

# **NESTLÉ-DPA: Expansion of the Shared Value Concept in the Milk Chain**

## **CREDITS**

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**Errors and omissions are of the exclusive responsibility of the authors and do not necessarily reflect the vision of the executives**

## IN THE WILD WEST OF SÃO PAULO...



At the end of October 2007, a group of directors and managers of Nestlé-Brazil, meeting in São Paulo with João Dornelas, HR and Corporate Affairs director, was debating strategies for sustainability actions beyond the company's operational boundaries. The background of the debate was challenging. On the one hand these executives are increasingly pressed for short time financial results. Shareholders want greater transparency, accounting reports, and expressive results to be achieved in progressively shorter time periods. On the other hand, collaborators wish more and more to share the value created by the enterprises. The retail networks of food distributors pass on consumer's pressure for lower prices, better quality and signals of good practices along the entire production chain. The legal environment imposes more restrictions and sanctions on practices that may bring about negative externalities to society. Civil society pressure groups, acting in a legitimate or abusive way, view corporations as their preferred target in these times of globalization and "greenhouse effect".

How to steer an organization today, with very low tolerance for erroneous strategic decisions? And what to say about a globalized corporation acting in more than 50

countries, with an invoicing that places it in 54<sup>th</sup> position in the ranking of the world countries, when this invoicing is compared to GNP<sup>1</sup> indicators? How to conciliate, in a sustainable fashion, the different demands imposed?

Back to the meeting room, consensus was that company operation in Brazil had to act increasingly in the “coordination” of sustainability actions, along its complex supply chains. At the global and local level, the company goes through many experiences in the implementation of projects of a socio environmental nature. The challenge faced by the meeting work group was to expand these actions, assess experiences and propose innovative models.

The Institutional Manager of Nestlé, Pedro Simão, called the group’s attention to a report prepared by the team of the DPA (*Dairy Partners Americas*), a subsidiary company of Nestlé, responsible in Brazil to deliver all the milk supply used as raw material in the company plants developing dairy products. The project in question was not the most expressive in the economic sense. Indeed, its concrete impact on company business activity was quite small. However, its impact, in terms of organizational innovation and corporate diplomacy appeared surprising.

The project represents the rupture of some ideological and cultural paradigms. After all, it links a mega corporation (through its subsidiary, responsible for the milk’s origination) to a group of small producers settled in the Andradina region, in the extreme West of the State of São Paulo. The partnership was established by technology transfer to the producers settled in the region with a history of agrarian conflict and supported by professors and researchers from the “Escola Superior de Agricultura Luiz de Queiroz /USP”. With the inclusion of small producers in the logic of modern capitalism based upon economic, social and environmental premises, a virtuous circle is closed.

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<sup>1</sup>The world invoicing of Nestlé is in the order of US\$ 104 billion, just behind Peru, 53rd in the World Bank Ranking, available in <http://siteresources.worldbank.org/>

This case study approaches this experience with a multiplying potential. The text highlights initially the debate on sustainability and the approach of Nestlé regarding this subject. Next, the main programs and projects of a socio environmental nature by Nestlé in Brazil are presented. In the sequence, the origin and evolution of DPA in Brazil, focusing on innovative sustainability projects is enhanced. The text concludes with a critical analysis of this experience to discuss the replication potential in different contexts, based upon actions in partnership with other companies acting in the food industry, that have devised IPAS (Initiative Pro-Sustainable Food) in Brazil.

## **THE COMPANY**

Nestlé is a multinational enterprise of Swiss origin, present in five continents and with about 220 thousand employees in the world. The company was created in 1867 by Henri Nestlé, with the launching of “milk flour”, food for children made of cereals and milk. Nestlé now has a consolidated global invoicing of about US\$ 104 billion in 2007, with 425 plants<sup>2</sup>.

