



MARS



**Economics
of Mutuality**

Divine Chocolate

An Economics of Mutuality case study



Responsible Business Forum: The Economics of Mutuality

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Divine Chocolate



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About the Responsible Business Forum Case Studies

This series of case studies explores how mutual approaches to business can help companies and their partners tackle some of the most pressing global challenges. The businesses featured in this series share a commitment to objectives beyond purely financial performance, as well as a serious intent to implement mutual practices through new forms of ownership, governance, leadership, measurement and management.

In particular, these cases address the measurement of multiple forms of capital, ecosystem shaping approaches, leadership development, business education, and policy formulation through laws and regulation that promote mutual conduct. The authors appreciate the collaboration of participating companies in creating these cases.

These cases were first developed for the annual Responsible Business Forum, the convening event of the Mutuality in Business Project, a joint research programme between Saïd Business School, University of Oxford, and the Catalyst think tank at Mars, Incorporated. The Responsible Business Forum brings together global companies, MBA candidates, scholars and activists to share their experience in confronting key challenges in their ecosystems to generate financial, social and environmental value.

Authors' Note

The conclusions and recommendations of any Saïd Business School, University of Oxford, publication are solely those of its author(s), and do not reflect the views of the Institution, its management, or its other scholars. These cases are based on information provided to the researchers by participating companies.

Mutuality in Business

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Executive Summary

Divine Chocolate

Founded in 1998 and designed as a social enterprise with an integrated social mission, Divine Chocolate is a U.K.-based Fairtrade confectionary company that also operates in the U.S. With offices in London and Washington, D.C., the business maintains strong partnerships with a variety of NGOs, such as Fairtrade, and brings in annual revenues of approximately £14 million.¹ Well-known companies including the Body Shop have supported Divine Chocolate and its organisational mission. Divine Chocolate has approximately 22 U.K. employees and 12 U.S. employees.

Mutuality Business Strategy

Significant environmental, social, and commercial challenges face the cocoa sector. Deforestation, child labour and low farmer incomes all threaten the world's cocoa supply. Cocoa, moreover, is grown by highly vulnerable smallholder farmers, many of whom live below the poverty line.

Noted for its distinctive ownership model, Divine Chocolate, which began selling its chocolate bars within the U.K. market, today has global sales. The Ghanaian farmer-owned co-operative, Kuapa Kokoo, supplies the cocoa and owns 44% of the Divine Chocolate business. Crucially, the smallholder farmers, as co-owners of the business “get a share in the profits, a say in the company, and voice in the global marketplace.”² Divine believes that their model provides a prototype for fairer cocoa supply chains. This model aims not only to deliver better livelihoods for farmers, but also to support women's rights and empowerment, as well as tackle problems such as child labour.

Specific EoM Contributions

Crucial to the strategy was creating the platform for farmers to be represented higher up the value chain. In terms of governance, two co-operative farmers sit on the Board of Divine Chocolate and are involved in all decision-making. There is also a shareholder agreement and other policies that align the interests of all shareholders. There is only one class of share, so profits are distributed according to shareholding. Kuapa Kokoo then is able to determine the use of dividends democratically and align spending with its own principles at the co-operative level. The proximity to farmers in ownership and governance also impacts buying practices. The cocoa Divine buys is fully traceable from farm to bar, which is unusual for an industry that mostly works on a mass balance basis, leading to weaker relationships between farmer and consumer. Divine re-invests 2% of its turnover back into its supply chain. This is in addition to the amount Kuapa Kokoo receives from cocoa sales, Fairtrade premiums and dividends.

Performance

Divine Chocolate has generated over £100 million in sales since it started and Kuapa Kokoo has seen its membership increase from 2,000 to over 80,000. Thirty-five percent of the co-operative members are women, and the co-operative is developing its own buying company, which handles 6% of Ghana's cocoa. The success of Divine Chocolate has also spawned a series of complementary, self-governed services around Kuapa Kokoo such as its own district resource centres, which provide affordable inputs to farmers.

Prognosis

Divine Chocolate is not immune to the logistical and cultural challenges inherent to the cocoa supply chain. Promisingly, however, the social enterprise's mutual practices have seen some success, which opens up possible avenues for expansion. Nonetheless, the question remains as to whether the business would be able to retain its ethos of mutual practices and farmer-ownership should it scale up. Whether scale, in the sense of size, is even the ultimate goal of Divine remains an open question.

