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1. Introduction

1.1. Introduction

Globalization has been changing the business world and the way business is being performed in a dramatic pace within the last few decades. This effect is being felt everywhere in the world whether it is a developed, developing or underdeveloped nation. Individuals/small groups in any part of the world are thinking a business opportunity in different countries that might result from the search for cheap labour or resources. The developed world is in a constant competition of potential market that might give rise to the future control of the service sector which centres on consumers' purchasing power. Even when we write/read this thesis, email contracts, telephone deals and business lunches are being performed and these will carry on like this till the end of the world.

Corporate Social Responsibility (CSR) as a business concept is not new but has been receiving new content and meaning in a globalized world (Enquist et al, 2006; Cramer, 2006). Searching for new and better ways means creating value and differentiating market offerings in order to attract and keep customers, and to make a profit (Shaw and Ivens, 2002). Our intention in writing this thesis is to look at CSR as a business strategy, a driving force in value creation (Edvardsson, et. al., 2006) and sustainable development (Roome, 1998) in small scale business, as well as a "New Social Compact" (Brugmann and Prahalad, 2007). We adopt CSR thinking in the form of *stakeholders' value network as carriers in the specific context of seeking a market and value network relationship* between customers from developed countries and coffee growers from a developing country (farmer's cooperative). In essence, if true sustainable business is the definitive goal, then a business initiative integrated in to the core values that generate sustainable relations is a better solution for the stakeholders' value network. Business initiative that emanate from MNCs, is related with *the great leap downward*, where growth potential for the majority of the population is not yet met, so that sustainable development can be assured at BOP level. Furthermore we will also relate how the primary and secondary stakeholders' relationship can be established at the Base of Pyramid (BOP) level and how it can serve as an effective mechanism in eliminating most of the intermediaries that were present at the value chain.

As a case study, this thesis will look more deeply in to the context of sustainable-business case from Ethiopia. Oromia Coffee Farmers Cooperatives Union (OCFCU) is exporting organic coffee to the developed world especially to Europe and US, Japan and Australia markets. It is this farmer's cooperative which is attempting to provide Ethiopian smallholders with better livelihoods by developing local and international organic coffee markets. Using organic coffee as a means of seeking market in the value network the farmer's cooperative is working for enhancing the livelihoods of poor farmers. By this context, we will then discuss the role of this farmer's cooperative (OCFCU) in the value network relationship between coffee growers in a developing country - Ethiopia and end customers in the developed world.

1.2. Problem Statement

Growing coffee in one of the poorest country in the world like Ethiopia, where farming systems is practiced in a small farms and government subsidy, in case of market crisis is unthinkable, the danger of leaving the farm land looks to be certain. Primarily, in the international market the coffee sector is continuing to be traded as a commodity and very few countries are using productivity enhancing innovation to influence the cost structure. Secondly, in the local market farmer are becoming better off growing a local stimulus plant called '*chhat*', which is in a great demand in the local market compared with what the commodity market is willing to pay. Hence the pressure is both from outside (incomparable competition with large scale coffee growers) and inside (a better local market for a stimulus plant). Unless a solution is sought to keep the farmers in their coffee farmland, they are endanger of shifting coffee with this stimulus plant '*Chhat*', which has a long term negative impact on the health of individuals. Hence, OCFCU, being the representative of smallholders' cooperative, is expected to come up with some solution for their problems so that they keep the aroma of Ethiopian coffee in the farmland and in the world market. But the question is how cooperatives can keep farmers in their farm land that assures sustainable business and at the same time meet the quality expectations of international buyers, who are willing to pay a higher price for high quality coffee?

1.3. The purpose of the study and research question

The purpose of this study is to describe and understand how the movement of OCFCU from value chain to value network can create inclusive capital in the stakeholders' value network, which in turn result in sustainable business for smallholders in poor countries. In order to achieve the aim to this thesis, the following two research questions are considered.

1. What is the role of cooperatives in creating sustainable competitive advantage for small holders?
2. How can they meet the expectations of their business partners in the value network taking in to consideration large scale coffee growers?

2. Research Methodology

2.1. Research Approach

2.1.1. Qualitative research

Qualitative research is an inquiry process of understanding a social or human problem, based on building a complex, holistic picture, formed with words, reporting detailed views of the informants and conducting in natural setting (Cresswell 1998). Our study applies an explorative qualitative research by doing collaborative business that can bring sustainable development especially at the BOP level. Primarily qualitative modes of analysis are concerned with textual analysis (Taylor, 1976). Hirsch (1976) also argued that the meaning of a text is determined by the author's intent. And the meaning of the text goes beyond the author, and is determined by the point where the horizons of the reader and the writer meet (Gadamer, 1994). This ensures that the text is independent of the author's intent and the original audience, and therefore the reader determines the meaning of the text (Ricoeur, 1976). The qualitative method considers the description and understanding, underlying philosophy to deal with the specific interpretational and analytical challenges of the qualitative research approach (Ghauri and Grønhaug, 2005).

2.2. Research Method

2.2.1. Case study

We have used a case study method in developing our empirical study. Such case study allows us in grasping a deeper insight in relating problems of small hold farmers with their role in value network. Yin (2003), defines the scope of a case study as: "an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident". It examines one or more areas to either examine a situation of unique interest with little to no attention to generalizability, or to challenge a highly generalized or universal assertion (Merriam, 1985).

The case study method emphasizes depth rather than coverage and statistical generalization (Yin 2003; 1994; Gummesson, 2000; 2007b). However, this does not mean it allows triangulation (Sebhatu 2010). A critical case can also be defined as having strategic importance in relation to a general problem (Flyvbjerg, 2006). It allows conducting a

thorough investigation and empirical enquiry of the organization and assessing the change process (Yin, 2003).

According to Merriam (1994), the case study is a method which can be used to study a phenomenon in a systematic way, allowing in taking all aspects into consideration. The case study method is used to assess and reveal the strength and boundary of sustainability (Yin, 1994). Alvesson and Sköldbberg (2000) also noted that a case study method is often used in social science research. (Blaze Corcoran et al., 2004) further noted that all the characteristics of the case study methodology make it suitable for research in sustainability. Theories can then make the findings of a specific case valid for discussion in a general context (Yin, 2003).

2.3. Data Collection and Analysis

The inception of data collection had discussed between the authors of this thesis, Dr. Samuel Sebhatu and Prof. Bo Enquist last year upon completion of the Corporate Governance course. It was this course that introduced us to the basic knowledge of Corporate Social Responsibility (CSR) that drive us to think of writing our thesis on the problems of societal issues like that of coffee farmers cooperative form our country. Hence the green light we have got from above mentioned supervisors is the starting point for our data collection. In order to prepare this thesis we have used qualitative sources of material collection techniques. These are interviews, observation, documents analysis and scientific articles. The primary and secondary data collection methods that we have used are discussed below and the interviews and the field trips were conducted while one of the authors of this thesis went to Ethiopia for three months (June – August, 2010) last year.

Interviews - Structured and semi-structured interviews were made. The structured interviews were conducted by letting the interviewees tell the stories about their organization based on the case study we are about to develop. As a primary source of information, interviews made with responsible staffs in different organization are carried out. Theses interviews were made both informal and formal ways: informally through telephone conversation, e-mail and personal meetings with Oromia Coffee Farmers Cooperative Union (OCFCU), Ethiopian Commodity Exchange (ECX), Ethiopian Association of Organic Agriculture (EAOA), Ethiopian Organic Seed Action (EOSA) and BCS ÖKO-GARANTIE (a certification company) senior staffs. Furthermore we have also conducted interview with a knowledgeable persons from Addis Ababa University (AAU) and coffee forest biosphere reserve

organization, about Ethiopian coffee. The interviews were on average one hour at a time with each organization's staffs and it was made at least twice. All in all we had made 12 hours of interviews with seven individual from each organization. These personal meetings comprise the most important component of our primary data collection for our case study. Furthermore in order to keep the validity of our studies we also follow up interviews and informal discussions through telephone and e-mails with these responsible individuals.

Field trips - We have made a field trip where coffee grows in a place called 'Dilla' and 'Yirgachefe'. These two regions are found in the southern part of Ethiopia and it is about 450 and 400 kilometres from the capital city respectively. Such field trips had helped us in making observation on how well the regional cooperative offices have been doing the coffee collection from farmers and store it before it moves to OCFCU central store.

Black Gold– Black Gold is a documentary movie on the coffee marketing chain from where it grows, in the smallholders farmland till it reaches to consumers and it also reveals how very few Multi National Corporations (MNCs) are dominating the coffee industry of the world. The empirical study we have been considering Oromia Coffee Farmers Cooperative Union (OCFCU), is the prime focus of this documentary movie. Besides the documentary is also shot at the Oromia coffee growing region of the farmers' cooperative in Ethiopia as well as the developed world, where Ethiopian coffee is consumed after it passes through different roasters and Multinational Co. (MNC). As a result it comprises important component of our primary data.