In Brazil, the company started in 1921 with an industrial plant in Araras/SP. Nestlé is present in 7 states, has 26 plants, 5 distribution centers, 143 thousand suppliers, some 5,800 rural producers and about 175 million consumers. The product distribution network covers more than 1,600 municipalities. Gross invoicing of the Brazilian branch is of some R\$ 12.5 billion (US\$7.8 billion), comparable to the GNP of Mozambique in 2007. The Brazilian branch is already second in the company’s worldwide ranking, just after the North-American branch.<sup>3</sup>

Nestlé is one of the main buyers of agricultural commodities in the country. The leading products purchased are: sugar, milk, cocoa and coffee. Nestlé is

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<sup>2</sup>Data available in the site [www.swiss.info.ch](http://www.swiss.info.ch), access on 07/10/2008

<sup>3</sup>Newspaper Gazeta Mercantil, available in [www.gazetamercantil.com.br](http://www.gazetamercantil.com.br), consulted on 07/10/2008

responsible for 16.7 thousand direct jobs and 220 thousand indirect jobs<sup>4</sup>. It acts in more than ten market segments, among which are children's food, crackers, coffees, cereals, breakfast cereals, waters, chocolates and chocolate flavored sweets, cooking products, dairy foods, soft drinks, ice cream, products for clinical nutrition and for performance, products and services for companies and professionals in food services outside of the home and pet food. Nestlé is among the 10 largest companies in the aggregate food industry in Brazil with a consolidated billing of R\$ 12.4 billion.

## **SUSTAINABILITY ACTIONS AND ENTREPRENEURIAL PRAGMATISM**

At Nestlé, business activities are part of a social matrix with responsibilities extending beyond the traditional perspective of profit maximization. Market integration lead companies to improve their behavior standards, whenever they face the growing demands of organized civil society.

Globalized companies like Nestlé, face the challenge of communicating values and ethical practices to their thousands of employees that work in institutional systems (cultural and legal) in different countries. The globalized economy with interconnected networks induces companies to act this way, because risk of a socially questionable behavior in their milieu, be it ethical or legal, intentionally or not may attract media attention, which in turn might cause irreversible damage to companies, jeopardizing even their survival. This is the case of some events related to environmental impact, exposure of the neighboring communities to risks, practices detrimental to employees, to give some examples. On the other hand, constructive social practices may achieve the opposite effect, calling the attention of public opinion, of clients, consumers and government in a positive way.

In this scenario the activist NGOs are increasingly pressuring governments to exact from organizations an agenda regarding sustainability, and beginning to consider the environmental and social issues as well as traditional economic

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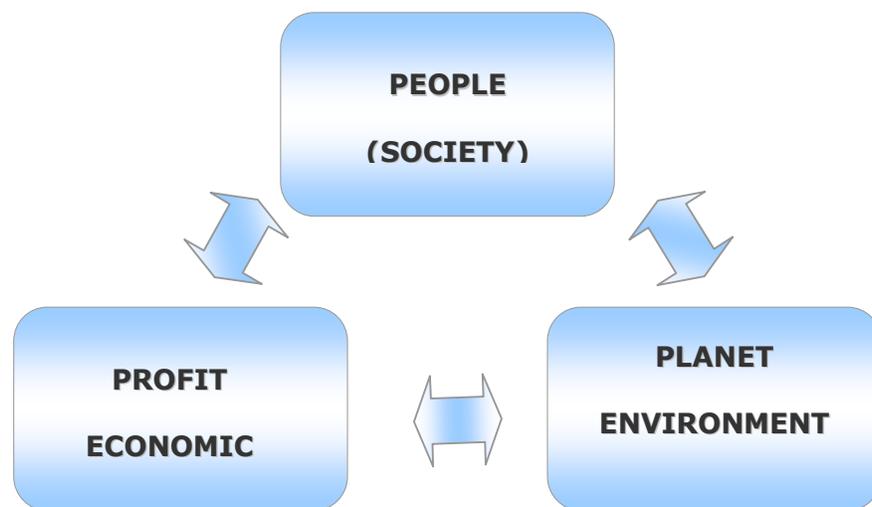
<sup>4</sup>Data available in [www.nestlé.com.br](http://www.nestlé.com.br)

concerns such as profit and growth. In the case of organizations such as Nestlé, the additional challenge rests upon the coordination of all activities in the different production systems, where it operates, to induce and foster changes towards sustainable practices.

## NESTLÉ STRATEGIC GUIDELINES FOR SUSTAINABILITY

For Nestlé, the concept of sustainability is associated to the classical model of the “Triple Bottom Line” (People/Profit/Planet), illustrated in Figure 1.

