

Social Implications of Value-Chain Activities: A Brief Study on Nestle India Limited

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Abstract:

The concept of the value chain is based on the process view of organizations. The value chain is composed of the entire series of activities that create and add value at every step. It therefore follows that the total value delivered by the company is the sum total of all the value(s) created across its value-chain. Since analysis of the value-chain scrutinizes each value-creating activity, it also clearly demarcates the useful activities from the superfluous ones, thus helping to identify areas of competitive advantage. Therefore, it helps to identify for the concerned business entity those areas of social context, which can provide for them the greatest strategic value. In the light of this framework, an attempt has been made to explore to what extent Nestle India Limited has created social impact through its value chain activities.

Keywords: corporate social responsibility; value-chain; Nestle India Ltd; strategy; social impact

Introduction

The Companies Act, 2013 has ushered in significant changes in the workings of companies in India. Acclimatization to the dynamics of the present-day economic and business environment and seeking to link the corporate environment in the country to globally acceptable benchmarks seems to be the hallmark of the new Act. Hence it is not surprising that the Act has detailed, explicit provisions on Corporate Social Responsibility (CSR). With media and activists round the globe scanning the environmental impacts of corporate activities round-the-clock, entities abroad dither to do business with those companies who are not too keen on their sustainability agenda. Seeking to plug in the escape-routes the CSR provisions in the current Act is mandatorily applicable to companies with an annual turnover of Rs. 1,000 crores and more, or a net worth of Rs. 500 crore and more, or a net profit of Rs.5 crore and more. The Act further stipulates that companies have to spend at least 2 percent of their average net profit in the previous three years on CSR activities. For activities to be considered as CSR, an indicative list has been put up under Schedule VII.

But this also happens to be the honey-trap in itself. The CSR activities enlisted under Schedule VII is obviously generic in nature. Pursuing any/multitude of them without really fitting them into the core business choices vis-a-vis the strategic management processes may definitely display the social sensitivity of the corporates but could never leverage for them the opportunities, innovations and competitive advantages that the right choice of CSR activities could synergise. It is here that the distinction between the herd and the leader becomes so very apparent. While majority go for appeasing pressure groups when faced with a crisis or launch themselves zealously into quick-fixes, there are others who when not charged with penalties for non-compliance, look the other way. In either case they lose the tremendous opportunity to “identify, prioritize, and address the social issues that matter most or the ones on which it can make the biggest impact.” (Porter, Kramer)

However, successful companies do things differently. Long before it became fashionable to ‘go green’ or ‘become sustainable’ they had astutely began to do so. Believing in the truth, that, business and society are inter-dependant, they much ahead of the rest, wove social considerations into their strategic landscape. Instead of engaging in sporadic endeavours or cosmetic public relations that were remote to their strategic map, they identified, prioritized and addressed those social issues – where they could deliver the greatest positives or make the biggest impact. The process of recognizing their own pertinent social issues among myriad others is intimately connected to the thorough analysis of their respective value-chains.

