The Hershey Company and West African Cocoa Communities

INTRODUCTION

With over $7.4 billion dollars in sales every year, the Hershey Company is one of the world’s largest producers of chocolate and candy products. Hershey's products are sold in more than 70 countries and include Hershey's Kisses and Hershey's Milk Chocolate Bars as well as brands such as Reese's, Whoppers, Almond Joy, and Twizzlers.

Although Hershey strives to be a model company and has several philanthropic, social, and environmental programs, the company has struggled with ethical issues related to the labor issues associated with West African cocoa communities, including child labor. Hershey has developed several initiatives to improve the lives of West African cocoa workers and is involved with a number of organizations that are involved in cocoa communities. However, critics argue that Hershey is not doing enough to stop labor exploitation on cocoa plantations. This case examines some of the issues related to the Hershey Chocolate Company and West African cocoa communities.

HERSHEY'S HISTORY

The Hershey Chocolate Company was founded in 1894 by candy-manufacturer Milton Hershey. Originally in the business of making caramel, Hershey began producing chocolate in 1893 after he purchased chocolate-making equipment. Hershey's chocolate business started off as a side project, a way to create sweet chocolate coatings for his caramels; however, the company soon began producing baking chocolate and cocoa and then selling the extra product to other confectioners. The successful sale of Hershey's excess products was enough to make the chocolate department its own separate entity.

Despite its immediate success, Milton Hershey still craved more chocolate, especially milk chocolate. At the time, milk chocolate was perceived as a treat only the wealthy could afford to enjoy. Hershey set out to find a less expensive way to produce milk chocolate while still maintaining its quality. Therefore, in 1896, Hershey bought a milk processing plant in Derry Township, Pennsylvania and began working day and night until 1899 when he created the perfect milk chocolate recipe—a recipe that could be manufactured cheaply and efficiently while maintaining a high level of quality. The company soon opened a factory and began introducing new chocolate treats; the most popular of these was the Hershey's Kiss, a small dollop-shaped chocolate candy wrapped in foil.

The Kiss was only the beginning; Hershey's soon came out with Mr. Goodbar and the Krackel bar, both of which remain popular today. In 1923 Hershey's began collaborating with another famous...
confectioner, Reese. H.B. Reese was a former employee at the Hershey Company who started his own candy company that focused on a single product, the peanut butter cup. Due to his ties with the Hershey Company, the chocolate coating for the Reese’s peanut butter cups was supplied by Hershey.

Throughout the mid-20th century, the Hershey Chocolate Company continued to expand. The company’s entrepreneurial spirit continued after Milton Hershey’s death in 1945. The company acquired several other companies, including Reese’s, and was renamed the Hershey Foods Corporation in 1968. From 1969 to 2004, the company grew from $334 million to $4.4 billion in net sales. The company changed its name to the Hershey Company in 2005.

Today, the Hershey Company is North America’s largest producer of chocolate and candies. It plans to expand into other products such as cookies, beverages, and health foods. The company sells over 80 brands of products in approximately 70 countries and generates annual sales of $7.4 billion.

ETHICS, VALUES, AND SOCIAL RESPONSIBILITY AT HERSHEY

Hershey’s commitments to its stakeholders through ethical behavior are outlined in the Code of Ethical Business Conduct. The code covers issues from conflicts of interest and antitrust to fair trade, sustainable supply chain management, and workplace diversity. The company encourages ethics reporting through a variety of channels, including management, HR, executives, and third-party reporting. All employees go through ethics training and certify their adherence to the code every year. Hershey’s Ethical Business Practices Committee provides oversight and guidance in all ethical issues at the company.

HERSHEY’S VALUES

Hershey’s four core values are centered on the idea of “One Hershey”:

- Open to Possibilities: “We are open to possibilities by embracing diversity, seeking new approaches and striving for continuous improvement.”
- Growing Together: “We are growing together by sharing knowledge and unwrapping human potential in an environment of mutual respect.”
- Making a Difference: “We are making a difference by leading with integrity and determination to have a positive impact on everything we do.”
- One Hershey: “We are One Hershey, winning together while accepting individual responsibility for our results.”

HERSHEY’S SOCIAL RESPONSIBILITY STRATEGY

Hershey’s corporate social responsibility (CSR) strategy centers on engagement with its stakeholders and continually improving its CSR performance. The company also incorporates its values into its programs and initiatives. The company believes that “The Hershey Company’s commitment to corporate social responsibility is a direct reflection of our founder's life-affirming
spirit.” Hershey uses its value chain to categorize its social responsibility activities into four groups: Marketplace, Environment, Workplace, and Community.