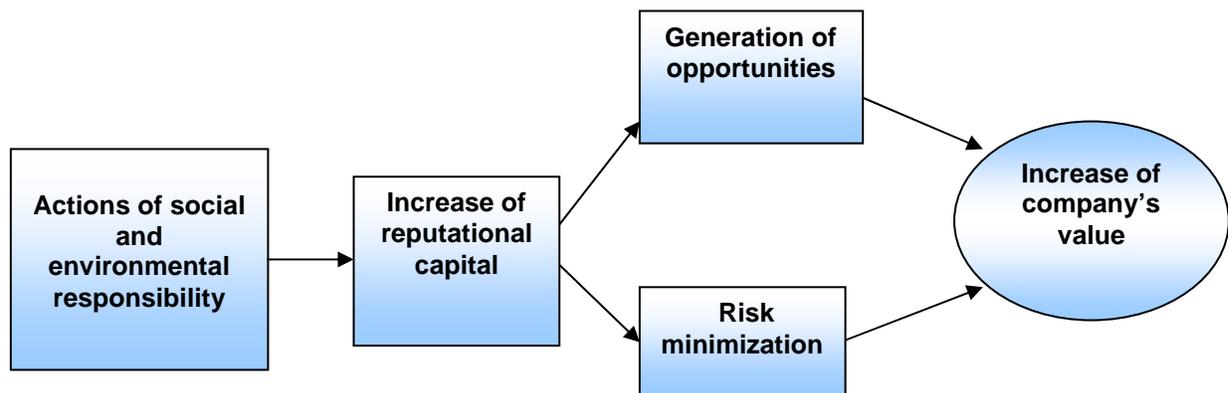
The logic of the model is equating the economic, environmental and social requirements of society in a broad sense, and more specifically of the stakeholders that interact with the company based upon the principle of “creation of a shared value”.



**Figure 1 – The 3 P's of Sustainability.** Source: Adapted from [www.saiplatform.org/about-us](http://www.saiplatform.org/about-us)

Social and environmental sustainability actions developed by Nestlé exceed compliance to the legal requirements; they are part of a process of strategic decision making, extrapolating boundaries of the organization itself in terms of coordination of actions throughout the company supply chain, up to the distribution of its products. Convergence that justifies this type of action by the complex organizations is that creation of value for the shareholders in the long term passes through equating the requirements of the different stakeholders of the organization.

Creation of the shared value is mirrored in two aspects: a) Creating competitive advantages, improving the company's capability to attract and maintain resources; b) Minimizing risk of reputational losses. The model expressed in figure 2, synthesizes the company's accrued value as result responsible actions.



**Figure 2 – The model of value creation as from actions of Socio Environmental Responsibility.** Source: Adapted from Fombrun, 2000 *apud* Machado Filho, C.A.P., 2006

The rationale is that companies with socio environmental responsibility actions may obtain reputational capital gains, leveraging business opportunities to reduce potential risks of its behavior on the market, protecting or generating increased company value. In this sense, “corporate diplomacy”, becomes more important in situations where the company is the target of negative campaigns as well as in proactive actions that minimize risks or increase opportunities.

## **NESTLÉ'S SUSTAINABILITY ACTIONS**

Nestlé Brazil's sustainability action follows corporate principles advocated by the company worldwide, publicized to stakeholders by means of the principle of shared value and of the wellness concept. This concept promoted a significant change in the company's strategic focus. This positioning seeks world leadership in "Nutrition, Health and Well-being". In this new positioning, in addition to perceived nutritional value, products are included that contribute to a feeling of physical well-being and psychological comfort and traditional values regarding concern with quality and safety of the food.

In the corporate documents wellness is expressed as follows:

*"Offer the Brazilian consumer products known to be leaders in quality nutritional value that contribute to a more healthy and pleasurable nourishment, always generating business opportunities for the Company and a shared value with Brazilian society".*

Precepts involved in this new business strategy and positioning pervade not only marketing strategic actions but also actions of a social and environmental nature, serving as the foundation to generate ideas in accordance with the company's interests and those of the surrounding communities.

### ***Insertion of sustainability into the organizational framework of Nestlé***

Putting into practice these corporate principles in each country is not a trivial task for a corporation the size of Nestlé. Its matrix framework entails a complex decision making process especially regarding the subject of sustainability, that has interfaces in different areas of the company's organizational framework.

Coordination of this entire process is one of the challenges that Nestlé Brazil is currently facing.

