loop diagram is one of the most commonly used systems thinking tools. It is a pen and paper language for mapping our assumptions about cause and effect relations. At one level, this is a familiar discipline – mapping our assumptions about how to achieve the results we desire. Often this takes a linear view: the difference between a situation and our goal is perceived as a problem. That problem leads people to make decisions, which leads to new results in the system.

Systems thinking encourages us to think beyond the first level of linear change and examine how the results of our actions both change the situation on the ground that we are reacting to and change our goals for the system. In other words, rather than reacting to problems that are

considered exogenous (outside of) our thinking and actions, we consider how our past actions have actually contributed to the very problems we are facing. This is an endogenous world view.

Causal loop diagrams provide a casual language for mapping our understanding of these systems in such a way that other people can inquire into our assumptions and improve the picture. We focus on variables that can change over time and write out assumptions about drivers. For example, we might want to express our assumptions about the drivers behind an increase in traffic in a community. One part of the larger picture would be that additional house building (more houses) leads to more residents in a given area with a given transportation capacity, and therefore more traffic. That is expressed in causal loop diagramming language below.

Key to understanding the full behavior of systems is understanding feedback. There are two basic feedback processes in dynamic systems – reinforcing loops and balancing loops. Reinforcing loops are the virtuous or vicious where systems amplify over time. For example, a local effort at water conservation produced *positive results*. Over time, there was general *awareness of positive results*. Awareness boosted overall *public support for water conservation* in the community. Community support lead to additional *effort at conservation* which produced even more *positive results*, leading to even greater *awareness of positive results* … and so on...

Balancing loops are the loops that try to maintain equilibrium – such as when price acts to balance supply and demand. Taken together, reinforcing and balancing loops can be used to example the behavior of complex systems.

A very useful supplement to causal loop diagrams are **archetypes**, which are commonly occurring patterns of behavior that over time have been documented with guidance to understanding the traps and potential ways out of these structures. These include "fixes that fail", "shifting the burden, "limits to growth", "success to the successful", and so forth.

Example of Application:
After conducting household level interviews to better understand what was happening with poverty and hunger in coffee producer communities, a group met at the Green Mountain Coffee Roasters office to make sense of the data. Looking across the 147 interviews, what was the pattern emerging? GMCR had the clear goal of being a good partner to their coffee communities and contributing to reducing poverty and hunger in those communities. Out of those household interventions (see HVC case write-up) it was clear that hunger was a persistent issue, as more than 50% of those interviewed experience food shortages. During the discussions, we decided to draw a systems map so that we could place the different drivers that were uncovered during the research onto a framework. We could then walk through and discuss different opportunities and what leverage there might be based on the findings and the wider experience of the participants in the room.

The causal loop diagramming process centered on the variable that we wanted to understand and the behavior of into the future – hunger. Hunger in this case being described by the number of months that farmers had to change their diet to lack of physical or financial access to food.

We went through the research and our own understanding to draw a map of the drivers of hunger. Key focuses include access to affordable food and net income. As net income increases, all else being equal, we would expect hunger to decrease. Similarly, if food gets more expensive (affordability of food declines) we would expect hunger to increase, all else being equal.
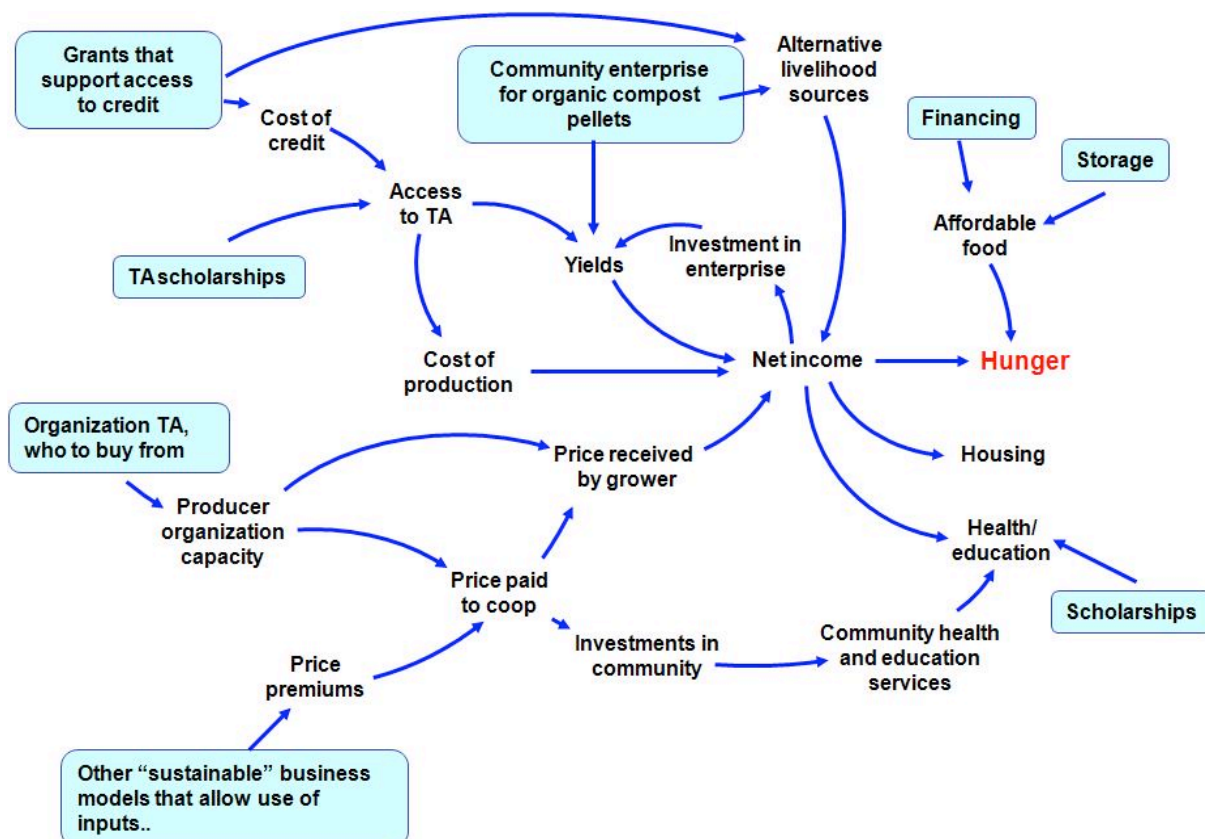
Next we mapped out the drivers of net income, which include coffee income (price * yield minus cost of production) and alterative livelihood sources. Then we mapped out the drivers of each of those variables. As we went through the discussion, we mapped the data against the variables to help show where intervention would be most useful. For example, we knew that most famers were able to invest in their farms (30% invest their full desired amount while 25% [Nicaragua] and 15% [Mexico] made no investment). At the same time many farmers struggled with lack of sufficient access to technical assistance.

