

## Teaching Notes

# Starbucks vs. Ethiopia Corporate Strategy and Ethical Sourcing in the Coffee Industry

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In March 2005, Ethiopia filed with the U.S. Patent and Trademark Office to trademark the names of Yirgacheffe, Harrar and Sidamo, three coffee producing regions within the country. In doing so, the Ethiopian government hoped to force coffee buyers into potentially lucrative licensing agreements. However, Starbucks had already applied a year earlier to trademark Shirkinia Sun-Dried Sidamo. Until a decision was made on Starbucks' application, Ethiopia's claim could not be processed. Ethiopia requested that Starbucks drop its claim, but Starbucks was reluctant to do so, and suggested that Ethiopia apply for a different type of certification. This led to public criticism of Starbucks and questions regarding its supposed dedication to selling ethically grown and traded coffee.

This case highlights the complexity surrounding global certification programs, the difficulty inherent in balancing corporate and shareholder interests with responsible corporate citizenship, and the challenge to preserving economic value for the producers of consumer goods grown in developing nations.

The case text and teaching notes for this case were completed under the direction of Dr. Rebecca Dunning, the Kenan Institute for Ethics.

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## Teaching Notes

### Target Audience

Courses in:

- Organizational Studies
- Organizational Ethics
- International Comparative Studies
- Sociology
- Public Policy
- International Law

### Learning Objectives

1. Consider the complexities involved with being a responsible corporate citizen, while remaining accountable to shareholder interest.
2. Gain a better understanding of the role played by global certification programs in today's marketplace.
3. Explore how ethical standards are enforced and how governance is structured in the agro-food industry.
4. Assess the ability of large, transnational corporations to dictate state policies abroad.
5. Compare the benefits associated with licensing, trademark, and certification for producers, buyers and host governments.

### Questions for Class Discussion

#### 1. Topic: General Case Overview

**Question:** What ethical issues are at play in the case study?

**Potential Answers:** Starbucks was faced with a crisis in its efforts to be a responsible corporate citizen, balancing the welfare of its farmers with the interests of its shareholders. The situation also highlights a conflict of interests for a Starbucks vice president who simultaneously served as chairman of the National Coffee Association. Another potential issue points to the motives of the Ethiopian government. Some have charged that the government was not looking out for the interests of its farmers as it proclaimed, but rather, was simply looking to benefit from the situation and generate some money for itself. A trademark deal would give the government complete control, and could give it the ability to prevent certain farmers from using the trademark.<sup>1</sup>

#### 2. Topic: Sovereign Institutions and Accountability

“Accountability” refers to the obligation to explain, justify, and answer questions about how resources have been used and to what effect.

“Sovereign Institutions” are nonterritorial entities whose authority transcends national boundaries, giving them some ability to neglect or enforce state policies. For example, the Fédération Internationale de Football Association's (FIFA) “position as the ultimate governing body over the world's most popular sport allows it to get

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<sup>1</sup> Ford, Holly M., and Bryce J. Maynard. 2007. “Starbucks and Ethiopia Settle “Brewing” Dispute.” *The Licensing Journal* 27(8): 29-30. Page 30.

involved effectively in the political affairs of sovereign states.”<sup>2</sup> This power was on display in the 2010 FIFA World Cup, when FIFA was able to dictate South African security policy for several weeks, during the games.<sup>3</sup>

**Question: Given the above definition, is Starbucks an example of a sovereign institution? To whom is the company accountable?**

**Potential Answers:**

Starbucks is a sovereign institution because it does exert power across national boundaries. It dictates the terms of negotiations over every supplier along its supply chain, whether domestic or overseas. As evidenced in the Ethiopia case, Starbucks has the ability to influence economic policies of other countries.

No, while Starbucks has international influence, it does not really have the power to dictate state policies. In the case, Starbucks only inadvertently interfered with Ethiopia’s bid to trademark and needed to go through the U.S. Patenting Office in order to do so. Furthermore, it was the National Coffee Association that represented the biggest obstacle to Ethiopia’s efforts.

Starbucks is accountable to its shareholders, as well as to the certification programs, such as the FLO, to which it is a part. In addition, it is accountable to its farmers, who it has vowed fair engagement. Finally, Starbucks is accountable to its customers, who have come to expect the company to adhere to a certain degree of ethical standards. As illustrated in this case, accountability to varying interests can create a sense of conflict within the organization.

**Question: Heated debate surrounds the position of transnational corporations (TNCs) and their operations within developing countries. Is it necessarily problematic that TNCs take advantage of the resources available in the third world? Is it possible that the positive externalities that these firms create outweigh the negative? What role does Starbucks play in this conversation?**

Yes, it is necessarily problematic. Because these firms have so much power, they are able to exploit the conditions in other countries and to abuse their positions of authority. Gross negligence including the existence of sweatshops, child labor and other human rights abuses have been connected with the activities of these companies. Furthermore, TNCs often set up factories in host countries but the capital resources remain at firm headquarters, in the home country. No technology transfer takes place and most workers fail to gain any meaningful skill or knowledge during their occupation. This becomes particularly problematic when TNCs decide to leave a host nation and the country is left just as impoverished and vulnerable as before.<sup>4</sup> As this case study suggests, even companies who are praised for their ethical practices take advantage of the desperate economic situations in other parts of the world.

