



## Strengthening

Agribusiness Ethics,

Quality Standards,

& ICT Usage in

Uganda's Value Chains

# AGRI-QUEST

## POLICY BRIEF SERIES

Policy Brief No. 4:

### Improving Stakeholder Relationships in Agricultural Value Chains

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**AGRI-QUEST Policy Brief Series** provide state-of-the-art analyses and policy recommendations on topics related to ethics, quality standards; sustainability, and Corporate Social Responsibility (CSR) in agriculture in the context of Uganda. They are part of the broader AGRI-QUEST research project funded by The Netherlands Organisation for Scientific Research (NWO-WOTRO).

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## Abstract

While doing research on agricultural value chains in Uganda several instances of unethical behavior in the agricultural value chains of Uganda have been observed, which negatively affect stakeholders relationships in these value chains. Through the use of empirical data of interviews, observations and reports we describe why unethical behavior has harmful effects for all stakeholders in the value chain, but at the same time why ethical behavior can benefit those same stakeholders. We provide suggestions on why ethical behavior improves and strengthens stakeholders' relationships and thus allows also for more value to be created. We outline avenues for improving ethical behaviour in the agricultural value chain of Uganda.

## Introduction

*“The poor farmer doesn't have postharvest contracts. So what the farmers do, I think it's not good ethics, but the farmers also now when the power changes, they also take advantage. I have my good friend from the USA that is doing banana juice. He trains the farmers; like I pay you this much and you grow so much. But then when a local trader comes, who is making local food from the same bananas and pays 200 Shillings more, they don't supply this man or lady, and she is extremely mad about it”. (Apollo Segawa, CURAD)*

This is one of many examples of unethical behavior came across whilst doing research on agricultural value chains in Uganda. Other common unethical practices found were adding water to milk in the dairy value chain, coffee farmers supplementing coffee bags with rocks to increase the weight, and mixing certified coffee with uncertified coffee but selling it a 100% certified product to get a higher price. All of these are instances of a recognition or acceptance of that it is wrong,

but inducements exist for individuals to do the incorrect thing nonetheless and violate ethical norms (James, 2003) which in these cases are eventual monetary benefits and increase their own utility.

This type of behavior negatively affects all stakeholders in the value chain including ultimately the ones who partake in unethical behavior themselves and in the most favorable situation will only lead to short-term financial benefits; a coffee farmer who sells their coffee with rocks added to it will not have the opportunity to sell to that person, cooperative or association the next time and may face further reputational damage as well. On the other hand behaving ethically, or morally right, towards other stakeholders in value chains can lead to stronger commitments from stakeholders, increased legitimacy, higher financial returns and higher trust between stakeholders (Cording, Harrison, Hoskisson, & Jonsen, 2014).

For the purposes of this research the value chain is described as “the full range of activities that are required to bring a product or service from conception, through the intermediary phases of production (involving a combination of physical transformation and the input of various producer services), delivery to final consumers, and final disposal after use” (Kaplinsky, 2004, p. 8). The term value chain refers to the fact that value is added to products through combinations with other resources such as tools, manpower, knowledge and skills or other raw materials (ILO, 2009). Value chain stakeholders include farmers, cooperatives, middlemen, warehouses, traders, exporters, shops, consumers (Jassogne, van Asten, Wanyama, & Baret, 2013) and those actors who are less directly involved such as research institutes, government entities, financial institutions, unions and consultants.

In the following sections it is researched what behaving ethically entails, the difference between right and wrong behavior, and the importance of trust in agricultural value chains in developing countries. Stakeholder theory is used a guiding theory to show why individuals and organizations should strive to

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strengthen their stakeholder relationships as it would benefit them as well. To aid in these research objectives empirical data has been collected throughout different agricultural value chains in Uganda in the form of interviews and observations. An overview of those interviews can be found in Appendix A. Through this data three examples in Uganda are given on what unethical and ethical behavior looks like in practice and how this affects the involved stakeholders in a bad or good way.

This paper proceeds as follows. First, an overview of the country of Uganda is given based on literature on empirical findings while doing research. Second, a theoretical framework is presented which covers the concepts of ethics, stakeholder relationships and agricultural value chains. Third, the research methods used are described. Fourth, the research approach is described. Fifth, empirical findings are presented with mini-cases illustrating concepts important for managing stakeholder relationships. Sixth, a conclusion and recommendation is given regarding how to manage and improve stakeholder relationships.