After mapping the causes, the loop looked through the map and added potential intervention areas that could ultimately reduce hunger, shown in the blue squares on the map. While each of these areas was suggested by the data or by the experience of the folks in the room, the causal loop diagram represents a theory, our best current understanding and next needs to be tested against the experience of more people in the system or through additional analysis.

Additional Documents about this tool/method:
The fifth Discipline and *the Fifth Discipline Field book*
Getting Started with Systems Thinking: Tools for Organizational Change. From the Essential Readings for the Innovative Organization Series. Pegasus Communications, 2004. www.pegasuscom.com

Links to other tools, methods, cases:
Indicators for Poverty and Hunger in Coffee Supply Chains: Green Mountain Coffee Roasters Confronts *Los Meses Flacos* by Susan Sweitzer, Daniella Malin, Chris Landry

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Learning Journey

To be written

Tools & Methods for Dialogue, Participatory Engagement, and Decision Making

Peacemaking Circle

Tags and keywords: Process, dialogue, peacemaking, talking piece, power balance, inquiry

Context: Originally developed based on council processes employed by the Tagish Tlingit people in North America, adopted by Roca Inc. (Boston-area youth development organization), then shared with Sheri Flies from Costco, leading to its use in the Juan Francisco Project supply chain summit.

Description: From the **Roca Inc. web site** --- The circle process is "simple but not easy," and must be experienced to be fully grasped and replicated. There is an intangible quality to circles that must be experienced to be understood. However, there are some key structures that help to define the circle.
- The *meeting space* is the most visible structure. Participants are seated in a circle focusing on the center where symbolic objects may be placed to remind participants of values shared among those in the circle.
- A *talking piece* is used as a way to ensure respect between speakers and listeners. The talking piece is passed from person to person within the circle and only the person holding the piece may speak.
- Two "*keepers*" of the circle have been identified. The keepers guide the participants and keep the circle as a safe space. While it is possible to have only one keeper, generally a team of two is preferable.
- *Ceremony and ritual* are used to create safety and form.
- *Consensus decision making* honors the values and principles of peacemaking circles and helps participants to stay grounded in them.

Example of Application:
In the Juan Francisco Project exploring the green bean supply chain from Guatemala to Costco stores, the Peacemaking Circle was employed in a "supply chain summit" in 2007. In convening the summit, Sheri Flies from Costco and her counterparts wanted to make sure that each of the representatives from the supply chain would have a voice. Flies had encountered the Peacemaking Circle method through Molly Baldwin from Roca, and believed it would be a good fit, particularly since it originated from Native American traditions not so distant from those of the indigenous farmers. In a Peacemaking Circle, the host or keeper poses a question, and then the participants pass a talking piece clockwise around the circle, giving each person a chance to speak their mind while others listen quietly, or pass until the next round. It is also a tradition to open the circle with a prayer, poem, or other invocation; in this case, the Guatemalan partner Tulio Garcia invited a priest into the conversation, and the invocation grew into a mass in honor of Juan Francisco, which then transitioned into the Peacemaking Circle.

Mark Lundy emphasized, based on his experience with other supply chains, that the Peace Circle was an important intervention for the summit, even though it slowed down the conversation.

