

Reflecting on the Journey of Future-Proofing Ferrero

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Ferrero is on a journey to decrease our negative impact on the environment. We even aspire to contribute regeneratively to the environment one day, however, we have a long road ahead and must reflect on our present realities as we plan our path forward. Reflections of Ferrero's internal sustainability progress and the external influences around us can inform our strategic decision making as we continue to learn and grow on this journey.

Two years ago, Ferrero created a new Sustainability function that was tasked with embedding environmental, social and governance processes and culture throughout the entire value chain of the organization. The sustainability team has shared two recent reports with the executive leadership team. The first report assessed the level of sustainability within the organization and the second report proposed a sustainability plan to future-proof Ferrero. Building upon what we have already shared, this reflection will go deeper into three key areas:

- 1) Re-evaluating the purpose of Ferrero's sustainability reporting
- 2) Nature as a new stakeholder
- 3) Accountability for the systemic problems harming the environment

The Sustainability function believes that further exploring these topics and integrating solutions into our entire value chain can help Ferrero truly become a sustainable organization. While the Sustainability function is responsible for the overall sustainability initiatives at Ferrero, the entire organization is involved in the execution, and it is vital that all of Ferrero is aligned and committed to our sustainability journey. A supplemental presentation is also included, which provides examples relating to the three key areas listed above.

The first point to reflect on is Ferrero's annual sustainability report. Ferrero holds an A+ rating for the application of Global Reporting Initiative standards (Ferrero, 2023). This is the highest level of rating that can be achieved for sustainability reporting. While this is an accomplishment to be proud of, we should continue exploring new ways to expand the reach and impact of our sustainability reporting to ensure it does not become a futile pursuit simply performed to check a box. Ferrero needs to avoid our report being "more or less a 'paper-tiger', and just a matter of joining the trend by producing sustainability reports rather than finally using them to achieve corporate goals" (Cahyandito, Martha & Ebinger, Frank., 2005).

Sustainability reporting has gradually increased in the last 20 years, with KPMG reporting that 96% of the 250 largest companies in the world publish annual sustainability reports; up from 64% in 2005 (KPMG, 2022). This indicates that there is an abundance of sustainability reporting data out there, however, recent research questions the quality of the data and whether sustainability reports have become stagnant.

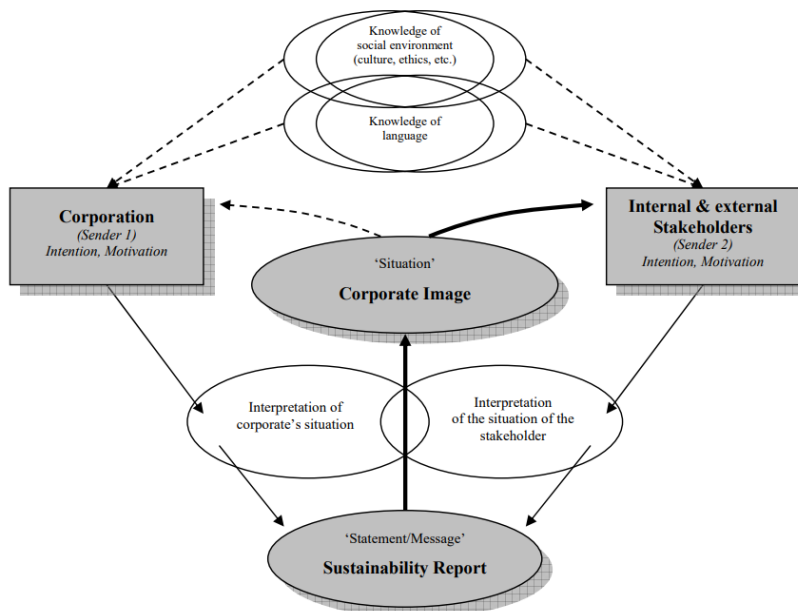
In relation to sustainability reporting data, "we're drowning in data now and somehow struggling to make sense of it" (Responsible Investor, 2023). A different report from SustainAbility shares that reports have reached a plateau, and while they do a lot of good, they do not have as much value as they could. This is based on 50 interviews and 500 surveys with sustainability thought leaders and experts (Leinaweaver, 2015).

We propose that it is the right time to take things a step further and re-evaluate the purpose of Ferrero's sustainability reporting. We can start by asking ourselves two important questions. Firstly, are we reporting on the right information and communicating it in the right way? Secondly, is our annual report reaching our intended audience? It is essential that we get these areas right for our annual sustainability reports to have the most impact and reach.

SustainAbility claims that sustainability reports have stalled in part due to marketing and communication problems (Leinaweaver, 2015). In a recent internal survey of Ferrero employees, only 48% said that they read our 2022 sustainability report. The company devotes a lot of time, resources, and money into creating our annual report. It is hard to justify the value if less than half of the company is reading the report. This means we must re-assess who our target audience is and how we communicate to them.

Ferrero's sustainability reports are communicated in an investor-centric way. The language is complex and contains many advanced financial and environmental topics. It should be our goal to reach a multitude of stakeholders through our reports, and to do so we must change the focus and tone of our reports. Information is processed in various ways by different people. If Ferrero implements a two-sided communication model, we can reach a broader audience in a more impactful way.