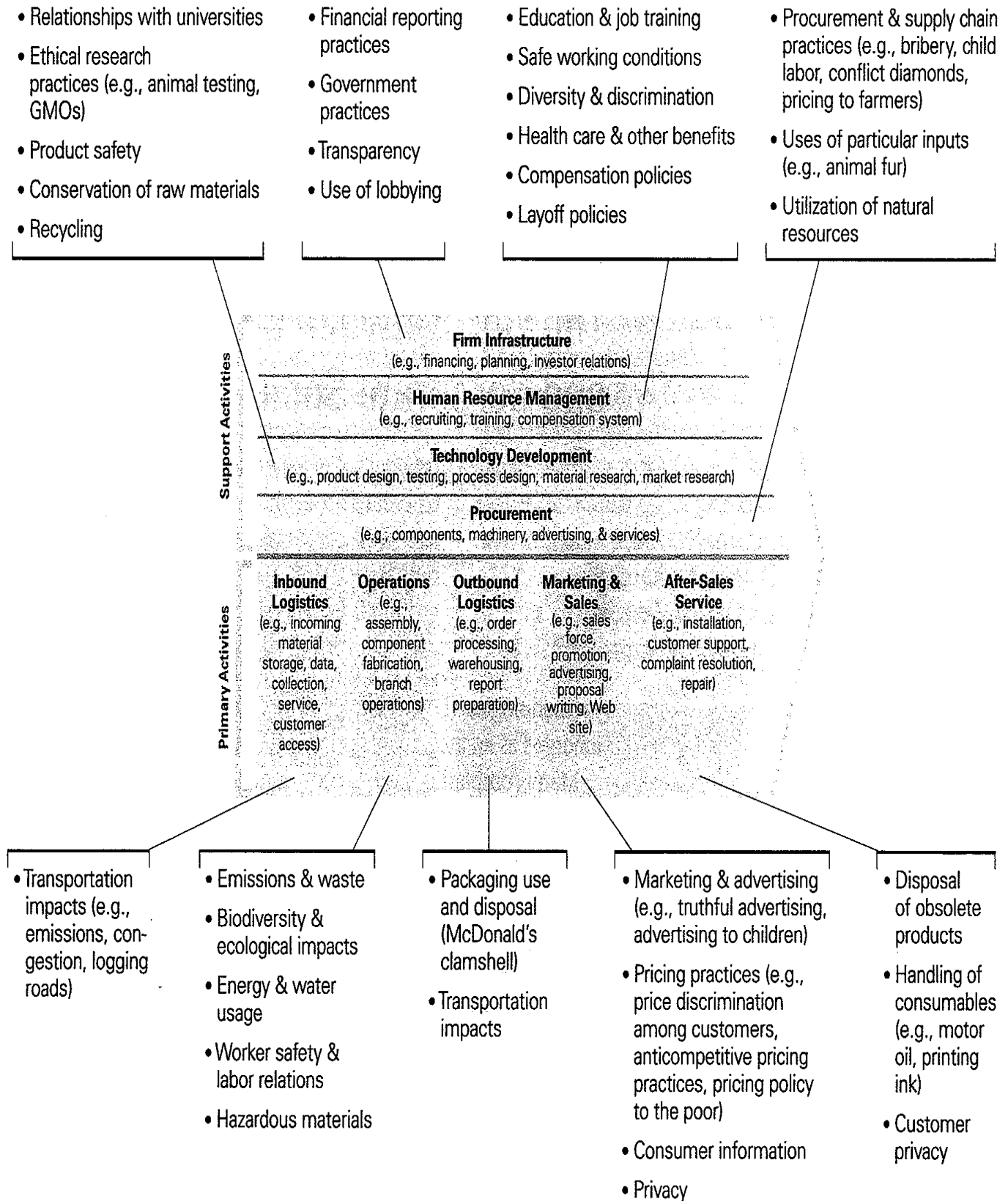
Michael Porter used the term ‘Value Chain’ in his book *Competitive Advantage: Creating and Sustaining Superior Performance* (1985). The concept of the value chain is based on the process view of

organizations. The value chain is composed of the entire series of activities that create and add value at every step. It therefore follows that the total value delivered by the company is the sum total of all the value(s) created across its value-chain. Porter classified the value creating of a firm into primary and support activities. The primary activities are inbound logistics (getting the inputs), fabrication (the manufacturing processes), outbound logistics (distribution of finished goods), marketing and sales and service (post sales). The support activities include the Firm Infrastructure, Human Resource, Procurement and Technology,

Since analysis of the value-chain scrutinizes each value-creating activity, it also clearly demarcates the useful activities from the superfluous ones, thus helping to identify areas of competitive advantage. At the same time as Porter and Kramer (2006) points out, this value-chain can be employed to understand the social consequences of all the activities that the firm engages in – creating a complete inventory of positive and negative impacts of its operations. Therefore, it helps to identify for the concerned business entity those areas of social context, which can provide for them the greatest strategic value. This clearly eliminates the scope of engaging in disjointed eyewash that plenty of corporates do in the name of discharging their social responsibilities.

As may be observed from the following diagram each value-creating activity generates several areas of social impact. While 'Operations' gives the choice of working in the areas of emissions and waste, bio-diversity and ecological impacts, energy and water usage, worker safety and labour relations as well as hazardous materials; 'Outbound Logistics' has a narrower scope with packaging use and disposal and transportation impacts. The process of recognizing its own pertinent social issues among many is the strategic choice that each corporate must face.

Market leaders it seems have been able to clearly identify over and over again their area of delivering social good. They have created a win-win situation by embracing those social issues which being supported by their significant resources has been able to provide them crucial competitive mileage. Corporates who have diligently followed this trail in India include Tata Steel, Larsen & Toubro, Mahindra & Mahindra, Ltd, Maruti Suzuki, TCS, Hindustan Unilever Ltd, Nestle India Ltd. and so on. Their individual account on how their CSR investments have allowed them to reap rich competitive dividends makes for interesting observation. Within the limitations of time and space, here in this paper, the CSR initiatives of Nestle India Ltd. (NIL) have been appraised.



