

Sustainability asset management (sam)



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Introduction

The concept of Sustainability currently is being paid more and more attention. The idea of Triple Bottom Line (TBL) which Economic, Social and Environment or Profit, People and Planet (PPP) are concerned not only from societies or non-government organization (NGO) but also from all stakeholders; shareholders, investors, employees, customers, etc.. As there are many studies on corporate sustainability, corporate social responsibility which many of them shown positive outcome or positive relation between corporate sustainability and corporates' performances or outcomes in either in monetary or non-monetary term or both (Groot & Churet, 2009; Peters & Mullen, 2009; Samy, Odemilin, & Bampton, 2010).

Monitoring system has been developed to make business more sustainable by supporting corporation to measure, indicate, monitor and report their operation or sustainability activities and performance for their performance improvement overtime. A characteristic of monitoring system should be accurate, balance in performance accounting, comparable, easy to understand and match to firms' activities plan (GRI, 2010) which also mean monitoring system should able to assess sustainability performance respect to the legislation, norm, code, and standard with accountability, be able to continuous developed according to the expectations, be able to interpret and understand the positive and negative impact to the firms, comparability over companies, over time that can support organization to make decision for organization strategy, implementation plan, outcome and continuous improvement (GRI, 2010). One of the most well-known monitoring systems is

Global Reporting Initiative (GRI) which will explore further detail in this report.

This report will briefly introduce the history and the development of sustainability accounting and reporting following by the overview concept of SAM – Sustainability Asset Management, Dow Jones Sustainability Indexes (DJSI) and Global Reporting Initiative (GRI) as monitoring systems. Then review and analyze a selected company, Nestle as a leader multinational food Producer Company in which their vision and mission are concerning not only on economic but also environment and social as their hope to be a part to shape the world for more sustainable (Nestle, 2010). Furthermore its relevant sustainability dimensions will be identified and described on the boundary implemented in its operation, including the indicator measured and results reported to the publics, its limitation, challenges and how will it use those indicators for company performance improvement.

Literature review – history and development

One of the literatures of sustainability accounting and reporting development reviewed from Burritt and Schaltegger (2010) which aim to classify paths and the future of sustainability accounting and reporting assessment mentioned that there are two main developing tracks. The first one is a viewpoint of a critical theory which seen sustainability accounting development as a cause and source from corporate sustainability problems which may not reach the purpose of firms' sustainability information disclosure and can be seen as a fashionable which may fade out after sometime. While another path looks sustainability reporting as a tool for

management to support and make different decisions and actions according to those information.

In the critical path sustainability accounting development, the Bruntland Report, World Commission on Environment and Development (WCED), was published in 1987 and seemed to pull attention from the public for the global need of sustainable development but because insufficient understanding of sustainability this corporate sustainability report was not well defined and been abandoned (Burritt & Schaltegger, 2010). Even the sustainability accounting process and reports was not clear though some companies still use sustainability reports caused by the pressure from both internal stakeholder – managers and external stakeholder – publics, media, societies to gained competitive advantage as reputation, market opportunities and to perceived from others perception on sustainability (Bebbington et al. as cited in Burritt & Schaltegger, 2010).

Another sustainability accounting development, managerial path, by comparing the financial accounting, the management reports were designed to meet the need of firms' managers for decision making, planning and controlling while financial statements – e. g. balance sheet, financial performance reports were designed for external stakeholders in which the first sustainability reports tried to linked with these accounting reports by integrating economic, social and environment aspect to support management decision and other stakeholder decision.

Burritt and Schaltegger (2010) proposed three approaches for sustainability accounting which are inside-out, outside-in and twin-track. For the first

approach – inside-out, it is an approach for a company to define its business strategy, implementation plan and make decision from sustainability performance measurement and reporting that trying to contribute to social and environment together with economic to strengthen their market position, gain competitive advantage from good reputation or value added to customers and even in monetary term from new technologies concerning with triple bottom line or innovated process that reduced waste, energy saving, emission reduction which decrease operational expenses and increase profit for the firm.