First, it was a reversal of the normal power dynamics in global supply chains, where big buyers are "captains" and have a strong voice. For example, it gave technical assistants from Cuatro Pinos a chance to talk about the work they do and the challenges they encounter, clarifying the important roles for supply chain intermediaries. Second, it slowed everyone down and forced them to listen to each other's concerns since they only had one opportunity to intervene in each cycle. Finally, it allowed people to think more deeply about what was actually occurring in the supply chain as they weren't continually trying to make a point.

Additional Documents about this tool/method:
Roca Inc.'s peacemaking circles program (they also offer training):
http://www.rocainc.org/programming_peacemaking.php
Boston Research Center: http://www.brc21.org/resources/res_circle.html
Circle Keeper's Manual (Word Document)

Links to other tools, methods, cases:
Case study - The Juan Francisco Project

Contacts for further information:
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The Ladder of Inference

Tags and keywords: Tool, process, inquiry, conversation, assumptions

Context: The ladder of inference (LoI) emerged from early work on organizational learning and was popularized by Chris Argyris, Peter Senge, and others. It appears in a variety of publications including the Fifth Discipline Fieldbook.

Description:
The diagram can be used to help people inquire into mental models and beliefs that might be based on errors at a lower "rung" of the ladder. Many conflicts - between organizations, within organizations, and even within a family - can be caused by people moving too quickly up the ladder by making assumptions, jumping to conclusions or extrapolating from rare or misunderstood data. Part of good inquiry skill is an ability to "move down the ladder of inference." For example, "help me understand the experiences you've had that led you to this conclusion." When multiple people in collaboration are aware of the Ladder as a tool, it can be used more explicitly in prompting inquiry – "I think we're making different assumptions here, maybe based on different data. Let's move down the ladder of inference for a moment."

Particular areas where the ladder can be useful:
- Inquiring into organizational breakdowns (e.g. the reasons for missed deadlines)
- Giving feedback - citing concrete experiences and data and making the inference process transparent
- Inquiring into sustained conflicts that arise from people's attributions (beliefs about each other)

Example of Application:

Additional Documents about this tool/method:
See Senge, et al, The Fifth Discipline Fieldbook, page 242
http://www.solonline.org/pra/tool/ladder.html
http://www.actiondesign.com/resources/concepts/ladder_intro.htm

Links to other tools, methods, cases:

Contacts for further information:
Peter Senge, SoL

The Four Player Model

Tags and keywords: Tool, Process, conversation, group dynamics, teams

Context: The Four Player model was originally developed by family systems therapist David Kantor, in analyzing common conversation patterns among family members. It has been used extensively in the organizational learning field as a way of diagnosing group dynamics and fostering more functional team behavior.

Description:
The four player model describes four basic actions that can be taken in a conversation: Move, Follow, Oppose, and Bystand. In a well-functioning team, each one of the actions is present and effective, and there is balance among the different types of actions. In effect, the "diamond" in the adjacent figure should be full and symmetrical, with no particular weak sides or distortions. Conversely, when one or two of the behaviors is absent or much weaker, the diamond collapses.

In a productive conversation there's a balance between advocacy and inquiry, and each speaker comes "down the ladder" to share his or her reasoning or feelings in an open way that invites responses and further exploration.
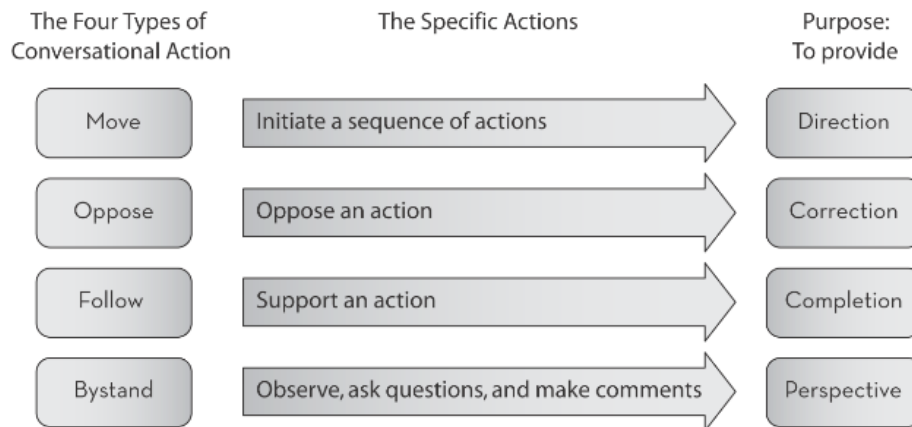
For example, an effective mover might advocate a position or action for the group, but would do so in ways that invite others' opinions. A poor mover, on the other hand, often takes a bull-in-a-china-shop approach by attempting to force her or his view on the group.

Similarly, an effective opposer is firm but respectful, often advocating a different direction than one initially proposed: for example, "I disagree with Bill, and this is why… but Bill, what do you see that I'm missing?"