The company has no area that strategically centralizes sustainability actions, although lately the corporate affairs management has been taking over a significant role in the communication and dissemination of the concept. It is also organizing and fashioning of an expansion strategy for actions that will generate shared value in Nestlé. In the environmental dimension, the area of corporate affairs participates in the development of methodologies applied to actions of an environmental nature, that affect the regions and areas where the company acts in Brazil. In the social area the Nestlé Foundation is closely linked to the area of corporate affairs and is responsible for the social actions, charged with preparing, implementing and controlling social projects.

In the projects of a social nature, the manager of social responsibility, Silvia Zanotti, emphasizes the growing importance of this subject that permeates all of the company's divisions. The company's projects of environmental nature undergo specific methodological development for control and monitoring techniques of the actions in the corporation's internal domain. The company's current challenge is to extend the projects to key stakeholders of its value chain.

### ***Sustainability projects connected to the company's business activity***

#### ***The SAI Platform***

Nestlé is one of the global company's that created the SAI platform (*Sustainable Agriculture Initiative*). The concept of this platform is to share among various companies that use agricultural raw material, actions directed towards sustainable agriculture. The platform functions by organizing groups that exchange information and experiences at world level.

The platform now has five working groups organized for the chains of cereals, milk, potatoes and vegetables, fruit and coffee. Nestlé acts as the work coordinator of the coffee group. In this same context, Nestlé is also a signatory of the *Common*

*Code for Coffee Community*, known as four C's. This code seeks to promote the concept of sustainability in the chain of unprocessed coffee. The code was created, based on the United Nations Objectives for the Millennium. The code's principle encompass three main aspects: the first is the production of coffee under decent working conditions, the second aspect regards environmental safeguard and the third is related to maintenance of an economically feasible activity.

### ***Supply chain***

Nestlé has a supplier code, the Nestlé Supplier Code. In this code Nestlé specifies actions that the company requires from its purveyors. The Nestlé supplier code is directed to all the company's purveyors, including employees, agents, outsourced and rural producers that directly or indirectly supply their production to the company. This code has main topics that deal with business integrity, business practices in accordance with local laws and regulations; sustainability; working standards; safety and health; environment. The director responsible Moacyr Calligaris controls all the supply chains of raw material for the company, with the exception of the milk chain, managed by DPA.

### ***The Nestlé Environment Management System***

Nestlé Brazil has specific management to deal with the subject of environmental sustainability at its units. Ailton Storoli, company's environmental manager, highlights that projects in this area focus on generating controls and environmental indicators of the manufacturing operations. The purpose of these actions is to minimize residual effects of plant production that somehow come in contact with local communities. There are actions to reduce polluting residues with controls for solids, gases, sounds and even effluents.

The environmental management of the manufacturing plants is responsible for control of the environmental indicators developed for residues in general. The environmental management area of Nestlé was recently restructured and remodeled to obtain the ISO 14001. The environmental control program belongs to

the (Integrated Management System (IMS) (see attachment 4) that, in addition to the environmental link also involves the issues of quality, security of the foods and safety and health of the employees. The integrated system is a procedure audited by an independent company, with an internal certification system of Nestlé that is being developed for use in all of the company's plants.

Prior to the implementation of the IMS in general, a pilot has been set up in six of the corporation's factories, for the purpose of making project adjustments that might be needed. The goal is that all industrial plants be fully certified by 2010. The system has a cyclic characteristic with a continuous development feedback to update the process. Participation of the departments is never individual, not even the generation of information and knowledge. All departments must give their opinions on the techniques and actions to be implemented, in their own as well as in the other participant departments.

The majority of actions have a stronger link with the internal procedures of the manufacturing units, albeit not actions of a common nature between plants and neighboring communities. Responsibility for the communication of routine environmental aspects involving a factory belongs to environmental management. However, in matters of greater importance, that might influence Nestlé's image, the communication function with the market also involves Corporate Affairs. Nestlé reports to stakeholders on socio environmental actions by means of a social statement. There is no specific statement for the communities' surroundings specific plants.

The system has a broader connotation than simply an environmental strategy. A cultural change is envisaged by the system more than an operational one. Many of the rules for control of each area involved existed prior to implementation. In this sense requisites for the internal control systems of Nestlé are usually tougher than market certification rules.