## Research Context Uganda

### *Country overview:*

Uganda is a land-locked country situated in the eastern region of sub-Saharan Africa bordering on the western side with Congo and Rwanda, on the northern side with Rwanda and on the eastern side with Kenya. Uganda has one of the fastest growing populations in the world with over 37 million inhabitants and that number is expected to increase to 46.7 million in the year 2025 (UBOS, 2014). Uganda's population is made up of different ethnic groups which encompass different religions, traditions and beliefs, value systems and languages. Religion plays an important role in the life of Ugandan people and over 80% of the population has a religion with a Christian background and 13.7 % is Muslim (UBOS, 2014); often world religions as this and local religions are combined (Byrnes, 1992)

Throughout years 2005 to 2013 the economy grew, on average, 7 percent per year with most of the growth accounted for by the service sector and the industry sector but little growth in the agricultural sector of 1,3 percent (UNDP, 2015). Oil is expected to create revenues in Uganda as well as oil comes on line in the next few years (Oxford Institute for Energy Studies, 2015). Although the economy is steadily growing on average as a whole there also growing levels of income inequalities (UNDP, 2015) which are mostly habitants of rural areas. 38 percent of the Ugandan population lives on less than 1.25 dollars a day with the percentage being higher in Northern parts of the country (Embassy of Kingdom of the Netherlands, 2015).

### ***Agriculture in Uganda***

Uganda has substantial natural resources, including fertile soils and regular rainfalls leading to good circumstances for agricultural developments. Moreover, about 80% of the country's total land is arable with estimations of 30% being productively utilized (MVO, 2016) Not surprisingly, over 70% of the Ugandan workforce is working in the agricultural sector (Embassy of Kingdom of the Netherlands, 2015) and is therefore the core sector of Uganda's economy. The traditional cash crops of Uganda include: Coffee, Tea, Cotton and Tobacco with coffee being the largest agricultural export product. The major subsistence crops are: Plantains, cassava, sweet potato and maize (UBOS, 2015). A lot of these agricultural value chains consist of mostly smallholder farmers who are spread across the nation with different regions specializing in different crops.

### *Problems facing agricultural value chains:*

Apart from unethical behavior in the agricultural value chains other factors place a burden on these value chains as well. Productivity in these sectors however is still very low which is attributed to use of low efficiency tools of production and very low usage of improved technology such as fertilizers. Also, poor management of natural resources has affected the soils greatly on

which these crops are grown leading to a decline in productivity in many affected areas (MVO, 2016). Also the quality of the products being produced by the farmers is often too low to be able to have it exported to other countries. Although the country is dependent on the agricultural sectors, very little added value is being created in Uganda itself. Below are reasons addressed negatively affecting the agricultural sector and the possibilities to create and trade value.

#### *Weak ties between stakeholders*

This is partly explained by linkages between value chain actors are often very weak as they are geographically dispersed and as in many African countries, in Uganda there is a mutual lack of trust and confidence in each other (Drost, van Wijk & Mandefro, 2012). The unethical behavior described throughout this report occurring in agricultural value chain exacerbates this problem enormously.

#### *Limited transportation possibilities*

The geographical position of Uganda in East Africa leaves it not option to have its own harbor and otherwise expensive options to transport commodities throughout the countries and to other countries (USAID, 2015). The bad roads across the country, especially in the rural areas where a lot of agricultural value chain players reside and produce, make it difficult to connect different value chain players to each other (UNDP, 2013).

#### *Limited financial possibilities*

Access to affordable capital or credit for small and medium sized enterprises, which most of these stakeholders in agricultural value chains are, is limited. For example, local banks will not loan to smallholder farmers as the risks involved according to these banks is too big. For those fortunate enough to be able to loan through these institutions the interest rate, according to the CEO of KK Foods, is over 20%. Farmers and other stakeholders therefore have limited financial possibilities to buy expensive fertilizers to improve production

and lack the ability to transport or process their own produced commodities.

#### *Climate change*

While it is difficult to assess how climate change affects the productivity of cash and subsistence crops some patterns are noticeable (IISD, 2013). The average temperature between 1960 and 2010 has increased by 0.37° per decade. Moreover, rainfall is observed to be lower, less reliable and more unevenly distributed such as through sudden extreme periods of rainfall. Also droughts have become more frequent in the country affecting the crops' outcomes and therefore affecting the productivity levels of these crops (IISD, 2013).

## **Research approach and methodology**

This study is designed as a descriptive study to examine how relationships in agricultural value chains can be strengthened through examples of how to have relationships with stakeholders but also how not to do it through the unethical behavior shown in various value chains. To illustrate the points in the theoretical framework concerning ethical and unethical behavior, qualitative data has been used which is divided in to three cases. First, as an example of unethical behavior towards employees a cooperative union's processing factory has been examined. Second, as an example of ethical behavior towards employees an observation has been conducted at a small enterprise which specializes in food production and processing of soy products. Third, an example is given on how these stakeholder relationships practically can be improved by using a model which is called the Farmer Ownership Model that is implemented in the coffee value chain already.