1 “Annual Report 2016-2017, Divine Chocolate.

2 “About Us,” Divine Chocolate, <http://www.divinechocolate.com/us/about-us>

Creating sustainable value in the cocoa sector through mutual ownership

About the company

Founded in 1998 and designed as a social enterprise with an integrated social mission, Divine Chocolate is a U.K.-based Fairtrade confectionary company that also operates in the U.S. With offices in London and Washington, D.C., the business maintains strong partnerships with a variety of NGOs, such as Fairtrade, and brings in annual revenues of approximately £14 million³. Well-known companies including the Body Shop have supported Divine Chocolate and its organisational mission. Divine Chocolate has approximately 22 U.K. employees and 12 U.S. employees.

Noted for its distinctive ownership model, Divine Chocolate, which began selling its chocolate bars within the U.K. market, today has global sales. The Ghanaian farmer-owned co-operative, Kuapa Kokoo, supplies the cocoa and owns around 44% of the Divine Chocolate business. Crucially, the smallholder farmers, as co-owners of the business “get a share in the profits, a say in the company, and voice in the global marketplace.”⁴ This uncommon, joint-ownership model between cocoa growers and retailers enables farmers to earn more for their cocoa and to see their interests reflected higher up the value chain.

Significant environmental, social and commercial challenges face the cocoa sector. Deforestation, child labour and low farmer incomes all threaten the world’s cocoa supply. With a host of issues facing the entire sector, questions remain as to whether confectionary businesses will be equipped to address the reputational challenges and supply pressures associated with cocoa farming. Threats to the cocoa sector’s “long-term viability and production” require multi-pronged solutions to ensure the sustainability of cocoa production.⁵

As concerns for the sector proliferate, Divine Chocolate represents one attempt to rethink the cocoa supply chain. Divine’s mutual ownership model, which enables smallholder farmers to have a stake higher up in the value chain, might point to ways of helping farmers see value in cocoa farming in the years ahead. Aiming to help identify potential ways forward, this case study examines Divine’s mutual business practices, as exemplified by its ownership model. Simply put, this case asks: to what extent does Divine’s model address the challenges facing the industry and can the business’s practices be scaled?

‘Environmental, social, and sustainability challenges face cocoa farming and impact the global supply of chocolate’

³ Annual Report 2016-2017, Divine Chocolate.

⁴ “About Us,” Divine Chocolate, <http://www.divinechocolate.com/us/about-us>

⁵ Holly Houston and Terry Wyer, “Why Sustainable Cocoa Farming Matters for Rural Development,” Center for Strategic and International Studies, 6 September 2012, <https://www.csis.org/analysis/why-sustainable-cocoa-farming-matters-rural-development>

A sector in search of solutions

The significant and complex problems facing the cocoa value chain are well known. Every year, multilateral initiatives invest vast amounts of time and resources tackling the key issues of farmer income, low productivity, child labour and deforestation. Multi-stakeholder groups such as the World Cocoa Foundation and the International Cocoa Initiative, for example, work to promote cocoa sustainability and to protect children from the abuses of child labour.⁶

To compound matters, cocoa is grown by highly vulnerable smallholder farmers, many of whom live below the poverty line. Given their position, farmers have little or no ability to invest in their farms and to improve their livelihoods. The challenge of sustainable livelihoods persists throughout cocoa-growing communities and, in many cases, farmers receive only “around 6% of the price paid by consumers.”⁷ Cocoa growing communities, as a result, struggle with the difficulty of boosting farmer incomes.

Perhaps unsurprisingly given these myriad challenges, the next generation of potential cocoa growers does not wish to work as smallholder farmers. This lack of incentive in continuing to farm represents a significant obstacle in the way of meeting the world’s ever-growing demand for chocolate. Media coverage of this issue has sounded the alarm as limited supply struggles to keep pace with global

demand. With the growth of consumer markets in India and China, coupled with “the remarkable and still growing western taste for chocolate with everything,” research suggests that the world might face a “global shortage” of cocoa by the year 2020.⁸ This predicted potential inability to meet rising demand makes it especially urgent to identify sustainable solutions across the cocoa value chain.

