CORPORATE SUSTAINABILITY – FOOD AND BEVERAGE

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INTRODUCTION

This working paper is the result of research undertaken by the Brazilian Foundation for Sustainable Development (FBDS), with the assistance of technical and methodological support from the Forum for Corporate Sustainability Management (CSM) of IMD - International Institute for Management Development in Lausanne, Switzerland. CSM performed a similar study in Europe, the USA and Asia in the two-year period 2002-2003 in partnership with WWF, the global conservation organization. This study also had research support from COPPEAD Institute of Administration of the Federal University of Rio de Janeiro (UFRJ) and was sponsored by the following companies: Klabin, Tetra Pak and Banco Real ABN AMRO. The study used interviews, questionnaires and sectoral public and corporate information in order to assess the business case for corporate sustainability in three Brazilian business sectors, namely: pulp and paper, food and beverage, and electrical utilities. This working paper concerns the food & beverage (F&B) industry.

The F&B industrial sector was chosen for this study because of its major relevance to the Brazilian economy and its exposure to both environmental issues – given its interference in and dependence on natural resources – and social issues, considering its share of responsibility in social impacts related to food such as malnutrition, obesity and responsible consumption.

Between August and December 2005, we interviewed 22 top executives from five companies – AmBev, Coca-Cola Brasil, Nestlé Brasil, Perdigão and Sadia – and three representatives of stakeholder groups with strong vested interests in the sector (from a retail company and an NGO), as illustrated in graph 1. In addition, 30 professionals\(^1\) from top and middle management of the companies in the sector answered questionnaires.

\(^1\) Among the questionnaires answered, one was from a sixth company that, although it did not participate in the interviews, decided to contribute to the questionnaire.
Based on information obtained from the interviews, questionnaires and secondary data, a sector analysis was carried out. The basic premise of the analysis was that the selected companies are currently forerunners in business outlook and management in the sector, and representing a considerable economic “slice” of it in terms of turnover.

The first chapter of this paper gives a short analysis of the sector’s characteristics, with information that points to its relevance in Brazil, together with a brief analysis of competitive forces using Porter’s model (1999). In the second chapter, the main F&B sector issues relating to sustainability are identified, with emphasis on economic and strategic relevance.

The third chapter presents the results obtained in the companies under study with regard to their sustainability performance, especially in relation to aspects discussed in chapter 2. The analysis is divided into the following topics: (i) motivation to build the business case for sustainability; (ii) capacity to implement it; (iii) alignment of the various areas in the organization; (iv) use of management tools; and (v) sectoral peculiarities.

The fourth chapter gives the study’s main conclusions about the strategic status of sustainability in the F&B sector. The fifth and last chapter suggests actions to be taken in the F&B sector to advance the corporate sustainability agenda.

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2 Some examples of secondary data used are public reports and websites of the companies under study and institutions that represent the sector.
1 ANALYSIS OF COMPETITIVENESS OF THE SECTOR

1.1 GENERAL CHARACTERISTICS OF THE SECTOR

The F&B sector has the capacity to strongly influence all three pillars of corporate sustainability (economic, social, environmental), given its economic relevance, interdependence with the environment and impact on aspects relating to health and wellbeing.

On the economic side, the F&B sector represents a significant slice of Brazilian GDP (as shown in table 1) and exports extensively. Brazilian exports of meat and offal alone in 2005, for example, were US$7 billion or more.

The F&B industry is closely linked to the environment because it depends totally on natural resources, either because of its need for appropriate land for raw material production or because of its heavy dependence on water. Water is an essential factor for the F&B industry, since it is one of the main inputs and, in the case of beverages, a principal raw material. Therefore, to guarantee the sector’s continued existence and competitiveness, companies have to preserve access to and the quality of the water used in the production process.

Along the social dimension, the F&B sector daily influences basic issues relating to the health of the society in which it operates, for example in terms of malnutrition, obesity, alcoholism and other problems relating to consumers (or non-consumers) of products from this industry. So, although they do not directly access the end customer, companies in the sector play a key role in addressing these issues.

Table 1 gives some socioeconomic data on the F&B sector in 2005, according to the Brazilian Food Industries’ Association (ABIA).