## Theoretical Concepts and its application in agricultural value chains in Uganda

### On Ethical Behavior

Ethics is derived from Greek word “ethos” signifying character or custom (Sims, 1992). Ethical behavior is characterized by traits of honesty, fairness, equity and equality in interpersonal relationships. It respects the dignity, diversity and rights of individuals and groups of people and counts on the moral integrity of a person (Sims, 1992). Morality often lacks objectivity or quantitative reasoning to fall back on and often it is difficult to provide clear-cut answers to ethical dilemmas. It concerns itself with the question if behavior shown is ‘good’ and ‘right’ instead of ‘bad’ or ‘wrong’ and thus what we ought to do and ought not to do (Beauchamp and Bowie, 1983). How each individual determines his/her behavior is determined by situational factors such as background, personality, desires, decision history and philosophy (Stead, Worrell & Stead, 1990). The greater are an individual’s moral code, personal values, and willingness to conform to social norms and ethical standards, other things being equal, the less likely that person would be expected to engage in unethical behavior (James, 2003)

Business ethics sees ethical issues as something where the consequences of an individual’s decision affects the interests, welfare or expectations of others (Rest, 1986). Unethical behavior then is behavior that has a negative effect upon others and is either illegal, or morally unacceptable to the larger community (Beu & Buckley, 2001). Thus, ethical behavior is a social phenomenon and needs to be described in relationships to others. Relating this to agriculture practices in value chains there are many ethical issues and dilemmas present such as animal welfare and production, technological change and agricultural production techniques (Thompson, 1998) and clearer types of unethical behavior such as pollution or corruption of regulators and policy makers (Gupta & Chaudhuri, 1997).

According to Nash (1990) there are two different categories of ethical problems. First, also called Type I problems, are the problems that do not have a general consensus on what is the ethical thing to do. Examples of these sorts of ethical issues are using biotechnology in food production, genetic modification of crop plants, and the treatment of livestock animals (James, 2003). These types of issues carry controversy with them as it is not clear what the standard should be and it will depend on individual’s situational factors how he/she will respond to them. Second, which can be deferred to as type II problems, are the problems where there is a general consensus as to what the norm is and what is good and right but individuals have incentives to violate the consensus norms (James, 2003). Examples of type II problems are the dumping of toxic waste, violation of food safety standards, adding water to milk, labelling products as certified while it is not, or bribery of government regulators to obtain favorable policies and rules. So there is a general recognition or acceptance of what is wrong, but incentives exist for individuals to do the wrong thing nonetheless. These types of problems are the focus of this research as adding water to milk or adding rocks to coffee bags are done by individuals who know this type of behavior is inappropriate yet still do it as it leads to higher quantities of produce to sell.

### *Behaving unethically and ethically*

Conducting yourself unethically could lead to all sorts of disadvantages not only for the one committing to acting unethically but also to the detriment of other stakeholders involved therefore weakening stakeholder relationships and trust between the stakeholders. Individuals or groups involved in unethical practices will be almost always directly or indirectly held accountable for their actions; a coffee farmer selling their coffee with rocks in bags will be, once caught, not asked again to supply coffee just a seller of fake fertilizers will not be asked back again to deliver these bogus fertilizers and will have a bad reputation build up among customers. Indirectly, practices as this damage

the entire value chain as it builds an atmosphere among stakeholders of malice and mistrust and diminished bases of support; a farmer who bought fake fertilizers will be very hesitant and wary to deal with another input dealer as well. Thus, unethical behavior leads to misleading, disagreeing, confusing, withholding or distorting agriculture information and avoiding to fulfill obligations. This yields negative implications for supplier performance and consequently the entire value chain suffers by way of: unreliable deliveries, order incompleteness, faulty deliveries (AGRI-QUEST). This can lead to lower productivity, lower trust, lower financial performance and weaker ties between stakeholders.

On the other hand, stakeholders that are treated ethically tend to forward and reciprocate this behavior towards other stakeholders as well such as sharing valuable information across stakeholders, buying more products or services, and employees working hard and remaining loyal to the organization (Cording, Harrison, Hoskisson, & Jonsen, 2014). An interviewed farmer stated that a coffee trader who has fair pricing towards farmers, and that farmer feels he is treated with dignity and honesty because of that, then the trader has a real chance of that farmer connecting other farmers to that coffee trader. So not only has the trader behaved justly but he also has new farmers which he can buy product from. Also an employee that is treated well tends to work harder and remain with the organization longer if it feels respected and treated with fairness by its superiors (Tantalo and Priem, 2014) Strong relationships are those that are based on cooperation, trust, intimacy, empathy, reciprocity and emotional intensity (Granovetter, 1973).