Secondly, the approach of outside-in is an approach from external organization such as Global Reporting Initiative (GRI) that supply guideline for a company for sustainability reporting and can be used as a driven forces for management consideration of how can the firm contribute to sustainable development and meet expectation from stakeholders. In which GRI is one of the best well-known sustainability reporting guideline (Brown et al. as cited in Burritt & Schaltegger, 2010).

Also, the way to measure, indicate, monitoring and reporting had taken into account as the study on the market reaction to the first-time release of corporate sustainability reports (Guidry & Patten, 2010) in which they examined from US firms' report according to Global Reporting Initiative (GRI) found that even there were no significant market reactions from the corporates sustainability released announcement but the it is positive significant to the quality of the reports in which the more market reaction to the highest quality report than lower quality report. Those evidences could implicate that people (investors in this study) are more concern in the detail

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or quality of the sustainability not only to have or simply mention corporate social responsibility in the annual report (Erusalimsky et al. cited in Guidry & Patten, 2010).

Monitoring System: SAM & Dow Jones Sustainability Indexes and Global Report Initiative

One example of monitoring system that has been develop as the important of corporate sustainability and increased interested from organizations' stakeholders consist of societies, media, customers, employees, NGO, investors etc. reviewed earlier, an asset management company in Switzerland, SAM; Sustainable Asset Management, specializing in corporate sustainability investments has founded in 1995 and turn to be one of the world's leading investment groups, looking for and identify the leading companies base on sustainability criteria using one of the largest sustainability corporation database by cooperated with Dow Jones Sustainability Index (DJSI) in analyze companies all over the world in yearly basis (SAM, 2009). In 2009, from 2, 500 largest companies according to Dow Jones Wilshire Global index had been analyzed and only 15% – 367 companies in 57 different sectors were qualified which classified in three different level; SAM Gold Class scored more than 75%, Silver Class scored 70-75% and Bronze Class scored 65-70%. The scores were measured across all three perspectives – economic, social and environment.

As mentioned the SAM collaboration with DJSI. DJSI is one of the biggest and longest datable that has been launch in 1999 provided reference point for corporate sustainability assessment by measuring and indexed base on economic, environment and social criteria of the firms. The assessment

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processes are conducted annually by SAM using different weighted criteria in general and specific-industrial to assess companies according to firms' opportunities and risk from their sustainability trends. The assessment are the response from the companies based on SAM questionnaire including companies' document and from others third-party. This assessment report then will assure by Deloitte defining rules. The dimension, criteria and weighting are shown as diagram below:

Source: Dow Jones Sustainability Indexes, 2010

Another example of monitoring system is GRI – Global Reporting Initiative which has developed in 1997 from the idea to disclosure sustainability information framework by CRES, non-profit organization in Boston, the pioneer of environmental reporting framework since early 1990s. The first GRI version of sustainability report guidelines, G1 guideline, had released in 2000 following by the G2 Guideline in 2002 and the recent version of GRI, G3 Guideline launched in 2006 (GRI, 2010). The GRI Guideline aim support an organization to what it has to report and how to report. The overview concept can be explained by the figure:

Source: Global Reporting Initiative: G3 Framework and Executive Summary (GRI, 2010).

In how to report, the GRI's Principle & Guidance and Protocols are provided to ensure that the report is focused to both internal and external stakeholders' value. In the principle and guidance part the processes are first, to define the report content relating to core component, stakeholder comprehensiveness, sustainability perspective and completeness. Secondly, <https://assignbuster.com/sustainability-asset-management-sam/>

make sure the report quality by concerning with accuracy, balance, comparable, easy to understand, timely and reliable of the report. Third, set the report boundary by determine the organization unit, function or process to be include in the report.

Another part on what to report Standard Disclosure, Sector Supplements and National Annexes are provided and using three different measurements which are: Profile to express strategic approach and governance, Second, Management Approach to explain the sustainability goals and management used and Third, Performance Indicators which accountable on economic, environment and social performance.