**MARKETPLACE**

Hershey strives to conduct business fairly and ethically by focusing on the integrity of its supply, consumer well-being, and alignment with customers.

For Hershey, the integrity of supply includes not only the ingredients but also the people and processes used to grow, process, and acquire those ingredients (the entire supply chain). Cocoa is of particular concern to Hershey, and it is involved in a number of cocoa-sector initiatives and partnerships to make progress in sustainable cocoa farming and fair labor. These issues are explored in greater detail later in this case.

The company sponsors several consumer health initiatives and programs, including Moderation Nation, a national consumer education initiative that promotes balanced lifestyles, which is sponsored by the Hershey Center for Health & Nutrition (HCHN) and the American Dietetic Association (ADA). The company also hosts Hershey’s Track and Field Games across the U.S. to encourage children ages 9-14 to engage in sports and a healthy lifestyle.

**ENVIRONMENT**

Maintaining the environment is important to Hershey, and it is taking many steps to reduce its impact on the environment, including sustainable product designs, sustainable sourcing, and efficient business operations. Some specific programs include the following:

- **Sustainable palm oil sourcing:** Palm oil comes from the African oil palm tree and is used in a wide variety of products, including Hershey's chocolate. However, the production of palm oil is highly controversial because of its impact on ecosystems. To combat concerns, Hershey became a member of the Roundtable of Sustainable Palm Oil (RSPO) and purchases its palm oil only from suppliers that are also RSPO members.

- **Sustainable paper:** In 2011 Hershey began to purchase paper for its office from suppliers that use sustainable forestry practices and are Forest Stewardship Council or Sustainable Forestry Initiative certified.

- **Recyclable packaging:** More than 80 percent of Hershey's packaging is recyclable, including syrup bottles, foil, paper wrappers, and boxes. Recycling helped Hershey to reduce its packaging waste by 1.75 million pounds in 2014.

- **Zero-waste-to-landfill facility:** In 2011, the Reese’s plant became a zero-waste-to-landfill facility, meaning that none of the plant’s routine manufacturing waste went to a landfill. Today six Hershey manufacturing plants and five other facilities have achieved zero-waste-to-landfill. The waste that is not recycled goes to an energy incinerator and is used as a source of fuel.
**WORKPLACE**

Hershey wants to provide value to its employees and make the company a desirable place to work by focusing on safety, wellness, openness, and inclusion. The company has strong diversity policies and focuses on continuous safety improvements in its manufacturing facilities. However, this does not mean that Hershey never faced workplace issues. In 2011, over 400 foreign students working for Hershey went on strike after Excel, one of the company's sub-contractors, misled and underpaid them. OSHA later fined the sub-contractor $283,000 for health and safety violations.

Hershey has continued to improve its workplace practices. In 2013 it was listed in *Corporate Responsibility* magazine as one of America’s “Best Corporate Citizens.” It launched an initiative called “Manufacturing Apprenticeship Program” to recruit, train, and retain employees with physical or intellectual disabilities for its manufacturing plants. Hershey is also considered one of the best places to work for LGBT employees.

**COMMUNITY**

Hershey's biggest philanthropic contribution is through its Milton Hershey School. Milton Hershey and his wife, Catherine, started the school in 1909 to help orphan boys receive an education while living in a nurturing environment that included meals and clothes. The school was a cause dear to the couple’s heart because they were unable to have children of their own. After his wife’s death, Milton Hershey created the Hershey Trust Fund, to which he donated most of his money, to be used for the support of the school. To this day, the fund remains the company's biggest shareholder and largest beneficiary. It holds a 30 percent stake in Hershey.

Although the school is Hershey's biggest philanthropic contribution, the company also donates to and supports over 1,400 organizations including the American Red Cross, Habitat for Humanity, Junior Achievement, Dress for Success, and the Children’s Miracle Network. The company has also designed a way to get their employees involved in the community. Hershey designed a program called "Dollars for Doers" in which employees who participate in 50 hours of community service over one year are rewarded $250, by the company, to donate to an organization of their choice.

**BOARD CHANGES**

Despite its strong record of social responsibility, in 2016 Hershey experienced a board upheaval when the Hershey Trust Co. settled with the Pennsylvania attorney general’s office. The attorney general’s office had begun investigating concerns that board members were overpaid, received reimbursements for excessive travel expenses, and exceeded 10-year term limits. There were also questions about whether board members of the trust were acting in the best interests of the Milton Hershey School. The board had rejected different offers by other firms to acquire Hershey. The local community of Hershey, Pennsylvania encouraged Hershey to remain independent, but some believe that selling the company would be the most beneficial option for the school. The Hershey Trust holds 81 percent of the voting power, which gives it the power to control votes on mergers or acquisitions.
The allegations are serious enough that Hershey agreed to make corporate governance changes. Some of the board members resigned. Additionally, Hershey developed a legal document that caps board member terms as well as compensation. This lapse in corporate governance is a slight blow to Hershey’s reputation, but it also offers the firm an opportunity to learn from its mistakes and develop more sound leadership for the future.