An effective follower is clear and often takes a proposition one step further or offers sincere emotional support: "I agree with this position and here's how I would move to action . . ." Poor following is weak and ambiguous: "I guess that's okay with me" (or even silent assent). Lastly, an effective bystander can observe and offer comments that bring another perspective without proposing a particular solution.

A bystander can also ask questions that cause people to look at a complex issue with fresh eyes or offer a personal reflection, such as "I have noticed that in the last few minutes the energy in the group has dropped—are we missing something?" An example of ineffective bystanding is disengaged silence; people don't speak up because they are afraid of sticking their necks out or getting caught in power dynamics (we call this type of silence the "disabled bystander"), or just don't care.

The following diagram helps understand the underlying motivations and ideal outcome of each of the Four Players:

The Four Types of Conversational Action	The Specific Actions	Purpose: To provide
Move	Initiate a sequence of actions	Direction
Oppose	Oppose an action	Correction
Follow	Support an action	Completion
Bystand	Observe, ask questions, and make comments	Perspective

A Well-Functioning Team
1. The team has the capability to engage in all four behaviors in observable, balanced sequences.
2. Individuals in the team have the flexibility to engage in more than one of the behaviors.
3. The team, and individuals within it, do not tend to get caught frequently in repetitive, almost ritualized patterns of interaction.
4. Members of the team are adept at playing the enabled bystander role in order to help them stay unstuck.
5. People on the team are able to make clear, rather than mixed and ambiguous, statements.
6. When no resolution is possible, the team is clear about this and identifies the important questions or next steps toward whatever degree of resolution is appropriate.

Stuck Teams
The four-player model is especially useful in helping teams diagnose when they are stuck and see what is needed to get unstuck. There are certain recurring patterns that arise when a team gets stuck. While even healthy learning teams will get stuck at times, recognizing when one or more of the four roles is missing, or noticing if any of the following patterns arise, can help get you back on the right track.
1. Yes-men. One or two powerful figures emerge, and the rest follow their lead without questioning.
2. Death by meeting. A few people do all the talking, transforming the rest of the group into disabled bystanders.
3. What are we doing here? No one takes a stand on an issue (makes an effective move), so there is no clear path forward.
4. The debating society. People get stuck in "move-oppose" dynamics—in other words, people get stuck in arguments in which they rarely suspend or shift predetermined positions.

Example of Application:

Additional Documents about this tool/method:

Kantor & Lehr, 1975, Inside the Family.
Isaacs, 1999, Dialogue: The Art of Thinking Together.
Ancona & Isaacs, 2006, Structural Balance in Teams. In Dutton & Ragins (ed): Exploring Positive Relationships at Work: Building a theoretical and research foundation.

Links to other tools, methods, cases:
Ladder of Inference

Contacts for further information:
Peter Senge, SOL

Tools & Methods for Institutionalizing

Local Bilateral Engagement

Tags and keywords: partnership, localization, institutionalizing

Context:
The Coca Cola Company and the World Wildlife Fund initially formed a partnership around water at the executive level. To really execute on shared goals required Local Bilateral Engagement between the two organizations

Description:
Partnerships between NGO's and companies can range from arms-length philanthropy, to a symbolic commitment to a shared goal, to operational engagement on the ground. For this last, most intensive mode of partnership, the relationship can not exist solely at the executive level. Global organizations are composed of regional and national affiliates, business units, and divisions, each of which may have their own subculture and priorities. Institutionalizing a partnership means putting care into cultivating relationships between counterparts at the local level.

Local bilateral engagement can be accomplished through workshops and retreats that unite local management teams from both organizations, as well as Learning Journeys [LINK] to the "turf" of one or the other organization (e.g. a corporation's production facility, or a village or nature reserve protected by the NGO). Through this process, outside facilitators may be helpful in cultivating a common language and vision, as well as actively surfacing any cultural differences, misaligned expectations, or disincentives to collaboration that might affect the partnership.

As quickly as possible, the local partners should identify and undertake joint actions, even as simple as drafting a charter or research agenda. It is through setting goals and taking action together that issues can be surfaced more rapidly, and trust can be built.

Example of application:
The Coca Cola Company and World Wildlife Fund identified watershed management as a key area of shared interest that could capitalize on both organizations' capabilities. From that central strategic priority, they identified seven major watersheds in the world where WWF had identified vulnerable ecosystems and Coke had significant operations. For each of these watersheds, some degree of local bilateral engagement was undertaken between the local Coke bottler and the local WWF office. Through the process, bottlers had to tackle ingrained beliefs that NGO's were off limits for communication, and WWF personnel had to learn to see Coke as something more than philanthropic donors. Where these processes worked effectively, bottlers engaged with WWF on an even more ambitious scale than anticipated, for example addressing climate change as well as water.