Company Description:

Nestlé was established in 1867, Switzerland by Henri Nestlé (Koese, 2008). The meaning of Nestlé is “ little nest” (Nestlé, n. d.). The first product of Nestlé was FarineLactee Nestlé for children who mother cannot feed them with the breast. The current product line including chocolates, soups, instant coffee, cornflakes, frozen foods, seasoning and mineral water as well as they expanded their products to pet foods, pharmaceutical, and cosmetics (Sefcik, n. d.). Nestlé accomplished with the innovative and business acquisitions to become the world largest Food Company in term of sales which has factories in 83 countries globally.

The vision of Nestlé is known as the leading in Nutrition, Health, and Happiness company (Nestlé, 2010; Mali, Ali, Rana, Ilyas & Khan, n. d.).

According to Nestlé (2010) stated that “ Our mission of “ Good Food, Good Life” is to provide consumers with the best tasting, most nutritious choices

in a wide range of food and beverage categories and eating occasions, from morning to night”. With its vision and mission, Nestlé focuses on 5 areas namely the consumers, human rights and labour operations, human resources, supplier and customers, and environment (The Nestlé Corporate Business Principles, 2010) using 10 principles on its business operations consist of:

Consumers

Nutrition, health, and wellness is the first principle that company needs to increase the quality of consumer’s daily life by adding more tastier and healthier to their products.

Quality assurance and product safety provides the safe and high quality to consumers.

Consumer communication, the company provide responsible to consumers to reach consumers’ need such as infant foods.

Human rights and labour operations

Human rights in our business activities is the fourth principle which emphasizing providing and supporting good real situation of human right and labour performances via business activities.

Human resources

Fifth principle is leadership and personal responsibility by respecting and reporting to all staff as well as motivating and providing opportunities to develop themselves in management and leadership.

Safety and health at work is the sixth principle of business operations that concern with obviating the hazard, harm, and sickness from work.

Suppliers and customers

The seventh principle is suppliers and customers relations by expressing the reliability and equality to contractors and clients.

Agriculture and rural development, the company provides the advancement in the production, community, and financial to farmers and rural people as well as create environmentally friendly in term of sustainability.

Environment

Ninth is environmental sustainability. The company takes the sustainability in environmentally friendly into action through business activities as well as product life cycle by using the resources efficiently.

The last principle is water due to the company create the sustainable of water as well as development in water systems by managing as the confining resources.

Sustainability dimensions most relevant to Nestlé

Nestlé is responsible for creating the corporate achievement in long term in term of creating shared value. (Nestlé, 2009) The company follows the highest standard of business activities and environmental sustainability which concerns in various areas of sustainability such as socio-cultural, economic, and environmental. Refer to the company's objective is known as the leader in Nutrition, Health, and Wellness; it relates with the sustainable

in triple bottom lines such as financial, social, and environment issues (Nestlé Oceania, 2009).

Nestlé believes their business activities in term of sustainability can create environmentally friendly for future. (Nestlé, 2009) Regarding to sustainable development to Nestlé, it can define as the expansion that reach the need in the present by using the fully ability to satisfy individual's need of next generation. Description: CSV

Conversely, the company makes business profit in long term by going beyond cooperation and sustainable to create value for investors and society. In addition, Nestlé emphasizes on the global environmental issues such as nutrition, water, and rural development as well as these issues can create strong business strategy and competitive advantage to increase the shareholder value and attain the social's requirement (Nestlé, 2009). The dimensions relevant to Nestle are categorized as:

Socio-cultural dimensions

First of all, nutrition is one of the relevance of Nestlé's sustainability due to the company focuses on helping people and society healthy (Nestlé, 2009). The company creates the nutrition aim to improve health and provide more choice to consumers as well as adding up quality of life. In addition, the company also focuses on the lowest impact with environmental problems. Moreover, the company needs to provide knowledge and understanding in the consumers. The company tries to develop and improve their products with high quality of foods to support low-income consumer as well as pursuing with World Health Organization's regulation. Furthermore, Nestlé

renovates products by providing the nutrition labelling and descriptions on the packaging as well as develop nutritional knowledge and training in infant formula marketing employees (Nestlé, 2009).