### On Stakeholder theory

To illustrate the points made on ethical behavior stakeholder theory is introduced to illustrate how behaving ethically can strengthen stakeholder relationships and create value for all involved. Stakeholder theory, promotes a practical, efficient, effective, and ethical way to manage organizations in a highly complex and turbulent

environment (Freeman, Harrison and Wicks, 2007) by advocating for treating all stakeholders with fairness, honesty, and even generosity (Harrison et al, 2015). It is a management theory based on moral treatment of stakeholders (Harrison, Freeman & Cavalcanti Sá de Abreu, 2015) and suggests that treating all stakeholders well creates a sort of synergy (Tantalo and Priem, 2014); how organizations treat its employees influences the attitude of its customers, and how an organization behaves towards the communities in which it operates influences the attitudes and behavior of its suppliers and customers.

As Harrison, Bosse and Phillips (2010, p. 58) mention: “A firm that manages for stakeholders allocates more resources to satisfying the needs and demands of its legitimate stakeholders than what is necessary to simply retain their willful participation in the productive activities of the firm”. This is recommended because the enhancement of stakeholder relationships of individuals and organizations creates stronger commitments from stakeholders, increased firm or individual legitimacy, higher trust in firm-stakeholder relationships and thus greater potential for value creation (Harrison & Wicks, 2013). This is even more important for areas with resource scarcity, such as drought stricken areas and regions who have limited financial possibilities such as Uganda where they are more dependent on each other (Harrison et al, 2015). Trust and relationships are most important in such value chains, where the amount of information available concerning factors such as prices and production methods are limited so the information they do receive has to be trustworthy.

Concluding, even though behaving unethically could lead to short-term economic value, it can also lead to individuals or groups to take actions that reduce other types of stakeholder value; particularly values that move beyond profitability and economic returns (Harrison & Wicks, 2013) such as social values. Moreover, this has the risk of inhibiting possibilities of long-term economic growth if unethical actions taken in pursuit of economic growth diminish bases of trust and

support from other stakeholders in the value chain. Instead, the stakeholder approach intends to include interests and claims of non-stockholding groups (Mitchell, Agle, & Wood, 1997) to achieve long-term superior performance (Laplume, Sonpar & Litz, 2008).

## Findings

Below we present three mini-cases which show in which way ethical and unethical behavior take place in Uganda. The first two cases allow for comparison of treatment of employees in two different organizations. The third case shows how a Farmer Ownership Model through fair treatment of all involved can create value for the entire value chain by strengthening stakeholder relationships and behaving ethically.

### Case study 1: Observations at Bugisu Co-operative Union Ltd in Mbale, Uganda

#### Overview of organization:

Bugisu Co-operative Union Ltd (BCU) is owned by coffee farmers and further subdivided in primary societies spread across the Mbale region with the board of directors responsible for implementing policies across these societies. Activities undertaken at the processing factories include drying the coffee on raised grounds, humidity testing and cleaning of coffee bean, weighing, processing and storing of the beans in silos.

#### Employee conditions:

Setting: The factory consisted of multiple levels of areas with heavy machinery present everywhere for coffee processing purposes. The higher levels of the factory were full of holes with the possibility of serious injury risk if an individual were to fall into it. Moreover, the sound level within the factory was very high and should have required ear protection for employees to be worn; there was no ear protection visible on any employee nor did it seem that it was available for the employees. Also, the floors, machinery and other appliances appeared to be very dusty. Although there was very heavy equipment present in the factory and a lot of wooden

materials, there were almost no fire extinguishers available in any of the areas in the factory with the exception of a few.

**Women:** The women at Bugisu were found to be mostly picking bad beans from the batches which previously have gone through all the machinery and other processing purposes. This work was done on the ground with small carpets in front of every employee to pick the bad beans from. Although being inside of the factory a lot of women, while on the ground, were exposed to the sun in the middle of the day. The women work 8 hours a day and 6 days a week.

**Men:** The men at the cooperative do more of the physically taxing work such as carrying the bags to storage rooms; each coffee bag has a weight of 60kg. Moreover, an average working day for them consists out of 13 hours of work with little breaks in between.

A photo to illustrate the situation described is given in Figure 1.