Library and Internet sources - These sources including Karlstad University database (Business source Primer and Diva Academic Archives) and other relevant articles that we have collected from our past two years studies here in Karlstad University, Furthermore we have used OCFCU's data and brochures, and NGOs profiles. We consider that the information we got from these to be genuine and primary sources.

2.3.1. Data Analysis

According to Michel and Fiona (2006), analytical induction involves inferring general conclusions from particular instances, where the procedure forms an initial hypothesis. We have tried to look at business in the globalized world and noted that business is being done between two individuals/groups in different countries. Within the last few decades it has done

between countries then it shrinks to between companies in different country and the finally globalization further shrinks it to be between individuals/small groups. And we have also noted that these same contemporary effects are being seen in our country's coffee business trend. Such events are the factors for us to make this hypothetical statement that the case study we are considering is moving from value chain to value network that we are going to discuss in the pages to come. This in turn leads us to use a data analysis method of analytical induction and hermeneutical analysis.

2.4. Limitation

Primary data that we have collected around June - August 2010 was not complete for our empirical data though it comprises the major portion. As a result we were forced to make telephone conversation and send emails so that we can get additional information that we need. Hence time limitation was the major factor. Furthermore, we had told that the country has a speciality coffee standard and we were trying our best to relate our analysis with it but we couldn't get it and can't form the analysis part based on the standard.

2.5. Trustworthiness

We believe that the trustworthiness of this thesis is dependable. One of the most important requirements for a research paper is that it is regarded as reliable and readers view it as consistent and trustworthy (Gummesson, 2000; Alvesson, and Sköldberg, 2008). A multitude of research methods was used to address these criteria (Ghauri and Grønhaug, 2005). To the best of our knowledge all the articles and the internet sites we have used are reliable. The books we have used mostly in the theoretical and discussion parts are also highly credible and up to date. Hence we believe that this will further enhance the validity of this thesis.

3. Empirical Study

3.1. Oromia Coffee Farmers Cooperatives Union (OCFCU)

These days, when we talk about Ethiopian coffee, what comes to Ethiopians mind is the name Mr. Tadesse Meskella, OCFCU and the documentary movie in entitled “Black Gold”. Mr. Tadesse always been concerned about Ethiopian poor farmers and asks himself a question why these farmers live all their life in poverty despite they grow the best quality coffee people would love to drink. He wants to see them being able to buy a pair of shoes for themselves and their families. This question has preoccupied his mind and some 10 years ago he takes the initiative to form Oromia Coffee Farmers Cooperatives Union (OCFCU) and finally he could achieve that. But he is not satisfied with his achievements and he still is determined to bring more money to these farmers. He is a family man who balances family life with the responsibility of 74 thousand poor farmers’, who are members of their farmer’s cooperative.

“The establishment of the Union was initiated when Mr. Tadesse got a chance of studying agricultural cooperatives in Japan as a Senior Expert of the then Cooperative Promotion department of Oromia Agricultural Bureau. Mr. Tadesse came back with a 24 minutes video that showcased Japanese agricultural promotion and how they supported their farmers in transforming agriculture from traditional to modern venture through cooperatives. Mr. Tadesse showed the video to the management of Oromia Agricultural Bureau which was convinced to establish cooperatives union” (UN 2011).

Mr. Tadesse these days is busy with his trip representing the farmer’s cooperative and travel in different parts of the world in search of a better market, where all the best brand of Ethiopian coffee is exported for further process before it reaches to the consumer market in the developed world. He still is not satisfied with what he has achieved and in his search for a better market in the developed world; he is working for one aim – creating a market where farmers in a poor country and consumers in the developed world do fair and responsible business, where OCFCU and other collaborative relevant intermediaries in the developed world serve as the missing link. By doing so, the farmer’s cooperative will fulfil its main aim, which is *bringing more money in to the coffee growers’ pocket and improve their life.*

OCFCU have a coffee processing Unit in Ethiopia, where all the coffee they have collected from all the regional cooperative Unions is processed.

Now, Mr. Tadesse is the general manager of Oromia Coffee Farmers Cooperatives Union (OCFCU). Its date of establishment is 01 June 1999 with initial members of 22,503 coffee growers in 34 cooperatives. The coffee they grow is arabica, shade grown and environmental friendly. At its inception the union had an initial capital of 857,360 birr (317,000 SEK) calculated based on the current prevailing exchange rate. After 10 years the union has 180,080 coffee farmers in 63 warehouses in the coffee growing communities and embrace 171 farmer's cooperative with a capital of 89,468,080 (33,136,000 SEK). OCFCU buys coffee from 101 individual farmer's cooperative offices across the southern parts of Ethiopia.

The Oromia Coffee Farmers Cooperative Union (OCFCU) is named after the Oromia region in Ethiopia and Sixty-five percent of the country's coffee production is from this region (Ecocoffee 2009). Ethiopia is Africa's leading producer and exporter of arabica coffee, one of the finest varieties on the world coffee market (Mayneet et. al., 2002). The union has an active buyers from Europe, US, Australia and Japan. The union produces shaded grown, sun dried Harar, Yirgacheffe, Sidamo coffees, which have been recently certified after a long dispute between Ethiopian government and Starbucks. These are not the only coffee types that are being produced by OCFCU, other types include, Limu, Nekemte, Jimma, Ghimbi. These sundried arabica coffees are one of the best quality coffees in the world but farmers are getting very low price from the international market. Since the cooperative union is getting very low price from the coffee trading they cannot fully utilize the facilities they have in processing the coffee. Besides, the low price of coffee had forced the farmer's cooperative to store the high quality coffee in their storehouse and wait for a better market. Sidamo coffee is one of the best quality coffees the farmer's cooperative offers and this type of coffee are also found in different supper market here in Sweden, Karlstad. And such quality coffee brand also goes to the western world for consumption to Europe, US, Japan and Australia.

3.2. Farmers' problems and the Union's Solution

Before the establishment of OCFCU, poor farmers did not have a say for whom and at what price they will sell their coffee. A collector (an intermediary) is the price maker and they the price taker. Since they don't have any other option to whom they can sell their coffee, they are expected to accept any offer the collector offers. One OCFCU member farmer states his problem, "despite he has always been hearing in the radio that Coffee is gold, he couldn't

gain out of it rather it is the private collectors who have got fat.” The farmer further mentioned that these private collectors (local intermediaries) blocked others from coming in. Another OCFCU member farmer also mentions that their problem was when their coffee ripens and is ready for sale, a man (a collector) comes to their farm and says to them, that “he will take their coffee and pay them 0.75 birr (\$0.08) for a kilo of coffee”. As a result the fate of these poor farmers' quality coffee was dependant on the price set by one collector and the farmers have no chance of negotiation. Since they have no up-to-date price information and few people control the coffee market, they were fed up with the old coffee chain market system. These are some of the driving factors that initiate farmers to be willing to sell their coffee to regional cooperative offices in different regions.

OCFCU has different regional cooperative offices in different parts of the country and the roles of these regional cooperative offices are to buy coffee from each farmer and store it in their store houses. Currently they have 63 warehouses in different parts of the coffee growing regions. The regional cooperative offices in turn sell the coffees they have bought from farmers to the farmer's cooperative (OCFCU). In both sales points a profit is calculated and given back to the farmers usually in the form of dividend. Once the union (OCFCU) bought coffee from cooperatives they will start searching for a better market for their quality coffee. Besides, this is the stage where Fair trade premium is charged on the coffee, which in turn will be back to the farmers in different communities to construct infrastructures, schools (Primary and Secondary), health posts and clean water for the community. These in turn paved the way for the emergence of a new business model that we will talk about in the pages to come.

It is not only OCFCU's contribution that solved the farmers' problem. It was the government incentive that primarily paved the way for farmers to sell their coffee directly to international buyers. The major reason why the Ethiopian governments allow cooperatives to sell their coffee directly to the international market using the direct marketing opportunity to farmers/cooperatives is the very low price that farmers have been receiving from the coffee chain. Besides it is widely accepted that most of the profit goes to local and international intermediaries. Mr. Tadese also tries to show the reason why the farmer's cooperative (OCFCU), using the direct marketing channel, is in search of a better market in the international coffee trade and the significant disparity of coffee prices per cup when a farmer sells his coffee till it reaches to the end customers as follows.

A cup of coffee in the western world costs about 25 birr (\$2.9) and 80 cups of coffee are made from a kilo of coffee, which makes the total sum of 2,000 birr (\$230), where as these poor farmers are selling a kilo of coffee for 2 – 5 birr (\$0.23 – \$0.57).

This was one of the driving factors that huge profit earned by intermediaries (local and international) and a very low return to the coffee grower's pocket, forces OCFCU to show up in the international market. And it was one of the arguments of Friedman in his book “*the world is flat*” that this bold move by individuals or small cooperatives (like Tadesse in Oromia coffee) that described business in globalization 3.0. These small groups will make up important components of the business in the new globalized market. Hence this is also what we describe that OCFCU is pressing forward primarily in eliminating local intermediaries from the local market and then puts itself in the international market where the trade is based on symbiotic relationship and steps forward into a new business model, that we will discuss latter on.