For continued maintenance and development of the system, periodically employees and third parties are trained on techniques, methodologies and

concepts. Training systematically undergoes an assessment, generating routine updating.

The environmental control system has the function of assessing inputs (raw materials, resources, etc.) and outputs (products, residues, noises, odors). Development of the IMS led Nestlé plants to program actions directly connected to environmental procedures that culminated in the creation of ***Nestlé's Good Environmental Practices***. The principle foundations of the program of good environmental practices are control of the company's consumption of environmental resources as well as of residues. The program further focuses on the plants' energy matrixes to minimize use of non-renewable resources and reutilization whenever possible of industrial wastes. This way, Nestlé has adopted burning coffee dregs to obtain energy, as well as the control of all other sources of energy needed by the plants.

Nestlé controls the processing with indicators directly related to the achievement of goals of each involved area. The main indicators analyzed are: energy and water consumption and generation of solid wastes.

### **Social investment projects**

In the company's organization chart, coordination of social investments is under management of Corporate Affairs. Nestlé social projects have been publicized in communities next to the industrial complexes of the company and also passed to others that required replication of the initial projects. Methodology developed to manage the interaction of employees with the social programs and to motivate the monthly contribution was an initiative of the employees themselves. The **Nourish Program** created in 1999 is the leading social investment project of Nestlé Brazil. The essential concept of the program is the qualification of young people on food education, in an effort fight malnutrition and child obesity, thereby encouraging young people to adopt healthier food habits. From 1999 to 2008, 865 thousand

children and 8,500 educators attended the program, in 3,000 schools, with growing numbers every year.

The program is structured on the principle of volunteer groups of Nestlé employees, encompassing from financial donations deducted from the payroll up to participative actions at the schools supported by Nourish. The main actions with the schools are thematic- educational games and lectures, always with “background” concepts of healthy eating. The principles for choosing a school in a community for partnership with the Nourish Program, involves an evaluation system beginning with enrolment at Nestlé, when made available by the company and indicated by the employees. As from selection of those enrolled, the community is evaluated with the presence of a representative of Nestlé for the final evaluation, and once approved by Nourish, it is begun in the community.

In addition to the direct action by volunteers from Nestlé, the Nourish Program also carries out the training of technical teams from municipal education offices, for the purpose of taking food education to public schools and improving school snacks. In 2008, the Nestlé Brazil Foundation will carry out the first meeting of municipalities qualified by the Nourish Program in João Pessoa City, Paraíba State.

The Nourish is a rather well known program in Nestlé Brazil, and is becoming recognized by the market. Other projects in agreement with the Nourish Program ideals have been developed in Nestlé Brazil to generate action in areas that Nourish could not reach. Corporate Affairs launched in 2008, other social projects: the *‘Take Care’* and the *“Know”*.

The **Know** Program is focused on promoting rural development, leading to social, economic and environmental development for the interior, focusing essentially on farmers included in the company’s value chain.

The **Take Care** Program aims to disseminate concepts related to environmental education focusing essentially on preservation and responsible use of water, as well as to mobilize Nestlé collaborators to adopt a respectful attitude and precepts of conscientious consumption.

Expand recycling in Brazil by forming recycling cooperatives is part of the specific objectives of the project, at implementation stage.

Through this program, the Nestlé Brazil Foundation finances the CEMPRE - Entrepreneurial Commitment for Recycling, to form co-operatives of scavengers. With the resources made available by private initiative, CEMPRE donates presses and equipment for individual protection to scavenger co-operatives, offers legal support for beginning co-operatives and supplies technical qualification to co-operative members for good management of residues to protect the workers' health and maximize their income. Nestlé is the first company to allocate resources for this purpose constituting the Fund for Support to Co-operatives that already has the support of five other companies.