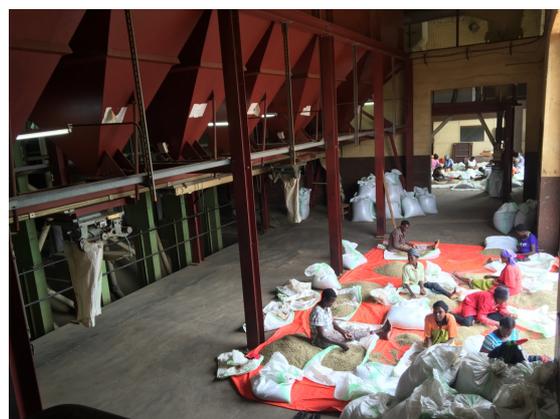


Figure 1: Women at work in Bugisu Co-operative Union Ltd (BCU), Mbale

### Analyzing employee relations at Bugisu Co-operative Union

Section 51 sub-section 1 of the corresponding national legislation provides for “any dust or fume or any other impurity of such character and to such extent as to be likely injurious or offensive to workers; then all practical measures shall be taken to protect the persons employed against inhalation and accumulation of such dust or fume in the work area”

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((Ministry of Gender, Labour and Social Development, 2004, p.13). This was not the case at the processing factory where a lot of dust was on the machines and on the ground; as the picture also displays no protective measures to protect the workers are taken and dust can be seen amassed on the ground on the left side. Moreover the holes in the ground and the loud noise constantly present make the working conditions and the environments of the workers not conducive to good health and productivity.

The female employees working at BCU sitting on the ground all day in the sun is also not conducive to good health and does not promote a good working environment for the women to be in. Apart from the health concerns related to this way of working it is also not productive to perform the work this way. Ethically, it does not respect the rights of these individuals and should therefore also be labelled as unethical and having a negative impact upon these workers. The men who were working at the factory doing the heavy lifting of the coffee bags and were working for 13 hours a day were treated unethically for the following reasons. First, the treatment of these workers should be labeled as unfair and probably has negative physical impacts on these workers thus impacting the welfare of these workers. Moreover, and more importantly, it does not respect the legal rights of the workers as working 13 hours a day for an average working week of five days (and some mentioning to work six days), is illegal as a full-time working hour week should not exceed 48 hours a week and aim for a 8-hour working day (Ministry of Gender, Labour and Social Development, 2004, p.17), especially with the hard and physically demanding work which these men were doing on a daily basis.

**Potential consequences of unethical treatment**  
Asides from the negative ethical connotations these employee relations carry there as it is the bad and wrong thing to do, there are some likely potential more tangible negative outcomes because of this unethical behavior as well. First, overall bad working conditions are likely to affect the success rate of which the women pick the out the wrong beans.

Second, the long working hours of in particular the men are probable to affect their productivity of their work. This could be from being able to work less hard to getting sick sooner as the physical work is very taxing on their bodies. Third, as explained in the theory, it is less likely the employees will tell others in their social environment to apply for a job there and may further damage the reputation of the company as well. Moreover, an unhappy employee because of unethical treatment is likely to influence other employees around them as well leading to a less motivated workforce as a whole. Thus, it weakens stakeholder relationships between organizations and its employees.

## Case study 2: Observations at Sesaco

### Overview of organization:

Sesaco is an SME in Kampala Uganda which started in 1987 as a food processing company using soy as a base for producing products such as soy yoghurt, soy milk, soy meat and soy coffee. Producing mostly for the Ugandan market the company also produces some products intended for a company in the United States. Base ingredients such as maize, millet, soy beans and ground nuts come directly from farmers, farmer organizations and traders with the first two providing the biggest share. Sesaco uses a material called bricks which is composed of compressed waste to make fire to reuse materials and not using firewood as a material which is more damaging to the environment. The main goal is to have food processed in Uganda itself therefore adding more value to the raw product before selling it.

### Employee conditions:

A regular working day for the day shift at SESACO looks as follows: Work commences at 8.00 a.m with breakfast being served for employees two hours later. Lunch is prepared at 1.00 p.m and at 5.30 p.m. the working day is over for the day shift crew. To motivate employees small bonuses are paid at end of the year to each employee disregarding if they made profits.

The factory is situated on the outskirts of Kampala. The factory consists of several

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rooms each with a different purpose in the food processing procedure. Each of these rooms had a fire extinguisher present for if any calamity might occur. Moreover, each space had an abundance of natural lighting present and chairs for employees to sit on to do their work. Every employee wears rain boots or clogs, facemask and a headband for hygienic purposes. Once an employee leaves an area of the factory he/she walks through a water bath to eliminate as much waste going into different areas. Employees which worked in noisy areas of the factory also had hearing protection on them to protect them from any hearing damages occurring.

*Employee education:*

Every year the company sends at least five people (staff, their suppliers and customers to go for training in nutrition and food processing to countries such as USA, Rwanda, Brazil and Burundi (Katamba & Nkiko, 2016). Sesaco has an intern development program where employees go to school for agribusiness and also visit other countries such as the USA to learn practices from other companies active in agricultural value chains, and Brazil for training in machinery operation and maintenance for technical staff members. Apart from this employees are also internally trained and are encouraged to eventually start their own business. To illustrate the situation a picture is added in Figure 2.