3.3. Value Chain: From Free market to Cooperatives market

The value chain if Ethiopian coffee is composed of two markets: *free market* and *cooperative market*. As we can see it in the diagram below in the free market chain, the profit margin of those poor farmers is limited only to the extent of a collector show up and buys their coffee, in which case he sets whatever price he wants to. Then the collector will sell the coffee to suppliers, who in turn sell the coffee to exporters. But in the cooperatives market, there are no intermediaries between the farmers and buyers in the external market (International market) and it is the regional cooperative offices and the farmer's cooperative (OCFCU) who act as *collectors, supplier and exporters*. To put it in a simple term all these trade chain (collectors, suppliers and exporters), which was once controlled by different intermediaries (individuals and companies), is now in the hands of the regional cooperative offices and (OCFCU), with a profit margin to be allocated to the farmers at each stages of the sales point. The cooperative market pays farmers profit twice from a single sale. *Primarily*, when they sell their coffee to the regional farmers and *secondly* when the regional farmers sell the coffee to the farmer's cooperative (OCFCU). Once the coffee is in the hands of the farmer's cooperative, a fair trade premium is added and sold to international buyers. This fair trade premium in turn will be used to construct different infrastructure for the community in the coffee growing area. In general, we can say that smallholders will get three times from a single sale. In order to

summarize what we have said above, we will look at a diagram of Ethiopian coffee value chain below in both *free* and *cooperatives market*.

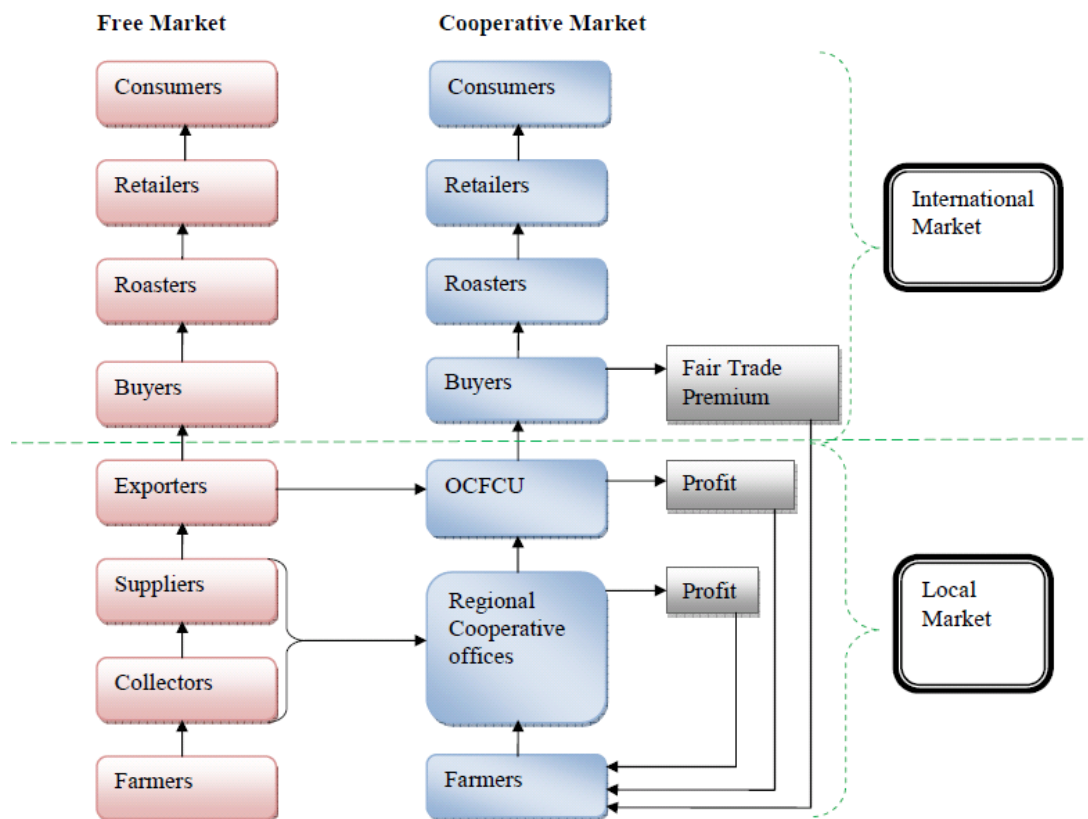


Diagram 1 – The value chain of coffee

From the above coffee value chains we can say that farmers by forming farmers’ cooperative union, can not only easily eliminate the local intermediaries, who used to take significant portion of the profit before the coffee reaches to the international market, but also can sell their coffee to the regional cooperatives who in turn pay them dividends in two forms from a single sale. But in order to get these attractive benefits of being part of the cooperatives, each farmer is expected to grow and supply quality coffee to the regional cooperatives with honest intention. In order to achieve this, the union also gives practical training to farmers on how to keep the organic nature of the coffee and others. This is done by the OCFCU’s agronomists.

3.3.1. MNCs and the coffee channels

In Ethiopia there are three distinct ways of exporting coffee. These are *Cooperatives* (direct marketing) **Channel**, the *Ethiopian Commodity Exchange (ECX) channel* and *Coffee Exporters channel*. The cooperatives channel is already discussed above and ECX will be in latter parts. But for now we will discuss about the third option, Coffee Exporters. This is the channel where MNC and local coffee exporters will bid for coffee from the government coffee auction that they will export for their customers in different parts of the world. There are middlemen, coffee collectors, coffee suppliers, and coffee exporters. Coffee suppliers, coffee collectors, who brought coffee from different coffee growing zones and regions, will sit in one side while coffee exporters, who are bidding for the coffee, are on the other side. Multinational corporations have representatives there in Ethiopia. *Taloca* is one of them who buy coffee for Kraft Food; *Volcafe* is buying for Nestle and also for Starbucks; *Dallmayr* is also another big buyer in Europe. It is based in Germany and buys arabica coffee for different rosters around the world. There are also other companies like *Asda* in UK and *Peace Coffee* in Minneapolis. All these companies buy and roast the coffee at their companies. They have representatives in Ethiopia and they will closely follow the bid price via phone. Once the coffee is bought from here, the coffee buyers or the coffee exporters are going to unload the coffee at their warehouse and they process and sell it to their buyers abroad. Then the buyer is going to distribute these coffees to rosters, which in turn roast the coffee and sell it to retailers and consumers. This implies that the coffee reaches to the end consumer after it passes through multiple chains. This age old business model (*the free market value chain*) of coffee loudly speaks three things.

Primarily, poor farmers at the bottom of the chain are hardly getting profit from the coffee they have been taking care of for years. Once they have sold their coffee for a price determined by collectors, it is the end of the coffee chain for them. As a result they cannot send their children to school; they don't have ample food in their table to feed their families. They were always poor and will remain poor. **Secondly**, middle men in the coffee chain (local and international intermediaries) have been taking almost all the profit, with a very little effort exerted in adding value to the high quality arabica coffee compared with the years of relentless effort by poor farmers in their small farmlands to grow coffee. **Thirdly**, Even though consumers in the developed world afford to pay the price they are paying for a cup of coffee, they are unaware of the unfair price poor farmers are getting for the coffee those farmers grew. Oxfam's intervention in Ethiopian government and Starbucks certification

dispute can be one good example. It was consumers' role in the developed country initiated by Oxfam that enforce Starbucks to sign agreement that benefit the poor farmers. Without consumers' and Oxfam's contribution, the voice of the poor would not been heard.

3.3.2. Coffee and the two markets

Though the widely accepted birth place of coffee is considered as to be “kaffa” to the rest of the world, there are many Ethiopians who argue that its birth place is a place called “mankira”. Of course it is not the concern of our thesis but we just wanted to let the readers know that a place called “mankira” near Jimma is also considered to be the birth place of coffee. No matter where the birth place is, it has no effect on the taste of Ethiopian coffee usually drank by many Ethiopians and people who are in the developed world. The excellent quality and flavor of the country's coffee is the background of the country's economy and it is the major source of foreign currency.

There are two markets for coffee: *the cash market* and *the futures market*. “The cash market is the market today. It is the price you would pay for coffee today if you could receive it today. The futures market is used to help determine the price for future deliveries. It is used to purchase a contract today to guarantee a future shipment of coffee. More importantly, however, the futures market for commodities like coffee is used to help protect against the wild variations that occur due to coffee market speculation” (Coffee Research Institute 2006)

Commodity coffee is traded in two markets. The inferior quality is traded in the **London International Financial Futures Exchange** whereas as the higher quality arabica coffee is traded in the **New York Board of trade C-market**. For poor countries like Ethiopia which grow arabica coffee in a small farm lands, the New York C market is absolutely nothing. If the New York market pays 45 cent per pound (half a kilo), and the average cost of production is about 70 cents, this implies that, for every pound of coffee the coffee growers loss 25 cents. Besides the price of coffee is based on Futures market, where in today's market price, a contract is signed to be delivered in future periods. It only benefits the other party, who receives the coffee at some future date in today's agreed contract price, which in turn put buyers in a lucrative position to sell the coffee when the coffee arrives in their store and sell it at a maximum price. Therefore it is a situation in which one party wins big while the other party losses big.