Naturally, confectionary businesses, many of which rely on cocoa as the primary ingredient in their products, want to address the challenges facing the sector.⁹ Divine Chocolate’s ownership structure may present a means of addressing widespread and persistent problems within the cocoa supply chain. The social enterprise has set its business strategy to engage alternative governance and ownership models, which aim to empower the weakest in the ecosystem so that they are able to share in a greater proportion of the benefits. Divine Chocolate believes that it has developed a prototype for organising more equitable cocoa supply chains that deliver not only better livelihoods for farmers, but also tackle problems seemingly endemic to the sector.



6 For additional information, see: “Mission & Vision,” World Cocoa Foundation, <http://www.worldcocoafoundation.org/about-wcf/history-mission/>; “About Us,” International Cocoa Initiative, <http://www.cocoainitiative.org/about-ici/about-us/>

7 “Commodity Briefing: Cocoa,” Fairtrade Foundation, April 2016, https://www.fairtrade.org.uk/~/_media/FairtradeUK/Farmers%20and%20Workers/Documents/Cocoa%20commodity%20briefing_online7.pdf

8 Tamasin Ford et al., “The cocoa crisis: why the world’s stash is melting away,” *The Guardian*, 21 November 2014, <https://www.theguardian.com/lifeandstyle/2014/nov/21/cocoa-crisis-world-chocolate-stash-melting-away>

9 Adva Saldinger, “Can (Ghana’s) cocoa farmers ever emerge from poverty?” *Devex*, 6 August 2014, <https://www.devex.com/news/can-ghana-s-cocoa-farmers-ever-emerge-from-poverty-83883>

Economics of mutuality contribution

Integral to Divine's mutual business strategy was creating the platform for the farmers themselves to be represented higher up the value chain. Divine's story begins with Kuapa Kokoo, a Ghanaian Fairtrade co-operative set up in 1993. In order to sell and distribute its cocoa, with the help of Comic Relief, Twin Trading, the Body Shop and Christian Aid, the co-operative invested in Divine Chocolate U.K., which launched in 1998 and now reaches multiple international markets.

Today, Kuapa Kokoo owns 44% of Divine, with the remaining shares held by Oikocredit, Twin Trading and three other smaller social investors. Multiple classes of shares do not exist, so profits are simply distributed according to shareholding. Kuapa Koko then is able to determine the use of dividends democratically and align spending with its own principles at the co-op level. In terms of governance structure, two co-operative farmers sit on the Board of Divine Chocolate and are involved in all decision-making.¹⁰ There is also a shareholder agreement and other policies that align the interests of all shareholders. Divine's ownership model gives its cocoa growers the opportunity to be "more involved in management decision-making" than a usual governance structure would allow.¹¹ These leadership roles and representation at the highest levels of the company ensure that smallholder farmers play a substantive and determinative role in making business decisions for Divine.

In practical terms, Divine purchases its cocoa directly from Kuapa Kokoo "at the guaranteed minimum Fairtrade price of \$2000 per tonne" and pays "an additional premium of \$200 per tonne."¹² Divine, moreover, re-invests 2% of its turnover back into its supply chain.¹³ This is in addition to the amount Kuapa Kokoo receives from cocoa sales, Fairtrade premiums and dividends. Such investments, in turn, help protect farmers against price fluctuations and enable the co-operative to re-invest in its local cocoa-growing communities.¹⁴ For example, Kuapa Kokoo has invested funds into a radio programme that helps the co-operative to reach its 85,000 members, who live across a vast geographical area. The programme discusses farming techniques, pest control issues and democratic decision-making techniques.

Furthermore, to advance the goal of gender equality, the enterprise has initiated several key practices and Kuapa Kokoo helps deliver women's empowerment through training and mentoring.¹⁵ For example, introducing quotas (2 out of

