Corporate Sustainability Indexes: FTSE - 4good Index

Report on Nestle

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ABSTRACT

Corporate sustainability and economic business activities are focused on the social and environmental impacts. In this sense, the economic activity created by the businesses is to pursue social and environmental impacts, and producing information related to these effects is essential for the formation of structure for a sustainable business.

Sustainability indices are structures edited on first generation sustainability indicators, which are structures constructed in order to share information with consumers and businesses. The most important benefits are improvements in transparency without the need for regulation of the sustainability index, better understanding of the social and environmental impact of companies and the guidance for arrangements to minimize the negative side effects of company activities.

FTSE4Good is a responsible investment index designed to help investors identify companies that meet globally recognised corporate responsibility standards. It is the only index of its kind since it includes specific criteria on the responsible marketing of breast milk substitutes.

Key Words: Corporate sustainability, FTSE4 Good, Index, Nestle.

1. INTRODUCTION

Institutional sustainability performance measurement aims to embrace the environmental, social and economic aspects of the institutional sustainability. There can be problems in the reduction of these three dimensions to a single dimension. Multi-criteria decision-making models provide a useful frame for the evaluation of these variables together.

Sustainability indices are an important tool used for the increase in the institutional transparency for shareholders, the increase of the brand value and business reputation in long term, the support of innovation, the risk management, the increase in the awareness and motivation of the workers, the withdrawal of long term funds with appropriate financial conditions, the creation of financial value via increasing the shareholder value and supplying the business sustainability including all these.

2. CORPORATE SUSTAİNABILITY

Originally, sustainability is the property of being capable of being continued with minimal long-term effect on the environment (Akar and Çamlıca, 2014: 102). Another definition would be the one belonging to the World Commission on Environment and Development (WCED), which was set up as an independent body in 1983 by the United Nations, with the brief to re-examine the critical environment. WCED's aim was to develop proposals to solve environmental problems, and to ensure that human progress will be sustained through development without bankrupting the resources of future generations (Kesimli 2013: 2).

Institutional sustainability is accepted as the equivalent of approach of sustainability in operating level. For a proper sustainability implementation in companies, the economic, social and environmental parameters, which are the three sub-factors of sustainability, should be included in all the basic, strategic and operational process and decision-making mechanisms of the companies (Öztel et al., 2012: 34).

Institutional sustainability is defined as the companies undertaking activities by harmonizing their products and services with the stakeholders of the institutions and creating economic, environmental and social values. When operating activities are accepted as one of the effective factors in shaping the economic, social and environmental opportunities and sources of today and tomorrow, the significance of the institutional sustainability in providing development in the long term appears (Çalışkan, 2012: 32).

3. MEASURING SUSTAINABILITY

Reaching sustainability is very closely associated with measuring the sustainability on an institutional or sectoral basis. The most important management tools used in the measurement of the sustainability are indicators. The indicators specified as a strategic objective in Agenda 21, accepted in Rio Summit of 1992 are basic tools used to complete a system, define the options for the development of this system and to measure the performance shown while using these options.

The indicators, which have an important role in converting the complex data sets into understandable units in decision making processes, are defined with regard to the three dimensions of sustainability (Erol and Özmen, 2007: 2). Indicator samples within these three dimensions are presented below (Teköz and Önce, 2007: 27):

Environmental Indicators: Water consumption, energy consumption, renewable energy sources, mitigation of waste, product and package recovery, global warming, noise pollution, environmental reporting system, etc.

Economic Indicators: Creating new employment opportunities, research and development expenses, supporting new investments, total sales, number of the personnel employed, number of the shareholders, etc.

Social Indicators: In-service training and career awareness, participation of the employees in decision processes, union relations, employee turnover and dismissal, equal opportunities, discrimination, violence and abuse, occupational health and safety, complaint and disciplinary regulation activity, management activity of wages and personal rights, child

employment, performance management activity, employee selection system activity, customer complaints, consumer health and food safety, investments made in social projects, etc.