Table 1 – Socioeconomic data on the food & beverage sector, Brazil – 2005

<table>
<thead>
<tr>
<th>Number of companies: 42,200</th>
<th>Net billing: R$184.2 billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>o 86% very small &amp; small</td>
<td>Share of GDP: 9.5%</td>
</tr>
<tr>
<td>o 3% medium-sized</td>
<td>Exports: US$20.1 billion</td>
</tr>
<tr>
<td>o 1% large</td>
<td>Trade balance: US$18.6 billion</td>
</tr>
<tr>
<td>Number of direct jobs: over 7 million</td>
<td></td>
</tr>
</tbody>
</table>

Source: Brazilian Food Industries’ Association (ABIA)
1.2 CHARACTERISTICS OF COMPANIES STUDIED IN THE SECTOR

The main criteria for choosing companies to participate in the survey were: (i) large companies; (ii) where possible, Brazilian owned and stock exchange listed; and (iii) easy to access through FBDS contacts and partners.

The companies selected, therefore, are all large corporations operating in a various countries, either through their holdings (Coca-Cola, Nestlé) or their own Brazilian parent companies (AmBev, Perdigão and Sadia). Moreover, the Brazilian-owned organizations are corporations committed to market transparency.

In addition to the aforementioned companies, four other corporations in the sector were approached to participate in the interview process but declined.

Some basic data on the companies that fully participated in the study are presented in table 2.

<table>
<thead>
<tr>
<th>Company</th>
<th>AmBev</th>
<th>Coca-Cola</th>
<th>Nestlé</th>
<th>Perdigão</th>
<th>Sadia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total net revenue (R$ million)</td>
<td>15,959</td>
<td>Unavailable</td>
<td>10,600 *</td>
<td>5,145</td>
<td>7,318</td>
</tr>
<tr>
<td>Revenue – foreign market (%)</td>
<td>38%</td>
<td>Unavailable</td>
<td>Unavailable</td>
<td>48%</td>
<td>49%</td>
</tr>
<tr>
<td>Net equity (R$ million)</td>
<td>19,867</td>
<td>Unavailable</td>
<td>Unavailable</td>
<td>1,223</td>
<td>1,224</td>
</tr>
<tr>
<td>EBITDA (R$ million)</td>
<td>6,305</td>
<td>Unavailable</td>
<td>Unavailable</td>
<td>656</td>
<td>896</td>
</tr>
<tr>
<td>Net income (R$ million)</td>
<td>1,546</td>
<td>Unavailable</td>
<td>Unavailable</td>
<td>361</td>
<td>657</td>
</tr>
<tr>
<td>Direct jobs</td>
<td>28,214</td>
<td>25,000</td>
<td>16,000 *</td>
<td>35,556</td>
<td>45,381</td>
</tr>
<tr>
<td>Controlling interest</td>
<td>National (non-family)</td>
<td>Foreign</td>
<td>Foreign</td>
<td>National (non-family)</td>
<td>National (family)</td>
</tr>
<tr>
<td>Free float shares (%)</td>
<td>34%</td>
<td>Closed capital</td>
<td>Closed capital</td>
<td>53%</td>
<td>74%</td>
</tr>
<tr>
<td>Common stock (%)</td>
<td>52%</td>
<td>Closed capital</td>
<td>Closed capital</td>
<td>35%</td>
<td>38%</td>
</tr>
<tr>
<td>Corporate governance - S.Paulo stock exchange</td>
<td>Bovespa - level</td>
<td>No</td>
<td>No</td>
<td>Bovespa - New Bovespa - Level Market</td>
<td></td>
</tr>
<tr>
<td>New York Stock Exchange</td>
<td>ADR - level</td>
<td>No</td>
<td>No</td>
<td>ADR -level II</td>
<td>ADR - level II</td>
</tr>
<tr>
<td>Member of ISE Bovespa</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Environmental, social or sustainability report</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>

Source: Reports, websites or information disclosed by employees of the companies in question
* 2004 data
1.3 COMPETITION IN THE SECTOR

The F&B sector involves a large number of companies, especially in the food industry. In this segment, the number of Brazilian companies competing in the global market is growing, while there are very many small industries with a focus on regional markets. Accordingly, competition in the food sector is tough, with a number of large corporations competing in the market with smaller companies.