Additional Documents about this tool/method:

Links to other tools, methods, cases:
Coke-WWF case

Contacts for further information:
Peter Senge, SOL
Dan Vermeer, The Coca Cola Company

Local Interpretation Workshop

Tags and keywords: certification, standards, localization, interpretation, process, institutionalization, enrollment, engagement

Context: Rainforest Alliance undertakes Local Interpretation workshops as a way of simultaneously adapting its global sustainable agriculture standard to local tradition and law and securing the support of stakeholders and partners for implementing the standard and certification system

Description:
Standards and certification regimes for sustainable business practice, whether deployed by a corporation (e.g. a Vendor Code of Conduct, a sustainability standard), a single NGO (e.g. Utz Certified), or a network of NGOs (Rainforest Alliance, Fair Trade), are generally authored at a global level. They take a set of general principles for sustainability and equity and define criteria and best practices that enact those principles. At the same time, one size does not always fit all - these global standards must be localized to the specific legal, institutional, cultural, and ecological context of countries where they are to be applied. This localization has three levels:
- An intellectual level of defining indicators for measuring compliance with the standard in a way that ensures cultural, social and ecological appropriateness, as well as coherence with national law.
- An organizational level - recruiting and engaging local partners who have an interest in the way that the standard is applied on the ground, granting them a sense of ownership and voice in the process of implementation.
- A strategic planning level - gathering information about potential risks, challenges, and opportunities unique to the local context that inform the definition of indicators

The Local Interpretation Workshop is a method for accomplishing goals at all three levels simultaneously. Convened by the organization with accountability for the overall certification regime, the Workshop enrolls key stakeholders from the country or local context where the global standard is about to be deployed. These stakeholders should include:

- Experts on the local ecology, culture, and laws. They can provide insight into contradictions or conflicts that might arise between local practice and the global standard, based on research and general knowledge.
- Representatives from agencies and organizations who might be tasked with technical assistance, auditing, and other functions associated with standards implementation. Being involved in the interpretation process helps generate a sense of ownership, and their involvement brings their local knowledge about challenges they might anticipate.
- NGO's and local organizations with overlapping missions (e.g. wetland conservation groups for a sustainable agriculture standard). Their local knowledge can inform the process, and their involvement can help them anticipate and potentially align their own work with the certification effort.

The product of a Local Interpretation Workshop is a set of Interpretation Guidelines or Local Indicators. These do not modify or erode the stringency of the standard, but clarify how it is to

be applied. For example, local indicators for sustainable cocoa production might have an Interpretation Guideline about how much shade should be applied ands which shade tree species are the most appropriate for cocoa farms in the country. The experience of co-authoring the Guidelines helps generate a common understanding and connection among the people and organizations who will have to collaborate in implementation. These Interpretation Guidelines then become a public, transparent document to go along with the standard and guide practice, and can be revised through further Interpretation Workshops.

Example of Application:
A global network of NGOs called the Sustainable Agriculture Network (SAN) owns
the sustainable agriculture standard; the Rainforest Alliance functions as the Secretariat and owns the seal. The SAN standard specifies 10 principles of sustainable agriculture. From these principles derive 94 criteria. Up to this level the standard is maintained by the SAN secretariat. When a standard is to be implemented in a new country, however, the SAN and Rainforest Alliance convene an Interpretation Workshop. For example, in November 2006, a workshop took place to interpret the standard for cocoa in Côte d'Ivoire. The workshop was tasked with interpreting how to apply criteria regarding use of shade, prohibition of hunting and employment contracts into the specific context of the natural environment, tradition and law. The workshop convened representatives from appropriate government agencies, local universities, NGO's focused on labor issues and sustainable agriculture and the private sector. By co-authoring the Interpretation Guidelines, this group developed a shared understanding and concept of sustainability that facilitated implementation of the standard in the cocoa sector in Côte d'Ivoire.

Additional Documents about this tool/method:
ISEAL Code of Good Practice for Setting Social and Environmental Standards
(www.isealalliance.org)

Links to other tools, methods, cases:
Case study - Certifying Lipton Tea

Contacts for further information:
Edward Millard, Rainforest Alliance

Joint Target Setting

To be written

Modular Implementation and Verification (MIV) Toolkit:

For the phased application of forest management standards and certification
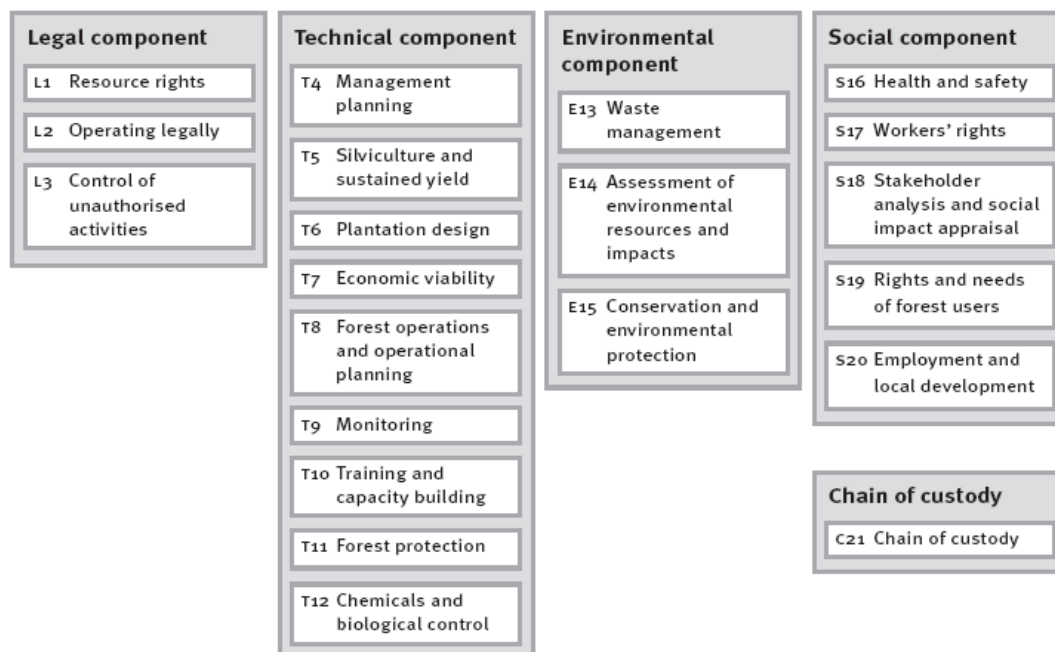
Tags and keywords: Tool, forest certification, forest standards, forest certification

Context: The process of implementing responsible forestry standards and achieving forest certification is very challenging and there is a need for phased or stepwise approaches if certification is to become more accessible to forest managers in many parts of the world. The Modular Implementation and Verification (MIV) Tool Kit provides a credible mechanism for delivering a phased approach which is practical, consistent and easy to communicate. The toolkit was developed through the WWF IKEA Partnership

Description:
Responsible forestry standards are made up of a number of requirements which cover legal, technical, social and environmental activities and outcomes, all which must be implemented in phases. Modular Implementation and Verification (MIV) provides a practical solution through a set of predetermined modules which, like the standards themselves, cover legal, technical, environmental and social issues. All the requirements of the standards are included in the module. Through these modules, the MIV toolkit provides the basis for a consistent phased approach, thus facilitating communication and making comparisons between different companies relatively easy.

Figure 1.1 The Modular Implementation and Verification (MIV) approach, shown schematically

Legal component	Technical component	Environmental component	Social component
L1 Resource rights	T4 Management planning	E13 Waste management	S16 Health and safety
L2 Operating legally	T5 Silviculture and sustained yield	E14 Assessment of environmental resources and impacts	S17 Workers' rights
L3 Control of unauthorised activities	T6 Plantation design	E15 Conservation and environmental protection	S18 Stakeholder analysis and social impact appraisal
	T7 Economic viability		S19 Rights and needs of forest users
	T8 Forest operations and operational planning		S20 Employment and local development
	T9 Monitoring		
	T10 Training and capacity building		**Chain of custody**
	T11 Forest protection		C21 Chain of custody
	T12 Chemicals and biological control		

The MIV toolkit includes the modules themselves, information on how to adapt them for different uses, and guidance on how they can be used to achieve phased implementation of the standard and phased verification of progress.

Example of Application:
For example, a company making a commitment to improvement to a purchaser can tell them which modules have already been completed and the timetable for completing remaining modules. This provides an accurate picture of current performance and future progress for the purchaser. Similarly, a donor or investor can require compliance with certain modules as a prerequisite for funding, plus verified compliance with remaining modules required over an agreed timeframe. Verification of progress can then be linked to achieving each module, again making communication clear and consistent.

Additional Documents about this tool/method:
http://gftn.panda.org/resources/tools/index.cfm?uNewsID=14371

Links to other tools, methods, cases:
GFTN – Global Forest & Trade Network Case
WWF & IKEA Conservation Partnership Case

Contacts for further information:
Kerry Cesareo, World Wildlife Fund
Andrew Murphy, World Wildlife Fund

Guide to Responsible Purchasing of Forest Products

Tags and keywords: Tool, forest certification, forest standards, forest certification, responsible purchasing

Context: A guide for organizations wishing to develop a responsible program for the procurement of forest products developed by WWF's Global Forest & Trade Network.

Description (~2 paragraphs; bullets and images OK):
This guide to responsible purchasing of Forest Products has been developed by WWF's Global Forest & Trade Network (GFTN) for use by a purchasing organization wishing to develop a program for the responsible purchasing of forest products. The guide lays out a generic approach for the development and implementation of a responsible purchasing policy, hereafter referred to as a responsible purchasing program.

