

Jassmyn Goh

## Nestle: A Model of Sustainable Business Practices

**Nestle's consumer products are visible in virtually every home. Less visible is the company's longstanding commitment to sustainability and the environment. Nestle Indonesia is demonstrating what can be done here to fulfill that commitment.**



It is difficult to find a household that does not or has never had a Nestle product in its pantry. Founded some 146 years ago, Nestle has become a leading global company tapping into the health, wellness and nutrition market. Established in Indonesia in 1971, the company currently has three factories – in Pasuruan, Lampung and Banten – with a fourth currently under construction in Karawang. As a large multinational company committed to a continuing future in Indonesia, Nestle has understood the need for a sustainable business environment both internally and externally. Although many companies

may have the same vision, Nestle has proven it can realize that vision through numerous projects that have, in turn, won the company two awards in the Indonesian Sustainable Business Awards: the Best Supply Chain Handling and the Industry Champion: Food and Beverage.

Nestle's commitment to sustainable business practices stems from its long-term philosophy. Adopting a corporate culture that is long-term in orientation often means that it is more willing to adapt and change plans in order to suit a specific environment or situation. Because this orientation isn't focused on short-term goals, the viability, sustainability



and effectiveness of projects and solutions are examined more thoroughly.

Current CEO of Nestle Indonesia, Arshad Chaudhry, said in an interview that the company from the beginning has focused on adopting sustainable practices.

"Sustainability makes a very important foundation for what we do in our business and it is not a new thing," he said. "Nestle was formed in 1886 and all along, all this time, Nestle has taken care of and has had awareness and consciousness of sustainability."

This awareness has allowed the company to prepare for the future, keeping in mind the needs and desires of its stakeholders, their internal and external environment, without sacrificing profits.

"When we set up an operation, we always ensure that we take care of sustainability, to protect the future and if we do that, this is what forms a foundation for what we do, our belief in what we do and for our long-term success. We try to create value not only for our shareholders, but also for society, and we can only do this if we have a strong foundation of sustainability and this is what we call, creating shared value for society," Chaudhry said.

This concept of creating shared value is part of Nestle's corporate social responsibility, which focuses on nutrition, water and rural development. Their value chain can be segregated into three areas: agriculture and sourcing, manufacturing and distribution, and products and consumers. These aspects are continuously assessed by Nestle and how each area contributes to the shared value through the value chain impacts, contexts for growth, value for the company and value for society.

### Managing the Supply Chain

This value chain is incorporated into their supply chain, which starts with the procurement of the products that directly impact the lives and livelihoods of farmers.

"We work with farmers for dairy and coffee so we help the farmers make sure that there is good quality of products and this quality would ensure that they get the right value for their product," he said.

With farmers, Nestle works to acquire the raw materials efficiently, to procure high quality raw materials, and ensure that the farmers are successful.

"We procure milk from our farmers and if we want to have a sustainable business with long-term success, it means that the farmer must also succeed. Their success is also dependent on how we help them and we have been making sure that they can sustain what they do," Chaudhry explained.

To do this, Nestle ensures that the farmers are productive and produce high quality crops, which in turn



Above ????????

will ensure that their products will be purchased again and again.

"We have been assisting them through technologies, training them on how to do things and how to create things," he said.

The farmers are also educated regarding the best pre- and post-harvest practices. For example, dairy farmers are told about what diet is best to enable cows to produce better quality milk and what kind of environment in which to keep their cattle, and other related areas to ensure quality and sustainability.

"As part of the technical assistance we provide, we also give regular training for the farmers for different needs they have in order to improve productivity, quality and yield. This in turn positively affects their income as well," Chaudhry said.

Due to the success of these programs and the benefits they have brought to farmers, Nestle has been able to change the attitude of farmers regarding the importance of

quality. The farmers have been able to adapt and, in turn, have become what Nestle sees as professionals who are reliable and outstanding suppliers, ones who can produce high quality raw materials at competitive prices, while at the same time improving their livelihoods.

One area where Nestle has introduced innovations that underpin sustainable agriculture practices is in the area of energy. At dairy farms in Pasuruan, Nestle has helped 4,400 farmers establish biogas plants.