In the beverage segment, however, the competitive scenario is slightly different. Given the sharp increase in the number of mergers and acquisitions in recent years, the number of companies has dropped and smaller companies have a reduced market share. Since the large companies operate on a global basis, however, they face tough international competition.

Larger companies in the sector endure unfair competition from small informal businesses, considerably distorting the competitive context. Informality allows companies to place their products in different local markets without necessarily meeting minimum legal requirements in terms of taxation or health & safety legislation.

1.4 BARRIERS TO ENTRY

Barriers to entry in the F&B sector are not high, especially when the target market is regional. Although formalizing the business and adapting to H&S requirements entail costs and delays, it is reasonably easy to operate in some segments of the sector. Moreover, the food sector is quite diversified and always on the lookout for innovation, which hinders the monitoring and control of all its segments by the companies.

Nevertheless, when looking specifically at the beverage segment, entry is slightly more difficult. The required investments are generally heavier and the market is increasingly controlled by a small group of companies with sufficient technology and scale to have low costs and consequently be highly competitive.

1.5 SUBSTITUTE PRODUCTS

The F&B sector is widely discussed in the media and in everyday life and there are extensive lists of product variations. It is not possible to exhaustively identify substitute products. However, the large variety of items and the capacity to innovate and alter the product mix in the sector point to a growing threat for companies that are not very flexible, and this applies to both food and beverages.
1.6 SUPPLIER BARGAINING POWER

The main raw materials of food companies are items produced by a wide range of small producers, subject to a range of market risks such as bad weather, pests and disease, decentralized supply, lack of access to information and research, and so on. This unpredictability creates financial instability for the producers that must be at least partly absorbed by the food industry; otherwise companies suffer a possible lack of supply at any given moment.

In the beverage segment, as mentioned earlier, the primary raw material is water, the use of which is still fully regulated by public authorities. The principal concerns about the use of water is guarantee of access and quality, and in these respects, industry competes with other users such as communities, citizens, energy companies, etc. They must, therefore, exercise corporate citizenship when they sit on official bodies responsible for assuring both access and quality of water and contribute to a fair and equitable division of water usage.

Given the power of beverage companies and their capacity for vertical integration, suppliers of materials other than water do not have strong negotiating power.

1.7 CUSTOMER BARGAINING POWER

Customer bargaining power is also different for the food industry as compared with the beverage industry. In the latter, small businesses have less bargaining power with their clients, since their products do not normally have well-known brands, loyal consumers or any differential other than price. Moreover, many of their clients are retail chains with considerable purchasing power. The large manufacturers in this segment do, however, have strong negotiating power with their clients, including large retail or wholesale chains. This happens mainly because these companies have well-known brands amongst their products, which are constantly reinforced by mass marketing campaigns, creating loyalty with their end customers who, in turn, now demand those items at the points of purchase. An important aspect of these campaigns is that they generally succeed in conveying the message that their products have an edge in terms of quality, flavor and status.

Food manufacturers, however, encounter a slightly different situation. While the analysis for small businesses is similar to that for small beverage manufacturers, large food companies have somewhat less power when it comes to customer loyalty. Although these companies make a huge marketing effort, the fact remains that the consumer is very price-sensitive. There are several
reasons for this, including innovation and regionalization trends, together with low consumer perception regarding quality differentials. On the question of innovation, the market is seen to constantly alter the product mix consumed. In terms of regionalization, however, it is possible for any given population to maintain that, for example, products in butcher shops, bakeries, local street markets or even small regional industries are of equivalent quality to products manufactured by large corporations.

Figure 1 gives a brief analysis of competitive forces in the F&B sector, using Porter’s model (1999), which assesses how competitive forces shape strategy.