The guide is aimed at any medium-size or large enterprise, including primary mills, secondary processors, importers, manufacturers, wholesalers, and retailers, that purchase or procure forest products. In appropriate circumstances it may also serve to guide smaller enterprises. The guide also outlines the various ways in which purchasing organizations can demonstrate compliance with best practice and ultimately with their own purchasing policies. It is based on tried and tested mechanisms and on extensive experience in the development of responsible purchasing programs.
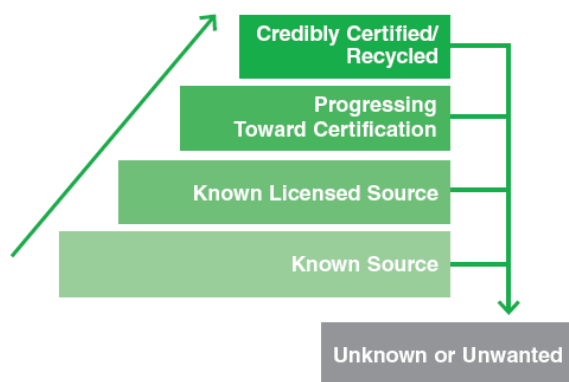
Example of Application:
The Responsible purchasing guide is one of the first documents provided to companies who wish to improve their wood sourcing, and is used as "How To" manual, augmented by the *"Keep It Legal"* Guide, *"The Modular Implementation Tool Kit."* Companies work hand-in hand with

WWF Forest Trade Network Managers to use and implement the tools on their path towards credible certification.

Additional Documents about this tool/method:
http://gftn.panda.org/resources/tools/index.cfm?uNewsID=80500

Links to other tools, methods, cases:
GFTN – Global Forest & Trade Network Case

Contacts for further information:
Kerry Cesareo, World Wildlife Fund
Andrew Murphy, World Wildlife Fund

Keep it legal - Best Practices for Keeping Illegally Harvested Timber Out of Your Supply Chain

Tags and keywords: Tool, forest certification, forest standards, forest certification, responsible purchasing

Context: A guide for organizations wishing to extend a program of responsible purchasing to further address difficulties arising from possible trade in "illegal" forest products developed by WWF's Global Forest & Trade Network.

Description:
This manual has been developed by WWF's Global Forest & Trade Network (GFTN) for use by organizations wishing to extend a program of responsible purchasing to further address difficulties arising from possible trade in "illegal" forest products. The manual has been developed to add detail to legality issues encountered by companies adopting a responsible purchasing program.

WWF has produced this manual with the intention that it should become the first point of reference for all parts of the timber supply chain seeking to establish what represents current best practice with respect to buying, processing, and selling legal timber and timber products. It consolidates the efforts of many different parties, including those companies at the forefront of efforts to avoid use of illegally harvested timber.

The manual is aimed at any medium-size or large enterprise that purchases forest products, including processors, importers, manufacturers, wholesalers, and retailers. It may also be useful to smaller enterprises.

The manual outlines the various ways in which purchasing organizations can demonstrate compliance with best practice and ultimately their own purchasing policies. It combines tried and tested mechanisms and new approaches and definitions, based upon on GFTN's extensive experience in the development of responsible purchasing programs. These approaches are designed to make the process of "keeping it legal" easier.

Example of Application:

Additional Documents about this tool/method:
http://assets.panda.org/downloads/keep_it_legal_final_no_fsc.pdf

Links to other tools, methods, cases:
GFTN – Global Forest & Trade Network Case

Contacts for further information:
Kerry Cesareo, World Wildlife Fund
Andrew Murphy, World Wildlife Fund

Section 2: Structural Innovations - changes in infrastructure that enable healthy value chains

Value Chain Structures

Risk sharing fund

Tags and keywords: Value chain innovation, risk management, weather, poverty, institutionalization, structure

Context: Identified as an innovation by Los Angeles Salad Company and the Cuatro Pinos cooperative in the supply chain for green beans going from Guatemalan farms to Costco stores in North America.

Description: There are at least two measures of equity and fairness in global supply chains. The first is income - what percentage of the final sale price and profit ends up with producers in countries of origin? The second is risk - when those prices fluctuate due to changes in consumer demand and competitive supply, or product is lost in transport, who bears the risk? During down times, the absence of a safety cushion can mean starvation in a developing country of origin, while large-scale distributors and retailers merely suffer a dip in stock price. Risk management mechanisms can therefore be critical to ensure the equity and sustainability of supply chains, by ensuring payment to low-income producers even when product is lost due to exogenous events.

A risk sharing fund provides that safety cushion, offering an alternative to third party insurance or government subsidy and relief payments when such mechanisms are not available or appropriate. Contributions to the fund come from supply chain actors as a percentage of revenue during periods of steady sales. When payments to producers must occur without revenues (because product is lost in the middle of the chain), or when producers' credit defaults and must be written off because of climate conditions that undermine production, money for these losses are drawn from the risk sharing fund.

Example of Application: Los Angeles Salad Company, an American produce importer, and Cuatro Pinos, a farming cooperative in Guatemala, created a settlement account that serves as a risk sharing fund. Together the two companies contribute 10% of the sales price of each box of French bean into a jointly managed fund to cover unforeseen difficulties. Items covered by this account include quality control in Guatemala, support travel, insurance, quality assurance in Miami, write-offs for damaged or rejected product, write-offs for lost product, air freight and promotions, and demos sold off invoice. The fund essentially ensures payment to farmers even when product is lost, and has also be used to write off loans from Cuatro Pinos to farmers after Hurricane Stan when production was impossible.

