

# PRESS



**International Union of Food, Agricultural, Hotel, Restaurant,  
Catering, Tobacco and Allied Workers' Associations**

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## IUF Downgrades Nestlé CSR Rating from B+ to Junk

**Creating Shared Value (NCSV) 10 May 00.00CHF ↓ 0.00 (00.00)**

Last Trade: 00.00 CHF

Trade Time: 7 May

Change: 0.00 (0.00%)

Prev Close: 00.00

Volume: N/A

EPS N/A

Div & Yield: ???

### Headlines

- Nestlé CSR reporting disappoints  
IUF
- Nestlé rolls out GRI-based shared value report  
Nestlé

Investors take note: on page 91 of its Creating Shared Value Report 2009 (hereafter CSV), Nestlé claims to merit a 'B+' grade in applying the Global Reporting Initiative (GRI) G3 sustainability guidelines for reporting.<sup>1</sup> Nestlé's own presentation, however, clearly shows that the claim doesn't hold up to scrutiny.

The GRI Guidelines are about reporting only, or more precisely, reporting on reporting. Though the processes are frequently confused, and corporations can benefit from this confusion, they do not claim to assess a company's social or environmental performance, but provide guidelines and protocol on the way the company reports on the way it would like the world to view its performance in these areas. The two are nevertheless linked: the way a company reports on its practices is obviously influenced by those practices themselves. With this in mind, we can look at why Nestlé's presumed 'B+' doesn't make the grade.

Moving from the general to the specific, we start with the two key guiding principles which determine the basic content of the report being evaluated. The first of these is the principle of "stakeholder inclusiveness", which holds that the reporting company "should identify its stakeholders and explain how it has responded to their reasonable expectations and interests". Since we're all stakeholders these days (at least nearly

<sup>1</sup> Available at

[http://www2.nestle.com/Common/NestleDocuments/Documents/Reports/CSV%20reports/Global%20report%202009/Global\\_report\\_2009\\_GB.pdf](http://www2.nestle.com/Common/NestleDocuments/Documents/Reports/CSV%20reports/Global%20report%202009/Global_report_2009_GB.pdf)

all of us) and a bit more precision may therefore be desirable, the GRI defines stakeholders as all those “whose rights under law or international conventions provide them with legitimate claims vis-à-vis the organization”<sup>2</sup>. That definition should include the 287,000 Nestlé employees around the world, as well as the large and growing group of workers who produce and distribute branded Nestlé products but are not formally employed by Nestlé because they've been outsourced or casualized, or work for a third party producer. It should also include all those employed in Nestlé's vast supply chain. It should also include the IUF and its affiliates, representing the vast majority of unionized Nestlé workers. The "Stakeholder engagement" describing Nestlé's "commitment to open dialogue with all stakeholders" (CSV, 13-15) contains a perfunctory reference to "employees" but does not contain a single reference to a trade union or to the IUF. The report does not respond to our "expectations and interests" as the global organization representing Nestlé's global workforce.

The second fundamental element is the "materiality" principle, which frames the topics/issues addressed in a GRI-based report. Information is said to be "material" if it is important to the company's activities or to its stakeholders (some of whom we've already met). The materiality test includes asking, for example, whether issues addressed in a report correspond to the interests and expectations of key stakeholders, and whether they would help assess compliance with laws, regulations and international agreements of strategic significance to stakeholders, including employees and their unions.

GRI-based reporting begins with a 'Standard (or 'Profile') Disclosure', giving general information about the company and the issues it reports on, and moves on from there to 6 Disclosures on Management Approach (DMA) which further define the issues. These are: Environment, Economic, Labour Practices and Decent Work, Human Rights, Society, and Product Responsibility. Each DMA has its specific 'Key Performance Indicators' (KPI). There are 79 of these: Economic (9), Environmental (30), Labour Practices and Decent Work (14), Human Rights (9), Society (8) and Product Responsibility (9). All this matters, because...

Nestlé claims to earn a B+ for its report: B for the report itself, and a plus for having the grade "assured" by Bureau Veritas UK on the basis of "independence, impartiality and competence".<sup>3</sup> Nestlé got a helping hand from SustainAbility, "a strategy consultancy and think tank working with senior corporate decision makers to achieve transformative leadership on the sustainability agenda." SustainAbility's focus on the 2009 collaboration with Nestlé was "relevance" and "performance assessment."<sup>4</sup>

To earn a 'B', the report must contain all the Profile Disclosures, the 6 DMAs and a minimum of 20 reporting indicators. Has Nestlé met these requirements?