Nestlé has several aspects that make corporate sustainability. For instance, the research and development is one of factor that concern for the social sustainability. The R&D needs to have well planning to drive the company achievement in the consumer's needs. The company also provides diversify of products to improve branded active benefits for health benefits to customers. However, there are some problems that Nestlé faces such as the increasing rate of obesity in the developing countries (Nestlé, 2009).

Second, rural development is one of aspects that Nestlé concerns due to the company works directly with the farmers. Most of them live in the rural areas and work as agriculturists. Nestlé creates sustainable by supporting them to have better standard of living, increasing in productivity, and protecting the environment. The company also has the high quality of raw material to support the consumers and make more profit because they reduce the intermediaries. Nestlé supports social sustainability by providing the knowledge, loans, rural employment, and training as well as technical assistance to rural people. The company also manages the relationship with suppliers to save the distribution costs and obtain high quality of raw materials. Moreover, the company can create shared value via supplier development by providing training and knowledge as well as reach high standard of the company (Nestlé, 2009).

Last are human resources that focus on the sustainability and stability in work life as well as the employee's satisfaction. Nestlé aims to invest for professional training and development in quality of staff as well as provide the job opportunities and environmental in the workplace. The company also needs to create the respect and parity at all level within the company (Nestlé, 2009).

Health and safety is one of the important factors that can create the sustainability in organization such as the zero accident during work. Employees need to work in the secure and comfortable place which can create more productivity. The relationship within employee is emphasizing on the human rights, culture and equity which can connect to the sustainable in corporation. Moreover, Nestlé concerns in the gender balance in term of multicultural diversity within the company. Training and learning are necessary to create business success by staffs need to understand their job and use effectively skills as well as the company provides the management training and leadership development to their employees. In addition, Nestlé creates in employee engagement and workplace wellness to build corporate sustainable (Nestlé, 2009).

Environmental dimensions

Nestlé concerns in water and environmental sustainability which improve production process and environmental performance as well as they produce goods with lowest environmental effect. The company launches the environmental sustainability programs to reduce use in water and natural resources as well as develop the packaging to maintain environmentally friendly. Moreover, company promotes more sustainable in supply chain

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management in water. Nestlé is continuing to improve the environmental performance such as water resources and reduce the energy consumption as well as renovate energy sources (Nestlé, 2009). Nestlé has environmental management to improve the sustainable development in order to business activities. The company is also responsible for engaging stakeholders' performance and capture leadership role. The company also creates the environmental sustainability in product life cycle by focusing on the environmental impacts such as production process, conveyances, and consumption. Water is the natural resources that an essential for Nestlé due to the company uses water for agriculture. (Nestlé, 2009) Therefore the company manages the water resource as main factors of creating shared value.

Another factor is climate change, Nestlé concerns for the greenhouse gas emanation by improving energy, and converting to cleaner fuels as well as renewal of energy. Moreover, transport and distribution, the company works on the environmental impact to reduce the environmental issues. The company also reduces the waste and recovery of by-products and increases the reprocess of by-products as well. In addition, Nestlé emphasizes on the packaging due to it is necessary for food safety by providing the nutritional information to consumers. Hence, the company focuses on the innovative of packaging that makes from natural resources such as plastics as well as motivates consumers to reuse plastic bottle (Nestlé, 2009).

Economical dimensions

Nestlé provides the economic sustainability through the principles and policies which concerns in management approach. (Nestlé, 2009) Nestlé also

indicates the economic sustainability into risk and opportunities in climate change. Nestlé create sustainability in core strategy in term of rural development due to the company provides knowledge training to communities as well as develop the rural areas. Moreover, the company provides long term micro financial loans to farmer as well as employment. Nestlé has project to invest and develop in term of agriculture activities such as growing and improving coffee quality and sustainability. Nestlé also shares the Creating Shared Value and supply chain in order to consumers, suppliers and distributors, industry, employees, government, and shareholders which sharing as consumer surplus, suppliers of raw materials and packaging, price and cost of company productivity, job and revenue of staff, taxes, and enhance in share-holder value.

Analysis of Nestle indicators

From Nestle company perspective, they believed that Creating Shared Value for societies that go beyond regulations, business principle, code of conduct compliance and sustainability to protect the future concerning with all stakeholders can create long-term value for their shareholder and company value in the term of economic, innovation, social and environment too. They are support UN Global compact and committed business principle base on sustainability and had developed conceptual framework measured the impacts on all stakeholders which depict as the figure below.