5 farmers on the village committee have to be women) has resulted in a 35% female membership of the Kuapa Kokoo co-operative.¹⁶ Moreover, the success of the co-operative ownership structure and re-investment strategies has enabled capacity-building initiatives designed to improve women's well-being, particularly in terms of education and equal access to resources. Fairtrade contributions have also helped advance community building initiatives. Beginning in 2014, Kuapa Kokoo initiated several literacy and numeracy programmes, which help women become full participants in business activities. Nearly 70% of all programme participants are female and have had little to no previous access to schooling. Building participants' confidence through training aims to help overcome barriers to "positions of leadership and responsibility" that many women face.¹⁷ In addition to leadership skills, the co-operative also offers workshops "to help farmers develop alternative means of livelihood during the off-season," which aim to empower women by providing them with a steady source of income.¹⁸ Taken together, these mutual practices ultimately help bolster women's contribution to household income and increase their ability to participate in the global marketplace. Citing the prominent role of women as a "key ingredient" in the enterprise's success and reflecting its support of goal five (gender equality) of the UN Sustainable Development Goals (SDGs), Divine Chocolate has instituted practices and marketing strategies that affirm its commitment to women's empowerment.¹⁹ Significantly, women hold key roles throughout the organisation, from the very top to the bottom of the value chain.

Divine also assists Kuapa Kokoo to develop further its own governance structures. The farmers' co-operative is made up of the main Kuapa Kokoo Farmers Union, which comprises 57 districts (each with its own committee) and 1,300 villages societies. Members are able to stand for election to the village, district and Union committees every four years. The Union also owns a Licensed Buying Company that purchases some 50,000 tonnes of cocoa from its members each year, representing around 5% of the Ghanaian cocoa market. The Ghanaian cocoa industry is government controlled, so all cocoa is sold on to the government agency Cocobod, which handles exports. Cocobod also regulates the price paid to farmers for their cocoa.

10 The Divine Story," Divine Chocolate, <http://www.divinechocolate.com/uk/about-us/research-resources/divine-story>

11 Frederick Wanyama, "Cooperatives and the Sustainable Development Goals: a contribution to the post-2015 development debate," International Labour Organization, Geneva, 2014.

12 "FAQ," Divine Chocolate, <http://www.divinechocolate.com/us/about-us/frequently-asked-questions>

13 Jamie Hartzell (Chair, Divine Chocolate), personal communication with the authors, 23 April 2018.

14 "FAQ," Divine Chocolate, <http://www.divinechocolate.com/us/about-us/frequently-asked-questions>

15 Terry Slavin and Rebecca Ley, "Female cocoa farmers 'key to Divine Chocolate's success,'" Ethical Corporation, 15 March 2017, <http://www.ethicalcorp.com/female-cocoa-farmers-key-divine-chocolates-success>

16 Terry Slavin and Rebecca Ley, "Female cocoa farmers 'key to Divine Chocolate's success,'" Ethical Corporation, 15 March 2017, <http://www.ethicalcorp.com/female-cocoa-farmers-key-divine-chocolates-success>

17 Annual Report 2015-2016, Divine Chocolate.

18 Kuapa Kokoo, Ghana," Fairtrade Foundation, <https://www.fairtrade.org.uk/Farmers-and-Workers/Cocoa/Kuapa-Kokoo>

19 Terry Slavin and Rebecca Ley, "Female cocoa farmers 'key to Divine Chocolate's success,'" Ethical Corporation, 15 March 2017, <http://www.ethicalcorp.com/female-cocoa-farmers-key-divine-chocolates-success>

Performance

Divine Chocolate has generated over £100 million in sales since it started, and during the twelve-month period between June 2015-2016, Divine purchased 882 tonnes of cocoa beans from Ghana, "all with a Fairtrade premium paid to farmers of \$200 a tonne."²⁰ At the same time, Kuapa Kokoo has seen its membership grow from 2,000 at its start to over 85,000 to date.²¹ Additionally, the co-operative provides 5% of Ghana's cocoa and, as noted previously, 35% of its members are women.

The farmer-ownership model of Divine Chocolate has seen the development of self-governed services that many multinational corporations spend tens of millions each year with suppliers and NGOs to cultivate. For example, Kuapa Kokoo has its own Child Labour Awareness Programme. This initiative promotes the policy of not tolerating the worst forms of child labour, emphasises the need for children to attend school and educates co-operative members on ways to help their children avoid any hazards on the farm. Additionally, an outreach team is responsible for spreading news and disseminating the latest updated techniques and farming practice. To help ensure that a variety of voices are included in the business, there are regular meetings at village, district, regional and national levels, as well as at Divine Chocolate's annual general meeting.