Works with respect to adoption of the sustainability criteria by more financial institutions are performed considering competitive structure of the finance sector on the one side and based on cooperation and regarding the advantages of information sharing models on the other side. Financial institutions play an important role in increasing the number of real sector companies considering environmental and social factors in decision making processes (www.skdturkiye.org).

4. INSTITUNAL SUSTAINABILITY INDICES

An Index is an indicator for measuring the proportional change which consists of the movements of one or more variable(s). Share indices are the indicators which give a general information about the "market performance" based on the share prices provided within the indices (www.borsaistanbul.com).

Sustainability indices, however, are the structures built on first generation sustainability indicators and formed on sharing information regarding the performance of the companies about these issues with the investors and consumers. Especially, in an environment where accessibility, reliability and comparability of the environmental, Social and Governance (ESG) data of the developing economies are questioned, mentioning the long-term investments is quite difficult. To eliminate this situation, non-profit institutions working on sustainability performance cooperate with the institutions in the developing economies and start to form and contribute to the formation of sustainability indices (www.s360blog.tumblr.com).

The most important advantage of the sustainability indices is to lead to improvement in transparency without needing regulations, to better understand the social and environmental effects of the companies and to be guiding for the regulations which will reduce the negative effects of the company activities (Çalışkan, 2012: 42).

Companies have not only economic responsibilities but social and environmental responsibilities, as well. It is seen that in operating level, institutional sustainability is associated with competition, innovation and marketing components at a high level. Looking at this aspect,

any company can obtain an advantage of competition over institutional sustainability (Diaz et al., 2011: 762).

As a tangible tool of driving the issues such as inevitability of managing the change in business world for sustainable development, institutional sustainability, sustainable management of risk and opportunities, social and environmental values forward, the sustainability index serves for sustainable development across the country by providing advantages such as supplying capital and finance to companies, providing opportunity in attracting investment, and increasing reliability and recognition (www.ekoyapidergisi.org).

5. FTSE4GOOD INDEX

Financial Times Stock Exchange (FTSE), which is an index company active in the international field, is an organization established with the cooperation of Financial Times and the London Stock Exchange in 1995. Likewise, FTSE4Good index is a social responsibility investment index designed by FTSE, one of the world's leading index suppliers (www.arge.com).

The FTSE4Good Index Series, launched in 2001 has been designed to objectively measure the performance of companies that meet globally recognized corporate responsibility standards, as provided by the FTSE (Financial Times Stock Exchange) company, which is a company jointly owned by The Financial Times and the London Stock Exchange (Hussein, 2004: 24).

It comprises 23 markets covering the Global and European regions, the US, Japan and the UK and over 2,000 potential constituents. In the UK, the universe of eligible constituents is drawn from the FTSE All-Share Index. The FTSE4Good Index Series is a series of benchmark and tradable indices for responsible investors (Sun et al., 2011: 679).

The FTSE4Good Index Series is designed to measure the performance of companies demonstrating strong Environmental, Social and Governance (ESG) practices. Transparent management and clearly-defined ESG criteria make FTSE4Good indices suitable tools to be used by a wide variety of market participants when creating or assessing responsible investment products. FTSE4Good indices can be used in four main ways (www.ftse.com/products):

- **Financial products** - as tools in the creation of index-tracking investments, financial instruments or fund products focused on responsible investment.
- **Research** - to identify environmentally and socially responsible companies.
- **Reference** - as a transparent and evolving global ESG standard against which companies can assess their progress and achievement.
- **Benchmarking** - as a benchmark index to track the performance of responsible investment portfolios.

Socially Responsible Investments (SRI) have a long and noble history, but have only grown to prominence in the recent past. In the beginning, SRI was treated as a fad by the wider finance community, a fad that would either disappear or confine itself to the fringes. As of 2014, however, SRI investments account for 11% ($3.74 trillion out of $33.7 trillion) of assets under management in the US, and 27% (£1.235 trillion out of £4.5 trillion) of assets under management in the UK. Such widespread prominence puts it in a position that warrants closer scrutiny (Belghiter, et al., 2014: 54).

