

CASE 1

Monsanto Attempts to Balance Stakeholder Interests

CASE NOTES FOR INSTRUCTORS

This deals with the themes of management and marketing. A major issue in the Monsanto case is whether genetically modified products (GM) are safe both for the environment and for human consumption. Monsanto faces two other major issues: patent protection and insect resistance. The following are some major points discussed in the Monsanto case:

1. Monsanto is a monopoly, or at best an oligopoly, within the GM market for soybeans, cotton, corn, and canola. Monsanto must manage its market power advantage so that it avoids abusing market practices and leveraging its position to engage in anti-competitive practices.
2. Proponents of Monsanto claim that its seeds increase crop yields and that its chemicals—for example, Roundup—decrease labor cost and crop damage.
3. Critics accuse Monsanto of attempting to control the world's food supply, destroying biodiversity, and inserting genetically modified seeds into the environment that could potentially damage the world's eco-system and create negative long-term effects on the human race.
4. Pests are beginning to gain a resistance to the herbicide Roundup and Roundup Ready crops. Some farmers are turning to older pesticides and herbicides. Monsanto will have to be careful that its products do not lead to the creation of superbugs or superweeds.

Monsanto's stated business mission is to create solutions to world hunger by generating higher crop yields and hardier plants. A big part of the company's means of addressing hunger problems is its line of GM products. Monsanto gains much of its revenues from GM corn, cotton, soybeans, and canola. Instructors may urge students to look over the firm's website at <http://www.monsanto.com/>. After their review, the instructor may start a discussion of what kinds of information the website provides on the company's ethical stance, including what is missing. The instructor may point out that businesses design websites, at least theoretically, for all stakeholders. If this is the case, students should think about what is missing or hard to locate. Missing information can clue in stakeholders as to how the company seeks to mold its image.

As this case underscores, Monsanto has faced many legal battles over the years. An important one for the company was in 2003, when the Anniston, Alabama PCB verdict awarded \$700 million to 20,000 residents for decades of ground water contamination. To counter nervous investors after this ruling, the company brought in Hugh Grant as CEO. He split up Monsanto into various SBUs such as Pharmacia, Seminis, and Solutia, possibly to diffuse stakeholder concerns with the Monsanto name. Discussion and research about Grant and Monsanto's Board of Directors before and after 2003 may lead students to a better understanding of corporate politics.

The issue of the firm's "seed police" can lead students into a discussion of whether patents on food are ethical or legal from a global perspective. Within the United States, patent infringement lawsuits have become more common, especially within pharmaceuticals and gene therapy. Starting in the 1990s, profitability in the farming industry began to decline with increased costs for inputs, more unpredictable weather, and rising wages. Large commercial farms expose farmers to a greater degree of market volatility. Farming a large quantity of one or two crops leaves farmers more vulnerable to price fluctuations than farming smaller quantities of many crops. Monsanto seeds, which claim to require less water and are more pest resistant, can be attractive to farmers; for instance, the genetically modified seed Bt was marketed in India and was endorsed by the local government. Monsanto said it was

resistant to boll weevil—the main cotton pest—and required just two sprays of insecticide for every crop, instead of the usual eight. However, the GM seed sold for about four and a half times the cost of normal seed. Many farmers purchased the seeds, most believing the seeds were indestructible and would provide a higher yield. They were devastated when many of the Bt cotton plants were afflicted with another disease that destroyed much of the crop and left the farmers with unusually high debts. Monsanto's decision to market its products in the developing world to farmers with fewer resources should yield a fruitful debate over ethics.

A marketing strategy that has increasing cache around the world is claiming that products are “green.” Even Monsanto has tried this strategy. The Monsanto “green” strategy for the past couple of decades has been to promote how its products allow farmers to increase productivity on the same amount of land. The negative aspect for farmers is that they become dependent upon Monsanto and other manufacturers for seed, fertilizers, and chemicals. Opponents argue that farmers can grow their operations, but the increased costs of inputs means that they do not necessarily become more profitable. Organic farming generally takes more thought than switching seed. Farmers must take into account the natural advantages and disadvantages of crop rotation, soil chemical make-up, and taking care of the land instead of maximizing output.

