

Getting to Know Your Food: The Search for Clarity in Our Food Supply Chains

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Our global food supply chain systems have become increasingly unclear, driving a wedge between consumers and the food they eat. The resulting gap has significant consequences for consumers in terms of safety and for businesses in terms of profits. In the spring of 2011, an E. coli outbreak in Germany killed 29 people and made 3,000 people sick before authorities were able to identify and recall the source of the contamination: bean sprouts from a local supplier. The result was European farmers lost hundreds of millions of euros in revenue.¹

In light of these recent food recalls, we ask, Can these health-related issues be attributed to a lack of clarity of the supply chain? We analyze firms in the food, beverage and tobacco industries to understand current supply chain practices.

SUMMARY OF FINDINGS

1. **Supply Chain Complexity:** Firms have poor policies and poor oversight with respect to the social impacts of how food is supplied. Food and beverage firms may be placing too much trust in their suppliers.
2. **Policies and Practices to Increase Transparency:** Transparency regarding the health risks of products is limited, leading consumers to have an insufficient understanding of the foods they eat.
3. **Product Transparency:** Firms have been slow to adopt organic or fair-trade certifications, programs that can help to increase transparency. Firms can take meaningful action by adopting these certifications and by proactively adopting policies that detail the firm's position on important issues.

Our findings are discussed in greater detail below.

SUPPLY CHAIN COMPLEXITY

A minority of food and beverage firms pay serious attention to the social impacts of food production in their supply chain. We find that only 25% of firms have policies covering issues such as child labour, discrimination, and minimum living wages. Only 20% of firms set stringent standards for their supply chain production. Although a handful of firms have both broadly scoped and highly stringent standards, firms are more likely to have a broadly defined social supply chain with limited detail, which suggests that firms might be struggling with how best to incorporate social supply chain-related policies into their current operations.

Setting supply chain policies is only one half of the challenge: the other half is in enforcing those policies. In that regard, firms have placed significant trust in their suppliers. Food and beverage firms have

surprisingly little monitoring and auditing oversight, suggesting that these firms may be only dimly aware of how their supply chains operate. We find that only one-third of firms in our sample have engaged in supplier monitoring, only one-quarter have a formal supply chain monitoring system in place, and only one-fifth perform regular audits of their suppliers.

POLICIES AND PRACTICES TO INCREASE TRANSPARENCY

Consumers increasingly want to know what is in the food they eat and the associated impacts of choosing to consume those foods. However, knowing what is in the foods we eat and knowing the global origins of those ingredients are increasingly difficult tasks, as highlighted in a recent study. For example, most consumers would be surprised to learn that Nutri-Grain bars contain, among other ingredients, honey

¹Retrieved June 10, 2011 from: <http://edmonton.ctv.ca/servlet/an/local/CTVNews/20110610/germany-e-coli-outbreak-testing-new-results-110610/20110610/?hub=EdmontonHome>

and vitamins from China, sodium alginate from Scotland, soy from Denmark, guar gum from India, and carrageenan from the Philippines.²

Consumer transparency appears to be a low priority for food and beverage firms. We found that only 22% of firms have strong and detailed public policies regarding various health consequences of food and beverage products, such as the risks of over-consumption. Further, only half of companies take their role of responsible marketing seriously by, for example, properly educating customers and targeting their products to the appropriate consumer group.

PRODUCT TRANSPARENCY

Consumers often have little recourse in terms of validating the product claims made by food and beverage firms. Some firms have adopted certifications and recognized practices, such as the use of fair-trade and organic products, in efforts to improve the transparency surrounding how food is produced. Unfortunately, we found that only 10% of firms - all of which are in the packaged goods subsector - offer fair-trade products and, of those, all receive less than 1% of their total revenues from those products. A similar trend was found in firms manufacturing organic products: only two firms derived more than 1% of revenues of their total revenues from organic products. Certification programs, such as those for fair-trade and organic products, have proven to be increasingly popular, growing at more than 10% per year.^{3,4} These programs are an effective and well-established way of using third parties and established standards to improve product transparency.

Finally, firms have opportunities to take stewardship roles by adopting public positions on controversial topics, but appear to be reluctant to do so. For example, our analysis revealed that only 20% of firms have policies regarding the use of genetically modified organisms (GMOs) in their products. Further, only 30% of firms in the packaged goods subsector have policies on animal welfare, addressing such features as how animals are raised, transported, and processed. An encouraging 50% of firms were found to be actively participating in industry-specific initiatives, such as roundtables on the socially responsible production of soybeans, palm oil and cocoa; however, such policies are typically initiatives driven by industry associations. Thus, we suggest that widespread consensus may be required before firms are willing to adopt public positions on controversial topics and thereby assume roles in stewarding initiatives toward greater clarity in our food supply chains.

² Roth, A. V., Tsay, A. A., Pullman, M. E., & Gray, J. V. (2008). Unraveling the food supply chain: Strategic insights from China and the 2007 recalls. *Journal of Supply Chain Management*, 44(1), 22-39.

³ Retrieved July 3, 2011 from: <http://www.theglobeandmail.com/report-on-business/small-business/start/financing/organic-market-in-canada/article1431453/>

⁴ Retrieved July 3, 2011 from: http://fairtrade.ca/sites/default/files/FTC%20Volumes%201997-2009_0.pdf

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ABOUT JANTZI-SUSTAINALYTICS DATA

The Jantzi-Sustainalytics dataset tracks firm performance according to environment, social, and governance (ESG) themes for more than 2,500 companies from 32 countries. Included are data pertaining to environmental impacts, community relations, employee relations, supply chain management, products and services, corporate governance, and business ethics.

The data used in this brief are current as of May 2011 and resulted in a sample of 81 firms geographically distributed across 15 countries including the United States, United Kingdom, France, Canada, and Japan.

Jantzi-Sustainalytics is the North American regional arm of Sustainalytics. This global firm has headquarters in Amsterdam and local offices in Toronto and across Europe. The company provides environmental, social, and governance research and analysis; sustainability consulting; and responsible investment services.

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