

Corporate Responsibility in the Food Industry

*An Arthur D. Little
Discussion Forum*

TOO HARD TO SWALLOW?

THE NAKED



A series of lunchtime discussions on key sustainability issues – the subject for this debate was Corporate Responsibility in the Food Industry – Too Hard to Swallow?

Guest Speakers

Dr Diane Osgood

Environmental Economist

Bill Vorley

Research Associate, International Institute for Economic Development

LUNCH

Sustainability Stripped Bare

Participants

Sue D'Arcy

External Affairs, Masterfoods

Martin Gilmour

Cocoa Research Manager, Masterfoods

Peter Knight

Director, Environmental Context

Richard Heathcote

Sustainable Development Manager,
HP Bulmer Holdings plc

Sophie Hooper

Editor, Sustainable Business News

Leonie Smith

Corporate Social Responsibility Manager, Tesco plc

Hosts

David Brown

Principal

Leena Chauhan

Marketing Manager

Sarah Roberts

Manager

Antonia Simon

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Corporate Responsibility in the

Food production, processing and distribution are vital industries: they feed the world. But, despite advances in technology, many of the world's poor still go hungry, basic natural resources such as soil are in decline, and the global food business can have a significant impact on society and the environment. It is no surprise therefore that companies face increasing pressure to address sustainability issues.

The food industry was the subject of the latest Naked Lunch – a forum for debate with leading sustainability practitioners, hosted by Arthur D. Little, providing an opportunity to strip sustainability issues down to their bare essentials. On this occasion, the intention was to explore the boundaries of corporate responsibility and the role of food companies in tackling some of the most controversial sustainability issues.

The topic was introduced by guest speakers Diane Osgood and Bill Vorley.

Food Industry

– Too Hard to Swallow?

the business context

Food is a global industry, led by multinational corporations. Brand labelled, processed foods dominate the market and the majority of profits are made from value-added industrial scale production and distribution, rather than primary crop growing and animal husbandry.

Eating habits have altered enormously in recent decades. The mainstays of consumer diets in Western countries tend to be bought from grocery retailers rather than being produced or prepared at home. Increasingly, staple foods are transported around the globe and convenience foods and ready meals are replacing traditional home cooking. The retail environment has changed radically in response to shifts in consumer lifestyles.

social and environmental impacts

The global food supply chain is in effect a process industry that contributes along with other sectors to global warming, loss of biodiversity, overfishing, deforestation, soil erosion, the build-up of persistent chemicals and, increasingly, water shortages. Intensification in farming, and more recently genetic modification, add to controversy and highlight the importance of sustainable agriculture.

In addition to these environmental impacts, the food industry is now having to confront growing concern about social issues such as child labour, relocation of indigenous peoples, exploitation of small farmers and corruption. Concerns are also being raised about consumer choice, the ethics of selling so-called junk food, especially to young people, and the long-term health effects of highly processed convenience foods.

Within this broad environmental and social context, *Naked Lunch* participants discussed the role of the food company, and in particular where their corporate responsibilities should begin and end. In particular:

- **Whose Responsibility?** Companies are starting to take responsibility for the wider environmental and social impacts of their business and acknowledge the health effects of their production. Many businesses accept that they have a responsibility to tackle underlying issues, although they may disagree on whether this is an ethical imperative or simply good business sense.
- **Shared Accountability.** Neither the onus nor blame should fall exclusively on food companies. For example, changing lifestyles and work patterns are intimately bound up with changes in eating habits, all of which contribute to health impacts. It is important to involve all parties, such as consumers, pressure groups, farmers, governments and health services in tackling them.

Boundaries of Responsibility

- **What About Consumers?** Food companies cannot ignore what their customers want. But, just as the supply side must accept a responsibility to educate customers about the impacts that their demands create, perhaps consumers should also accept a degree of responsibility for the consequences of their demands.
- **Fair Trade.** At the moment, “Fair Trade” can be regarded as a niche product range for discerning customers. But, trading fairly should be a fundamental requirement of all companies involved in the food business.
- **On Whose Terms?** Food companies must look not only at what business they want to sustain, but also on whose terms. For example, the South African government wants to develop a class of rural, black entrepreneurs. How well does this vision fit with the sustainability policies of multinationals?