No, it is not necessarily a problem. While there have been disturbing instances of company abuse, the presence of transnational firms has undoubtedly also brought some tangible benefits to host economies. Multinational corporations create jobs, many of which offer higher pay and benefits than those available from local firms in host countries. Much of the reason that third world workers become victimized can be attributed to poverty,

<sup>2</sup> Brauer, Jurgen and Robert Haywood. 2010. *Non-state Sovereign Entrepreneurs and Non-territorial Sovereign Organizations*. UNU-WIDER Working Paper No. 2010/09. Page 12. Accessed December 6, 2010 at [http://www.wider.unu.edu/publications/working-papers/2010/en\\_GB/wp2010-09/\\_files/82967192285675604/default/2010-09.pdf](http://www.wider.unu.edu/publications/working-papers/2010/en_GB/wp2010-09/_files/82967192285675604/default/2010-09.pdf).

<sup>3</sup> For further reading, *Big Business, Poor Peoples: How Transnational Corporations Damage the World's Poor*, by John Madeley, offers a unique perspective on the influence of transnational corporations on the policies of governments, and the consequences that this has on workers in the developing world.

<sup>4</sup> Ibid.

and the ready supply of jobs with good wages offered by transnational companies helps to alleviate this victimization. In recent years, TNCs have gone beyond conforming to local labor and environmental regulations and have instituted corporate codes of conduct, corporate social responsibility programs and partnerships with NGO's. All of these steps work to ensure greater worker protection. In the case of Starbucks, the company's efforts have educated farmers on best practices and have generated other benefits, including providing electricity to small villages

### 3. Conflict of Interest

**Question: Dub Hay, Starbucks' vice president for coffee and global procurement also served as the chairman of the National Coffee Association's government relations committee. Is this a problem? If so, what is at risk by failing to address this conflict of interest? What, if anything, should be done to address the issue?**

#### Potential Answers:

No, there is no conflict of interest. Thee NCA does not claim to be non-partisan and represents the interests of the U.S. Coffee industry. Since Starbucks is one of the largest and most important players in the industry, and has employees/corporate leaders that are experts on issues related to coffee production and sale, it is reasonable and beneficial for the industry that it has a voice within the organization.

Yes, although Hay may have not influenced the NCA's decision, as both he and the NCA claimed, there is a clear conflict of interest that should have been confronted. A person in Hay's position has the power to mobilize the NCA on behalf of his own company. As may have happened with Starbucks, this could lead to a situation in which the NCA interferes with the national economic policies of an entire nation on behalf of one single member. A potential solution would be to bar employees of coffee corporations from attaining NCA officer positions. This could help to ensure that the NCA is acting on behalf of the U.S. coffee industry as a whole, rather than one firm.

### 4. Topic: Merits of Competing Intellectual Property Tools

**Question: In the case, Starbucks firmly maintained that the interests of the EIPO and Ethiopian farmers would be best served by pursuing geographical certification marks, a common approach used for agricultural products originating from a specific region. For a variety of reasons, the Ethiopian government asserted its disagreement and instead elected to pursue trademarks, which are typically reserved for corporations. Did Starbucks have the right to tell the Ethiopian government what tactic it should pursue? How, if at all, is this complicated by the fact that the EIPO's strategy directly interfered with Starbuck's plans?**

#### Possible Answers:

Yes, Starbucks had the right. Granted, Starbucks is just a firm and is based out of the United States. But it was trying to work with the EIPO for what it considered the best possible outcome for the Ethiopian farmers. Advocacy for the geographical certification falls in line with Starbucks' goals of selling and profiting off the best coffee, while also working to improve the lives of the people that cultivate its coffee beans. There may have been a conflict of interest because both Starbucks and Ethiopia were applying for the same certification within

the United States; however, this does not necessarily imply that Starbucks' best intentions were compromised. Even if they had been, Starbucks has done plenty to help assist Ethiopian farmers and geographic certification would have likely helped in some respect. After all, it has been used successfully in a number of other regions.

No, firms like Starbucks should not have the ability to dictate or influence the economic or development policies of other governments. No matter its intentions, Starbucks should have accepted Ethiopia's decision. If it were truly acting in the interest of Ethiopian farmers, Starbucks would have acknowledged the value created by trademarks and conceded that a trademark scheme could help retain value within Ethiopia. In addition, there was a clear conflict of interest, since both the EIPO and Starbucks filed to trademark the same name. It is highly unlikely that Starbucks could offer an unbiased opinion on Ethiopia's actions, since the EIPO impinged on Starbucks' corporate strategy.