3.4. Fair-trade Premium

Fare-trade is an organized attempt to change the equation so that the growers and harvesters in poor countries get a larger share of the profits earned by corporations that roast and resell the beans in richer countries (Kim 2008). Fair-trade certified coffee, administered internationally by the Fair Trade Labelling Organizations (FLO), ensuring that growers get paid a fair minimum price per pound for their beans (ibid).

OCFC is the largest fair trade certified coffee union in the country. The fair trade premium has done a lot for poor farmer and the community as a whole. The premium will in turn be back to farmers in different communities to construct infrastructures, schools, health posts and medical equipments; clean water development, Bridge, warehouse, Office and flour mills for the community. Bacon, (2005); Calo and wise, (2005) also argue that fair-trade, organic and shade grown coffees, together known as sustainable coffees, are the most important of the new specialty market segments. The movement has spread throughout the coffee world over the past ten or twenty years and is mainly dedicated to promoting social equity, democratic participation in decision making within communities, and paying a fair price to the farmers (Fair Trade Foundation, 2000; Rice, 2003).

“Furthermore, revenue from fair trade sales have allowed cooperative members to purchase two washing stations, and the union has developed a fund for the repair of de-pulping machines to safeguard the organisations capacity to produce high quality, washed arabica coffee. The co-operative provides technical assistance to its members, including workshops on composting the by-products of coffee production and utilising shade trees and natural fertilisers to enrich the soil” (Equal Exchange 2007).

If it were not done by the union using the fare trade premium, all these constructions would be expected from the government. Besides the government might have other priorities than these. Hence the role played by cooperatives in reliving the government and facilities they have created to the wider nearby community has a double aged advantage. According to Oxfam Australia (2009),the total fair trade premium paid to OCFCU between 2004/8 by Australian and New Zealand Fair trade businesses was AU\$206,291.

3.5. Value Network: The New Business Model

Once the coffee has reached in the Union (OCFCU), a fair trade Premium is charged on the price of the coffee to different buyers in the coffee chain. Here what we need to note is that the old model considers this stage as the final stage to the coffee trade chain, where the buyers sell the coffee to roasters and retailers, who in turn sell it to consumers. The farmers' cooperative represented by Mr. Tadesse is still in search of a better market that will bring more money to the farmers' pocket. This is the ultimate aim of Mr. Tadesse for their cooperative farmers. This in turn led them to develop good contacts with roasters, individual buyers, retailers, and others, who will pay a better price for their coffee. Here what we argue is that ***the farmers' cooperative is in a big bold move from Value chain to Value network.*** Mr. Tedesse also claims that by eliminating the intermediaries and selling their coffee directly to roasters, they can manage to remove 60% of the coffee chain by working through cooperatives. This is the right spot where Hart in his book "*Capitalism at the Crossroads*" explains about "inclusive Capitalism, where the four billion poor at the base of the economic pyramid are embraced and do fair business with others in the developed world (Hart 2007)", and Friedman in his book "*the world is flat* also states about the bold move of small groups (like OCFCU) that suddenly appear in the Globalization 3.0, where any individual or small groups are in search of big market in the 'tiny world' meet." In the free market chain, this was once controlled by different intermediaries (locally and internationally), who take the significant portion of the profit with little effort exerted, compared with the growers. But the inclusive nature of capitalism and the flatness of the world in the new globalization period, where business is done in collaboration with others in a transparent and fair way have created the new business model and this is the central theme of our thesis. Besides the New York C market is no more appropriate channel for OCFCU because it's trading coffee as a commodity with a very low price. As a result the farmers' cooperative is in constant search for a better market, where speciality coffee is rewarded with a premium price. This is the stage that we argue OCFCU is moving from value chain to value network. Now let us look at the new business model in a diagram form.

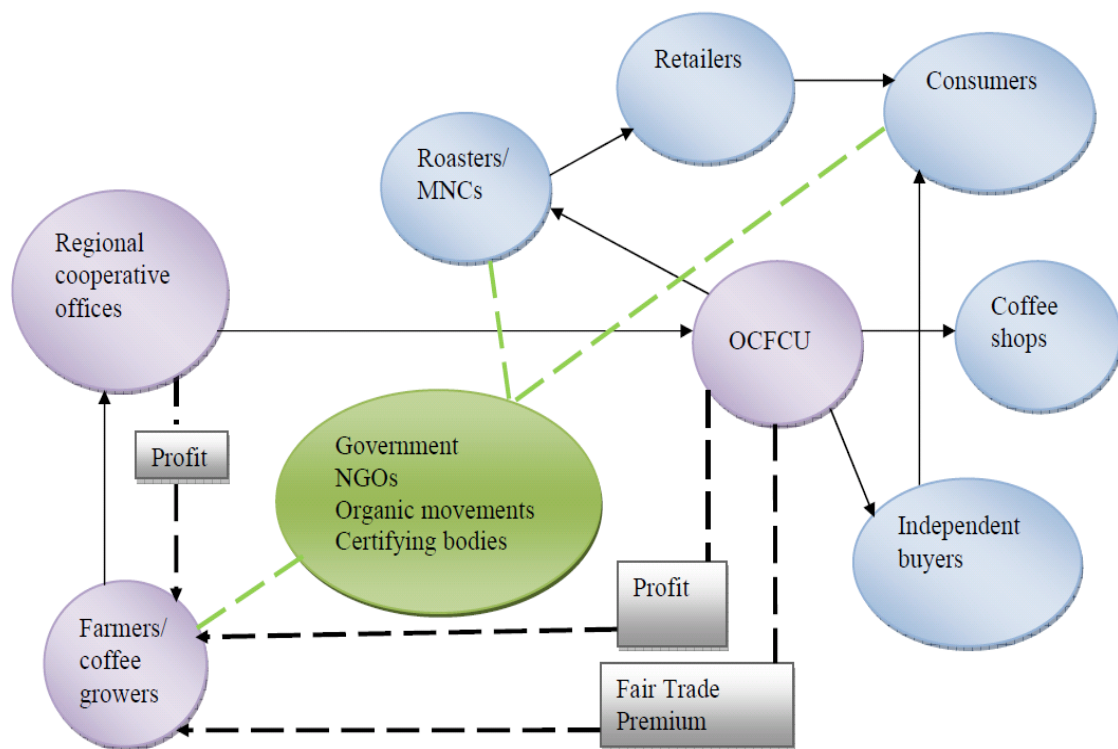


Diagram 2 – The stakeholders’ value network of Ethiopian coffee

3.6. Local Flatteners

The new business model that has brought OCFCU in the center of the value network in the global market has its own local contributory factors. These factors, that we call them *local flatteners* have directly or indirectly contributed to the success of the farmers’ cooperative. Thomas Friedman in his book entitled “*the world is flat*” explains about 10 flatteners that shrink the world from what he call *Globalization 1.0* to *Globalization 2.0* and then finally to *Globalization 3.0*. These three stages have shrunk the business world into three stages from *large* to *medium* and then finally to *tiny* respectively.” He described about the effect of the 10 flatteners that have resulted the global business playing field to be flatter and flatter as follows:-

“Value was being created vertically, usually within a single company and from the top down, it was very easy to see who was on the top and who was on the bottom, who was exploiting and who was exploited. But when the world starts to flatten out and value increasingly gets created horizontally through multiple forms of collaboration, in which individuals and little guys have much more power, who is on the top and who is on the bottom, who is exploiter and who is exploited gets complicated (Freidman 2004).”

It was this shift of the playing field of the world from the *vertical* to the *horizontal* that makes everyone to do his part in the ‘globalization 3.0’ world. We have also reflected *the new business model* that we have used to describe the nature of OCFCU, *from value chain to value network*. This is also one of the factors that help OCFCU to find itself in the stakeholders’ value network of the worldwide business, which have their own direct and indirect contribution to the formation and its current role of the cooperative union. Thus the effect of globalization 3.0 has also been flattening the business in our country’s coffee sectors too. In the pages to come we will discuss four flatteners that levelled the coffee sectors business specifically from the point view of farmers cooperative.

3.6.1. Flattener #1 - Direct Marketing

Direct Marketing is a law enacted by Ethiopian government in relation to cooperative farmers. The proclamation gives the right to any cooperative farmers to directly export coffee from their own farm by bypassing different channels that are mandatory for other channels. Such incentive is additional benefit for the formation of OCFCU to organize farmers. Besides we considered this flattener as one of the major push factor that helps the farmers’ cooperative to be part of the stakeholders’ value network.