Nestlé claims to have reported on the following indicators for the six DMAs: Economic - 6 out of a total of 9; Environment - 12 out of 30; Labour Practices and Decent Work - 1 out of 14; Human rights, 2 out of 9; Society - 2 out of 8; Product Responsibility - 3 out of 9.

Beginning with the Economic DMA, the GRI website explains that "The economic dimension of sustainability concerns the organization's impacts on the economic

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<sup>2</sup> <http://www.globalreporting.org/ReportingFramework/G3Online/DefiningReportContent/LowerBlock/StakeHolderInclusiveness.htm>, which also states that "For a report to be assurable, the process of stakeholder engagement should be documented. When stakeholder engagement processes are used for reporting purposes, they should be based on systematic or generally-accepted approaches, methodologies, or principles."

<sup>3</sup> CSV, pp. 20-23.

<sup>4</sup> [http://www.sustainability.com/consultingservices/services\\_article.asp?id=1720](http://www.sustainability.com/consultingservices/services_article.asp?id=1720)

conditions of its stakeholders and on economic systems at local, national, and global levels. The Economic Indicators illustrate: Flow of capital among different stakeholders; and main economic impacts of the organization throughout society."<sup>5</sup>

Nestlé's GRI Index claims to report on economic indicator EC1: "Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments."<sup>6</sup>

In fact they have not. Reporting on employee wages and benefits, according to the protocol, should include total payroll, defined as "employee salaries, including amounts paid to government institutions (employee taxes, levies, and unemployment funds) on behalf of employees", and " Total benefits include regular contributions (e.g., to pensions, insurance, company vehicles, and private health), as well as other employee support such as housing, interest-free loans, public transport assistance, educational grants, and redundancy payments." Payment to governments is defined as "All company taxes (corporate, income, property, etc.) and related penalties paid at the international, national, and local levels. This figure should not include deferred taxes because they may not be paid. For organizations operating in more than one country, report taxes paid by country."

Pages 91-103 of Creating Shared Value comprise a "GRI Content Index" by disclosure and Indicator. On page 95, Nestlé claims to have fulfilled the EC1 reporting requirement with reference to its "Financial Review" section in the 2009 Annual Report and page 26 of CSV. While the Financial Review section of the Annual Report indeed provides information on payments to shareholders, (specifically CHF 12 billion in share buybacks and dividends) and to creditors, *neither of these references discloses the slightest bit of information on employee wages & benefits or the company's tax payments as required by the indicator protocol*

This may be related to Nestlé's policy of telling unions in some parts of the world that wages are a "commercial secret" and not subject to collective bargaining, a position which has resulted in IUF submissions to the OECD. It may be because the dedication to huge share buybacks raises questions of "sustainability" and "the organization's impacts on the economic conditions of its stakeholders and on economic systems at local, national, and global levels" After all, the CHF 10 billion returned to shareholders through the buyback program is money that was not invested in improved wages, benefits or pensions for workers or in raising standards along the supply chain. It may be simple oversight. Whatever the reason, **Nestlé failed to report on "the distribution of economic value" in accordance with the indicator protocol for EC1.**

How did Nestlé report on Labor Practices and Decent Work? The DMA for labour practices requires disclosure of the management approach to what it calls "Labour Aspects": issues concerning employment, labour/management relations, occupational health and safety, training and education and diversity and equal opportunity. According to the GRI, these are based on international human rights instruments including the United Nations Universal Declaration of Human Rights and its Protocols; the United Nations International Covenant on Civil and Political Rights; the International Covenant on Economic, Social, and Cultural Rights, and the eight core conventions of the ILO. Further, "The Labor Practices Indicators also draw upon

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<sup>5</sup> <http://www.globalreporting.org/ReportingFramework/G3Online/DMA>