Figure 2: Employees at work at Sesaco, Kampala.

**Analyzing employee relations at Sesaco**

Although basic necessities such as a place to sit on and do your work may seem like a natural given, the previous example of the Bugisu Co-operative Union provided of proof otherwise. As the picture shows everyone is wearing protective clothing to keep the working environment clean and hygienic therefore promoting the health, safety and welfare of persons employed (Ministry of Gender, Labour and Social Development, 2004). As opposed to the Bugisu example, workers which were active in noisy areas of the factory did have ear protection available to them. Moreover the bricks mentioned used, composed of compressed waste, contribute to promote an environmentally friendly workplace.

The employee conditions consist of respectable working hours and sufficient breaks in between. The breakfast, lunch and the bonus given at the end of the year on top of the investment in employees through (oversees) trainings and in-house education is what is meant with managing for stakeholders as more resources than necessary just to retain their willful participation is given to employees; instead generosity is shown to other stakeholders. Although admitted by its CEO that there has not been training yet on ethical business behavior there is already a focus towards an ethical relation with workers as employees seem to be treated with fairness and respect at the organization and feel they are being invested in to realize their own true worth.

*Potential consequences of ethical treatment*

Apart from Sesaco behaving ethically towards its employees is the good and right thing to do it has several advantages to it as well. First, because of the honest and fair treatment of employees they are more likely to be happy employees who tell others in their environment about this as well leading to a better reputation as an organization and a more popular employer. Second, as mentioned previously, a happy employee who feels he is being treated with respect tends to work harder for the organization and remain loyal longer to the organization because of a stronger commitment they have towards the

organization. Third, this also affects the level of production and the rate of error-free working in a positive way. Thus, it increases the stakeholder relationship of Sesaco and its employees both benefitting the organization itself as they treat their employees ethically, but also benefitting the employee as they feel they are treated with respect, dignity and honesty.

### Case study 3: The Farmer Ownership Model

#### *Overview of the Model*

The farmer ownership model is a model that builds the capacities of rural coffee farmers to remain in charge of their own crop and be responsible for their own actions but work in partnership with other stakeholders as facilitators. With this, the model attempts to readjust the vulnerable position of the rural farmer in the value chain as they are deprived of more than 90% of the retail value of their produce (CURAD, 2015), upgrade their value share and give farmers a possibility to move out of poverty (NUCAFE, 2016). Instead of buying the raw materials from the farmers at a low price and selling it on to other stakeholders, processors are included in this model as they offer their facilities and value addition expertise at a service fee.

In this new approach the processors receive coffee in bulk through cooperatives associated with NUCAFE, which is the national umbrella organization for smallholder farmers, instead of obtaining it from separate smallholder coffee farms leading to a higher utilized capacity for the processing factories. Individual farmers are organized into groups, and groups are then organized into associations/cooperatives. The associations under NUCAFE do not buy the coffee themselves, to prevent cooperatives of having incentives to maximize its own profits, but rather are facilitators to help farmers add value to their coffee. In return for these services the associations and NUCAFE receive a service fee derived from the coffee revenues. NUCAFE also supports and regulates the cooperatives and provides a link to international markets. Moreover they provide

training to farmers on topics such as sustainable production techniques and the worth of their product (CURAD, 2015)

Along with this higher utilization percentage and processors offering milling and grading services for a fee leaves them with higher incomes than their original business model (Ashoka, 2016). Overall the cooperatives provide services to the farmers of bulking, primary processing and delivery to NUCAFE who provides services such as training, marketing, information dissemination and advocacy. Aside from promoting ownership the model aims to improve farmers' skill such as taking responsibility, making investments, collective entrepreneurship, patience, and empowerment (CURAD, 2015). The model is initially only used as a method in the coffee value chain with intentions of expanding it to other agricultural crops in the future.

#### *Purpose of the Model*

The purpose of this model can be summarized in three goals (CURAD, 2015<sup>B</sup>): First, through the use of cooperatives and the societies which are subsidiaries of those cooperatives, the model ensures bulk, processing and collective selling of coffee for farmers which relieves farmers of the burden of having to sell their coffee themselves without having the proper transportation and storing possibilities for it. Moreover, throughout these processes the farmer remains owner of their product. Second, this increases farmers' bargaining power for better coffee and input prices. Third, it ensures the sharing of information and experience among farmers on best farmers' practices.