**LABOR ISSUES IN THE COCOA INDUSTRY**

Although the Hershey Company strives to engage in ethical and responsible behavior, the realities of the cocoa industry present several ethical challenges related to the fair and safe treatment of workers, especially children. Chocolate is one of the world’s most popular confections, but few people consider the sources of the chocolate they consume.

The process of making chocolate spans several countries and companies even before the ingredients arrive at the manufacturing plant. It starts with the cocoa bean, which is found within the *Theobroma Cacao*, also known as the cocoa pod (fruit). The harvest process is labor intensive and starts when the seeds (cocoa beans) are extracted by splitting the pod with a machete. Each pod can contain anywhere from 20 to 50 beans, and around 400 beans are needed to produce one pound of chocolate. After the beans have been extracted, they are laid out to dry in the sun for several days in order to acquire the flavor needed for chocolate. The beans are then packed into bags and sent out for shipment.

Chocolate manufacturers rarely buy directly from cocoa bean companies. The actual process of procuring cocoa beans and other cocoa products is conducted through one of the two world exchanges, either the NYSE Euronext or the Intercontinental Exchange. The chocolate industry is valued at $100 billion.

The cocoa bean supply chain is extensive and elaborate; at times the cocoa bean can go through up to 12 different stages before getting to the chocolate manufacturers, and the price per pound of cocoa beans changes significantly throughout the supply chain. By the time the beans reach the chocolate manufacturers, they are a mix of beans from hundreds of cocoa plantations.

Although the process of manufacturing chocolate requires many steps before it can begin, most of the major ethical and legal issues are related to the source of the cocoa bean. Cocoa plantations are found in areas with rainy, hot, tropical climates and high amounts of vegetation. The global cocoa market is currently supplied by mostly poor nations, with 70 percent from Africa (Ivory Coast, Ghana, Nigeria, Cameroon), especially the Ivory Coast, which supplies 40 percent of the entire global market, and Ghana, which supplies 20 percent. This is followed by 19 percent from Asia and Oceania (Indonesia, Papua New Guinea, Malaysia), and 11 percent from the Americas (Ecuador, Brazil, Colombia).

With the majority of the global cocoa supply coming from Africa, the need for workers on plantations never dwindles, which has brought about the thriving business of child labor, slavery, and human trafficking across African borders. Many cocoa farms do not own the cocoa plantation
and pay the land owner 50-66 percent of each year’s crop. To keep costs low, farmers often use their own family members as a source of labor.

Children who work on cocoa plantations are usually somewhere between 12 and 15 years old but some are as young as 5 years old. Many of them work in hazardous conditions on the plantations. Hazardous conditions include applying pesticides, working with sharp objects like knives and machetes, working without safety equipment, and working in environments full of snakes, insects, and other dangerous animals. Although governments and corporations are aware of this problem, no accurate information, aside from estimates, exists regarding the true number of children working on cocoa plantations. The difficulty of obtaining accurate data can be attributed to the immense quantity of cocoa plantations across Africa, totaling well over 1,000,000 small plantations (average size 2-4 hectares), with between 600,000 and 800,000 plantations located throughout the Ivory Coast.

Nonetheless, it is estimated that two-thirds of African farms use child labor. Research conducted by the International Labor Organization (ILO) stated that in 2007 there were 284,000 children who worked in hazardous conditions related to cocoa in the Ivory Coast. Furthermore, according to surveys conducted by both Tulane University and the Government of the Ivory Coast, an estimated 819,921 children in the Ivory Coast alone are working in some area of the cocoa business. According to an ILO investigation in 2002, an estimated 12,000 child laborers in the Ivory Coast had no relatives anywhere near the plantations, which suggests that they may have been trafficked.

In addition to child labor, many cocoa plantations engage in exploitation of other workers. While some non-family workers are paid, others may be enslaved or work in abusive conditions. They may have been trafficked from neighboring countries or tricked into owing large amounts of money to their employers. The workers are often threatened with physical punishment or death if they attempt to leave the plantation.