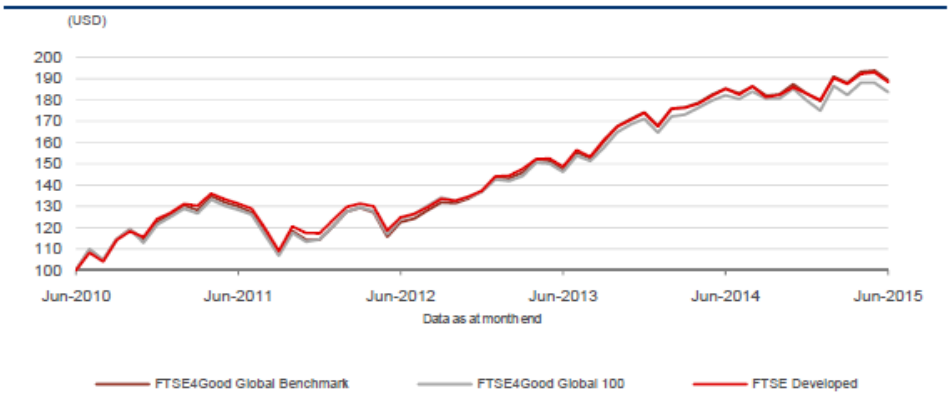
FTSE4Good comprises some benchmarking and trade indices which will facilitate investments in companies with social responsibility. The objective of the index series is to measure the performance and facilitate investments in companies with social responsibility. During the development of index, association is made with financial tools such as several funds and OTC derivatives. It is not produced in order to support any special fund or investment product. Indices are based on internationally accepted management rules and transparent and accepted index calculation methodology of FTSE (www.arge.com).

FTSE performs index calculation together with Ethical Investment Research Service (EIRIS). EIRIS, which is a non-profit institution in England, provides research service for its members in the field of social responsibility. In the series, there are FTSE4Good Global index and separate indices for USA, England, Europe and Japan (www.tspb.org.tr).

As of September 2014, FTSE has implemented a new ESG assessment methodology and taken ownership of the underlying research process which underpins the FTSE ESG Ratings and form the basis for determining inclusion in the FTSE4Good Index Series (www.ftse.co.uk).

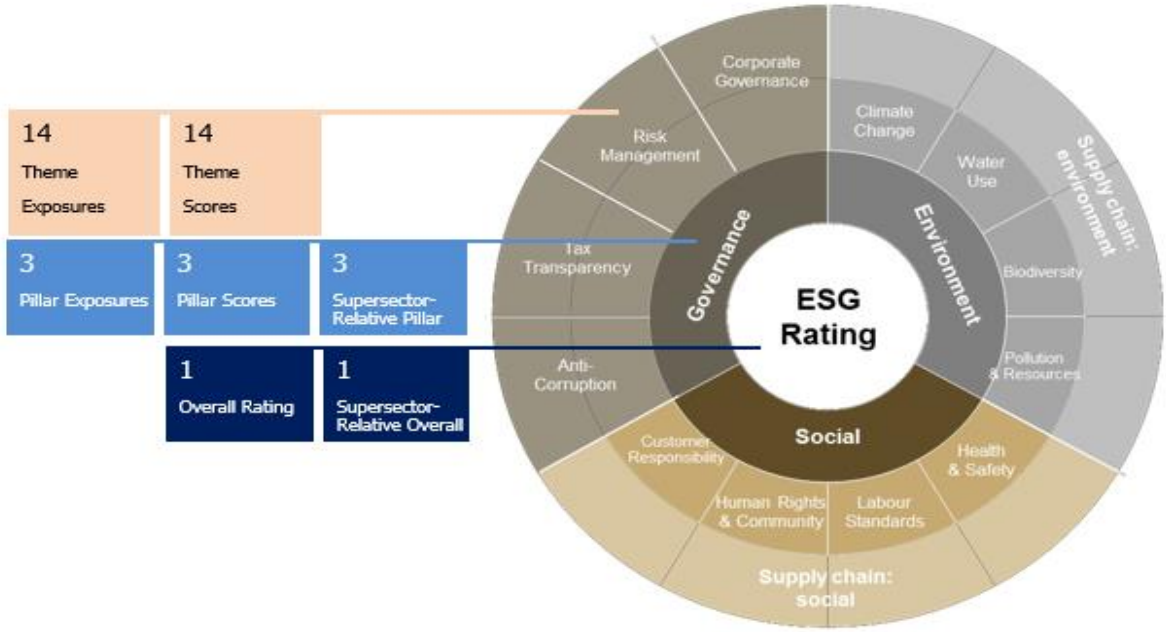
FTSE4Good benchmark and tradable indices have been designed to measure the performance of companies that meet globally recognised social responsibility standards, and to facilitate investment in those companies (www.ftse.com).