## **The DPA CASE - DAIRY PARTNERS AMERICAS AN EXAMPLE OF SHARED VALUE IN THE AGROINDUSTRIAL MILK SYSTEM**

*“Producer in **red** performance does not think about **green**”*

Anonymous farmer

DPA is a joint venture created by Nestlé in partnership with the Fonterra<sup>5</sup>. DPA activities in Latin America began in 2003. DPA commercializes about 3 billion liters/year in South America, acting directly with 13 thousand milk producers and with 40 thousand through supplier co-operatives<sup>6</sup>

DPA is responsible for all the milk needed to supply the plants of Nestlé in Brazil. Acting at the origination of the products through a specialized structure, DPA acts based on zero profit, that is to say the transfer price of milk to Nestlé and Fonterra

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<sup>5</sup>Fonterra is a cooperative formed by some 11,000 producers from New Zealand with a production of about 14 billion liters of milk per year. Fonterra is one of the six largest milk and dairy product companies in the world and leader in dairy products export. It is responsible for about a third of the world market (information available DPA)

<sup>6</sup> Information available on the site [www.dpamericas.com.br](http://www.dpamericas.com.br)

is equal to the total unit cost of the product operationalized and marketed by DPA. DPA has its own code of conduct based upon corporate principles of the controlling companies.

### ***DPA Programs for sustainability***

The actions practices by DPA follow a motivation driven line of the company to sustain a strong image with its stakeholders, cultivating the relation ships, managing risks and generating products that will known for quality and safety.

All of DPA's collaborators are fully aware of the company's role in society. This is reflected in the agreement to act implementing an activity suited with DPA needs in a sustainable way, interfering in the social and economic development, where it is present, in a proactive way respecting the values of that society.

Some programs are directly related to the company's core business such as milk collection for its controlling companies Nestlé and Fonterra. Other programs are directed toward furthering dairy cattle breeding, such as the milk production cost monitoring program and the inputs and services purchasing club. The first is a pilot effort for the collection of monthly costs of the DPA producers, carried out by field technicians so as to orient strategies to increase profitability of these properties. The purpose is to guarantee long term sustainability. The second, the Inputs and Services Purchasing Club, is an intensely utilized resource by the partner producer of DPA, which contributes to managing the purchase of products in a practical and speedy way, under favorable negotiating conditions, reducing purchase costs of inputs and services for the day-to-day on the property.

Sustainability programs of DPA are conceptually aligned with the global corporate program SAI (*Nestlé Sustainable Agriculture Initiative*). This interaction may bring about an important exchange of learning for exploitation of the program's methodology in other contexts and countries.

The model of Shared Value at origination of the milk is based upon the Service to the DPA Milk producer. The programs are divided into three blocks: Food Safety, Improvement of Competitiveness and Pre-competitive Actions.

The two programs conducted by DPA will now be detailed: the **Program of Good Practice on the Farm** (belonging to the group of programs of Food Safety) and **Project Andradina** (belonging to the group of programs of Pre-Competitive Actions).

### **Program of Good Practice on the Farm (GPF)**

The programs consist of introducing the concept of good agricultural practices with producers that supply milk to DPA. This concept meets the requirements of consumers of developed countries mainly countries in Europe and Oceania, regions that DPA used to establish program standards. Tools of the **Program of Good Practice at the Farm** involves a series of conducts associated to agribusiness production encompassing environmental management, herd management and the social behavior of companies engaged in rural activities.

In Brazil, the basis of the program is respect for local legislation: sanitary legislation, environmental legislation and labor laws. In addition to legal requirements, DPA, together with EMBRAPA<sup>7</sup> set up a check list of seventy items covering everything from access to the property, condition of the rural facilities, sanitary management of the herd, control of use, storage and disposal of pesticides and packaging, use of equipment for protection of the employees, management of effluents, attention to the environment and professional qualification of producers and their employees.

Producers are ranked bronze, silver and gold according to the degree of compliance with the check list items. DPA, by means of its technical staff that works with the producers, carries out implementation and ranking while EMBRAPA performs certification of the properties. Adhesion of producers to the program is

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<sup>7</sup> Brazilian Agricultural Research Corporation

free, nevertheless supervised so that groups of producers are formed, facilitating attendance by the regional technicians. The producer receives incentives paid by a premium per liter of milk delivered, in recognition of the granted certification. In 2008, DPA has some 200 producers registered in the Good Practice Program, among which 7 have achieved the maximum ranking of GOLD.

DPA is carrying out the Good Practice Program since 2005. The number of participants is potentially very large, considering that the company' network has some 5,800 milk suppliers between producers and co-operatives. The major challenge for the expansion of the program is basically a change of attitude and professional qualification of the producers.

The objective of the Good Practices Program is to generate a model to be publicized for companies in the sector aiming to improve the standard of dairy activities, taking also into account the application potential in other sectors of the agribusiness, such as vegetable and animal production. Expansion of the program in DPA will rely upon how the concept of good practices will be presented to the producers and how the required inputs will be handled for adjustment of producers to check list items.