Additional Documents about this tool/method:
Mark Lundy, "Assessing Smallholder Participation in the French bean supply chain in Guatemala"

Links to other tools, methods, cases:
Case study - Juan Francisco Project

Contacts for further information:
Bob Hana, Los Angeles Salad Company
Mark Lundy, CIAT

Collaborative Foundation for chain upgrading

Tags and keywords: value chain innovation, foundation, revenue, upgrading, development, capability, technical assistance, institutionalization, structure

Context: Generalization of idea for Juan Francisco Garcia Comparini Foundation, which was designed to provide support for rural Guatemalan farming communities, and funded by chain actors' contributions from green bean revenues.

Description: A collaborative foundation is one that is created, funded, and/or managed jointly by members of a supply chain. Its purpose is to provide for the development and upgrading of the chain as a whole, including poverty alleviation and ecological improvement in stakeholder communities, and for proactively avoiding or mitigating any risks or deleterious effects (e.g. social inequality, ecological changes) of the supply chain's commerce. Such services are particularly valuable in countries of origin where government infrastructure may not be available to provide them. Examples of activities might be provision of health care, education, and technical assistance with sustainable agriculture to farmers, their families, and their communities.

Rather than being endowed through a one-time philanthropic donation, a Collaborative Foundation is funded through a portion of the revenues from the chain's economic activity. In this sense it is an integral part of the value chain, ensuring the longevity of its services and the need for ongoing collaboration among supply chain actors. Ideally, the Foundation achieves non-profit status in its country of operation, which may happen in return for some government oversight of its operations and philanthropic mandate. Governance is through a board of directors composed of representatives from the supply chain companies, and can also include representatives of the local communities in which it is operating. Third party auditing, monitoring, and impact assessment of funds allocation may also be used as a governance mechanism.

Example of Application:
In the supply chain for LA Salad-branded French beans going from Guatemalan farmers to Costco's shelves, the Juan Francisco Comparini Foundation is an example of a collaborative foundation. A mandate for the Foundation was established after a supply chain assessment identified opportunities for investment in remote rural farming communities. The Foundation is seeking non-profit status in Guatemala, and will be governed jointly by members of Costco, Los Angles Salad Company, and Cuatro Pinos cooperative, the key actors in the supply chain. The Foundation will support health care access and educational scholarships for workers' families in Guatemala. It targets the most vulnerable populations – farm and packinghouse workers who participate in Cuatro Pinos' production but are not co-op members. Funding for the Foundation will come from all of the supply chain actors, based on a number of dollars per crate of product sold that each actor has agreed to contribute. Once the Foundation has been established, it will include an on-going, third party auditing, monitoring and evaluation system impacts of these funds on rural poverty.

Additional Documents about this tool/method:

Links to other tools, methods, cases:
Case study - Juan Francisco Project

Contacts for further information:
Sheri Flies, Costco
Mark Lundy, CIAT

Organizational Structures

Sustainability Manager embedded in buyer group

Tags and keywords: institutionalizing, leadership, accountability, organizational change, roles

Context: Generalization of Sheri Flies' shift at Costco into the buying organization.

Description:
Over the past two decades, corporations have begun establishing central departments with labels such as "corporate responsibility," "corporate social responsibility," or "corporate sustainability." These functional departments, which often bring together personnel from legal, Environmental Health and Safety, and public relations disciplines, serve as advisors to line business leaders. The challenge, as with any staff function like HR, IT, Legal, Purchasing, is one of limited visibility on line business issues, and limited influence over line managers.

When it comes to managing sustainability issues in value chains, such staff can be doubly removed – they are separate both from supplier organizations and the buyers responsible for maintaining quality, reliable supply to the core business.

One way of resolving this challenge is to "embed" a Sustainability Manager in the buying group of a corporation. Such an individual might come from one of the traditional CSR disciplines, but would have the same accountability for business profitability that other buyers do. In this way, they can serve as a translator – bringing a realistic business perspective to colleagues in the CSR function(s), and assisting fellow buyers in thinking about the sustainability implications of buying practices and policies.

Example of Application:
Sheri Flies had been the Corporate Counsel for Costco for thirteen years. In that capacity, she had helped write the company's Vendor Code of Conduct, which specified minimal standards of social and environmental responsibility in Costco's supply chain. Through her work on the Code, her participation in the Sustainable Food Lab, and her leadership of the Juan Francisco Project, she increasingly came to understand the pivotal role that buyers play in sustainability. Their choices about whom to buy from, the standards they held for suppliers, and the assistance they provided suppliers could have a tremendous impact on the inclusivity and sustainability of the supply line - in economic, social, and environmental terms. She therefore made a major career shift into a buying role, where she is responsible for billions in sales of produce in Costco stores. In this role, she is helping other buyers identify opportunities analogous to the Juan Francisco Project, to foster inclusivity and sustainability in the supply lines for which they are responsible.

Additional Documents about this tool/method:

Links to other tools, methods, cases:
Case study - Juan Francisco Project

Contacts for further information:
Sheri Flies, Costco