

Sustainable Practices in a Large Company*

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Abstract

The attitude of large industrial groups towards the issue of sustainability has evolved considerably over time. In a first phase sustainability was seen as a necessary evil. In a second phase, large companies understood that the issue was of vital importance to stay in business. Only recently has the issue become one of competitiveness on the market. Finally, in global markets, the financial world seeks and rewards sustainable companies, as demonstrated today by the multiples.

Keywords: Sustainability; Large Industrial Groups; Erg; Mutti; Agri-foodtech; Global Markets

1. Sustainability in Large Industrial Groups

The attitude of large industrial groups towards the issue of sustainability has evolved considerably over time.

In a first phase sustainability was seen as a necessary evil, almost an obligation towards the market, rather than a real need and an opportunity to improve products and processes.

The results of these constrained interventions were heralded and communicated widely, but their substance and impact were relatively limited.

In a second phase, large companies understood that the issue was of vital importance to stay in business, that is, to have the desired appeal on the consumer, who would no longer accept compromises on the issue. In particular, new generations would not make concessions to anyone, and large corporations understood that the interventions had to be important, radical and deep in order to respond to the great social changes that were occurring.

Only recently has the issue become one of competitiveness on the market, and as consequence a search for improvement opportunities and defensibility derives from the sustainable redesign of the enterprise.

As always, the direction has been partly led and partly interpreted and understood by the financial world, which has progressively shifted important investments to all sectors and companies within those sectors which had business models geared towards sustainability, correctly believing that they would have had, and will continue to have wind in their sails in coming years.

In the Food category for example, after the successful valorisation and public listing of companies such as Impossible Food and Beyond Meat, there have been dozens

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of evolutions in vertical agriculture, fish farming, “plant-based meats”, active packaging... All developments that intercept the need to supply proteins in different ways to a growing population that is depleting its available resources.

In the energy sector, the push towards renewable energy has been extremely strong on behalf of every state, even beyond what is realistically possible to be achieved in the next few years.

There are dozens of further evolutions we could talk about, from transportation (electric cars) to clothing (clothes made from recyclable fabrics). Again, it is worth pointing out that it is not a trend, it is not merely meeting the demands of the consumer and using sustainability as a marketing lever, but it is the true transformation of a company to make it sustainable.

Let’s look at some interesting cases. The first is Erg Group (Figure 1). 20 years ago, the Group was one of the largest oil groups in Italy, active in refining, distribution of fuels and diesel for heating, as well as other petroleum products.

After 20 years, the Group has made an impressive transformation, completely shifting towards renewable energies, in particular wind and solar, and with a strong presence outside of Italy: particularly in Germany, UK and France. The result was obtained by selling assets for over 4 billion euros and acquiring others for the same amount.

The listed company today has a value of almost 10 times that of twenty years ago.

Figure 1: *Chart on the Performance of the Erg Group*



Today, ERG’s business is more stable in terms of cash generation, sustainable and based on sustainable sources of energy generation. It is one of the most relevant groups in Europe and can also access extremely attractive financing to support its development (for example Green bonds, which today have rates lower than the rates of equivalent non-Green instruments).

The mentality of the company over the years has been positively influenced by this

evolution, affecting other areas of the company as well. Personnel management for example. The Group was already making an important, managed, and controlled use of remote working, long before the pandemic appeared, with excellent productivity. Other large groups have evaluated the sustainability of their supply chains in terms of availability, quality, and price of raw materials for example. Ferrero, which over time has developed a large part of its iconic products using hazelnuts as one of the key components, has found itself over the years to be the world's largest user of the product and at that point questioned how to make itself, and its entire supply chain sustainable following the belief that if the supply chain is not profitable in all its components, sooner or later the weak link creates problems, even to the strongest supply chains.

Hence the development of the Hazelnut Company, a company of the Group that buys hazelnuts, transforms them, and uses or sells them on the market, as well as carrying out a series of programs to improve the productivity of farmers and encourage the development of this approach in all the geographical areas in which climate, terrain and logistical and cultural factors allow it.

Mutti has similar programs for tomato agriculture, rewarding the quality of the products and the harvests of its best suppliers and growers with its "Golden Tomato" certificate.

2. Economic, Social and Environmental Sustainability in Large Companies

The approach of large companies in dealing with the economic, social and environmental sustainability of their entire supply chain is therefore a healthy one, similar to what great entrepreneurs have taught, caring for the well-being of the territory from which they came from as well as its, social and environmental sustainability. In this sense were Olivetti, Ferrero or Barilla therefore not precursors of sustainability?

Another sign of attention to sustainability is shown by investments in innovation, or in the monitoring of innovation by large industrial groups, for example in the Food sector (Figure 2).

Most of them realize the magnitude of the agri-food challenge of the future if we are to feed the planet in a sustainable way. For example, where will we find sufficient proteins from?