#### *Benefits*

The benefits of this model is that it promotes performance based related pay in a way that encourages to be responsible for their own revenues. Because of the bulk and collective selling for farmers their position in the market is strengthened leading to higher revenues thus increasing farmers' income. Not only do farmers enhance its position in the market, the processors as well benefit from it as they get a

constant higher amount and quality of beans to process at a fee leading to a higher utilization rate of their processing factories. Lastly, this model can also be implemented in other agricultural value chains in Uganda.

### **Analyzing the Farmer Ownership Model**

#### *Current position of smallholder rural farmers in value chains*

In the current coffee value chain in Uganda, without the application of the Farmer Ownership Model an abundance of stakeholders is involved from the coffee seedlings producer to the end consumer. Rural smallholder coffee farmers mostly sell their coffee beans raw or in dried form, thus with minimal added value with middlemen, traders and others higher up the value chain benefitting from this. As there is an abundance of smallholder coffee farmers trying to sell their coffee and relatively little channels through which they can sell it to the middlemen and traders have a very powerful bargaining position and negotiation power which leads to very low prices for the farmers. The immediate obtainment of cash plus the disadvantaged economic position these farmers find themselves in make it difficult to refuse offers of these middlemen and traders; even if it means selling at very low prices. As one sustainable land specialist of the ministry of Agriculture mentioned: *“usually when there is a middle man, the farmer doesn’t get anything”*.

#### *Why is this ethically wrong?*

For farmers not connected to the Farmer Ownership Model several unethical practices and behavior arise. First, the conventional middlemen, who are often part entities such as large milling companies, obtain a lot of the profits in the value chain while not really adding value to the product while all the risk involved with production such as fluctuating prices remain at the farmers’ levels. Moreover once a farmer hands over their coffee to the middlemen they lose ownership of their products. These two factors make it an inequitable relationship between these stakeholders and can be labelled as unfair. Second, farmers are taken advantage of as

they receive very low prices because of the limited bargaining power they have against middlemen and traders making it unfair and for these farmers and morally wrong for those partaking in these activities. Third, many farmers are not aware of the economic value of their product, in raw or in processed form (Ashoka, 2016) making the relationships with other stakeholders unequal as more information is known to stakeholders higher up in the value chain. Overall, the traditional system is designed to benefit those at the top of the value chain, where most of the value added activities take place, at the expense of those at the bottom.

#### *Ethical improvements with new position of farmer with Farmer Ownership Model*

The model gives farmers more control over their participation in the value chain and their income by creating farmer-centered cooperatives and redefining processors as service providers for coffee farmers while letting farmers remain owners of their product while it moves up the value chain and value is being added to it. The trainings provided by NUCAFE reduce some of the inequality in the value chain and makes farmers more aware of the worth of their product and therefore a more honest marketplace. The bargaining position of the farmers is also enhanced through the cooperatives and makes sure their get a fairer price for their product. This fairer price indirectly benefits others in the value chain as well as the farmers have more resources to improve the quality and quantity of their coffee production and move them out of poverty. Moreover through the trainings given to farmers the quality and quantity also improves leading to a more equitable role for farmers in the value chain to play.

Also, as farmers remain owners of their crop and thus are held accountable for their products they are also more likely to behave more ethically; as the reward or sanction power lies with the farmer groups and cooperatives, the farmers are likely to conform to the desires of these groups (Beu & Buckley, 2001). Unethical behavior such as adding rocks to coffee bags by farmers is therefore

less likely as it quickly becomes apparent who is responsible for it through these control mechanisms of the farmers groups and the cooperatives. So this system also provides a system of trust for both farmers and other stakeholders; the farmers know they will get their money if they produce and deliver their coffee in a right way and the farmer groups and cooperatives know they will get good coffee. Thus, by unlocking opportunities for farmers to engage at higher levels of an agricultural commodity value chain, the Farmer Ownership Model not only increases incomes but brings fairness and equitable power relations along the value chain leading to creation of shared value for all actors involved to be winners to ensure sustainability of the entire value chain.

## Conclusion and recommendation

This paper has shed light on how behaving ethically can improve stakeholder relationships, business performance, and therefore also benefit entire agricultural value chains as well. The approach has been to show through several mini-cases the unethical and ethical behavior occurring in Uganda which were encountered during doing research there. These were then analyzed using theory on ethics and stakeholder theory to show how unethical and ethical behavior actually influences the stakeholders involved directly in these types of behavior as well as the stakeholders which are indirectly involved.

Several unethical behavior examples from agricultural value chains in Uganda have been discussed in this rapport: From the intentional breaking of previously made deals with others, adding water to milk or rocks to coffee bags, forcing coffee farmers to accept low prices, and the mixing certified coffee with uncertified product and selling it as certified All of these instances have one thing in common; the monetary benefits received by behaving unethically. Or in other words, these stakeholders have incentives to increase their utility by not conforming to ethical standards (James, 2003) Thus, if incentives create these type II ethical problems, then removing these

incentives or replacing them can solve these dilemmas.