The following two-sided communication model was created by communication psychologist, Friedemann Schulz von Thun. It focuses on "concurring cognition in a sense of knowledge, experience or valuation between the communication participants (sender and receiver), which enables the signal transmission to take place" (Cahyandito, Martha & Ebinger, Frank., 2005).



In this form of communication, the sender (Ferrero) and the receiver (internal and external stakeholders) play an active role in the communication process. This is established through a shared understanding of the intention and motivation of all parties involved. Ferrero can cater our messaging to more people by using language and storytelling that resonates with a broader knowledge base of social environments – not just complex investor-centric messaging.

This leads to the next reflection of incorporating nature as a primary stakeholder for Ferrero. While we feel strongly compelled to do this for moral and ethical reasons that align with our values, the main driver is a strategic decision to future-proof our business. “We contend that power, legitimacy, urgency and proximity are combined when climatic changes, such as increasingly frequent anomalous extreme weather, can damage business infrastructure, resources, products and market, overshadowing moral and ethical aspects of the debate” (Haigh, N., & Griffiths, A., 2009). It is essential that Ferrero prioritizes this urgent need, and we believe placing the natural environment at the center of everything we do is a way to accomplish this.

Given that nature does not have human qualities, it can be argued that it is not possible to make it a primary stakeholder. “Authors arguing to include the natural environment as a stakeholder use broad definitions; relying on concepts surrounding its physical force, our dependence on it for life and considering it a stakeholder as a matter of practicality” (Haigh, N., & Griffiths, A., 2009). This raises the question of how Ferrero can position nature as a stakeholder? Certain stakeholder theories argue that nature can be represented as a stakeholder through human proxy (Haigh, N., & Griffiths, A., 2009). However, this can add complexity of interpretation and conflicting interests. If Ferrero takes the approach of human proxy, it will be essential to have clear expectations and a strong understanding of what it means to represent the voice of nature within the business. We could explore engaging with external environmentalists to serve in the proxy and provide an un-biased and external perspective.

In 2022, outdoor clothing company, Patagonia, made the earth their only shareholder. According to a letter on their website, Patagonia has “transferred all ownership to two new entities: Patagonia Purpose Trust and the Holdfast Collective. Most significantly, every dollar that is not reinvested back into Patagonia will be distributed as dividends to protect the planet” (Patagonia, 2022). This demonstrates the practicality of how a for-profit business can put proper governance and operations in place to ensure profits are being used to protect the environment. Patagonia’s intrepid example shows how capitalism and for-profit organizations can place the environment at the center of their business.

Every organization and individual must take accountability for their part in the systemic issues causing harm to the environment. In my last report, the focus was on future-proofing Ferrero through a more robust green marketing strategy. The aim was to increase transparency, brand recognition and consumer trust and loyalty through green marketing. It is necessary that we can support our green marketing claims with a sustainable value chain. Upon reflection, we need to take this a step further and evaluate the systemic problems that we are a part of to truly be a sustainable organization.

As a global confectionary company, we need to be accountable for the systemic issues related to capitalism and globalism that are harmful to people and the planet. Ferrero can take accountability for these systemic issues by aligning our profit with our purpose. The pursuit of maximizing profits and shareholder returns at any cost, even to the detriment of the environment, is not responsible business.

Building upon the last point of making nature our primary stakeholder, we must broaden our view of what it means to be profitable. This view must include capital that is put towards protecting the environment. We can learn from the example of the United Nations' Force for Good Initiative that was established in 2020 to "mobilize capital to break new ground in providing finance to address the world's issues and build for a better future" (United Nations, 2021). Most well-developed organizations already have ESG frameworks in place. It is time to move beyond a risk framework towards one that is focused on measurable ESG impact (United Nations, 2021).

While the Force for Good Initiative is focused on the finance industry, Ferrero can be a catalyst to bring this type of initiative to the fast-moving consumer goods (FMCG) industry. Creating an industry peer group focused on a more sustainable future can increase accountability through healthy competition. As a result of the Force for Good initiative being launched, 100% of the companies have implemented "ESG and sustainable targets, representing US\$102 trillion" and "US\$12.5 trillion of their total assets under management incorporate ESG factors into their investment decisions to promote activities for good" (United Nations, 2021). These are measurable results driving positive change in the finance industry and we believe this type of initiative can help Ferrero, and our entire industry, break away from systemic problems harming the environment.

In conclusion, this reflection highlights three ways in which Ferrero can do more to future-proof our business and take accountability for our impact on the environment. Bold and never-before-seen actions, such as Patagonia declaring nature as their only stakeholder, are required to reach this objective. Ferrero has done substantial work on our sustainability journey thus far, but we must do more to be a truly sustainable organization. As a recap, below are the three key areas reflected upon in this report:

- 1) Re-evaluating the purpose of Ferrero's sustainability reporting
- 2) Nature as a new stakeholder
- 3) Accountability for the systemic problems harming the environment

In addition to this report, there is a presentation attached that shares examples of how Ferrero can approach these key areas.

CITATIONS

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