

Nestlé's Creating Shared Value report 2010

Refreshing frankness

By Aleksandra Dobkowski-Joy

Nestlé continues to report effectively and openly

Nestlé's Creating Shared Value (CSV) approach reflects the company's belief that long-term success relies not only on creating value for shareholders, but also on creating value for society. Nestlé has identified three key issues central to CSV: nutrition, water and rural development.

The company produces a CSV report focusing on one of those three issues every two years, and it dives deeply into rural development for its 2010 report. Nestlé also provides an annual CSV update including key performance indicators (KPIs), materiality and stakeholder engagement descriptions, full GRI and UN Global Compact indices, and an interactive website dedicated to the company's global contributions to the achievement of UN Millennium Development Goals.

Nestlé opens its 2010 report with opinion pieces from Robert Thompson, an academic from the University of Illinois in Urbana-Champaign, US, and a member of the Nestlé CSV advisory board.

A lecture series in brief, the opinion pieces illuminate the connections between global food security, rural poverty and rural development, and highlight Nestlé's ability to help rural farmers. More academic treatise than light reading, this section fulfils the letter and spirit of the GRI's directive to provide sustainability context.

By setting the sustainability context so thoroughly, Nestlé can be frank in other areas. When Nestlé discusses the difficulties of locating a factory in a rural area – lack of infrastructure, a dearth of trained workers, fluctuating raw material supplies – this is the perspective of any company seeking to invest.

Smart business

Nestlé avoids positioning its rural development efforts as philanthropy. Indeed, the company targets emerging markets for its supply chain and as a source of new consumers. Individuals emerging from poverty tend to spend the first fraction of higher income on food. With greater wealth comes greater expenditure on value-added food products and convenience foods – all of which sit firmly within Nestlé's product portfolio.

This raises the question of what value Nestlé is creating for itself. The report abounds with examples of incomes raised, crop yields increased, and technical advice dispensed. What Nestlé does not quantify is its return on investment, pay-back periods and how decisions are made to allocate significant funds to development.

These missing disclosures will become ever more relevant to stakeholders, especially as Nestlé's chief

financial officer takes his place on the International Integrated Reporting Committee. Nestlé would also do well to begin assigning financial values to benefits such as supply chain reliability, access to markets and strong relationships with local and regional organisations.

In the update to its materiality analysis, Nestlé identifies deforestation for palm oil and child labour in cocoa growing regions as two of its highest-reputational-risk issues.

On palm oil, Nestlé reiterates its stance against deforestation, especially in high conservation value or carbon storage ecosystems. The company cites its membership of the Roundtable on Sustainable Palm Oil and partnership with The Forest Trust as mechanisms to fight deforestation.

Child labour is a difficult issue for Nestlé to address. To its credit, the company acknowledges that "child labour is unlikely to be totally eliminated" and provides details of its Cocoa Plan, which aims to help cocoa-farming families and address the prevalence of cocoa diseases, low yields and poor labour conditions. Nestlé is also a founding participant of the International Cocoa Initiative, an organisation set up to end child labour practices.

This arm's-length stance on both palm oil and child labour issues may link to how Nestlé defines materiality, including the company's influence over particular issues. Nestlé is the world's largest buyer of coffee, buying about 10% of global supplies. In contrast, the company buys about 0.7% of the world's palm oil.

The complexities of Nestlé's supply chain are stunning, with much direct sourcing coming from smallholders. While Nestlé has instituted a supplier code of conduct, the company faces a daunting task with regard to monitoring and auditing.

Nestlé "communicates" its supplier code to 165,000 suppliers and 556,000 farmers, and requires suppliers to "acknowledge its terms". Acknowledgement, however, may be far from compliance. Nestlé discloses that, of 1,481 key suppliers, 977 (66%) were audited and 56% of those (547 suppliers) were fully compliant after corrective actions were taken. A quick calculation reveals that 934 key suppliers continue to be either out of compliance or have not been audited at all.

Despite Nestlé's impressive investments in rural development, the company simply can't go it alone. Business is but one element of functioning society; sustainability for the planet and its peoples will require the full participation of governments, international institutions, communities, and NGOs. ■



Snapshot

Follows GRI? Yes, at the B+ application level.

Assurance? Yes, of the rural development report and online KPI updates.

Materiality analysis? Yes, although Nestlé does not provide process details.

Goals? Yes

Targets? Yes, scattered throughout the report.

Stakeholder input? Yes

Seeks feedback? Yes

Key strength:

Holistic consideration of rural development issues.

Chief weakness: Lack of quantitative detail on the value Nestlé creates for itself.

Pleasant surprise:

Context setting for key operational activities.

The complexities of Nestlé's supply chain are stunning

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