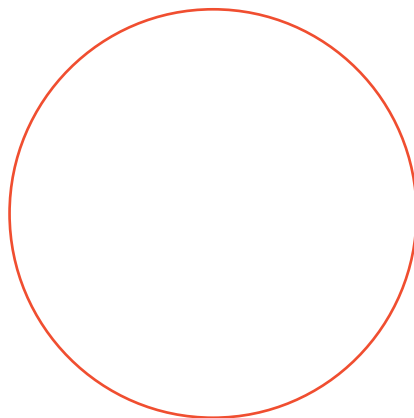
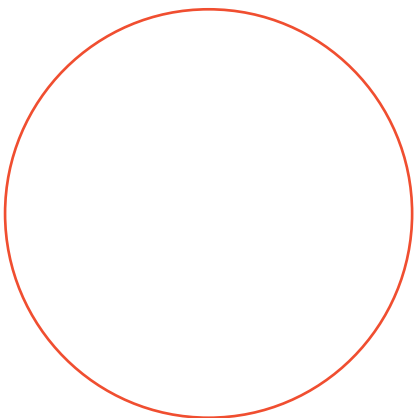
The success of Divine Chocolate has also initiated a series of complementary services around the Kuapa Kokoo such as its own credit union that gives farmers access to affordable loan as well as a trust for community projects.

²⁰ Annual Report 2015-2016, Divine Chocolate

²¹ Terry Slavin and Rebecca Ley, "Female cocoa farmers 'key to Divine Chocolate's success,'" Ethical Corporation, 15 March 2017, <http://www.ethicalcorp.com/female-cocoa-farmers-key-divine-chocolates-success>

Prognosis

Divine Chocolate is not immune to the logistical and cultural challenges inherent to the cocoa supply chain. Promisingly, however, the social enterprise's mutual practices have seen success, which opens up possible avenues for expansion. Nonetheless, the question remains as to whether the business would be able to retain its ethos of mutual practices and reach a truly transformational scale.





Saïd Business School at the University of Oxford blends the best of new and old. We are a vibrant and innovative business school, but yet deeply embedded in an 800-year-old world-class university. We create programmes and ideas that have global impact. We educate people for successful business careers, and as a community seek to tackle world-scale problems. We deliver cutting-edge programmes and ground-breaking research that transform individuals, organisations, business practice, and society. We seek to be a world-class business school community, embedded in a world-class university, tackling world-scale problems.

Mars Catalyst and the Economics of Mutuality programme

Mars' approach to business has long since been guided by five principles – quality, responsibility, efficiency, freedom and mutuality. Together they inform and guide the actions of all Mars associates every day as they do their jobs and interface with the outside world.

The origins of the Mutuality principle go back to 1947 when Forest Mars Snr, who led and grew the business through the 1920's to the 1960's, wrote a letter to all 500 associates of the company that said "the sole purpose of the company is to create a mutuality of benefits with all stakeholders that the company touches; from suppliers to customers as well as governments and competitors and naturally associates and shareholders." This far-sighted thinking, that the company could only be successful if everyone around the company was being successful, has been a cornerstone of Mars' business philosophy ever since.

Mars has therefore always been interested in how it can best live up to this principle; and to find new ways of driving mutuality with all stakeholders it touches. This led to Mars'

leadership tasking its economic research unit, Catalyst, to start new work into unexplored territory for business; to identify critical drivers of mutuality and, using business pilots, to develop and test new metrics and management practices that can help boost mutuality in business situations. This work has been called the Economics of Mutuality.

This work has established promising links between increasing social, human and natural capital (that can be measured with simple & stable metrics) and a corresponding increase in financial capital – demonstrating how a company can do both good and well at scale. A number of pilots have now been completed in the areas of micro-distribution, the employees of Mars and in agricultural development that suggest that these relationships are true in different places and situations.

The Oxford Mars partnership

On the back of these promising findings, a multiyear partnership with Oxford University's Saïd Business School was established in 2014 to focus on the development of a business management theory for the Economics of Mutuality with corresponding teaching curriculum, new management practices, and case study research. The research programme has combined the pursuit of normative questions – what is

mutuality and how should it be enacted? – with grounded, ethnographic research on current thinking and practices. This has led to the development of field experiments and case studies examining how large corporate actors conceive of and pursue responsible business practices, and how these relate to their financial and social performance.

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