

NESTLÉ AND HOW TO “OPERATIONALIZE” SUSTAINABILITY¹

“Every business should have a plan regarding how to “operationalize” its vision, how to carry out any transformation process.”

José López, Executive Vice President Operations, NESTLÉ.

In June 2015, José López, Executive Vice President of Operations at Nestlé since 2007, closed the I Forum on Sustainability organized by Nestlé at the Nestlé Research Center in Switzerland, along with NGOs, academics, scientists, and authorities from every continent. It was a good culmination of the work developed over the previous five years in Nestlé, intended to move forward in this matter that José considered key to the future of the planet and of the food industry, which depended on the future of natural resources.

He reflected on the progress made by Nestlé regarding the environment and the rural development of communities that lived around Nestlé. At that precise moment, an episode that had taken place at the 2010 Annual General Meeting, came to his mind.

Before the astonished gaze of all those present, thirty Greenpeace activists dressed up as orangutans had dropped from the ceiling during Chairman Peter Brabeck’s speech, unfurling large banners that read, “Give the orangutans a break!” (in reference to the KitKat slogan).

In March of that year, Greenpeace had started a campaign against the use of palm oil by Nestlé. There were many e-mails and messages in the social media. Activists demanded a stop to the deforestation of Indonesia’s rainforests for the plantation of palm oil, since it destroyed biodiversity, put orangutans in danger, and helped accelerate climate change. They uploaded a YouTube video connecting Nestlé with its Indonesian supplier Sinar Mas, accused of being responsible for the deforestation of much of the rainforest in Southeast Asia.

¹ The Research Division of San Telmo Business School, Spain, has published this case. Written by Professor Antonio García de Castro and research assistant Ms. Rocío Reina Paniagua. This case has been developed as a basis for class discussion only and is not intended to illustrate any judgment on the effective or ineffective management of a specific situation.

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The video had less than three thousand visits, but after Nestlé censured it and Greenpeace uploaded it again, it went viral getting more than one million visits and starting an intense social media campaign.

After Greenpeace's irruption, José López requested that the matter be tackled by operations, instead of the department of communications and external relations. With the support of Paul Bulcke, Nestlé's CEO since 2008, it was decided that business relations with Sinar Mas would be terminated, and the commitment was made that, by 2015, all the palm oil used in the manufacture of Nestlé products would be sourced from sustainable production plants.

After five years of hard work, in 2014 Nestlé was the leading food products company in the Dow Jones Sustainability Index, also achieving the maximum score in the CDP² *Climate Performance Leadership*, among other recognitions. A few months ago the most retweeted message of the month had been a statement made by José: *"In a way, I am very thankful to Greenpeace."*

NESTLÉ S.A.

In 2015 Nestlé was leading the food and beverages industry and aspired to be a global referent in Nutrition, Health and Wellness.

Sales reached CHF 91,612 million in 2014 with a profit of CHF 14,047. Its market capitalization was CHF 231,136 million, and earnings per share were CHF 4.54. Exhibit 1 shows the evolution of the main figures in the past years and collates data on its main competitors.

The company employed over 339,000 people worldwide and was present in more than 197 countries. Europe represented 28 percent of its business, the Americas 43 percent, and Asia, Oceania and Africa, the remaining 29 percent.

WHAT DOES SUSTAINABILITY MEAN TO NESTLÉ?

"Sustainability is not only about making sure that our business model can survive in the long-run; it is also about understanding how our future business will be in harmony with our future society. Nestlé is a company committed to the long-term. We have to be relevant and, for our business to continue thriving over the long term, we have to be in tune with what society needs."

José López, Executive Vice President Operations, NESTLÉ

² CDP (Carbon Disclosure Program): International non-profit organization whose goal is to provide the widest and most complete environmental disclosure global system. CDP worked to encourage businesses and governments to measure, disclose and reduce the impact of their actions on the environment and natural resources.

To José López, it was clear: *"It is a business decision."* Peter Brabeck, Chairman of Nestlé since 2005, and always an inspiring figure, recalled:

"When talking about corporate social responsibility, it seemed as if they were referring to something additional to the business, almost incidental. They did not believe that this concept was important enough to the company to project in the long term and integrate into the strategy to such an extent. That is why we developed the concept of Creating Shared Value."

In the 2013 Creating Shared Value Report, Peter Brabeck stressed its importance in his 'letter from the Chairman':

"We are confident that for a company to be successful in the long term and create value for stakeholders, it also needs to create value for society. Nestlé starts by building a higher long-term value for consumers through a variety of products and services that will help people improve their nutrition, health and wellness. (...)"

We have always believed that, in order to prosper, we need the communities we serve and in which we operate to prosper as well; and also that, over the long term, healthy populations, healthy economies and healthy business performances are mutually reinforcing. This involves substantial training and education of people inside and outside Nestlé, as well as significant investments in technologies with lower environmental impact."

In media interventions, many experts and pundits asked Nestlé why did it not have someone exclusively devoted to sustainability at the highest level. López explained:

"Why is there no Head of Sustainability? Why does operations attend to that issue? Nestlé does not have a person exclusively devoted to sustainability. The problem is that these positions are often part of public affairs or corporate communications in other companies. And we shouldn't focus on how we talk about sustainability – it should be about "operationalizing" sustainability. For us, operations come first and talking about them is secondary. We do not work to tell people; we work to do the right thing."

THE IMPORTANCE OF SUSTAINABILITY

More and more, sustainability was becoming a strategic factor. Nestlé considered it a social and environmental obligation that the company needed to respond to in order to create shared value in the long term.

For some years now, consumers had been concerned about the origin of products and the companies behind them: their activities, their relationship with the environment, etc.