The number of victims of labor exploitation has increased. A recent survey has found that child labor has increased 21 percent from five years before. About 2.1 million children are employed in child labor in the Ivory Coast and Ghana. Most of the people working on cocoa farms live well below the poverty line. In Ghana the average income per day is 84 cents, while in the Ivory Coast it is 50 cents. According to the World Bank, $1.90 is the cutoff rate for extreme poverty. Demand for chocolate has increased with the rising middle class of consumers in places like China. In fact, prices of cocoa have increased by 13 percent. The Ivory Coast exports 1.8 million metric tons of cocoa a year, two-fifths of the world’s production. Yet many farmers do not see any increase in additional compensation or standard of living.

GLOBAL EFFORTS TO IMPROVE LABOR CONDITIONS

The issues of child labor, human trafficking, and forced labor in West Africa have drawn the attention of many organizations as well as the companies who procure products from that region. They have implemented many different initiatives, laws, and other precautionary measures in order to reduce the use of children for cocoa farming in terms of manual labor. In Africa individuals under the age of 14 are not allowed by law to work within the business sector, which does not
include family farms. This law seems to be effective, but in reality, it does almost nothing when considering the large amounts of family cocoa farms and the ease of hiding non-family laborers.

To help change labor practices without relying on governmental or legal support, several organizations are working to encourage the ethical sourcing of cocoa. Most of these organizations focus on the fair treatment and education of cocoa producers and raising voluntary support from companies. The following are some of the global organizations and programs that are working to combat the labor problem within the cocoa industry:

- **World Cocoa Foundation (WCF):** An organization devoted to improving cocoa farmers’ lives through sustainable and responsible cocoa farming practices.
- **Sustainable Tree Crops Program (STCP):** Farmers learn to improve their cocoa crop yields and earn more money through nine-month field training courses.
- **Harkin-Engel Protocol:** An initiative enacted in 2001 to commit the chocolate industry to fighting the worst cases of child labor. The agreement was signed by eight chocolate manufacturers, including The Hershey Company.
- **International Cocoa Initiative (ICI):** An independent foundation established in 2002 under the Harkin-Engel Protocol to address the worst forms of child labor and adult forced labor on cocoa farms in West Africa. The organization works to inform and educate communities on child labor and how to create community-based solutions.
- **International Labor Organization (ILO):** An organization working to combat the various child labor related problems within West Africa. The different programs initiated by the ILO have focused on creating sustainable ways of removing children from child labor in the cocoa business, improving community initiatives to fight child labor, and increasing overall income for the adult sector to prevent the need for child labor.

In addition, the fair trade movement encourages traders of chocolate and other products to move beyond ethical sourcing. The intent of the fair trade movement is to raise awareness about working conditions, culture, and identity of producers. Traders must meet several standards, including paying a sustainable price to producers that reflects the costs of production and living as well as paying a premium that producers can use to invest in business and social programs, make advance payments when requested, and sign long-term contracts to encourage planning. Products made using fair trade practices are usually certified and sold to consumers at a higher price. While the demand for fair trade products is growing, the market is currently small.

**HERSHEY’S EFFORTS TO IMPROVE LABOR CONDITIONS**

Hershey has made several commitments to help reduce labor issues in its own supply chain and in the chocolate industry. Hershey is involved in West Africa and the organizations that fight child labor in West African cocoa farming. The company is a member of the WCF, ICI, and is one of the eight corporations that signed the Harkin-Engel Protocol. Involvement in these programs and organizations requires Hershey to commit to certain standards and contribute to fighting child labor.
The Hershey Company is dedicated to sustainably and ethically supplying the cocoa needed for its products, as well as educating its suppliers. One program that integrates these two concepts is Hershey's “CocoaLink – Connecting Cocoa Communities” program. CocoaLink use mobile technology to share practical information with rural cocoa farmers. Farmers receive free text or voice messages that cover topics such as improving farming practices, farm safety, child labor, health, crop disease prevention, post-harvest production, and crop marketing. Farmers can also share information and receive answers to specific cocoa-farming questions.

In 2012 Hershey launched the Hershey Learn to Grow (LTG) farm program in Ghana, which provides local farmers with information on best practices in sustainable cocoa farming. Specifically, the program seeks to encourage ethical farming practices as well as leadership and empowerment. Both men and women are being trained on how to improve crop yields. Those who meet acceptable certification standards receive extra money. Hershey estimates that this program influenced over 31,000 farmers by 2015.

Hershey also produces some of its products using ethical and sustainable cocoa. Hershey Bliss, one of the company's specialty chocolates, is made with 100 percent Rainforest Alliance Certified cocoa. This means that the cocoa is grown using farming methods that are safe, sustainable, and that respect the rights of the workers.