<sup>6</sup> [http://www.globalreporting.org/NR/rdonlyres/B52921DA-D802-406B-B067-4EA11CFED835/3883/G3\\_IP\\_Economic.pdf](http://www.globalreporting.org/NR/rdonlyres/B52921DA-D802-406B-B067-4EA11CFED835/3883/G3_IP_Economic.pdf)

the two instruments directly addressing the social responsibilities of business enterprises: the ILO Tripartite Declaration Concerning Multinational Enterprises and Social Policy, and the Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises. Reporting under this item should elucidate "Organization-wide goals regarding performance" with respect to this issues, or aspects, " indicating their linkage to the internationally recognized universal standards." as well as "organization-wide policies" defining commitment to implementation and the use of indicators to benchmark performance against goals, among other things.<sup>7</sup>

The Nestlé GRI index claims to have fulfilled the "goals and performance" part of the Labour Practices DMA with reference to performance indicators on page 28 of CSV and the "Our People" section on pages 82-85; but neither of these provides the requested information. As for "organisation-wide procedures and monitoring", the only information is a reference to the company's CARE (Compliance Assessment of Human Resources, Occupational Health & Safety, Environment and Business Integrity) external auditing program, which Nestlé established in 2006 to assess compliance with...the Nestlé Corporate Business Principles. According to Nestlé, "During 2009, 1668 gaps were identified; 85% were minor (isolated, non-repetitive) gaps, 15% were major (systematic, repetitive) gaps and none were critical gaps requiring immediate remedial action".<sup>8</sup> Nowhere are these gaps elucidated with respect to the "labour aspects" specified by the GRI, nor are they specifically linked to any of the universal standards, nor are we informed of the nature of the remedial action taken and how it relates to performance measured against these standards.

When it comes to specific Performance Indicators, Nestlé left the following indicators unreported: LA1-3 on Employment, which ask for information on Total workforce by employment type, employment contract, and region, Total number and rate of employee turnover by age group, gender, and region and Benefits provided to full-time employees that are not provided to temporary or part-time employees by major operations; LA 4-5, Percentage of employees covered by collective bargaining agreements, and Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements.; LA6-9, which ask for Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs, Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region, Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases, and Health and safety topics covered in formal agreements with trade unions. Nestlé apparently doesn't have this information, or doesn't see its disclosure as particularly relevant to an exercise in reporting on sustainability. Nestlé likewise failed to report on LA10 (Average hours of training per year per employee by employee category), LA 12 (Percentage of employees receiving regular performance and career development reviews), LA 13 (Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity) and LA 14 (Ratio of basic salary of men to women by employee category).<sup>9</sup>

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<sup>7</sup> [http://www.globalreporting.org/NR/rdonlyres/B52921DA-D802-406B-B067-4EA11CFED835/3882/G3\\_GuidelinesENU.pdf](http://www.globalreporting.org/NR/rdonlyres/B52921DA-D802-406B-B067-4EA11CFED835/3882/G3_GuidelinesENU.pdf), p. 95

<sup>8</sup> CSV, pp. 28m, 85.

<sup>9</sup> CSV, p. 99.

As mentioned earlier, Nestlé did fill in the box for one of the 14 Labour Practices indicators, LA11 concerning "Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings". In its response to this single indicator - one out of 14 - Nestlé refers to pages 86-88 of CSV.

In the section entitled "Training and learning" on page 86 of the CSV, we learn that Nestlé conducts "a wide range of training actions at local, regional and global level, including on-the-job training, e-learning programmes and class-based tuition. During 2009, 93,146 employees from developing countries received formal classroom training, compared to 83 928 in 2008." This information, however, does not even begin to address the specific information requirements for LA11.<sup>10</sup>

Nestlé could have tried to insert it under LA10 ("Average hours of training per year per employee by employee category"), but the scanty information provided likewise fails to meet the requirements for this Indicator. Nearly half of the "formal classroom training" provided for the above-mentioned 93146 employees in fact concerned nutrition courses: Included in the figure of 93,146 are "the 42 931 employees who undertook classroom training as part of our Nutrition Quotient nutrition training programme" in order to learn the Nestlé way "to make informed choices for themselves and their families". This clearly has nothing to do with the "job training, education & life-long learning" about which the GRI is attempting to elicit information.

The one training programme referred to in any detail is the top management training centre in the company's Vevey, Switzerland headquarters, which was attended by 2350 staff in 2009 - less than 1% of the total global workforce.