**Figure 1 – Competition in the food & beverage sector in Brazil**

- **Food:** chain of suppliers with many small producers
- **Beverage:** basic raw material is a natural resource; other materials are from large suppliers
- **Relatively low barriers to entry**
- **Question of formality**
- **H&S requirements**
- **Regional markets**
- **Strong competition in sector**
- **Large number of regional companies**
- **Differentiated supplier bargaining power**
- **Growing threat of substitute goods**
- **Relatively high customer bargaining power**
- **Large range of products**
- **Looking for innovation and brand reinforcement**
- **Food:** price-sensitive consumers
- **Beverages:** top brands with customer loyalty but some price sensitivity
- **Rising number of global companies**

In the following chapter the main questions of the sector directly related to corporate sustainability will be presented, along with the aspects relating to business strategy.
2 ECONOMIC QUESTIONS AND SUSTAINABILITY-RELATED ASPECTS

To understand why sustainability needs to be taken into consideration by key actors in the F&B industry requires insight into the sector’s key issues. These issues address and closely integrate two or more of the three dimensions of sustainability, namely economic-financial, social and environmental.

When analyzing the sustainability issues in the sector with the most impact on business results, some were found to be more economically relevant than others. Economically relevant issues were divided into three groups: upstream, production and downstream aspects. The most important issues in the first group are related to the beginning of the production chain, such as efficient use of natural resources; socio-environmental impacts on raw material production; and integration of the production chain. In the second group, the main features are water availability and quality. The main issues in the third group are related to the end consumer; health issue transparency and traceability; packing and post-consumption recycling; and responsible consumption. These issues are discussed in more detail below.

2.1 UPSTREAM ASPECTS: EFFICIENT USE OF NATURAL RESOURCES

The F&B industry, when analyzed in the stages prior to industrial production, presents very significant environmental issues for its productivity and sustainability. These issues are directly linked to the rational and efficient use of natural resources, such as soil and water, essential for the financial sustainability and continued existence of the sector. Given the possibility that these resources could be exhausted, it is fundamental to increase productivity and sustainable use of these resources. In this context, it is increasingly important to make the raw material producers themselves aware of the threatened shortage of these natural resources.

2.2 UPSTREAM ASPECTS: SOCIO-ENVIRONMENTAL IMPACTS ON RAW MATERIAL PRODUCTION

Following the idea that it is necessary to use natural resources rationally, the sector needs to minimize its impact on the environment when sourcing its raw materials, since it essentially depends on the environment for its continuing business. Therefore, issues such as groundwater pollution, river sedimentation, deforestation, soil erosion, waste production and use of fertilizers and agrochemicals need to be seriously addressed, using an integrated overview of the F&B production chain.
Moreover, since the F&B sector is labor-intensive and produces its raw materials predominantly in rural areas, it must be aware of its social and labor practices and human rights, definitively and transparently banning child labor or slavery and seeking to take only positive actions wherever it operates.

2.3 UPSTREAM ASPECTS: INTEGRATION OF THE PRODUCTION CHAIN

The above section makes it clear that the supply chain is a key factor in the F&B sector, especially in the food industries, since they face highly volatile prices for raw materials and a constant risk of shortage.

As already mentioned, the food industry depends basically on farm produce or livestock and is thus subject to production setbacks as result of unforeseen circumstances relating to climate, pests and disease, and even environmental disasters. It is also subject to fluctuations in supply because of a kind of “herd effect” in rural production, when producers choose to shift to producing more profitable produce. This can equally lead to situations where there is oversupply, or a “glut” in production, rendering the product increasingly less profitable for the producer (as happened for example, during the “coffee crisis”). Since production cycles are longer than business cycles, it can take some time for the market to adjust itself to new realities.

Faced with this set of variables, solution of leading companies is to combine the supply structure with the company’s production chain by making the raw material producer a partner who must guarantee a minimum supply through future purchase agreements. In this case, the supplier also gains from the assurance of a guaranteed price and future cash flow for its business, in addition to technical assistance and research incentives.

However, when forming a stronger partnership with suppliers – the so-called integrated parties – the company brings upon itself more pronounced responsibility for all socio-environmental issues upstream of its production. Therefore, leading companies have also more responsibility for the practices of their own suppliers. This encourages them to extend their sustainable policies and practices to the integrated parties, by holding them responsible and sometimes even confirming their performance even in contractual clauses.