Table 1: Year Performance - Total Return (2010-2015)



Source: http://www.ftse.com/Analytics/FactSheets/temp/d704dac7-4aed-445d-88ac-532210ffc8d5.pdf

The criteria are based only on publicly available data, and in assessing ESG practice FTSE does not accept data or information privately provided by companies. This improves the credibility of data and enhances transparency across the market. The FTSE ESG Ratings also fall under the oversight of an independent committee comprising experts from the investment community, companies, unions and academia. They meet regularly to oversee ESG Rating reviews and methodology development (Index Inclusion Rules for the FTSE4GOOD Index Series, 2015: 4).



Source: Index Inclusion Rules For the FTSE4GOOD Index Series, FTSE, Version 1.6 June 2015.

6. FTSE4GOOD INDEX- 2014 REPORT on NESTLE

This information is taken from Nestlé's official website (www.nestle.com):

- **In the World Nestle**

Nestle has grown with new products and categories stably in 146 years and has become the leader of the world's food and nutrition sector. Today, Nestlé has operations in almost all countries around the world with approximately 500 factories and 330,000 workers.

The first meeting of Nestlé with Turkish consumers was in 1875 with the introduction of the first baby food to the Turkish market. In the first years, making sales via its representatives, Nestlé introduced condensed milk and chocolate products to the Turkish market via its first sales branch opened in Karaköy, Istanbul in 1909.

- **Nestle in Turkey**

Having founded the first chocolate factory of Turkey in 1927 and started production, Nestle operates with its more than 800 products in 12 categories and almost 50 brands today. From the production base of Nestlé Turkey, exportation is realized 33 countries in the Middle East and other close regions.

Nestle has sustainability projects in rural development, water and nutrition; contributes to the increase in the society's social and economic welfare. It works to increase the quality and efficiency in pistachio production in Gaziantep, Şanlıurfa and Adıyaman with "Let Our Pistachios Be Abundant Project." With "I Can Be Nourished Project" it enables the school age children to have awareness about nutrition and have appropriate nutrition habits with the cooperation of the Ministry of National Education (www.nestle.com).

- **Nestle's Corporate Business Principl**

- Nutrition, Health and Wellness: Their core aim is to enhance the quality of consumer's lives every day, everywhere by offering tastier and healthier food and beverage choices and encouraging a healthy lifestyle. They express this via our corporate proposition.
- Quality Assurance and product safety: Everywhere in the world, the Nestlé name represents a promise to the consumer that the product is safe and of high standard. Nestle Quality Policy.