Apart from the stakeholders' impact matrix mentioned, they also looked in to materiality issues and analyze on their value chain which concerning from stakeholders and identified key performance index, focused area and prioritize according to degree from low to high of the impact and the interest

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of society that helped the company to utilize resources allocation, clearly goals setting and proper action plan in each focused areas.

Source: Nestle Creating Shared Value, published on www.nestle.com, 2010

Analyzing to the Nestle monitoring system, their recent indicators are measured and reported in the form of United Nation Global Compact Principles which are Economic, Nutrition, Water, Environment Sustainability, Rural development, Suppliers, People and in addition with external assessment from SAM using Dow Jones Sustainability Indexes (DJSI) and Bureau Veritas assurance for Global Reporting Initiative (GRI).

This report will describe and evaluate indicators from the dimensions of Socio-Cultural, economic and environment by using DJSI and GRI for analysis.

Overall, results of performance indicator by SAM, Nestle been classified in to SAM Gold Class and ranked second leader in Food Producers Sector according to SAM methodology and assessment as shown in figure below.

Source: SAM Sustainability Yearbook 2010

The performance indicators measured were weighting across Economic 34%, Environment 29% and Social Dimension 37% which can be seen that it got highest score in Social Dimension and almost highest in Environment Dimension that match with the firm focused areas on Nutrition, Rural development & Our people as Social and Water & Environment Sustainability as Environment Dimension as shown in table below.

Source: SAM Company Benchmarking Scorecard, Corporate Sustainability Assessment, 2010

Looking into another indicator, GRI, Nestle GRI report shown its application level on B+ which mean they met criteria requirement in level B shown below and the report assured by external auditor – Bureau Veritas. The reasons Nestle not met level A are because the reports did not respond to core G3 version and Sector Supplement Indicator; Nestle are categorized in Food Producers Sector.

Source: GRI Application Levels version 3. 0, 2010

The detail indicator analysis according to different dimension will explain in the following section.

Economic Dimension

DSJI Sustainability Assessment in economic dimension

In DJSI Economic Dimension, it evaluated in 6 criteria indicators using the Sustainability Assessment questionnaire responded from the company, Nestle, consist of

- Corporate Governance
- Risk & Crisis Management
- Code of Conduct / Compliance / Corruption & Bribery
- Innovation Management
- Health & Nutrition

Strategy for Emerging Markets

The DJSI report of Nestle Company evaluated by SAM can be seen as table below:

It can be seen that Nestle Score are more than average in every area that evaluated by the answers responded from the questionnaire. For example: In corporate governance, it reported Checks & Balance of the Board structure using two-tier system with supervisory board from non-executive and independent directors of total 14 persons compared to 13 from management board from executive management and the role of CEO is split from Chairman. It reported formal corporate government statement. There are 3 women in board for gender diversity. Board owned the company stock to align with long-term interest of shareholders.

Another example in Risk & Crisis Management including water and climate which Nestle got the best score shown that it assigned specific management staff – Head of Group Risk Management, to response and report in this area, it using risk analysis tool such as HACCP, Fault Tree Analysis (FTA), etc. and correlated analysis all this risks to business and financial risk including sensitivity and stress test such as change in carbon pricing, water quality. It has contingency plans using Nestle Environmental Management System (EMS) including ISO14001.

More detail questionnaire answers can be seen from SAM Research Corporate Sustainability Assessment Questionnaire, DJSI Sustainability Assessment 2010, NESTLE SA/AG.

Global Reporting Initiative (GRI) for Economic dimension measuring in 3 performance areas as

Economic performance, 4 indicators: EC1, EC2, EC3 and EC4

Market presence, 3 indicators: EC5, EC6 and EC7

Indirect economic impacts, 2 indicators: EC8 and EC9

For example: Nestle reported EC1: Direct economic value generated and distributed as below figures:

It reviewed that the group achieved organic growth of 4.1% but because of Swiss franc currency weakness, it reported sale down to 107.6 Billion CHF. While the EBIT margin is increased to 14.6% and also dividend per share are increased 14.3%. The profitability is increased because of the cost saving target from Nestle Continuous Excellence (NEC) program. Also it increases its R&D investment by 1.9% of sale for long-term brand building and investment.