This may or may not tell us something about Nestlé's priorities when it comes to skills training etc. But it does mean that **Nestlé failed to report on the DMA Labour Practices and Decent Work**, since the information they provided for the one indicator that they chose to report on out of a possible 14 is thoroughly defective and clearly fails to meet the GRI requirements.

For Human Rights indicators, the GRI index claims reporting on HR 6 (child labour) and HR 7 (forced labour). For both indicators Nestlé's index entry refers to the "A fair workplace" section of CSV and the Key Performance Indicators on page 28, which we've already seen as a reference to the Labour Practices DMA. No further information is provided by Nestlé. A separate section under "recommendations" authored by Veritas on page 22 observes that Nestlé's monitoring of child labour in agriculture might be limited in its coverage: "Child labour "is an issue associated with many types of agriculture yet Nestlé's current CSV reporting on this issue focuses on activities concerning cocoa initiatives and does not reflect the undertaking of any similar activities across its wider agricultural supply chain."

Nestlé's Society indicators are also thoroughly defective. Reporting on SO2 ("Percentage and total number of business units analyzed for risks related to corruption") suffers from the same defect as the Human Rights indicators - it is based only on a reference to the unverified and unverifiable CARE program. Reporting on SO5 ("Public policy positions and participation in public policy development and lobbying") describes conferences and seminars organized in 2009 as part of the "stakeholder engagement" discussed earlier. The GRI protocol<sup>11</sup>, however, explains

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<sup>10</sup> [http://www.globalreporting.org/NR/rdonlyres/B52921DA-D802-406B-B067-4EA11CFED835/3880/G3\\_IP\\_Labor\\_Practices\\_Decent\\_Work.pdf](http://www.globalreporting.org/NR/rdonlyres/B52921DA-D802-406B-B067-4EA11CFED835/3880/G3_IP_Labor_Practices_Decent_Work.pdf), p. 41.

<sup>11</sup> [http://www.globalreporting.org/NR/rdonlyres/B52921DA-D802-406B-B067-4EA11CFED835/3879/G3\\_IP\\_Society.pdf](http://www.globalreporting.org/NR/rdonlyres/B52921DA-D802-406B-B067-4EA11CFED835/3879/G3_IP_Society.pdf), p. 7

that SO5 is intended, among other things, "to provide transparency for lobbying activities for those concerned with the integrity of the practices and potential impacts on stakeholders." Lobbying "Refers to efforts to persuade or influence persons holding political office, or candidates for such office, to sponsor policies, and/or to influence the development of legislation or political decisions. In this Indicator, this can relate to lobbying governments at any level or international institutions." Nestlé's reporting contains not a word on this.

***Nestlé therefore has failed to report on at least one Human Rights indicator and one Society indicator.***

In summary, Nestlé failed to report on the most basic of Economic indicators, EC1, and failed to meet the minimal reporting requirements under Labour Practices and Decent Work, Human Rights and Society. B+? - no way. The rating should be downgraded to non-investment grade 'junk' status

We've deliberately restricted our assessment to these 4 areas, without delving into Environment and Product Reliability. But this sufficiently establishes, in our view, that Nestlé likewise flunked the "materiality test", the basic principle which determines the content of the report, the performance indicators and the relevance of the information supplied for assessing the company's social performance and screening for "social risks" which the GRI aims to provide. If we ask the most basic questions about what Nestlé calls "our people", Creating Shared Value 2009 is immaterial. Our people - those who produce in a variety of ways Nestlé's annual turnover of nearly 110 billion Swiss francs - will find nothing of value here. But it wasn't written for us. To the real audience we can only say: *caveat emptor* - buyer beware.

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*The IUF gratefully acknowledges the assistance of the Trade Union Advisory Committee to the OECD (TUAC) in preparing this report, the conclusions of which are those of the IUF alone. TUAC has prepared a trade union checklist for the G3 Reporting, available in English, French, Spanish and Portuguese.  
[http://www.tuac.org/en/public/e-docs/00/00/04/A2/document\\_doc.phtml](http://www.tuac.org/en/public/e-docs/00/00/04/A2/document_doc.phtml)*

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*The International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco and Allied Workers' Associations (IUF) is an international trade union federation composed of 367 trade unions in 122 countries with an affiliated membership of over 2.8 million members. It is based in Geneva, Switzerland.*