



PepsiCo's 2004 report

## Sustained advantage?

By Aleksandra Dobkowski-Joy

**PepsiCo's "advantage" is in combining its annual financial and corporate responsibility reports, but it lags on quantitative non-financial targets informed by stakeholder voices**

PepsiCo's latest annual financial report, for the second year running, includes a substantial corporate responsibility component. This combined reporting approach, a rarity among US firms, reflects PepsiCo's commitment to communicating all aspects of company performance to investors and stakeholders.

Although PepsiCo still has a long way to go in terms of corporate responsibility content (most data is descriptive and there are scant goals or targets to speak of), the company has adopted a thoughtful and progressive approach to integrating sustainability into strategy and management systems. By acknowledging report shortcomings and stressing initiatives to further embed corporate responsibility into company DNA, PepsiCo takes responsibility for its current performance and future agenda.

### Integrated reporting

Some benefits of PepsiCo's integrated report are immediately evident. In comparison with companies that publish separate reports, PepsiCo avoids duplicate

descriptions of business operations, brand strategies, products, customers and delivery systems. By concentrating this information in the financial section, PepsiCo can immediately dive into core sustainability issues.

There is, however, certainly room for further integration. Although PepsiCo's corporate responsibility themes are somewhat reflected in the financial sections, crossover is limited mainly to the chairman's letter. There is a distinct difference in style and substance between the risk-oriented discussions of financial results and the cheerful, non-quantitative descriptions of sustainability initiatives.

This language and stylistic barrier highlights the distance that must still be covered if corporate responsibility content is to hold much interest for typical shareholders and financial analysts. PepsiCo has a great opportunity to lead in this area by becoming much more disciplined in future reports and by presenting corporate responsibility performance in the same light as financial results – complete with quantitative data, cost-benefit analyses, and explicit links to business strategy and risk.

For example, PepsiCo relies on successful agricultural harvests for the raw ingredients to make its products. Global climate change poses a risk to crops in certain regions of the world; PepsiCo could discuss how it is mitigating that risk, through, for example, advance crop purchase planning as well as internal efforts to control greenhouse gas emissions. Cross-referencing sustainability risks with those mentioned in the management discussion and analysis of financial results would be another step forward.

### Top-level support

PepsiCo's report prominently bears the stamp of executive approval. Chairman and chief executive Steve Reinemund uses his introductory letter to highlight several corporate-responsibility-related initiatives (such as PepsiCo's diversity and inclusion programs) as being crucial to continued business success. He also encourages shareholders to read the corporate responsibility section of the report.

The embedded corporate responsibility report picks up these threads and expands on them, providing programme descriptions and, more importantly, a discussion of how sustainability is being managed at PepsiCo. A senior executive Sustainability Task Force leads the charge.

In the past year, the task force formulated an overall sustainability vision, defined as "Tomorrow Today" and defined five areas of high importance for both business and sustainability success, namely: values, diversity and inclusion, health and wellness, water and packaging. Though the choice of topics is appropriate, PepsiCo could have done a better



Ethical pop stars approve

job of focusing the corporate responsibility section on these themes to reflect their importance.

Despite the progress PepsiCo has made in laying the groundwork for sustainability management, the corporate responsibility section is woefully inadequate in providing company-wide targets, aggregated data and trend statistics. And almost all the information presented is very positive and upbeat, leaving this reader to wonder what hidden issues or problems are not being addressed.

PepsiCo needs to fill in these considerable blanks, the sooner the better, and adopt a more transparent approach to reporting. Both investors and stakeholders should be privy to where the company is facing challenges in meeting its corporate responsibility vision. The inclusion of stakeholder voices will be key to identifying and discussing issues of concern and will add a needed measure of credibility to PepsiCo's future reports.

#### **GRI basis**

PepsiCo's use of the Global Reporting Initiative Guidelines as a reporting base does provide some assurance that more data may be forthcoming. A GRI index included in the report facilitates review; however, more specificity as to which indicators are fully reported would be helpful. In the current report, PepsiCo includes a brief footnote stating that some indicators are only partially reported, a

tactic that could be construed as misleading.

Information presented in the corporate responsibility section is not verified. Given the paucity of available data (or of data PepsiCo is willing to release), this approach seems sensible in the short term. It does, however, highlight the company's need to establish comprehensive data collection systems and build out specific goals and targets.

PepsiCo's governance systems are widely recognised as best in class. Both the financial and corporate responsibility portions of the combined report emphasise strong internal controls, board oversight and ethical action. For example, a long-standing policy bars auditing firms from performing non-audit-related work for the company.