Implementation of the "Good Practices" Program, in addition to persuade for investment in infrastructure, demands a cultural change by the rural workers as well as by the owners. For the last ten years a movement in search for qualification in dairy business has been perceived in Brazil: an effort that goes from government bodies to private companies and cooperatives prompting producers to improve their handling of the activity, regarding the herd's sanitary management and milking hygiene, nutritional management, social and economic aspects.

Among those involved in the Good Practice program there is a feeling of appreciation and recognition of the work by DPA to enhance rural activity. The relationship between the supplier and the industry becomes synergistic where the producer sees the benefits generated by the program, relating to the tangible benefit, that is higher income for the activity and also to the intangible benefits. In the social aspect improvement of the employees' attitude as a result of training is

noted. This training indirectly stimulates access to study and development of important abilities, offering social development to the rural population.

Prohibition of child labor together with enhancement of personal qualification also stimulates access to learning. In Brazil, this aspect has become more important as, opposed to European countries, milk exploitation not only uses family labor but also patronal labor.

In the environmental aspect producers note that the company seeks to value more coherent environmental preservation practices, stressing compliance with the environmental legislation, effluent management, adequate treatment of production waste and isolation of the water sources. In the economic aspect, it fosters an activity more coherent with consumer needs for products that respect conditions of sustainability.

In addition to the mentioned aspects, attention must be called to the relationship producer – company which is quite stimulated in the Inputs and Services Purchasing Club DPA. Created by DPA in 2003, it has proven positive for the three segments congregated.

The partner producers that may purchase quality inputs in advantageous conditions, for the member companies that make sales in an easy and fast form with a warranty of receipt and for DPA that, although it does not directly profit from operations, contributes to the use of quality products and services at competitive cost, with a direct impact on the business' sustainability and profitability. Success of this initiative can be measured by growth of sales made through the Purchasing Club. Growth of the business was 317% in 2007, when compared with 2004 and the yearly volume of negotiations already surpasses 20 million Reais (R\$)<sup>8</sup>, a concrete evidence of the producer satisfaction of DPA that belong to the Purchasing Club.

### ***Andradina Project***

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<sup>8</sup>The Real is the current currency of Brazil

Since 2005 DPA works together with rural producers in an agrarian reform settlement in the Western region of the State of São Paulo (location in Attachment 6). DPA with technical support from the "Escola Superior de Agricultura Luiz de Queiroz – ESALQ/USP" under coordination of Prof. Vidal Pedroso de Faria and his colleagues Prof. Flávio Portela and Prof. Marco Penati, has set up a project in the Timboré settlement to meet the request. That was a peculiar initiative for a company the size of DPA, because if the project failed it could jeopardize the company's credibility and distort its image to the stakeholders.

The ESALQ professors highlighted this aspect. In the beginning of the project, production conditions were very bad, and the professors dreaded its failure. Following ESALQ recommendations, DPA hired and trained a technician exclusively to attend the participant producers, funded (without charging interests) the purchase of inputs to improve nutritional management of the animals by upgrading pastures. Also offered were training for milking hygiene, handling of the animals and funded (without charging interests) the acquisition of bull calves specialized in milk to genetically improve the dairy herd.

In 2008, the project has 27 families and productivity has progressed positively in the last two years confirming the success of the program. Milk production, which at the launching of the program, was of 70 liters/day, and now is of 108 liters/day, the average production per cow increased from 5.7 liters/day to 7.4 liters/day. Records showed an average increase of 32.3%, in the yearly mean daily production of milk by producer. In the economic aspect data from December 2007 to December 2008 show an evolution of 132.4% of income increase obtained in the activity that went from R\$1,007.76 to R\$ 2,342.81.

The Andradina project serves as a project of a socio economic nature aiming to foster human development and settle man on the land (see attachment 8). DPA investment in the project was of about R\$60,000 in 2007 and in 2008 the predicted allocation to the program will be of R\$70,000.00. Return on the investment is from the development of dairy cattle in the region and from the income of these families

which serves as an example to various other groups of families settled in similar conditions throughout Brazil.