Issues and Tensions

The Naked Lunch debate touched on a broad range of topics, illustrating the complexities of corporate social responsibility in the food industry. These included:

supply chain complexities

One of the stumbling blocks for sustainable development is the complexity of global supply chains. A processed meal, for example, is likely to have a complicated history between harvest and the dinner table. After each of the primary ingredients is grown, reared or caught by any number of people in different countries, it will pass through a complex chain that could include blending, trading, processing, manufacture, transportation, packaging, distribution and retail. Keeping tabs on environmental and social impacts of successive companies is no easy matter. Nevertheless, food companies need to tackle such supply chain complexities as customers and stakeholders demand more transparency.

market inclusion

Sustainability policies can increase barriers to market entry. Higher standards, accreditation fees and increased paperwork all provide obstacles and extra costs for small farmers or food companies. The open market is an illusion when only larger companies can afford to compete. Cocoa co-operatives provide one example of how corporations can help smallholders. If companies encourage growers to set up co-operatives, the farmers are in a stronger position. There are also distinct advantages for buyers in terms of efficiencies, quality and ease of purchase. Both sides win.

economics

Food companies cannot afford to lose sight of the fact that their primary duty is to shareholders. Whatever

the demands of consumers and other stakeholders, companies must ensure that corporate responsibility policies do not undermine shareholder value. Markets focus on short-term profit, while sustainability policies tend to involve a longer-term return on investment. While private companies may have more freedom to focus on the future, shareholder owned businesses must be aware of the impact of their policies on profits.

responsibility for suppliers

Food companies can move the burden on sustainability policies down the supply chain without helping suppliers to manage costs. Suppliers need financial incentives and buyers need reasons to buy on added value, rather than cost alone. This is particularly the case when subsidies or surpluses lower market prices and fail to reflect the true social and environmental costs of food.

consumer demand

Consumers drive the continuing development of the food industry. They want a choice of cheap, exotic, convenient food at low prices. They also expect producers to deal with issues such as food safety and animal welfare as they come to their attention. Customers are asking more and more questions and companies need to have acceptable answers. Research shows, however, that there is a limit to what consumers will pay for. Although some will want, and be able, to spend more money on 'better' food, the majority of shoppers still put price first. Consumer education is clearly important, but raises questions about consumer choice, personal freedom and the thorny issue of who sets the educational agenda.

moving beyond responsibility

To most food companies responsibility is about compliance and minimising risks. But increasingly, there are companies that make corporate social responsibility and sustainability a defining feature of their business. They work to eliminate waste, maximise assets, encourage suppliers and get more out of natural resources in a way that is harmless or even beneficial. Instead of dealing with end-of-pipe solutions, these companies design sustainability into their working processes and fundamentally change the way they do business. Sustainability is the basis of their competitive advantage, and they are able to work for long term business benefit and increased market share.

Conclusion

The complexity of corporate social responsibility and sustainability in the food industry is no longer an excuse for inaction. The boundaries of responsibility are indistinct and cannot be fixed by rigid criteria that are accepted by all. There are no easy answers or checklist of solutions. Nevertheless, there are pioneering companies that are tackling difficult issues and seeking to bring about environmental and social improvements that lie outside traditional boundaries of business. In doing so, they are setting a standard that the rest of industry will have to follow.

Arthur D. Little and Sustainable Development

Sustainable development is the subject of endless debate and can be applied to every aspect of modern life. To us and our clients it's the business of staying in business – a long term strategy of balancing the often conflicting needs of economic wealth generation, environmental stewardship and social responsibility.

Business has always been driven by the need for economic efficiency. Modern businesses would also recognise the need to manage successfully other important drivers such as regulatory compliance, market dynamics, technology and geopolitical issues. But, a sustainable business, one that will stay in business, recognises the over-arching importance of the environment and the people that are affected by its activities, whether they are employees, customers, suppliers or neighbours in the local community.

Arthur D. Little's experience covers all major regions of the world – with staff based in over 30 countries. We have in-depth knowledge of the cultural, societal and regulatory factors that are key to optimising performance. We have particular strengths in measuring and managing intangibles such as reputation and innovation, and relating them to business value.

About Arthur D. Little Environment & Risk

Arthur D. Little is an international management, technology and environmental consulting group serving major public and private sector clients. We are one of the world's premier consulting firms, today we have more than 1,000 staff members based in over 30 offices around the globe. We are distinguished by our understanding of technology in both business and societal contexts, our ability to innovate in order to solve tough problems, and our emphasis on objectivity and clarity. We have wide experience in helping clients make the best use of the knowledge and technology base available to them.

Since 2002 we have been part of Altran Technologies, Europe's fastest growing technology consultancy group with some 15,000 employees worldwide and a market capitalization of above 2 Billion €.

At our base in Cambridge UK, Arthur D. Little's Global Environment and Risk Practice can provide over 70 environmental, safety and risk specialists. We work with companies and governments to help them deal with the toughest existing and emerging environmental, social, safety and risk problems, and in so doing move further along the path to sustainable development. We are committed professionals, and place a high value on openness, honesty, objectivity and clarity in our work. We know how and when to innovate – producing new solutions for unique problems or using conventional methods in innovative ways. We excel at addressing challenges requiring a combination of technical expertise and business acumen. We attract people from a diverse range of academic and cultural backgrounds. Our staff are inquisitive and purposeful in their approach to client needs, and quick to adjust to the client's organisation. We have been providing environmental and risk consulting to our clients for over 30 years.

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