By 2017 Hershey hopes to expand its cocoa community programs by investing in West Africa and working closely with agricultural experts and the government. Hershey also announced that over a five-year period, it will invest $10 million in West Africa in order to reduce child labor, improve the cocoa farming community, and directly benefit 750,000 African cocoa farmers.

In 2013 Hershey initiated the 21st Century Cocoa Plan with the intent to have all of its cocoa certified as sustainable by 2020. It has partnered with three certification organizations: UTZ, Fairtrade USA, and Rainforest Alliance. The company claims that by the end of 2015, it had achieved sustainable certification for 50 percent of its cocoa. In order to achieve sustainable certification, third-party auditors must examine farmers supplying the cocoa to see whether they are following best practices. One crucial practice analyzed is whether the farmers make use of child labor.

As part of its initiative toward sustainably-sourced cocoa, in 2014 Hershey helped co-found an industry approach with 10 other chocolate companies referred to as CocoaAction. Operated under the World Cocoa Foundation, CocoaAction has $500 million in funding, which is being used to improve the lives of farmers in the Ivory Coast and Ghana through training and educational opportunities.

CRITICISM OF HERSEY'S EFFORTS

Some critics argue that Hershey is not doing enough to combat labor exploitation and improve communities in West Africa. Over the past few years, Mars, Mondelez, Nestlé, Cargill, and other competitors have worked to adopt fair trade certification and/or release information regarding their suppliers. Despite many requests for public disclosure of its cocoa suppliers, Hershey still declines to name them. It is well known that Hershey acquires most of its cocoa from West Africa, but the specific sources are more difficult to identify.
According to a 2010 report titled “Time to Raise the Bar: The Real Corporate Social Responsibility for the Hershey Company,”

“Hershey has no policies in place to purchase cocoa that has been produced without the use of labor exploitation, and the company has consistently refused to provide public information about its cocoa sources...Finally, Hershey’s efforts to further cut costs in its cocoa production has led to a reduction in good jobs in the United States.”

The report, compiled by Global Exchange, Green America, the International Labor Rights Forum, and Oasis USA, accused Hershey of not embracing fair trade practices despite having a U.S. market share of over 40 percent. It also accused Hershey of greenwashing, or creating a false impression regarding its eco-friendly behavior, by donating to various programs without actually changing its policies to ensure that its cocoa is ethically produced. Green America even created a coalition called “Raise the Bar, Hershey!” to urge the company to address child labor and trafficking in the supply chain.

Since then relations between Hershey and Green America seem to have improved somewhat. The organization was pleased with Hershey’s pledge to source 100 percent of its cocoa from sustainable sources (free from child labor) by 2020. However, the company has many obstacles to overcome, and Green America has ranked Hershey's competitors higher than Hershey in its approach to solving the child labor problem. Green America developed a “Big Chocolate Scorecard” to grade chocolate manufacturers on the sustainability of their supply chains. Hershey ranked behind its major competitors Nestlé, Mars, Mondelez, and Ghirardelli (owned by Lindt). Hershey received a C- according to the scorecard’s ranking criteria. However, even Nestlé—the highest ranked among the top chocolate manufacturers—only scored a C+. A representative from Green America maintains that Hershey scored lower because it relies more on third-party certification rather than direct engagement. The organization believes that while third-party certification is a step in the right direction, it is only part of the solution to combatting child labor.

CONCLUSION

The labor issues in the chocolate industry are complex and are connected to the poverty within West Africa. The exploitation of cocoa communities is intertwined with the meager incomes for the majority of the population, a lack of education and opportunity, governmental corruption, and other conditions in the region. Improving the overall well-being of West Africa is an important part of any attempt to effectively fight the problems associated with labor cocoa plantations.

The Hershey Company recognizes the need to improve labor conditions in the supply chain and has developed several initiatives to help create positive change in the cocoa industry. However, despite the company's large financial contributions, the company trails behind competitors Nestlé, Mars, Mondelez, and Ghirardelli on efforts to address sustainability, poverty, and child labor. On the other hand, the company appears to have improved significantly in combatting child labor after initiating the 21st Century Cocoa Plan in 2013.
In the end, labor exploitation in the chocolate industry cannot be solved by one company alone. There are many possible solutions, and it will take many years and a large amount of investment from the chocolate industry before conditions change. However, by making small changes to West African cocoa communities, the quality of life for thousands of cocoa workers will slowly improve.

**QUESTIONS**

1. Should Hershey be held ethically responsible for child labor conditions in the West African cocoa communities?
2. How can Hershey balance its ethical culture and concern for labor conditions in West Africa in relating to various stakeholders?
3. If it is not possible for Hershey to gain control of its supply chain for a required raw material (cocoa beans) in its final product, what are its alternatives?

**Sources:**