This can be done by informal or formal sanctions or with monetary or non-monetary rewards by institutions such as explained at the Farmer Ownership Model. When a farmer sells coffee bags with rocks to cooperatives they are further refrained from doing any further business with them. When a farmer does adhere to ethical standards, he/she gets to sell the coffee to cooperatives and let it be bulked, processed and sold and get a larger share from these value adding activities thus receiving monetary rewards for behaving honestly. Moreover, this accountability for their own coffee also teaches them to act responsible and behave in a fair way; if they do not do this they will have to face the negative consequences of it. Through both these ways ethical behavior for coffee farmers is promoted and the stakeholder relationship and the level of trust between farmers and processors is improved.

A different form of unethical behavior towards other discussed was the comparison between Bugisu Cooperative Union and Sesaco and how each handles its employees. Where the first mentioned treated employees unfairly and also against the law, Sesaco treated its employees with higher moral values in mind. Although it was not directly observable to say that this benefitted Sesaco immediately, it can be said with using the literature available that this ethical approach will improve stakeholder relationships between organization and employees, improves reputation of company and increases financial performance of the company because employees are more likely to be motivated to work, and work harder than they would at Bugisu.

### *Recommendations*

Up till now, ethical behavior was promoted for the benefits it brings stakeholders by behaving ethically and the disadvantages involved with behaving unethical. However, there is another way of looking at these problems which have not been mentioned yet. There is also the possibility of looking at ethical behavior through what is morally right to do regardless

of its consequences as it is completely independent of this. This perspective, also called the deontological perspective views behavior as ethical or unethical by examining the rules and principles that guide behaviors and is based on a system of rights and duties (Buckley, 2001); thus, it is about what we morally ought to do. Therefore, unethical behavior can be seen as either illegal, or morally unacceptable to the larger community.

As Uganda is a heavily religious and mostly Christian country\* these moral rules and values can also be used when promoting ethical behavior as they are also found in Christian morality principles such as the Ten Commandments which are commands without concern for consequences (DeGeorge, 1999). Parts of the Ten Commandments such as you shall not steal, you shall not covet and you shall not bear false witness against your neighbor all involve rules and principals, such as do not steal or lie against others, and act social and not selfish towards others which can also be applied to ethical behavior in value chains. Moreover this last idea of acting social also corresponds to stakeholder theory as an organization that manages for stakeholders allocates more resources to satisfying the needs and demands of its stakeholders than what is necessary to simply retain their willful participation in the productive activities of the firm (Harrison et al, 2010)

To implement this, several suggestions can be made. While doing research specifically on the coffee value chain there were trainings given to rural coffee farmers connected to cooperatives and associations regarding production technique improvements, how to manage your revenues from coffee, and there were also trainings given on gender equality within farmers' households. Moreover, there was a program called Training of Trainees where local farmers were trained to teach other local farmers about these previous mentioned points as well. A suggestion could be made to implement teachings of the Ten Commandments and other relevant bible passages which teach to act right and justly regardless of the outcomes of the act but more on moral principles, rights and duties which

can be found in these scriptures as well. The enormous strength and faith Ugandans get out of religion indicates this could be a potential way of promoting ethical behavior in agricultural value chains as well to promote stakeholder relationships.

Concluding, after summing up the problems which agricultural value chains endure in Uganda several suggestions have been given on how behaving ethically can alleviate some of these problems and strengthen stakeholder relationships supported and guided by stakeholder theory. Lastly, as religion plays a very important part in the daily life of Ugandans, the suggestion has been made to strengthen ties of ethical values of religion and communicate these values to stakeholders in agricultural value chains to promote ethical behavior and build trust and strengthen relationships. These values are not based on the consequences ethical and unethical behavior bring with them such as the examples and mini-cases above, but on one's duty to do what is morally right and to avoid what is morally wrong, regardless of the consequences and can be found in religions heavily followed in Uganda.

*\*These assumptions are based on statistics of how many people are religious in Uganda but also on observations made visiting Uganda. When our research group went to Uganda to conduct research on agricultural value chains there was not a day that went by without someone trying to convince us to join their church and the Christian faith and go to church on Sunday. The local hostel where we resided was more than happy to direct us to church on Sundays and even had bibles present which we could bring to church. During church services visits it could be seen how strongly Ugandans experience religion and how much value and worth they put on their religion. Even when everyone was back in The Netherlands, there were individuals sending weekly texts asking if we went to church on Sunday and if we joined "the righteous path". This showed the importance of religion for people in Uganda and also showed the potential religion has to*

*promote ethical behavior in agricultural value chains in Uganda.*

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