- **Consumer Communication:** They are committed to responsible, reliable consumer communication that empowers consumers to exercise their right to informed choice and promotes healthier diets. They respect consumer privacy.
- **Human rights in our business activities:** They fully support the United Nations Global Compact's (UNGC) guiding principles on human rights and labour and aim to provide an example of good human rights' and labour practices throughout our business activities.
- **Leadership and personal responsibility:** Their success is based on our people. They treat each other with respect and dignity and expect everyone to promote a sense of personal responsibility. They recruit competent and motivated people who respect our values, provide equal opportunities for their development and advancement protect their privacy and do not tolerate any form of harassment or discrimination.
- **Safety and health at work**: They are committed to preventing accidents, injuries and illness related to work, and to protect employees, contractors and others involved along the value chain.
- **Supplier and customer relations:** They require our suppliers, agents, subcontractors and their employees to demonstrate honesty, integrity and fairness, and to adhere to their non-negotiable standards. In the same way, they are committed towards our own customers.
- **Agriculture and rural development:** They contribute to improvements in agricultural production, the social and economic status of farmers, rural communities and in production systems to make them more environmentally sustainable.
- **Environmental sustainability:** They commit us to environmentally sustainable business practices. At all stages of the product life cycle we strive to use natural resources efficiently, favour the use of sustainably-managed renewable resources, and target zero waste.

They are committed to the sustainable use of water and continuous improvement in water management. We recognise that the world faces a growing water challenge and that responsible management of the world's resources by all water users is an absolute necessity.

- **2014 Performance Summary**

Nestle's performance indicators provide a focus for measuring and reporting Creating Shared Value, sustainability and compliance.

- **Highlights 2014**

• 98% of THEİR children's products met all of the Nestlé Nutritional Foundation criteria 1 for children at the end of 2014.
• 73 Our Healthy Kids Global Programme reached more than 7.6 million children in 73 countries in 2014.
• They are ranked one of the top 3 global food and beverage manufacturers in the current Access to Nutrition Index. 73%
• They audited 8700 of our 10 000 Tier 1 suppliers and found 73% fully complied with our Supplier Code (www.nestle.com).

- **FTSE4Good**

They remain the only infant formula manufacturer included in FTSE's responsible investment index, based their performance in human rights, labour rights, responsible marketing of breast-milk substitutes and more.

- **Leader**

•They were ranked number one by the charity Oxfam in its 2014 scorecard, Behind the Brands.
•The survey scored 10 food and beverage companies on their efforts to improve food security.
• 38% Volume of high-priority categories of raw material that are traceable back to the primary source.
• 52% Water discharges per tonne of product cut by 52% since 2005.
• 72 factories achieving zero waste for disposal in 2014.
• 12 458 farmers sensitised on child labour issues in 2014.
• Nestlé needs Youth helped 11 832 young people in Europe find work or apprenticeship opportunities in 2014.
• Energy consumption per tonne of product cut by 26% since 2005.

- **Creating Shared Value at Nestle**

Nestle has grown from a company founded nearly 150 years ago on the success of a life-saving infant cereal to a global leader in Nutrition, Health and Wellness. Their growth has enabled us to help improve the lives of millions of people – through the products and services we provide and through employment, our supplier networks and the contribution we make to economies around the world. 4.1 million families earn a living because of Nestlé, including many rural smallholders in developing countries. In 2014, they supported the livelihoods of 695 000 farmers and directly employed 339 456 people. Their total group salaries and social welfare expenses were almost CHF 16 billion and we paid corporate taxes of CHF 2859 million (www.nestle.com).

- **Responsible Market**

FTSE4Good is a responsible investment index designed to help investors identify companies that meet globally recognised corporate responsibility standards. It is the only index of its kind to include specific criteria on the responsible marketing of breast milk substitutes.

As part of a continuous assessment process, PricewaterhouseCoopers (PwC) is commissioned by FTSE4Good to independently verify their breast milk substitutes marketing practices against a set of 104 criteria in countries with high rates of infant mortality and malnutrition.

Nestle were included in the FTSE4Good index in March 2011 after demonstrating that they had met theFTSE4Good Inclusion Criteria for the Marketing of Breast Milk Substitutes (BMS Marketing Criteria), in addition to the other FTSE4Good Inclusion Criteria, which cover areas such as the environment, human rights, and supply chain. They are the first, and so far the only, breast milk substitute manufacturer to be included in the index.