Currently there is an established limit of 30 producers attended by the technician hired by the company. As such, DPA wants to establish a partnership with bodies of regional extension to increase the dissemination of these techniques for a larger number of settled producers. It is important to stress that there are some problems faced during the project. Some producers were motivated to join the program only because of the financing received and without a prospect of improving their activity. These producers strongly resist adjustment to the management procedures established by the technical team and then quit the program. In reality, the company does not directly finance producers with money. It hands over the funds allocated to the project to an association or co-operative of settlers, that purchases the needed input, following technical recommendation. Each producer has an initial sum of R\$3,000.00 to purchase fertilizer and seeds. According to the ESALQ professors, the project is entering a stage where producers will have to understand their responsibilities towards their activity. The project progresses in a complex framework, it proceeds towards a delicate stage of **cultural change**. Especially throughout the sensibilization to the results brought by the project, showing that it can go much farther.

The project's evolution shows that this is a case of success in the ensemble of actions practiced by the company, in agreement with the bases of social responsibility and the company's role in society. The project theoretically may be replicated to other agribusiness projects for the purpose of fostering social development of man on the land; however some specificity must be fulfilled. Milk production has an important characteristic in relation to agricultural production systems, as it provides the producer with a monthly income. This must be recognized when dealing with familial agriculture because it reduces risks inherent to farming (harvest loss due to draught, disease, plagues, etc.). The main success of the program is the perception of an improvement in the quality of life due to a higher income from rural activity.

## CHALLENGES OF SUSTAINABILITY

In a corporation such as Nestlé, the process of internalization of the sustainability concept is complex. Insertion of the head quarter's principles in the business units of the different countries requires specific adjustments. The challenge is much greater when the issue is to coordinate actions that go beyond company boundaries, upstream and downstream in the different agribusiness systems where it acts.

The adaptation process to sustainability is not static, new problems arise every day. "Corporate diplomacy" is a subject that strategically grows in the company, to deal with different stakeholders in delicate situations. This is why, the company is undergoing a review of strategies/structures and routines, to deal with this internal issue, expanding the scope of corporate risk management.

The second challenging dimension is the need for constant **innovation** in the approach to sustainability. Actions related to the quest of compliance with legal requirements, in the environmental or social ambit are not sufficient. This case describes how Nestlé adjusts its internal sustainability procedures to a higher standard than that legally required.

The "DPA CASE", points towards an even more proactive direction. This is an innovative model, from the aspect of creation of a company responsible for comprehensive origination of a strategic raw material for the company (milk) as well as for the action that this originating company develops in the promotion of rural producers.

The Nestle-DPA case, suggests a series of specific strategic issues:

### ISSUES FOR DEBATE

- Sustainability corporate strategy: adjustment of corporate logic to local actions. Concepts of wellness / shared value: how to progress in Nestlé Brazil with an organizational framework / routines and internal procedures

compatible for internalization of the concept of sustainability in the different business areas of company?

- Could the Andradina settlement project (DPA) be expanded in this same region? And could it be used in other regions? Would there be political - ideological risks if the pilot project were significantly expanded?
- Could the model of partnership company – research institution serve as a basis for a new model of rural private extensionism?
- Could DPA methodology be an example for public policy actions (i.e. eventual partnership with the Ministry for Agricultural Development to multiply the model in other settlement areas?)
- Is a partnership with companies from IPAS possible? Specifically with companies in the distribution area, exploiting the “social” origin of production?
- Could the DPA projects for rural furtherance be replicated? Could the experience of DPA, added to the SAI program generate convergences with IPAS companies, in the furtherance of sustainable practices for rural production?

## **NOTES FOR DIDACTIC AND THEORETICAL SUPPORT**

This case study may be used in courses on strategy, corporate governance, social responsibility and ethics. The focus of the case study Nestlé-DPA highlights the role of the institutional environment to induce companies' actions of social responsibility (BASU&PALAZZO, 2008, MACHADO FILHO, 2006). Institutions are important as motivational factor, inducer of the type of behavior of agents in economic, legal and ethical aspects. (NORTH, 1994). Thus, changes in the institutional ambient as a result of the market integration process, have been one of the significant vectors of company behavior changes. (GARDBERG&FOMBRUM, 2006). This work explores the interface between the

institutional ambient, reputation, business ethics and, as result, the company actions of social responsibility. (PORTER&KRAMER, 2002),

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