Source: Michael E. Porter, *Competitive Advantage: Creating and Sustaining Superior Performance*, 1985

Review of Literature

Ansoff I. (1965) has made seminal contributions to strategic judgment, primarily focused on identifying and enhancing the firm's strategic performance potential through the analysis of the industry's environment relative to the firm's aggressiveness and responsiveness.

Abell, (1980) provides a very powerful tool for focusing existing business strategies and for finding and developing new products and markets.

Porter, M (1985), provides the groundbreaking concept of the value chain which disaggregates a company into "activities," or the functions or processes that represent the fundamental building blocks of competitive advantage

Prahalad, and Hamel, (1990) are of opinion that core competence is communication, involvement, and a deep commitment to working across organizational boundaries. It involves many levels of people and all functions.

Stalk, Evans, and Schulman, (1992) state that capability-based strategies are based on the notion that internal resources and core competencies derived from distinctive capabilities provide the strategy platform that underlies a firm's long-term profitability. Evaluation of these capabilities begins with a company capability profile, which examines a company's strengths and weaknesses in four key areas of managerial, marketing, financial and technical.

Porter and Kramer (2006) observe that the interdependence of a company and society can be analysed with the same tools used to develop competitive position and develop strategy. In this way the firm can focus its CSR activities to best effect.

Objective

The objective of this paper is to appraise the CSR activities of NIL in the context of its Annual Report, 2013 and Nestlé India Corporate Social Responsibility Policy.

Methodology

The present study is exploratory in nature. It is based on secondary data. Information has been collected from books, articles, reports and relevant websites. The collected information has been analysed through academic concepts developed from books and journals to reach a meaningful conclusion.

About NIL

Nestlé India Limited (NIL) is a subsidiary of Nestlé S.A. of Switzerland – the world's leading Nutrition, Health and Wellness company. The Company set up its first factory at Moga in Punjab in 1961 for the purpose of milk processing. Presently, NIL has eight production facilities including Moga (Punjab), Choladi (Tamil Nadu), Nanjangud (Karnataka), Samalkha (Haryana), Ponda and Bicholim (Goa), Pantnagar (Uttarakhand). Tahlial (Himachal Pradesh). Nescafé, Nestlé's coffee brand, was launched in India in 1963. In 1983, Nestlé's culinary brand Maggi was introduced in India. In 1990 NIL entered the chocolate business. By 1994, a slew of products across categories were launched. By 1997, NIL emerged as one of the top players in processed foods and beverages industry and the largest producer of instant coffee with 49 percent market share. NIL set up a parallel distribution network across the country in 1998.

NIL is presently headquartered at Nestle House, Jacaranda Marg, 'M' Block, DLF City, Phase II, Gurgaon 122002, Hararyana with four branch offices located at four metros in New Delhi, Mumbai, Kolkata, Chennai respectively.

In 2013, net sales of NIL amounted to Rs. 90,619 million and profit from operations amounted to Rs. 16,383.7 million with EPS as Rs. 115.87.

NIL and CSR

NIL follows a structured governance procedure to monitor its CSR activities. The CSR Policy is governed by the Board of Directors. Pursuant to Companies Act, 2013 the Board of Directors have constituted the Corporate Governance and Social Responsibility Committee ('CSR Committee') to formulate and recommend to the Board of Directors the CSR Policy indicating activities to be undertaken as specified in Schedule VII of the Companies Act, 2013 and the amount of expenditure for the CSR activities. The CSR Committee monitors the CSR Policy of the Company. The CSR Department monitors the status of each project and reports its findings to the CSR Committee periodically. In addition, Independent Director(s) may visit one or more projects, from time to time and report their findings to the CSR Committee.

The CSR Policy issued pursuant to the Act has been recommended by the CSR Committee of the Board of Directors and approved by the Board of Directors and is placed on the Company's website www.nestle.in. (Nestlé India Corporate Social Responsibility Policy)

NIL in consultation with its stakeholders, has focused on the following areas to pursue as its CSR agenda. The Company envisages that *these are the areas, where it can create maximum value*. These focus areas are:

1. Nutrition: India finds herself in a strange predicament where a sizeable part of the population is obese and suffers from associated health conditions. On the other hand, a significant part of the population is under-nourished and often, there are media reports of starvation deaths. Almost 55 percent of urban women in India suffer from micronutrient deficiencies. More than 75 percent of pre-school children suffer from micronutrient deficiencies and over 50 percent mortality amongst children is attributed to malnutrition. Malnutrition leads to lower productivity, poor life-quality and under-performance.