2.4 OWN PRODUCTION ASPECTS: WATER AVAILABILITY AND QUALITY

As mentioned earlier, the F&B industries are completely dependent on the ongoing supply and quality of water. Although water is a renewable resource, its supply is limited and depends on environmental preservation and sustainable use for its renewal. Two factors are essential to

January 2007    -    page 9
maintain the water supply: environmental preservation of water sources and their surroundings; and further consumer efficiency in order to reduce the volume required per produced unit.

It is therefore not enough for the food and/or beverage industry to act on its own on these issues. All of society must do so, since water is a common asset for everyone. However, since the F&B industries are particularly sensitive to threats to water resources, they ultimately assume responsibility for raising such issues and presenting possible solutions to a larger group of stakeholders, acting as a driver for a change in attitude to minimize the possible risks relating to unsustainable use.

2.5 OWN PRODUCTION ASPECTS: INFORMALITY

A major sustainability issue in the F&B sector is the informality of several small yet important Brazilian companies. This informality is basically expressed in tax evasion and irregular means of production.

It is estimated that there is widespread tax evasion in the sector, especially amongst smaller manufacturers. This evasion may also indicate a risk of non-compliance with other issues relating to the environment, health & safety and minimum standards in quality of goods.

Therefore, reducing informality in the sector is a major challenge on the path to sustainability, since it affects the continuity not only of the companies operating informally but also of the entire sector.

2.6 DOWNSTREAM ASPECTS: TRANSPARENCY OF HEALTH ISSUES AND TRACEABILITY

The transparency of health and safety standards and traceability of products in general are major sustainability issues for the F&B industry. Contaminated food and beverages can cause serious public health problems, including the spread of viruses and bacteria that may lead to death. Therefore, such a risk must be avoided by adopting sustainable practices in the sector’s production chain.

In recent years, the higher rate of disease, such as foot-and-mouth and bird flu, for example, has caused worldwide alarm. With globalization, food is sold on the international market and related diseases can no longer be confined to a given region.

Furthermore, the increasing use of genetically modified organisms (GMOs) in food causes it to have differentiated characteristics. However, the potential impacts on human health of such
genetic manipulations are still not clear. Traceability, therefore, is a key aspect of sustainability for companies in the sector.

2.7 DOWNSTREAM ASPECTS: PACKING AND POST-CONSUMPTION RECYCLING

Waste disposal has become a critical problem for the consumer society. Each year humankind produces more and more waste and is finding it increasingly hard to find solutions for dealing with waste that not only takes up increasing amounts of space but also creates serious environmental and public health problems?

There are several established options for dealing with waste, most of which relate to the principles of re-using, recycling or reducing production. For the F&B sector, the biggest “waste offender” in terms of its own production is the packaging used to store and transport F&B products. Packaging is potentially a polluting material that needs to be reduced and recycled as much as possible. After recycling, they become other products and then serve other business sectors.

Recycling projects for packaging show the direction that the sector can take to take to solve environmental and social problems and may also offer an attractive business opportunity.

The main items to be recycled after the products have been consumed are paper, plastic, aluminium and glass, for which various recycling techniques and tools are available. However, companies also need to invest in raising the awareness of a large part of the consuming population as regards collection solutions and systematization of recycling processes at the consumer level.

2.8 DOWNSTREAM ASPECTS: RESPONSIBLE CONSUMPTION

Consumer responsibility encompasses all actions that consumers take with regard to product choice and use. By purchasing a product, consumers have inherent responsibility for a range of issues, including the inappropriate or excessive consumption of food and beverages. Failure to do so may cause health problems such as malnutrition, alcoholism or obesity.

2.8.1 OBESITY, MALNUTRITION AND HEALTH

F&B issues relating to public health range from malnutrition at one end of the scale to obesity at the other, including proneness to ailments such as diabetes and heart disease. Intoxication and alcohol abuse are further public health issues.

This is why F&B companies play a leading role in informing society about consumer health aspects relating to consumption of each product. The industry does not feel directly responsible for
inadequate consumption, and many companies put forward the view that consumers themselves must also be responsible, assuming that they are duly informed and able to understand the information as it is presented. Therefore, the industry’s role is much more than just one of providing information. It also needs to assure itself that consumers perfectly understand the information they receive related to products, to allow them to make an informed consumer decision using knowledge of the risks and benefits of each product. The industry’s practices as regards advertising to children and young adults are also in question.