3.6.2. Flattener # 2 - Ethiopian Commodity Exchange (ECX)

Ethiopian Commodity Exchange (ECX) is one of the flatteners for the creation of the new business model. Before the introduction of Ethiopian Commodity Exchange, one third of the output reaches to the market and trade has been done on the bases of visual inspection and buyers and sellers only tend to make business with those they knew.

After ECX came to picture, those poor farmers are in a better situation where they have an option to deal and sell with anyone. One of the contributions that ECX has done is that the office puts a display board in major towns, where the farmers will see the daily international price of different types of coffee along with other agricultural items. This is done by the employees of ECX called *price tickers* in some part of the country so that the farmers will have the price information of the commodity in an electronic display board. Those *price tickers* have a network connection with the ECX central office and their duty is to post what they have received from the Central ECX Office in the capital city Addis Ababa. On one side it is good for the farmer to have information on daily prices so that they can set a price for their coffee but the problem is since ECX is trading coffee as a commodity, the price tickers also post the price information of the New York Trade that they got from ECX.

ECX has a plate form hall where buyers and sellers meet and buy/sell coffee. Since farmers have information to the market price of coffee, intermediaries will not be in a better position in which once they were as a price maker. As a result this will be a benefit to the farmers and the way ECX has been doing its operation is a good example of what Friedman has argued that the world market place is becoming flatter and flatter. One thing we need to mention here is that, ECX is one of the major marketing channels where the coffee business sector is traded within the country.

3.6.3.Flattener # 3 - BCS ÖKO-GARANTIE GMBH

The organic agriculture movement and certifying companies in Ethiopia

The remaining two we consider are those in relation to the certification and organic agriculture movement in Ethiopia. We consider the organic agriculture movement initiative and the services rendered by international certifying companies in Ethiopia are the other flatteners that paved the way for the international market. Of course there are also others who play a big role in flattening the business world in the local market that have a direct contribution for international market. Ethiopian Organic Seed Action (EOSA) is one of the dominant organizations in practically doing with the farmers in preserving organic agriculture but we believe that these two we are going to discuss about would be enough. One of the companies who used to give certification services in different parts of the country so that they make the playing field to be flatter and flatter is BCS ÖKO-GARANTIE GMBH.

BCS ÖKO-GARANTIE GMBH is a Germany based company licensed as a private controlling agency for organic production. The company is approved as auditor for Starbucks C.A.F.E. Practices since January 2008. BCS ÖKO-GARANTIE has a branch office in Ethiopia, providing the certification requirement for organic commodities as part the international market requirement and the company is the major certifying bodies in the country. OCFCU is one of the major partner cooperative unions. We believe that this makes it to be one of the flatteners that we consider in the certification of organic coffee and other agricultural commodities in Ethiopia. Mr. Amanuel is a Project Inspector at BCS ÖKO-GARANTIE in Ethiopia office and we have asked him about the overall service of their organization and the following is our question and his response on behalf of the company.

Roles of BCS ÖKO-GARANTIE and its basic certification requirements

BCS ÖKO-GARANTIE controls and certifies products of organic origin all over the world in the fields of agriculture, processing and import & export. BCS ÖKO-GARANTIE controls according to the EU Council Regulation (EEC)2092/91 - as well as according to the US American National Organic Program (NOP), the Japanese Agricultural Standard (JAS) or other national "organic" regulations. BCS ÖKO-GARANTIE has been approved as a private inspection and certification body since May 11, 1992, with the primary task of implementing the European Commission Council Regulation on products of organic origin. The foundations of BCS as an absolutely independent specialist institute is its long lasting experience and its manifold contributions to the development of organic agriculture at all levels. The aim of the company is the promotion of reliable organic agriculture! It is the company's opinion that control is indispensable for the protection of the reliable producer, the consequent vendor and the trusting consumer. The work of BCS Ethiopia more than all contributes to the improvement of socioeconomic conditions of life of the farmers, by opening the door to the organic market. At this moment it calculates that more than 1.5 million people in this country are benefited through its contribution in the organic development.

Organic Agriculture

Now a day there is a lot of interest in organic farming in Ethiopia, and throughout the world, even if there is considerable confusion about what it actually is. Although most of the participants will feel that they know what is Organic Agriculture, experience shows that there is often some misunderstanding, incomplete understanding or different "own" definitions. Additionally there are other 'green', 'natural', 'chemical free' or 'integrated' approaches in Ethiopia adding to the confusion. Anyway, on the international markets only "certified

organic” has a relevant market and creates value. The roots of organic agriculture developed from differing systems of thought, philosophies of life and agro-political motivations. One thing they all have in common is the desire to form a holistic method of production - capable of generating healthy food, while limiting any damaging effects on the natural ecosystem. Organic Agriculture Production not only excludes the use of synthetic agents, it is a system based on biodiversity, improvement of soil fertility and sustainability with a minimum of external inputs. Ideally it should be a self-sustaining system, where fertility can be achieved sustainable by own resources – limiting external inputs. Most importantly Organic Agriculture is defined by Standards, law and regulations. Even if such national standards may differ in some details, the general aspects are pretty much the same and are in accordance with the international definitions of organic agriculture, created with the participation of producers and stakeholders in the organic movement from all over the world - much facilitated through the International Federation of Organic Agriculture Movement (IFOAM).

Certification

There is no need for certification as long as a direct consumer-producer relationship creates trust in organic products. While organic production goes beyond direct markets and “niche markets”, entering mainstream markets, especially in case of export, effective and independent certification schemes have to come into place to guarantee for the organic origin and to create trust for consumers. Such certification has to meet the requirements of the target markets.

Market opportunities

Generally the organic sector is one of the fastest growing business sectors in the past 15 years with worldwide annual growth rates between 10-30 percent, reaching more than US\$ 20 billion. Although nowadays all agricultural commodities are already available in organic quality, supply can often not catch up with the fast growing demand. Global organic markets already left the “niches” and entered mainstream markets. Besides the environmental and producer driven approach to organic agriculture, a market driven approach in many developing countries has emerged. While some larger and already well established Agro-businesses find it difficult to adapt to organic agriculture as they are also doing well on conventional products organic markets can create interesting Market entry points for newer and smaller businesses. Anyway, organic agriculture cannot only open new marketing opportunities, but contributes in the first place to ecological and sustainable socio-economic development.

3.6.4.Flattener # 4 - Ethiopian Association of Organic Agriculture (EAOA)

EAOA one for the flatteners that we consider that has been playing its part in levelling the playing field for organic agricultural output development. It is an umbrella organization for organic agriculture in the country. Mr. Addisu is a board member of EAOA and one of the author's were discussing with him about what their organization is doing in relation to organic agriculture and he has given us the following that we consider worthy of being included it in our thesis. Besides OCFCU is one of the members of EAOA.

In 2003, the government in Ethiopia announced that it would support the development of organic agriculture. Consequently a task force has been established to draw up an Ethiopian organic agriculture regulations, which could be law, and describe how organic products should be defined. This was the period when most of the projects and/or business to produce certified organic products were started. The Ethiopian organic agriculture system proclamation (proclamation # 488/2006) was issued and signed into law on March 8, 2006. The main reason the Ethiopian government is supporting organic agriculture the organic agriculture creates new markets access, which gives premium prices for Ethiopian agricultural products. Currently, in addition to developing a regulation, the Ethiopian government is in the process of setting up Ethiopian organic standards.

The enthusiastic support of NGOs and private companies helped the early development of Ethiopia's organic sector. In 2007 an umbrella organization for organic agriculture in Ethiopia called the Ethiopian Association of Organic Agriculture (EAOA) was established. EAOA's aim is to enhance the organic sector development by creating network among the various organic actors and operators in the country. Ethiopia's organic export have grown annually by 50 percent during the year s between 2005 and 2008, and the Ethiopian organic smallholders farmers have enjoyed the benefit of getting premium prices, which on average have ranged from 1.1 to 2.2 US \$/kg more than the conventional farmers.

Organic certification started in Ethiopia in the mid-1990s. The first certification was conducted by Ecocert, based in France. Currently there are four international organizations offering certification in Ethiopia: IMO, Ceres, BCS and control Unit, though BCS certifies most of the producers. There are no local certification bodies, nor laboratories in the country that are able to conduct residue analysis on crop and products. However, since 2007, EAOA

has lobbied the government for the establishment of a local certification company and laboratory facilities under the Ethiopian Standard and Quality Authority (ESQA). They believe this will help small holder farmers who are concerned by the cost of international certification. It could also help them in local market development.

4. Conceptual and Theoretical analysis

4.1. Base of Pyramid (BoP)

The Base of Pyramid (BoP) refers to doing business with the poor at the base of socio economic ladder who informally do business in an informal market economy (London 2007: II). In order for BoP strategies to alleviate poverty the contributions of different actors, e.g. NGOs, local stakeholders, entrepreneurs, are required (Kandachar and Halme 2007; Hart 2007; Enquist and Sebhatu 2006). Corporations, in particular, can play an active part in this through experiments and creative solutions both small and large, and by thinking more broadly about their role in society. Effective implementation of BoP is the result of humanitarian organization.