FTSE4Good is currently the only independent, transparent, third-party assessing marketing practices of breast milk substitutes. It can serve as an important platform for raising not only our standards, but those of the industry (www.nestle.com):

- **Facts about the FTSE4Good Index**

Purpose: FTSE4Good is the responsible investment index of the FTSE Group. It is designed to help investors identify companies that meet globally recognised corporate responsibility standards and invest in them. FTSE4Good is the only responsible investment index that has defined clear criteria on the marketing of breast milk substitutes.

Inclusion Criteria: To be included in the FTSE4Good Index, companies must meet requirements in five areas (www.nestle.com):

• Working towards environmental sustainability
• Upholding and supporting universal human rights
• Ensuring good supply chain labour standards
• Countering bribery
• Mitigating and adapting to climate change

Inclusion of Infant Food Manufacturers: Infant food manufacturers have been eligible for inclusion in FTSE4Good since September 2010 providing they meet 104 specific requirements regarding the marketing of Breast Milk Substitutes (BMS Criteria). These criteria are governed by an independent FTSE4Good BMS Marketing Expert Committee.

Inclusion Process: Companies wishing to be included in FTSE4Good are required to provide documentary evidence to demonstrate they meet all necessary criteria. Evidence is then assessed by an independent research provider. An independent FTSE4Good Policy Committee meets twice a year to review companies and determine which should be added or removed based on their continued ability to meet the inclusion criteria.

- **Facts about Nestlé's inclusion in the FTSE4Good Index**

They Achieved Inclusion in: March 2011. We are the first, and so far the only, Breast Milk Substitute (BMS) manufacturer to be included.

Assessments Carried out: The BMS Criteria is the only FTSE4Good criteria to be subject to an independent annual verification assessment. These are done by PricewaterhouseCoopers (PwC).

2011: India, Zambia, and their headquarters in Switzerland.

2012: Morocco and Laos.

2014: Angola, Malaysia, and our headquarters in Switzerland.

- **As a Result of Recommendations, They Have:**

• Made their Compliance Management System more transparent.

• Clarified what is and isn't permitted in 152 higher-risk countries.

• Improved communication with our distributors and customers regarding our Nestle Policy and Instructions for Implementation of the WHO Code policy, and encouraged them to share this information with their clients.

• Improved the packaging of our products where appropriate to ensure they are adapted to local conditions.

• Rolled out strict guidelines to ensure the appropriate use of display cabinets.

• Strengthened our internal and external mechanisms for reporting concerns regarding our marketing of BMS, so that allegations of WHO Code violations can be raised with us directly, promptly investigated, and addressed if needed.

• Strengthened their internal reporting mechanism in order to report the results of their compliance monitoring to the Board of Directors annually.

Why it is Important for Them:

• The FTSE4Good inclusion process is a key building block of our commitment to transparency, compliance and good governance

• They are committed to the highest standards of responsible marketing

• This is currently the only independent, transparent, third-party assessment of marketing practices of breast milk substitutes

• FTSE4Good can serve as an important platform for raising not only our standards, but those of the Industry.

CONCLUSIONS

Considering the companies, which use the sources most and affect the environmental impairment most, as primary, changing of the business strategy and ways, substituting some current products for the new and more environmentally friendly products suitable to sustainability in social and economic aspect have a critical importance for the continuity of economy.

In addition to the attempts of the institutions for continuing their existence under current market conditions, the issue of sustainability requires a change in the management mentality and reorganization in the activities of the same in a manner to also consider the welfare of the next generations.

FTSE4Good Index provides an opportunity for the companies to compare their institutional sustainability performances on local and global sense. Moreover, a performance evaluation tool is presented through index in order to make improvements and determine new targets, wherein the opportunity of developing risk management skills regarding institutional transparency and accountability and sustainability issues is provided. In turn, it is thought that this will create an opportunity of competition for the companies and recognition and credit of the companies indexed will increase before public opinion.

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