2.8.2 ALCOHOL CONSUMPTION AND ADVERTISING TO MINORS

There is growing concern about advertising campaigns that encourage inappropriate consumption of soft drinks and alcoholic beverages especially by children and adolescents. There is already strict legislation on alcoholic beverages, but there is public pressure to increase the severity of measures taken. In the case of soft drinks, however, the law is not as restrictive, although there is growing public concern about advertising campaigns directed at children that promote unhealthy diets leading to obesity and childhood diabetes.

With regard to the consumption of alcoholic beverages, the main challenge for companies is to increase sales without creating social problems such as alcoholism, road accidents caused by drunken driving, increased violence and various diseases caused or exacerbated by excessive alcohol consumption.

Having learned about some characteristics of the sector and understanding how socio-environmental questions can have a major impact on F&B companies, in chapter 3 we seek to provide a more structured assessment of corporate sustainability in a group of major companies in the sector.
3 ASSESSMENT OF SUSTAINABILITY IN THE COMPANIES UNDER STUDY

As already mentioned, the companies analyzed in the F&B sector were AmBev, Coca-Cola Brasil, Nestlé Brasil, Perdigão and Sadia. The assessment included consultation of public reports and websites, in addition to interviews with their top executives and applied questionnaires.

Five themes for analysis were taken from the information using the CSM/IMD methodology, as follows: (i) motivation to build the business case for sustainability; (ii) capacity to implement it; (iii) alignment of the various areas in the organization; (iv) use of tools relating to the topic; and (v) special features of the sector that influence sustainability.

3.1 MOTIVATION

The companies under study had either a strong or medium motivation to adopt the case for sustainability. However, one aspect may suggest that this is not the real motivation in other major companies in the sector, since four of the nine companies approached for the survey declined to participate in the interviews. This means that the results must be considered very carefully when thinking of a possible generalization for the universe of major companies in the sector, especially when dealing with positive results.

Another important finding is that not all the companies approached have corporate sustainability strongly imbued in their strategies, planning and performance assessments.

Motivation to implement the case for sustainability in the F&B sector, if any, depends on a number of factors relating to both the pressure exerted by the companies’ various stakeholders and the companies’ internal value drivers.

When analyzing the pressure exerted by various stakeholders, it appears that consumers in Brazil do not yet have a very strong bias toward sustainability. However, some market niches now have consumers who pay more attention to this (e.g. organic food and beverages) and, since the sector is very sensitive to consumer pressure, small groups of stakeholders now have room to demand good ethical, environmental and social actions, reinforcing organizations’ motivation toward sustainability. In general, the demands of these groups reach the industries through direct channels such as customer services, or through their clients, wholesalers and retailers, since they are the ones under most direct pressure from consumers.

Opinion makers, NGOs and communities in the vicinity of the plants seem to be, after the end consumers, the main external stakeholders whose pressure motivates F&B companies. They...
call for more responsible action, highlight areas to be improved in the companies and often expose these issues to a large audience of consumers and current and potential clients. This demand becomes even stronger in the companies under study due to the fact that they are large internationalized corporations, more in evidence and preferential targets.

F&B shareholders and other investors have been less proactive than NGOs concerning sustainability, and tend to focus on short-term financial returns.

The regulating agencies also do not seem to foster sustainability, and are even regarded as a potential barrier. Therefore, when questioned about the main obstacles to adopting sustainability in the companies, the questionnaire respondents pointed first and foremost to the organizational culture and regulations, as shown in graph 3.

**Graph 3 – Main obstacles to implementing corporate sustainability**

In addition to the influence of the aforementioned stakeholders, some other factors are very important in the motivation for sustainability in F&B: reputation (brand and image), attracting and retaining talent, focus on economic results from dealing with environmental and social issues, and striving to continue the business.

Perhaps the main motivating factor in every company interviewed and considerably emphasized in the interviews is the company’s reputation and brands. Corporations are increasingly
concerned about how the public judge their behavior in environmental, governance and social areas, given the growing effect of consumer perception on consumer demand, which is increasingly based on principles of responsible consumption. Retaining reputation is considered a key contributing factor in achieving F&B corporate sustainability. This is evident in the companies’ information disseminating sources, which highlight their sustainability actions in their websites and annual reports (AmBev, Perdigão and Sadia) or in specific reports on the subject (AmBev, Coca-Cola Brasil and Nestlé Brasil).