It is difficult however, for a large Group to invest in research in so many possible areas of development, and at the same time concentrate on its core business successfully. This is where Corporate Venture Funds come into play, that is, divisions of the Group dedicated to investing in start-ups or small companies, highly innovative on the subject of sustainability, and to monitor their growth and then eventually acquire them and integrate their technology and expertise. A similar path, if you like, to what big pharmaceutical companies are doing today, which prefer to invest in start-ups rather than try to find the next molecule in a sea of possible initiatives.

Figure 2: Corporate Ventures Agri-Foodtech

Evolution of “Corporate Venture Funds” amongst Big Food Groups – 2000-2021

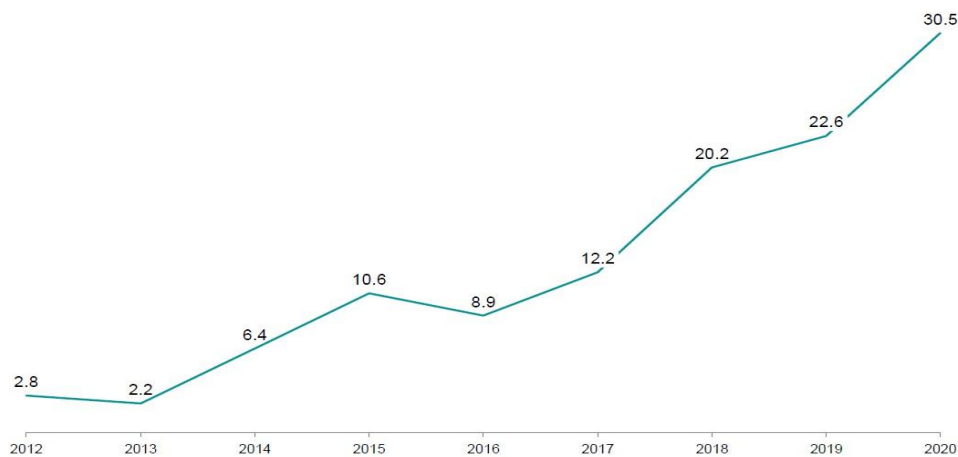


Source: Praesidium

The volume of investments made in Agri-foodtech in the last 5 years is impressive (Figure 3), a sign of the oversight that large groups want to make of innovation, not being able to cover everything internally (Figure 4).

Figure 3: Agri-foodtech Investment Volume

Annual global financing to Agri-Foodtech 2012-2020¹ (\$Bn)



¹ The 2020 figures take into account the projected increase from reporting latency (analysis was carried out as of 15/02/2021)
 Source: AgFunder, 2021 Agri-foodtech Investment Report, Praesidium

Figure 4: Agri-foodtech Investment Areas

Agri Foodtech Investment Areas

	AG-TECH			FOOD-TECH	
	Farming Reimagined	Ag Product Supply Chain	Alternative Ingredients	New Applications	Consumer Value Chain
Technologies & Products	Next Generation Farms	Digital Agriculture	Novel Ingredients	Product Development	
	Yield Enhancement	GHG Reduction	Novel protein	Dietary Trend Products	
	Sustainable Aquaculture	Processing Efficiency	Meat/Dairy Alternative Tech	Gut Health	New Brand Development
	Animal Nutrition		Functional Ingredients	Personal Nutrition	Novel Packaging
Associated Services					Food Services
		Logistics			Market Places
		Trading			Last Mile Convenience
		Provenance			Restaurant Innovation
		Sustainability	Traceability		Food Waste Reduction

Legend:

- Core Segment
- Opportunistic Segment
- Out of Focus

Source: AgFunder, Praesidium

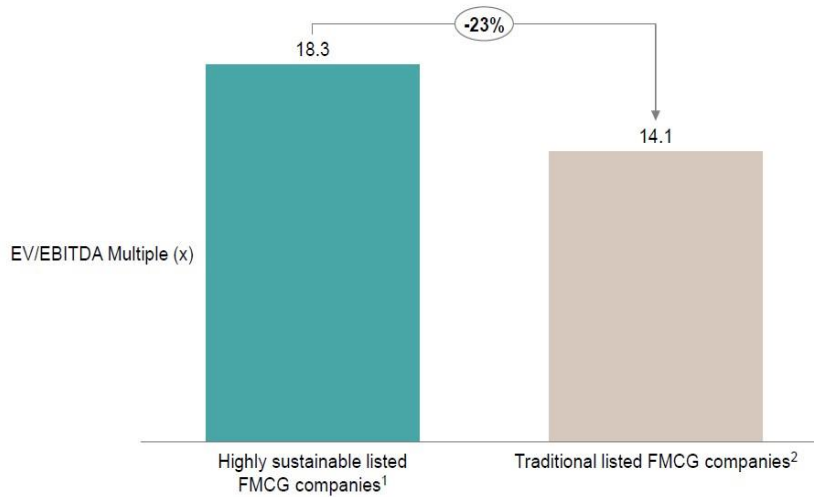
However, it is clear that the strategies may differ, depending on the sector and the possible strategic alternatives. From the example of Erg’s radical transformation, to Ferrero’s supervision of its supply chain, to the investments in innovation of others. What they all have in common however, is an enlightened vision at the top, a great entrepreneur or an excellent CEO, who “sees” the future, and understands that the consumer will want products and favour sustainable companies, and that the processes according to which a healthy company operates are sustainable. This will also be true for service companies.