"These plants use the cow waste to produce green energy, which creates a culture of hygiene for the farmers too," he said.

"It uses the waste by converting it into a useful resource and this creates economy for the farmers. They don't have to buy gas, so they can actually cook with it and they don't have to burn wood. It's healthy and it's green energy."

If a farmer has just five cows, the

biogas that is produced is sufficient for their household, which is a major saving.

"We are very proud of the fact that we can bring value to the local farmers in a very sustainable manner. And the farmers themselves are all very proud. Not only are there improvements with the animals, but the quality of the milk they produce," Chaudhry said.

"They also contribute to the environment, keeping the environment clean and embracing the concept of green and renewable energy. If this can be multiplied to many more farmers, it would be very good for Indonesia."

#### Learning Lessons When Things Go Wrong

In addition to promoting sustainable supply chain practices, Nestle has also distinguished itself in adopting sustainable business practices across the whole spectrum of its food and beverage businesses,

Chaudhry explained. Those practices garnered Nestle Indonesia the Industry Champion award under the Food and Beverage category at last year's Sustainable Business Awards.

"It recognises our commitment to this [food and beverage], which people have seen, and so they awarded us and we are very thankful to them for recognizing us in Indonesia," he said.

Although Nestle prides itself as always being in compliance with the law and having high standards in all areas of production, it has not escaped occasional criticism. In 2010 they were under the magnifying glass after the environmental non-governmental organization Greenpeace called them out for using palm oil that was derived from areas where Indonesian rainforests had been cleared to make way for palm oil plantations.

Greenpeace's online campaign against this practice became viral and forced Nestle to rethink their palm oil procurement and suppliers.

"Greenpeace raised an issue about Indonesian palm oil practices and deforestation," Chaudhry said. "They has Sinar Mas (the Indonesian conglomerate that controls palm oil maker PT Smart) as their target. This involved Nestle because Nestle was buying palm oil from Sinar Mas."

However, Chaudhry, who has spent 24 years at Nestle, said that he believes what happened after the incident was more important.

"After that Nestle, Sinar Mas and The Forest Trust worked together (to address the problem), because we have strong policies regarding our suppliers. Nestle and TFT then worked with Sinar Mas to ensure that they were adopting the right practices. Sinar Mas have now proved themselves and we have started to repurchase from them," he said.

"The issue was pointed out and we worked on it and ensured that it was resolved to the satisfaction of all stakeholders, including Greenpeace, and so now, we have re-established the relationship," adding that the results of the measures taken to address the problem were independently audited.

Nestle's focus on sustainability also extends to water management, especially recycling water. For the last 12 years, the company has been implementing a wastewater treatment program in their factories and they now produce up to 60% of their water consumption.

#### Implementation

It is very easy for any company to claim that they integrate sustainability into their business, but it is in the actual implementation and continuation of the process that tests a company's commitments. Nestle's long-term philosophy stems from this commitment to uphold their promises, Chaudhry said.

"To have sustainable practices you need commitment – from the management, the shareholders and from all the people who work, everyone has to commit to these practices. You can't just do it from one day to the other," he explained.

"It should be the way you do business. You cannot just say tomorrow I will make my business sustainable, you have to have a long-term commitment, and Nestle has excelled in this. And over time, we have improved and improved."

As CEO of Nestle Indonesia for three years, he said believes that this ongoing commitment has to be part of the work culture in order for there to be success.

"This attitude cannot be just from one person. It has to be from all the people and at Nestle, that's what we are very proud of."

Nestle's practices are constantly monitored through international, well-established measurements throughout their value chain, along with third party audits.

Given that Indonesia is a country rich in natural resources, it is important that government, businesses and civil society organizations work together to ensure the promotion of sustainable business practices.

"I think there needs to be a joint effort with the government, public and private sectors to come together to find solutions that are more sustainable and we can motivate each other to do this," Chaudhry said.

"If you exist in a society, you should exist with a responsibility and this responsibility is to take care of the future. Not only to make use of the resources today, but to make use of the resources today to make a better future for tomorrow."

Below ??????????