Another aspect evidenced in the interviews is the relationship executives perceive between sustainability performance and attracting and retaining talent. In general, the interviewed executives understand that good staff are sensitive to a company’s focus on sustainability-related issues and tend to prefer companies with more sustainable practices.

Lastly, one factor that considerably influenced motivation to implement sustainability management was the opportunity to cut costs and increase efficiency of resources by innovating processes and products. Some clear examples on this point are projects for re-using waste, reducing and recycling packing materials, and projects to reduce water consumption in beverage manufacture, with a direct impact on production costs. On this matter, the case of AmBev is worth mentioning, which actually reduced its water consumption per liter produced over the past five years by around 25%.

3.2 CAPACITY TO IMPLEMENT

In general, sustainability strategies are reasonably aligned to the business strategies of the companies interviewed. There is also the practice of considering social and environmental criteria in their main decisions (investments, R&D). Nevertheless, they are still at an early stage with regard to disseminating the concept of corporate sustainability, which means that different organizational areas or management levels do not have the same understanding of the concept. An exception seemed to be Nestlé Brasil, which, thanks to the guidance of its parent company and good application in Brazil, holds sustainability as one of its administration pillars, including in training its executives.

Accordingly, both the understanding of the concept and the inclusion of sustainability in the strategy are at different levels of implementation in the companies interviewed. Moreover, it is still hard to identify those responsible specifically for building the business case for sustainability, which might be because dissemination of the concept is at an early stage – and there is no
awareness of the benefits of a structure with sustainability as its sole focus – or, on the contrary, because it is already well disseminated and implemented, as seems to be the case in Nestlé.

Some factors are decisive in the capacity to implement sustainability in the F&B industries, such as: the degree of the company’s international exposure, quality and integrated management programs, and the commitment of the company’s top management to the matter.

In short, it was noticeable that the companies in the study have already considered the various dimensions of sustainability for some time in their industrial practices (e.g. quality, environment), have general knowledge about the matter, and would like to include it more definitively in the business strategy, but do not yet have a central coordination with the necessary force and distribution to effectively implement the sustainability strategy.

3.3 ALIGNMENT OF THE ORGANIZATION

In general, the companies did not show that they experience major internal resistance to sustainability, but this does not necessarily mean that there is alignment of organizational areas in relation to sustainability. Admittedly, some business areas or units in some of the companies were exceptional in that staff had a clearer perception of the benefits of sustainability, as in the case of manufacturers in smaller towns. This occurs, according to the interviewees, because managers at these entities were able to more easily ascertain and measure the impact of the externalities produced by the manufacturers; the effects were therefore tangible to them.

Graph 4 illustrates the answers to the questionnaire which showed that resistance is firmly concentrated in the financial area.
Just as it was difficult to find specific individuals in companies who were responsible for building the business case for sustainability, it was equally difficult to find leaders who promoted the topic. It is possible to conclude that, since companies are relatively inexperienced in this area, the existence and identification of leadership is important and a factor of differentiation in organizations with a strong command structure. On the other hand, the concept is easily assimilated and accepted by executives in different areas. Graph 5 shows the functional areas that, in the respondents’ view, most promote the concept of corporate sustainability.

**Graph 5 - Areas that can most promote sustainability**
3.4 USE OF A MANAGEMENT TOOLSET

Most companies are still in the early stages when it comes to using a management toolset for corporate sustainability: there is plenty of scope for improvement in this area.

In order to include sustainability in the corporate strategy, companies use tools such as strategic planning, balanced scorecard, integrated management system or instruments designed within the company for that purpose, such as the Nestlé Management Principles or Coca-Cola’s 5P system (Profit, Planet, People, Partners and Portfolio). Besides, Nestlé also agrees to voluntary international commitments such as the Global Compact and Millennium Goals, both UN projects, and adopt such commitments as internal management tools.

Concerning risk management, some of the companies have progressed in the analysis of environmental and social risks, although in general there is no well-structured process to identify and monitor these risk categories.