The Company being essentially Nutrition and Wellness one seeks to improve nutrition awareness of communities particularly the school children.

2. Water and Sanitation: India happens to be one of the most water stressed regions of the world. Safe drinking water is also a concern in many parts of the country.

NIL seeks to help farmers reduce water usage in agriculture, raising awareness on water conservation and providing access to water and sanitation.

3. Rural Development: NIL also seeks to support the sustainable development of farmers.

As per Nestlé India Corporate Social Responsibility Policy, NIL continues to engage with stakeholders including farmers, experts, NGOs and the government and seeks to take up such other CSR activities in line with the government's intent and which are important for the society.

The focus of NIL's CSR efforts continues to be in the geographies where the Company operates, as has been traditionally.

In the light of the contents of NIL's Annual Report, 2013 and other pertinent information the following table have been presented to highlight the link between NIL's CSR activities and its value-chain.

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| | Inbound Logistics | LEAN has been extended to the entire value chain |
| | Operations / Fabrication | <p>All the factories continue to embrace</p> <ol style="list-style-type: none"> a. Nestlé Supply Chain Continuous Excellence and LEAN mindset b. initiatives that reflect war on waste especially in non-quality areas c. Total Performance Management d. savings through optimisation of processes e. streamlining in the planning activity while maintaining focus on further improving quality and competitiveness f. Within the factories, there are continuous efforts to improve operational efficiencies, minimising consumption of natural resources and reducing CO2 emissions while maximising production volumes g. All processes follow the Nestlé Environmental Management System, use state-of-the-art technology, and comply with government policies laws and regulations relating to the environment. h. NIL actively makes efforts to increase awareness about the need to sustain environment and within the factories, it evaluates new initiatives that could reduce waste and emissions. i. While all the factories of NIL are certified by reputed third party agency for food safety and quality management as well as for safety and environment, the focus is to stay aligned with the best and continuously increase efficiency. j. During the past 15 years even as production volumes have increased substantially, NIL has reduced per tonne of production by as much 64 percent for energy, 71 percent for consumption of water 66 percent for emission of greenhouse gases. k. The ongoing implementation of a major project at the Moga factory has already resulted in 20 percent reduction in daily ground water withdrawal since 2011. l. During 2013, two additional energy audits were conducted at some of the factories in collaboration with Nestlé Group, Switzerland and technical knowledge partners worldwide to identify areas for further improvement. |

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| | Outbound Logistics | <p>1. The modernisation of warehouses and transport continues to be a key priority for NIL</p> <p>2. Two new Distribution Centers with modern infrastructures were opened successfully with increased speed and productivity levels and better controls. Your Company has also continued the roll out of the warehouse management systems (WMS) with RF technologies across location to improve performances and prepare for the future</p> |
| | Marketing and Sales | <p>a) The Nestlé Nutritional Compass provides clear, transparent, and easy to understand factual information about NIL products to help consumers make informed choices about what is best for their nutritional needs</p> <p>b) Maggi Masala-ae-Magic launched in 2009 has been the first ever taste enhancer in the country dedicated to the consumers from lower income segment who cannot afford meals that can provide them balanced nutrition. It is fortified with micronutrients like iron, iodine and Vitamin A responding to the widespread and particular micronutrients deficiencies among the target segment.</p> <p>c) Launched in 2009, Maggi Rasile Chow is the first dedicated instant noodles for consumers from lower income tiers Fortified with iron and priced economically, it seeks to address micro-nutrient deficiency prevalent among the target segment.</p> <p>d) As per guidelines issued by Nestle SA for responsible advertising in all its markets worldwide, Maggi sought to create a new image for its noodles to fulfill a pledge, of advertising only foods with clear diet benefits to children below 12 years from January 1, 2009. The guidelines included specifics such as making sure advertisements don't undermine parental authority, don't create unrealistic expectations of popularity or success and don't create difficulty in distinguishing real from imaginary. They(advertisements) are expected to encourage moderation, healthy dietary habits and physical activity. In addition, the nutritional guidelines outlined, clear limits for ingredients like sugar, salt and fat are mentioned.</p> |
| | After-Sales Service | <p>1. NIL is committed to safeguarding the privacy of personal data of consumers that it collects during the course of its interaction with them via Nestlé websites, mobile applications, text messaging programs or through Nestlé branded pages or applications on third party social networks and others.</p> |
| | Firm Infrastructure | <p>1. Transparent financial reporting practiced</p> |