The company's diversity and inclusion programmes are also very strong, as is the importance the chief executive places on these issues. PepsiCo has put together two large diversity councils, made up of leaders in the US-based African-American and Latino communities, to advise the company on diversity issues.

Although the formation and continued existence of these councils is laudable, the report fails to capitalise on the opportunity to discuss the impact these councils are having on PepsiCo's diversity issues. Rather, both councils are represented only through photographs of smiling people, devoid of any commentary or discussion. Also conspicuously missing are any quantitative diversity goals.

One additional statistic would have benefited from some context or explanation. Despite PepsiCo's inclusion programmes, only 26% of the company's more than 62,000 employees are women. Without any indication of why women number so few, readers could question the effectiveness of hiring and retention initiatives aimed at women.

The most controversial issue PepsiCo can't quite bring itself to address directly is the fact that its core products are those most often cited as causing rampant obesity. Many of PepsiCo's "billion-dollar brands" are sodas or snack foods that are high in fat, sugar or salt. PepsiCo disappoints by vaguely referring to its different product categories in euphemistic terms such as "fun-for-you" and "better-for-you". The term obesity itself is assiduously avoided, replaced with the more general

"health and wellness".

Discussion of obesity and health issues is certainly a challenging task for a company such as PepsiCo. The spirit of corporate responsibility reporting, however, demands that PepsiCo exhibit more openness on the contribution of its product to healthy living and move beyond carefully crafted euphemistic labels. Next year's report could include a fact-based discussion of the success of the company's "Smart-Spot" icon and "Energy-Balance" initiative, its position on company versus consumer responsibility in managing health, and its stance on historical or current obesity lawsuits.

PepsiCo should also draw on the accumulated wisdom of its health and wellness council, and include council advice, recommendations and criticisms in its corporate responsibility report. By including council viewpoints as well as consumer voices, the company would more credibly convey its commitment to the health and well-being of its customer base.

Another unsatisfactory area is the glancing coverage of advertising, especially as related to children. PepsiCo limits this brief discussion mostly to an overview of how it avoids placing ads during objectionable programming. Although the company cites its policy of taking "special care" when making decisions about advertising directed at children, no explanation of ad content formulation is provided.

The report also lacks any descriptions of company policies to avoid marketing junk food to children while their reasoning faculties are still undeveloped. Given the importance of this issue to a major stakeholder group – the parents of young children – PepsiCo would do well to rethink its reporting approach in this area.

#### **Environmental anecdotes**

PepsiCo has identified environmental progress as a priority area for action. Given the anecdotal and qualitative nature of most of the data presented in the environmental section, this seems a wise decision. Although the report has scavenged statistics on water and energy use from various plants and business units, it contains no comprehensive, aggregated presentation of environmental performance.

PepsiCo's individual programmes for energy conservation, use of hybrid

vehicles, packaging design and so on may be laudable, but without actual goals and consolidated data, it is very difficult to determine the collective impact of these initiatives. Also, PepsiCo concentrates heavily on US operations; future reports would do well to include a broader, global perspective on environmental performance.

Of particular interest in the coming years will be PepsiCo's water use. As water becomes scarcer and supplies more regulated the company will need to develop and report on strategies for negotiating water rights that do not disadvantage local or regional water supplies.

#### **HIV/Aids**

In the realm of social issues, PepsiCo squarely addresses its involvement in contributing to solutions to the HIV/Aids epidemic in its overseas operations. The corporate responsibility report provides general information and refers readers to a more detailed online report solely dedicated to PepsiCo's HIV/Aids policies

and initiatives. PepsiCo may want to consider including some of these statistics (e.g. infection rates, reported cases in employees, deaths) to buttress its qualitative programme descriptions.

#### **Opportunity for leadership**

PepsiCo has embarked on an interesting journey with its combined reporting approach, one that offers considerable opportunities for leadership. PepsiCo should continue to explore ways to make this integration stronger. For example, by modifying the language it uses to define and address corporate responsibility issues, and by tying information on financial risk to corporate responsibility discussions and vice versa, the company can reach analysts and shareholders as well as other stakeholders.

More importantly, PepsiCo needs to make reporting changes to maintain its overall corporate responsibility credibility. At a minimum, PepsiCo should build on current information to provide quantitative non-financial targets informed by



stakeholder voices and supported by company-wide aggregated data – nothing less than an upgrade from the current “fun-for-you” report to a more substantial “better-for-you” report. Otherwise, PepsiCo risks leaving readers with little more than a fizzy aftertaste. ■