Specifically in relation to environmental issues, operational projects do exist, especially relating to water and waste issues. It is worth mentioning the projects of AmBev, Coca-Cola Brasil and Nestlé Brasil to reduce water consumption, plus Perdigão’s initiatives to improve waste disposal – a project undertaken in conjunction with universities – and Sadia, which uses biodigester technology and sells carbon credits. Other projects to be highlighted and that also incorporate social elements are those related to recycling Coca-Cola Brasil and AmBev packaging. These projects can be checked on the websites and in the annual reports of these companies.

Furthermore, a valuable tool for adopting corporate sustainability concepts is now being included in the companies under study, namely the inclusion of sustainability-related criteria that influence the variable remuneration of executives. Although this is still at a somewhat early stage, there is no doubt that its use for senior managerial levels would give a decisive boost to sustainability in the companies.

Lastly, actions related to measuring results of sustainability-related actions leaves a lot to be desired. Companies in the sector have had great difficulty in assessing the economic benefits of moving towards sustainability. This is evident in graph 6: Only three of the nine management tools presented in the questions to the companies were selected in over 50% of cases, with emphasis on those of a regulatory nature.
On this matter, academic and management efforts that contribute towards enhancing such tools and their use are welcome, especially in the institutions that still question the value of sustainable management.

3.5 SPECIAL FEATURES OF THE FOOD AND BEVERAGE SECTOR

Some of the special features of the sector already discussed in chapter 2 were highlighted by the executives interviewed, such as: the high rate of tax evasion; ethical disputes relating to public health problems caused by unsuitable consumption of alcoholic beverages, soft drinks or food; waste disposal; extensive use of packaging water consumption and preservation of drainage basins.

Moreover, the interviewees pointed out that, given its position at the center of the production chain and the power of its leading companies, the industry would be well advised to take some of the supplier and client responsibility for socio-environmental issues. In this context, traceability is now an even more crucial factor for making sustainability effective, reinforcing the need to involve the production chain in an effort to improve socio-environmental practices.

Lastly, there are some other features relating to consumption. Brazil is a country with severe social inequalities and many education and public health problems. These factors limit the population’s understanding of the exact nature of an ethical and responsible company, and hinders the process of food education and responsible consumption. Therefore some major companies feel compelled to compensate for the gaps in public awareness left by public authorities in order to maintain a good relationship with communities and access minimally skilled labor.
4 FINAL CONSIDERATIONS ON SUSTAINABILITY IN THE SECTOR

The F&B sector in Brazil has been wary about adopting the concepts of corporate sustainability. Even in the top ranking companies in the sector, understanding and dissemination of the theme are still in the early stages. There are, however, projects that incorporate some dimensions of sustainability, but they are restricted and specific to particular companies, and they are currently not contributing to a more cohesive perception of sustainability in the sector.

So it can be said that the sector has yet to dedicate more time and resources to the concept, thereby allowing it to be extended to smaller companies, as well as implementing tools and processes that guarantee not only the inclusion of the concept in management and business strategy, but also the systematized measurement of the economic results of taking actions related to sustainability.

This conclusion should be a cause for concern within the sector, highly dependent as it is on finite natural resources. Consequently, strong drivers of the corporate sustainability agenda in the F&B sector will also be factors external to corporations, such as the threat of a shortage of natural resources and stronger demands by civil society.

Finally, it can be concluded that the F&B sector does not yet have a sectoral business case for corporate sustainability and that there is still a need for firm advances in that direction.
In order to further advance corporate sustainability in the food and beverage sector, four proposed actions are presented:

1. Promote better dissemination of the concept, internally and externally, which implies working with contributors and other stakeholders, especially suppliers, and taking into account the great importance of the production chain.

2. Strive to move small companies in the sector toward sustainability by means of examples of success stories of corporate sustainability in top Brazilian companies in the sector, and by encouraging the adoption of best international practices.

3. Encourage more awareness, buy in and valorisation of the concept of corporate sustainability with stakeholders, especially consumers, thus creating rewards for companies that stand out for their strong role in this regard.

4. Include the concept of sustainability in the company management toolset more effectively and expressively, with emphasis on implementing tools that seek to rationally quantify the benefits of sustainability.
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