Throughout the world the poor is considered as the voiceless when it comes to the business dealings with others. Unless they are represented by a rational person or humanitarian organization, their need cannot be met by them. A human-centered approach views the poor as individuals who should be allowed to voice their concerns as well as participate in the decision-making that affects them (Narayan 2000). It means seeing the poor as individuals like any others but whose freedom and human rights are limited due to poverty (Sen 1999). Being poor, therefore, is much more than a lack of money or an inability to satisfy one's need through consumption, a view that perhaps implicitly dominates the pioneering work on the BOP approach (Prahalad 2004; Hart 2005; Hammond et al. 2007).

On the other hand, BOP is considered as an ethical business dealing which centers the need and benefit packages of the poor as well as all the business partners in the chain. Prahalad (2004), also states that, "the opportunities at the BOP can be unlocked if large and small firms, governments, civil society organization, development organization and the poor themselves need to work together with a shared agenda." It is the co-created efforts of all these stakeholders that that can bring sustainable development in a society which centers the poor, who are the integral part of the Multi National Companies (MNC's). NGOs for instance, have the capacity resource and commitment by focusing on empowerment, training, value chain, development and market access to inspire the transformation of small holders (Lindahl 2005; Enquist and Sebhatu 2006; Danse and Vellema 2007).

Hart and Christensen (2002) have also argued "the base of pyramid is the ideal target for new disruptive technologies for two reasons. Primarily, such business model forges in low income

markets can travel profitably to more places than can business model define in high income market. Secondly, these markets compete against today's noncompeting – that is they offer a product or service to people who otherwise would be left out entirely or would remain poorly served by existing products.' The Great Leap Downward also promotes big companies to find market, where majority of the market is within the four billion people tier III zone.

4.2. Corporate Social Responsibility (CSR)

The term corporate social responsibility today is one of the most widely used concepts in business (Vogel, 2005; Enquist et al., 2008). It has become a major focus of interest, not only for corporate managers but also for development practitioners, both within the NGO community, and within the multilateral and bilateral development agencies (Jenkins, 2005). CSR can be understood as the voluntary integration of social and environmental concerns into business operations and interactions with stakeholders (Bo Enquist, et al., 2006). CSR was first used and defined by Bowen (1953), but the debate over the responsibilities of business for ecology (environment), and its relationships with the society has continued. According to Carol (1991) the concept of social responsibility may change from time to time, the pyramid model gives us a framework for understanding the evolving nature of the firm's economic, legal, ethical and philanthropic performance. As a result 'there is still no consensus on a definition of CSR' (Prieto-Carrón, et al., 2006; Vogel, 2005; McWilliams and Siegel, 2001; Jones, 1995; Carroll, 1991). This wide debate raises the questions regarding both the role of business and the significance of companies' internal structures and contents to the general population (Sethi, 1975). Prieto-Carrón et al. (2006) proposed the following broad definition of CSR:

... an umbrella term for a variety of theories and practices, all of which recognize the following: (a) that companies have a responsibility for their impact on society and the natural environment, sometimes beyond legal compliance and the liability of individuals; (b) that companies have a responsibility for the behaviour of others with whom they do business (e.g. within supply chains); and that (c) business needs to manage its relationship with wider society, whether for reasons of commercial viability, or to add value to society.

4.3. CSR and Poverty reduction

Jenkins (2005) argues that CSR has not explicitly dealt with the poverty impacts of business activities. Eradicating poverty is the greatest global challenge facing the world today and an indispensable requirement for sustainable development, particularly for developing countries (Johnson, 2002). Blowfield (2005) also argues that the interests of business are not adequately aligned with those of the poor. CSR is termed as “dialogue with the vulnerable” according to Roberts (2003), this refers to “...the necessity and potential of dialogue across the corporate boundary with those most vulnerable to the effects of corporate conduct”. In recent decades, globalization has brought new global trade pattern that led companies and individuals to find a platform where they can do business from one end to the other end. Therefore, the interaction of CSR is imperative for these companies to willingly incorporate ecological and social concerns in to their operations, business thinking and shareholder interaction and act (Enquist et. al, 2006). Donor agencies would all like to participate in and contribute towards business-related social development projects, but it is complex for them to implement it. However, they are at the forefront in pressuring multinational companies (MNCs) to accept their social responsibility and act (Lindhal 2005). Here we can take Oxfam as a good advocate in uncovering the dispute between poor farmers and MNCs. We argue that it is the social responsibility thinking of Oxfam that led them to speak out about the poor. Without CSR thinking at the business related societal issues will be ignored. According to Margolis and Walsh, (2003) business should focus on the problems and means of poverty alleviation by integrating their strategies in to distinctive local practices and structures. Where there is internalized initiative to be governed by CSR thinking, there is a broad way in meeting stockholders interest. Contrary to this, it is the motive to depart from CSR thinking that result in chaos in the business world, which prevents sustainable development that at least will contribute its part in poverty reduction.

4.3.1. Value Network

According to Porter (1985), value of a product is the function of buyer’s purchasing criteria. Stabell and Fjeldstad (1998) argue that variation in buyer purchasing criteria gives rise to selective adaptation of products or differentiation. Then they define value chain as the transformation of input activities of long linked technology into products, where the product is the medium for transferring value between the firm and its customers. (ibid). Value network, on the other hand, is a spontaneously sensing and responding spatial and temporal

structure of largely loosely coupled value proposing social and economic actors interacting through institutions and technology (Lusch et. al. 2010). In this value network, a firm is often part of multiple supply chains in which competitors frequently use the same suppliers and the value network includes all of these as parts of the overall value network (ibid). Stabell and Fjeldstad (1998) argue that using mediating technology, customers and organization are needed so that value network can create value.

When adopting a value network perspective, value does not replace supply as a focal construct but enhances it and makes it more integrative with customers and marketing (Lusch et. al. 2010). Supply is a product- and firm-centric concept, whereas value is external in focus (ibid). According to S–D logic, only the customer can assess value and always co-creates value (ibid). Stated alternatively, value is not obtained in the economic exchange of market offerings but rather through their use and within a context (ibid). Normann (2001) explains that, Value network compared with value chain is not only inherently richer but also complex and further asks a question the possibility of governance of value network. (Lusch et. al. 2010) put forward that, since value network is driven by God dominant logic, which makes it collaborative and less hierarchical, than value chain, which is driven by Service Dominant logic, governance of value network is different from value chain. We have also tried to show how hierarchical value chain and how complex value network is in our diagrams in the empirical study of OCFCU.

4.3.2. The stakeholders' value network

Waddock et. al. (2002) explains today's business responsibility is a composition of three components: ***primary stockholders, secondary stockholders and institutional forces***; *Primary stakeholders* are composed of owners, employees, customers and suppliers; *Secondary stakeholders* are composed of NGOs, activists, local communities and government; and *instructional forces* are working on development of global principles and standards that are raising public expectations about corporate responsibility, and new reporting initiatives emphasizing the so called triple bottom lines of economic, social, and environmental performance. These three stakeholders' components are pressing companies (MNC) to adopt Total Responsibility Management (TRM) (ibid).

As we have to tried to create linkage between CSR and different stakeholders in the value network , the CSR thinking with the contribution made by NGOs, along with local flatteners,

that we have we considered, common values can be create for the cooperatives. From our empirical study context *CSR thinking; roles played by NGO and local flatteners* (stakeholders) can make a positive impact in creating sustainable development in the value network. Now we look at the players' in the stakeholders' value network that we have developed for our empirical study framework,

Coffee growers and consumers

Growers and consumers are *the two ends in the value network*. Producers have something to offer for a market and consumers need that after it passes a series of steps. If the product (Ethiopian coffee in our case) fits their quality, and preference standards, rational consumers will always prefer to help poor growers and they are willing to pay a premium price. Hence in order to meet customer's expectation, cooperatives from the producers' side and International buyers from the consumer side will act as negotiators on behalf of the two ends in the value network. Such value network relationship is based on collaboration.

International buyers and Cooperatives

As we discussed it above the role of international buyers is to meet the quality standards of consumers who are willing to pay a premium price. In order to do this they need to work in collaboration with Farmers cooperative union (OCFCU) in the value network. A strong tie between the two will result in social responsibility that leads to sustainable development in the value network. We argue that cooperatives and international buyers are the critical players in value network. It is their roles that strengthen or loosen the relationship between the two ends in the value network (growers and consumers).

Creating mutual interest and helping to develop these smallholders is the main goal of Oromia Coffee Farmers Cooperatives Union (OCFCU), for instance, in organizing the smallholders and training them in growing the desired quality coffee standard. Currently OCFCU is the major shareholder of an independent bank called Cooperative Bank of Oromia Share Company. On the other hand, international buyers have to go beyond buying high quality coffee. Building mutually responsible relationships will have an add benefits in the value network.