Another example of EC2 – Risks and opportunities due to climate change:

It can be seen that Nestle has improve energy efficiency and renewable energy expansion use over year such as it reduced greenhouse gas emissions by 3.1% from 2008.

Environmental Dimension

DSJI Sustainability Assessment in environmental dimension

The score are measured in 8 different sub dimensions and Nestlé's score are shown in below table:

Nestlé's all scores are above the average and some of them get the best score. Those score achieved by the company performance, for example in Environmental Policy / Management System, Nestle has adopted environmental policy which committed to environment since publish global policy on environment in 1991 where preserving natural resources and reduced wasted are in its operations which include the reduction use of water per kilo of food and beverage produced, signed UN Global Compact, improved environment through SAI-platform (Sustainable Agriculture Initiative), participated Carbon Disclosure Project (CDP), shared knowledge through Greening the Supply Chain (CGS) program which help suppliers to develop their EMS (DJSI, 2010). Nestle EMS verify by ISO14001.

Another indicator in Operational Eco-Efficiency, reported that the EP- Direct Greenhouse Gas Emissions in 2009 was 3976158 Metric ton CO2 equivalent compared to 4104488 in 2008, also Indirect Greenhouse Gas Emissions, Energy purchased, Water consumption, Waste generation were reduced from the previous year.

Additional example of Packaging indicator, Nestle policy is integrated with environmental aspects which applied to holistic life cycle – farm to consumer to reduced weight and volume of materials, Packing reduction, recyclable packaging, use recycled materials, biodegradable packaging, recovered energy from used packages in which all detail reported can be seen from Nestle publications, eco-design and by invested in R&D Sustainability Council to ensure that sustainability is taking in to account in all development products.

Global Reporting Initiative (GRI) in Environment Dimension are measured in 9 different areas as

Material: 2 indicators – EN1 and EN2

Energy: 5 indicators – EN3 to EN7

Water: 3 indicators – EN8, EN9, EN10

Biodiversity: 5 indicators – EN11, EN12, EN13, EN14 and EN15

Emissions, effluents and waste: 10 indicators EN16 to EN25

Products and Services: 2 indicators – EN26 and EN27

Compliance: 1 indicator – EN28

Transport: 1 indicator – EN29

Overall: 1 indicator – EN30

At Nestle, for example in Material – EN1: Materials used by weight or volume, it shown that it reduced 58, 995 tons of materials weight from 21. 43 million tons in 2008 to 21. 18 million tons in 2009 as table below:

Next example of Energy – EN3: Direct energy consumption by primary energy source. It can be seen that Nestle had reduced energy consumption and move toward renewable energy sources.

Additional example of Water – EN8: Total water withdrawal by source in which Nestle aim to be the most efficiency water user and they can reduced 143 million cubic meters in 2009.

Another example of Emissions, effluents and waste – EN16: Total direct and indirect greenhouse gas emissions by weight reported reduced in 2009 compared to 2008.

Further example of Products and Services – EN26: Initiative to mitigate environmental impacts of products and services, and extend of impact mitigation. Nestle conducted Life Cycle Assessments to determine the impact to environment from its product such as coffee products and used those information for R&D and share among communities for further improvement as shown in figure below:

Social Dimension

DSJI Sustainability Assessment in social dimension

SAM was assessed in 7 main area indicators which Nestle assessment score are shown as below table:

For example in Labor Practice Indicators, Nestle reported that it has a strict policy of non-discrimination base on gender, ethnic, nationality, religion and performance characteristic which from the Labor KPI as Non-Discrimination / Diversity shown 33% of women in the workforce and 27% in management position and the diversity distribute among 33. 9% in Europe, 38% in America 28. 1% in Asia, Oceania and Africa. Also for the safety in the workplace it used international standard of OHSAS 18001 as safety work indicators in which only 0. 23 in