QUESTIONS AND DISCUSSION

1. *Does Monsanto maintain an ethical culture that effectively responds to various stakeholders?*

Monsanto remains controversial because of the strong feelings that many stakeholders have about the biogenetic engineering of agricultural products. This is a very debatable area because in many developing countries, food crops such as rice, corn, and soybeans have been able to increase yields to help feed hungry people. With populations increasing in less developed countries (LDCs), food demands are growing rapidly. If GM seeds can increase crop yields with few negative effects, then Monsanto will be able to meet stakeholders' needs. On the other hand, many question Monsanto's true intentions. Is Monsanto operating from a desire to help others, or does it only care about its own profits? Monsanto explains that its products can achieve both ends: positive development for farmers as well as profits. Critics are not convinced. They are concerned with the unknown effects of GM seeds, including the potential danger they might pose to biodiversity and to human health, and Monsanto's power in the seed industry. Monsanto's past ethical lapses and its seed investigators might also conflict with an ethical corporate culture.

Students should realize that there are no easy answers to this question. As is common with many large companies, Monsanto's history and operations have both ethical and unethical areas. Students will need to carefully examine Monsanto's current culture and weigh the tradeoffs before developing their responses.

2. *Compare the benefits of growing GM seeds for crops with the potential negative consequences of using them.*

The benefits of GM seeds include the potential to grow crops that survive in hostile conditions and on degraded land and generate higher yields. An issue that Monsanto constantly addresses is the need to increase crop yield. While the global demand for food continues to increase, land suitable for farming has been decreasing. If GM seeds can create higher yields, then farmers are making better use of their resources.

At the same time, stakeholders must weigh the benefits against potential negative consequences. Long-term research on the health effects of GM food is inconclusive. Europe banned many GM products and mandates labels identifying accepted ones. GM plants might contaminate wild or traditional plants and create unforeseen genetic mutations. Critics believe that GM seeds pose a threat to the agricultural practices that farmers have been using for thousands of years. Another consequence that students might want to explore involves the risk of relying solely on GM seeds. The United States now grows many genetically modified crops. Such reliance on genetically modified seeds—or

on any form of technology—always comes with a degree of risk. If the supply of genetically modified plants was contaminated in some way, serious repercussions could result with the national – and the global – food supply.

3. *How should Monsanto manage the potential harm to plant and animal life from using products such as Roundup?*

The Roundup issue is a difficult topic. Genetics suggest that Roundup resistant weed strains will necessitate increasing the strength of or changing Roundup's formula. While Monsanto will likely not have difficulty developing new chemicals, it will always only be a matter of time before pests form a resistance to these new products. Monsanto might want to offer additional incentives and training on the proper use of Roundup products to encourage farmers to engage in activities that will reduce the build-up of resistance in pests. Be aware that student discussion may deteriorate into a debate about nature/humanity. Instructors should bring the class back to the business issue of cost/benefit and corporate responsibility.

Additional issues with the Monsanto case:

1. The seed police, farmer rights, and patents
2. Farmers in developing countries
3. Monsanto and bribes
4. Glyphosate and potential hazards
5. Monsanto seed monopolies

ADDITIONAL RESOURCES

- Have students click to the following NPR discussion about organic farming in India: <http://www.npr.org/templates/story/story.php?storyId=104708731>. This article demonstrates that the popularity of organic farming is not limited to the United States. The rise in organic farming can constitute a significant threat to Monsanto.
- Monsanto has experienced much antagonism in Europe. The following article link from the BBC discusses a fine that France levied against Monsanto regarding advertising for its Roundup product: <http://news.bbc.co.uk/2/hi/8308903.stm>.
- The 2004 documentary “The World According to Monsanto,” outlines the problems associated with Monsanto's Roundup herbicide. Instructors may wish to show parts of this documentary to students. <http://topdocumentaryfilms.com/the-world-according-to-monsanto/>.
- The following link helps present both sides of the controversy regarding Monsanto: <http://www.reuters.com/article/2009/11/11/us-food-monsanto-idUSTRE5AA05520091111>.
- Read the following discussion of Monsanto's Feed the Future Initiative: <http://www.monsanto.com/newsviews/pages/feed-the-future-initiative.aspx>. This discussion portrays Monsanto in a more positive light and discusses its efforts to combat hunger.