NGO, Local flatteners, government and others (Stakeholders')

NGOs and local flatteners are not directly involved in the stockholders value network. They are behind the scene in the system and don't have any involvement in the transaction but they

are factors for the smooth running of the network. NGOs are expanding their role in helping the poor and continue to be an advocate in their business dealings with big companies. For example Oxfam was one of the watchdogs in the stakeholders' value network in resolving the certification dispute between Ethiopian government and Starbucks on the country's three specialty coffee. Local flatteners also have been looking in to the potential problems of farmers and contribute a long-term solution. These behind the scene involvement by NGOs and local flatteners, has pushed the union into being part of the global value network.

4.4. The Great Leap Downward – Inclusive Capitalism

Palmisano S. (2006) argues that business is changing in fundamental ways- structurally, operationally and culturally – in response to globalization and new technology. The big companies are no longer MNCs but global (the globally integrated enterprise) (ibid.). He points out that the globally integrated enterprise can deliver enormous economic benefits to both the developed and developing countries (ibid.). For much of the past half -century, multinational corporations have chosen to focus their attention exclusively at the top of the world economic pyramid, especially the very top where 75 million to 100 million highly affluent “tier 1” consumers reside (Prahalad and Hart 2005). According to the world development report of world bank (2000), MNCs account for a quarter of global economic activities and they employ less than 1 percent of the world labour forces, while the world one-third of willing-to-work population is either unemployed or underemployed ” As a result the wealth created by accrues almost to exclusively to a relatively small number of wealthy people in the world – corporate executives, employees, and western shareholders (Korten 2004). Besides Hart also explains why most multinational global and emerging market strategies were failures is that they were nether very global nor particularly oriented toward emerging markets.... and these MNCs emerging market strategies have focused exclusively on the 800 million or so wealthy customers, ignoring the vast majority of people considered poor to be viable customer (Hart 2005). During the past 40 years, the gap between the richest and the poorest in the world has continued to widen. In 1960, for example, the richest 20 percent accounted for 70.2 percent of global GDP, while the poorest 20 percent controlled 2.3 percent (a ratio of 30:1). By 2000, however, this gap had widened considerably: The richest quintile controlled 85 percent of global GDP, while the poorest for only 1.1 percent (a ratio of 80:1) world bank (2000). In his book entitled *In Defence of Globalization*, Bhagwati (2004) further explains that 10 large MNC's have annual sells of more than the GNP of 100 smallest, poorest countries in the world. Given the ability of MNCs to shift resources and production

across borders, many have also suggested that they encourage a global “race to the bottom” by chasing subsidies, incentives, and lower costs wherever they might lead, at the expense of national and community interest (Korten 2004). As a result the gap between the rich and poor is getting wider and wider. MNCs have also become more concerned about their financial stability and strength especially after the financial crisis which hit the world recently. The poor on the other hand is neglected by most.

It has also become evident that most government in poor countries fail to design strategies that pool the poor out of the abyss. Besides, the role of Non Government Organization (NGOs) is limited to helping or giving aid to the poor rather than helping the poor to create a sustainable business idea. Hart (2007) explains MNCs are the not the only solely responsible for the disparity in wealth between MNCs and the poor. He mentioned the central role played by International financial institutions such as International Monetary Fund and the World Bank to contribute their part in widening of the gap between the poor and MNCs. He also cites the corruption and repressive regimes in the poor countries have also contributed its part in expanding the gap further (Ibid.).

So what is the remedy for this disparity between the rich and the poor? What will bridge the unbridgeable gap which is real in the world? Hart (2005) argues that the best way to both generate growth and satisfy social and environmental stakeholders and he further commend the best path will be through a “*Great Leap Downward* – to the base of the economic pyramid, where more than four billion people have been bypassed or damaged by globalization. It is here that companies will find the most exciting growth market.” This is not a question simply of doing the right thing in order to lift people out of poverty. The majority of large companies seem to be mired in saturated markets that have few significant growth opportunities. The base of the pyramid is, so to speak, completely unsaturated (Hart and Christensen 2002). Hart (2005) also further describe “the extraordinary potential to generate growth, if they have once taken root at the base of pyramid level.

The initiative of sustainable development can work best if it originates from the tier one level. No matter how hard Cooperatives are in search of a better market in the world, without the CSR initiative on behalf of MNC, it is difficult to achieve sustainable development. Besides, the Great Leap Downward holds the prospect of lifting the poor out of poverty, averting environmental meltdown, and opening the way to sustainable growth for the global economy (Hart 2005). Hence we argue that sustainable development can be assured if MNCs and other

in the value network do put forward the CSR thinking so that the Great leap downward work on behalf of the poor at the BOP, which in turn create inclusive capital in the value network.

4.5. Sustainable business

The World Business Council on Sustainable Development (WBCSD), defines sustainability “in our common future” (1987) to “Sustainable development” involves the simultaneous pursuit of economic prosperity, environmental quality, and social equity. However, the word sustainability implies a presumption of no economic development (Ehenfield 2005). Margolis and Walsh, (2003) argues that business should focus on the problems and means of poverty alleviation by integrating their strategies in to distinctive local practices and structures. Otherwise, businesses may create problems which reduce their effectiveness (ibid). And this can be achieved through embedded ties and alliances with traditional (local firms) and non-traditional partners (cooperatives, local communities, entrepreneurs, NGOs aid agencies, and development banks) (Snachez et. al, 2007). Socially-embedded stakeholder strategies may result in the attainment of common benefits for all the actors involved in the network. Integration in to diverse local networks leads to the development of long-term and cooperative relationships (ibid, P.20). Companies aiming for sustainability need to perform not against a single, financial bottom line but against the triple bottom line (WBCSD 2004). One of the mechanisms entails giving the developing countries access to the markets of the industrialized countries (Wallstorm and Gillberg, 2005). The essence of this form of development is a stable relationship between business activities and the natural world, which does not diminish the prospects for future generation to enjoy a quality of life at least as good as this generation (Mintzer 1992).

5. Discussions and Interpretations

At the beginning of our thesis we were asking the following two questions and this page will give some answers based on the questions.

What is the role of cooperatives in creating sustainable competitive advantage for small holders?

How can they meet the expectations of their business partners in the value network taking in to consideration large scale coffee growers?

In order to answer these two questions we have used analytical induction method in which we made a hypothesis statement by inferring general conclusion (*OCFCU's movement from value chain to value network*) from particular instances (*how globalization is making the global business flatter and flatter in two sides of the world – rich and poor countries*). In order to remind readers we have mentioned in our empirical study, Freidman (2005) explains that there were 10 flatteners that flatten the global business field and in the same way we have also noted that there were flatteners (that we call them *local flatteners*) in our country that paved the way for the union to be part of the global business platform, which in turn moved the union from *value chain* to *value network*. Hence the following two questions will answer our questions.

Primarily, the role of cooperatives in creating sustainable business is to eliminate unnecessary intermediaries, who had been taking most of the profit from the coffee chain. This particular case is shown when the coffee market chain is moved from *free market* to *cooperative market*, where *the regional cooperative offices* and *the union* serve as collectors, suppliers and exporters. By doing so, they can archive the union's ultimate aim - *bringing more money into the coffee growers pocket*, which will put smallholders in gaining competitive advantage from the coffee sector.

Secondly, In order to meet the expectation of their business partners in the value network, the union needs to keep an eye on the quality standards of buyers in the developed world who are willing to pay a premium price for speciality coffee. Hence the union is expected to do more in consistently training its member in how they can keep the quality standards of speciality coffee. This is the only way out to leave commodity market and join the 'niche' specialty market. Besides, these days NGOs broadening roles in defending the poor in the

stakeholders' value network is an added benefit for smallholders. Hence NGOs roles will play its part to smallholders in creating competitive advantage and meeting the expectations of their business partners in the value network.

CSR thinking is a firm foundational stage in building the stakeholders' value network. It is the role of CSR thinking that create interdependence between primary and secondary stakeholders in the value network among players. Especially MNCs need to take the initiative to internalize the CSR thinking so that the stakeholders value network work at its best. NGOs, who have always been considered as the voice of the poor, have internalized CSR thinking. Lindhal (2005) also argues that NGOs are at the forefront in pressuring multinational companies (MNCs) to accept their social responsibility and act. And the *Great leap downward* is the most exciting growth market companies will find at the base of the economic pyramid is, where four billion people is bypassed by globalization Hart (2005). Therefore, in order the stakeholder value network continue to be effective and lay a firm foundation, MNC need to take the initiative in bringing sustainable development at BOP level. Of course this doesn't mean that they only keep on doing the philanthropy component but pressing downward in resolving societal problems. The great leap downward is what serves as the base in creating inclusive capital at the base of Pyramid. Hence internalized CSR thinking from MNCs side is the foundational pillar for stakeholders' value network so that sustainability is assured at the BOP level, "which refers to doing business with the poor at the base of socio economic" (London 2007).