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| | <p>Human Resource Management</p> | <p>a) NIL engages in safety practices in every activity, function and location wherever employees are engaged and is committed to maintaining the safety culture as high priority</p> <p>b) The ‘Safe by Choice’ and ‘B-SAFE’ programmes that were implemented in previous years continued to engage the employees</p> <p>c) NIL promotes balanced nutritional diets through its products as well as non-commercial initiatives that increase awareness about the benefits of breast feeding, helping students in village schools understand the basics of nutrition, good health and balanced diets from locally available foods through the Nestlé Healthy Kids Programme, and ensuring continuing discussions with the healthcare professionals and the scientific community on the latest developments. This Programme is a non-commercial activity and does not promote products. Over 25,000 students across seven States have successfully participated and are benefitting from it</p> <p>d) NIL is also providing Clean Drinking Water facilities in village schools, sanitation facilities for girl students and conduct water education programmes for the students. Over 110,000 students are already benefitting directly</p> <p>e) The continuing investments of NIL in food processing as well as transfer of technology and support to farmers and suppliers already benefit over 200,000 farmers in dairy, coffee, chicory and wheat. These investments have also created over 50,000 direct and indirect jobs.</p> <p>f) During 2013, over 1,700 farmers were provided training on NESCAFÉ Better Farming Practices, as well as soil testing/recommendations. Camps have also been conducted to provide medical check-up facilities.</p> <p>g) Continued focus and over 1600 camps for Village Women Dairy Development Programmes benefitting over 58,600 women till 2013</p> |
| | <p>Technology Development</p> | <p>a) NIL continues to benefit from its access to the Nestlé Group research and development, and expertise, as well as the best practices</p> <p>b) NIL leverages local insights and cutting-edge R&D expertise of Nestle SA to develop a portfolio of safe, hygienic, high-quality and nutritional products that add value to consumers across the income pyramid and provide science-based nutrition and solutions that contribute to the health and wellbeing of consumers, including those with specific nutritional needs.</p> <p>c) On the one hand NIL is systematically finding ways to reduce saturated fats, sugar and salt content even while improving taste, on the other hand we have developed products with increased natural fibre, reinforced with calcium and protein, developed products that improve the level of essential micronutrients in daily diets, or providing solutions for feeding in intensive care wards.</p> <p>d) NIL is working with the International Water Management Institute and the Water Resources Group to identify areas where local initiatives for better water management in agriculture can be developed</p> |

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| | Procurement | <ol style="list-style-type: none">1. NIL has consistently worked towards sustainable use of natural non-renewable resources.2. The Responsible Sourcing program, initiated in 2010, has now reached over 130 suppliers with continuous support and regular audits.3. The NESCAFÉ plan launched in 2012 to work with farmers has been extended, and NIL has started sourcing certified “4 C” coffee from selected farmers. The “4 C” is a voluntary common code for the coffee community to improve social, economic and environmental sustainability in coffee farming.4. Similar initiatives have been unleashed to source chicory from the north and west regions of India. Number of chicory farmers benefited has increased from 1,000 to 7,500.5. In dairy, while continuing to work with small farmers to make dairying a sustainable business opportunity for them, NIL is also helping farmers transition to larger farms with more cattle, improved genetics, modern facilities, mechanization and transfer of knowledge and technology for better feed and upkeep of animals. The effort is to improve the economics of the dairy business and improve productivity for the farmers. The development of Moga as the hub for high quality milk by NIL is noteworthy.6. NIL’s focus on developing reliable supplies and good quality raw materials is a strong multiplier for rural development and is helping the communities to prosper |
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It becomes clear from the above table that NIL has successfully mapped the social impacts of its value-chain and leveraged the outcome to gain competitive mileage

Conclusion:

It is often remarked that successful entities do things differently. The present study on NIL just revealed that. While businesses have considered CSR a cost, a constraint or even a wasteful expenditure, it is leaders like NIL who have shown how to productively leverage CSR to build up an assured supply chain, provide up-to-date offerings for the evolving demand, create an ever-increasingly wide lead from competitors and most crucially inculcate unwavering trust all around.

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