A sustainable company, in addition to the successful model and reward given by its consumers, strongly benefits from the productivity of its staff, who are motivated through the basic values of pride of belonging. This fact is also measurable, in terms of a reduction in the turnover of people and higher productivity. To my knowledge there are no complete statistics that prove this, but I can bring you years of experience and analysis of companies to confirm that the sense of belonging generated by sharing core values reduces churn, absenteeism and makes employees true ambassadors of their companies.

Finally, let us return to economics and finance. I initially said that companies that have demonstrated a highly sustainable model have attracted large financial resources. The financial world seeks and rewards sustainable companies. This is demonstrated today by the multiples (the factor that multiplied by the profitability or turnover or other economic and financial parameters of a company defines its value) which are much higher for companies with highly sustainable business models or that produce elements that allow others to make their model sustainable (Figure 5).

Figure 5: Multiples of Companies with Sustainable Business

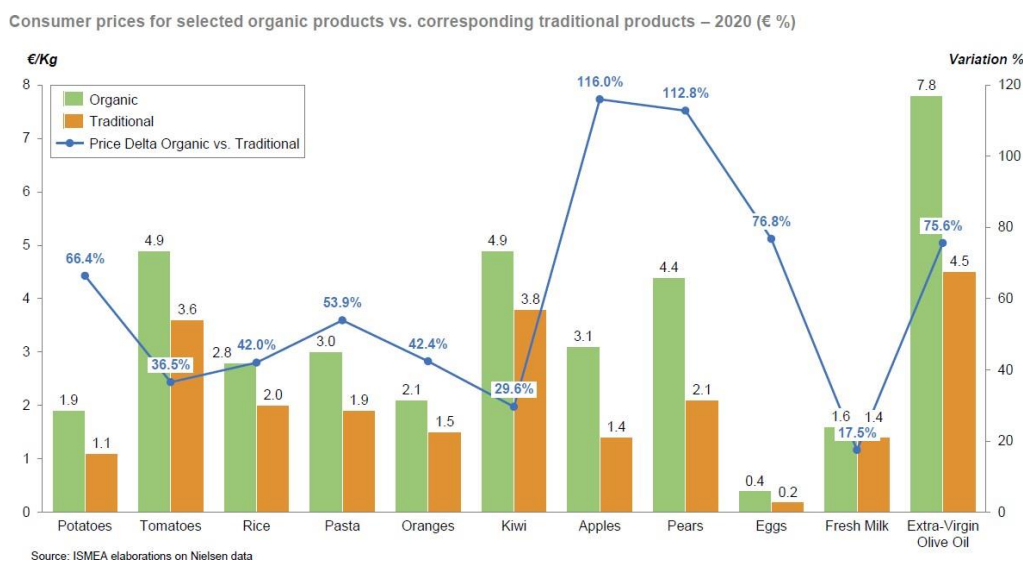
Enterprise Value on EBITDA Multiple (EV/EBITDA) for highly sustainable vs. traditional listed FMCG companies



1. Highly sustainable listed FMCG companies: Unilever, PepsiCo and Nestlé 2. Traditional listed FMCG companies: Mondelez, Kraft Heinz and General Mills
Source: Bloomberg (as of December 2021 LTM (Last Twelve Months), OC&C Report)

At the end of the value chain there is a consumer who is willing to pay a premium for sustainability. Take for example the difference today between an organic product and one that requires traditional cultivation or breeding techniques, assisted by substances that help its conservation or growth performance. The difference recognized by the consumer is on average more than 50% for organic products compared to traditional ones (Figure 6). This does not mean that all that glitters is gold, some of the products that pretend to be sustainable need to be carefully analyzed, but this should not lead us to condemn the correct direction in which sustainability models are pushing the sector.

To finish, I would like to summarize what I believe to be the fundamental message for large groups. The push towards sustainability of industrial models is so strong that in the very near future the groups that have transformed their business in this sense will be rewarded by consumers, employees and investors, others will instead find it hard to “support” themselves.

Figure 6: Price Delta & Willingness to Pay More (Nielsen Global Corporate Sustainability Report 2020)

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