Håkansson et. al. (2009) explains the difference in the governance of value network than that of value chain. Since we are also living in a globalization 3.0, where individuals (small groups) can do business from anywhere, we argue that the new business model (value network) is a platform having its own governance that can creates a symbiotic relationship between growers and consumers via their respective negotiators: *farmers cooperative* and *international buyers*. As long as the market philosophy behind the stakeholders' value network is the issue of specialty coffee rather than coffee as a commodity, it will serve as a base to create sustainable development. Even though the role of rule based organization might continue to influence the market in the value chain in the case of our empirical study, the coffee industry is in a constant search for a 'niche market' where a small value networks are being continually created here and there. Lusch et. al. (2010) also describes the nature of value network as less hierarchical and more collaborative than supply chain. Hence we argue that the nature of value network will have a decentralized governance structure, which is

based on collaboration between players in the network. This will make the stakeholders' value network to be a convenient market platform for farmers cooperatives, who can offer the required speciality coffee standard of consumers/international buyers, who are willing to pay a premium price.

Even though there were many efforts made by humanitarian organizations to alleviate poverty, we argue that, the results achieved are not as impressive as forming cooperatives and doing business with business partners in the developed world in a socially responsible way. The community is making business rather than receiving aid from those organizations. Hence being a member of a cooperative is considered as a must for smallholders if they want to sell their coffee to a much better marketing channel than through other channels. As a result we argue that there is a positive correlation between being a member of cooperatives and better income. These can also be confirmed by a simple calculation of the Unions' capital within the last 10 years. Margolis and Walsh, (2003) argues that business should focus on the problems and means of poverty alleviation by integrating their strategies in to distinctive local practices and structures. Besides, in Ethiopia it is about 10% of the farmers who are organized in a farmers' cooperative. The rest 90% is trading coffee using other channels and make barely minimum profit from their coffee. Since the benefits of being part of the cooperative outweighs being left alone it would be beneficial for other farmers to be organized and form cooperatives. Furthermore, the direct marketing channel, opportunity forwarded by the government, is the only way out for these smallholders to eliminate unnecessary intermediaries and put themselves in the wider international coffee business network.

In globalization 3.0 businesses is no more made vertically rather it is done horizontally in a collaborative intention, where the platform is flatter than ever before. Buyers in different part of the world are considering doing business with small groups outside the New York Trade, where coffee price is centrally determined under the cover of consensus between buyers and sellers. Such market might only work for countries like Brazil and others that grow coffee in highly mechanized farms and those who can do it in an efficient way. Contrary to this, farmers in countries like ours, grow high quality, organic, and naturally sundried coffee in small farmlands. For such small holders the New York C Market barely might cover the cost of production or not. As a result, cooperative like OCFCU is already in a constant search for a better market with partners in the value network. Hence trading coffee with the New York Trade, where coffee is considered as commodity, is neither the right nor beneficial place to sell high quality coffee.

The Ethiopian Commodity Exchange (ECX), the major coffee market platform is currently trading coffee as a commodity not as a speciality. Buyers and rosters in the developed world have been paying a premium price for specialty coffee and the price has been showing a constant increase. Taking into consideration this advantage ECX is better off in trading coffee as a specialty rather than as a commodity. The reason we need to mention this is that most of the smallholders are not organized as cooperative and the outlet for their coffee to the international market is through ECX or exporters channel. This implies that they are not benefiting from the direct marketing channel that is available for cooperatives, which in turn keep most farmers in the *free market value chain* system. As a result these farmers are trading coffee as a commodity rather than a specialty which in turn have a very low return to the poor farmers as well as the government in its demand to inflow more foreign currency in its economy. On the other hand, other countries who export coffee have a distinct market between coffee and other commodity products so that they get good price from buyers'. Hence ECX is better off to have a speciality coffee section where it can be traded for a 'niche' market that pays well.

6. Conclusions and contribution

Business exists to solve Problem (Hart 2005). It was individual farmers' problem in the value chain that led the formation of OCFCU, which in turn led the union into stakeholders' value network in the international market. The value network is a market playing field from any part of the world to another, where business is done in collaboration that creates symbiotic relationship. It is also where speciality coffee is traded with good price. Therefore it is this constant search for a better market that led OCFCU in *making a bold move from value chain to value network* that give rise to the creation of *a new business model*. We argue that the new business model can serve as a means to poverty reduction and assuring sustainable development. Margolis and Walsh, (2003) also argues that business should focus on the problems and means of poverty alleviation by integrating their strategies in to distinctive local practices and structures. And this can be achieved through embedded ties and alliances with traditional (local firms) and non- traditional partners (cooperatives, local communities, entrepreneurs, NGOs aid agencies, and development banks) (Snachez et. al, 2007).

To conclude, the new business model is a shift from value chain to value network, where smallholders represented by cooperatives move from commodity to specialty market, where price is discriminated based on quality. Stabell and Fjeldstad (1998) also explain that variation in buyer purchasing criteria gives rise to selective adaptation of products or differentiation. In order to be active participant in the value network, the role of farmers' cooperative needs to be focusing on Specialty coffee. According to Freiedenberg (2004), industry cost structure of innovative large scale coffee growing countries and competition from cost efficient new entrants are the biggest treat for poor coffee growers, who grow coffee in small farm land. Furthermore the New York C market where coffee is traded as a commodity is another obstacle for these smallholders and the future of their arabica coffee. *Hence the new role of OCFCU in the value network needs to be, to keep an eye on the increasing demand of buyers for specialty coffee and training farmers in keeping the international quality standard of organic sundried nature of Ethiopian coffee that they are about to offer to the world market.* This is the feasible way of getting a premium price and avoiding unnecessary commodity coffee price resulting from lower grade quality coffee that might end up in commodity market. Therefore, we argue that this is the role to be played by the cooperative farm in the value network

6.1. Reflection (Contribution of the study)

The original contributions of this study is the creation of value network as the new business model in the coffee marketing chain for the case study we considered from our country. Coffee has been most widely traded via the age old value chain and we have shown how OCFCU is making a *bold move from value chain to value network, leaving the centrally controlled commodity market*. In its move from value chain to value network there are conditions that pave the way so that the farmers' cooperative finds itself in a new business model. We have also point out that such value network is a departure from commodity market and a movement to a niche market, where specialty coffee is traded with premium price. To put it in simple term value network in a coffee industry is what transform commodity market into specialty market. Hence the overall picture of our thesis can be summarized using the above diagram.

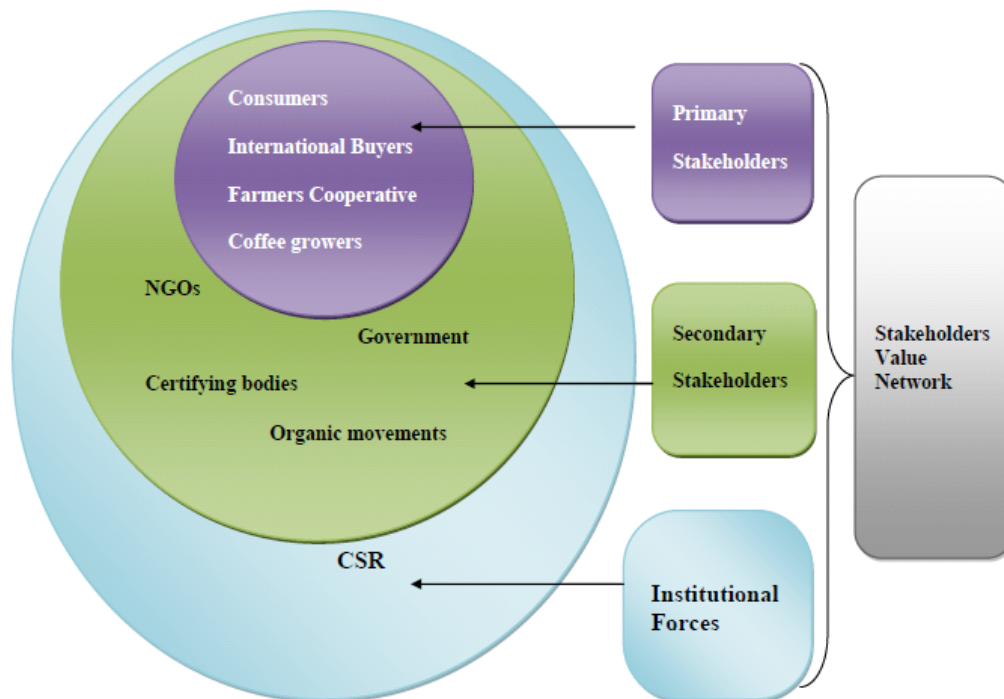


Diagram 3 - A foundation for stakeholders' value network embedded in CSR thinking

Furthermore, in the above diagram we have also shown how *CSR thinking is a firm foundational stage in building the stakeholders' value network*, which in turn can create sustainable development to the society in a way inclusive capital is assured.

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