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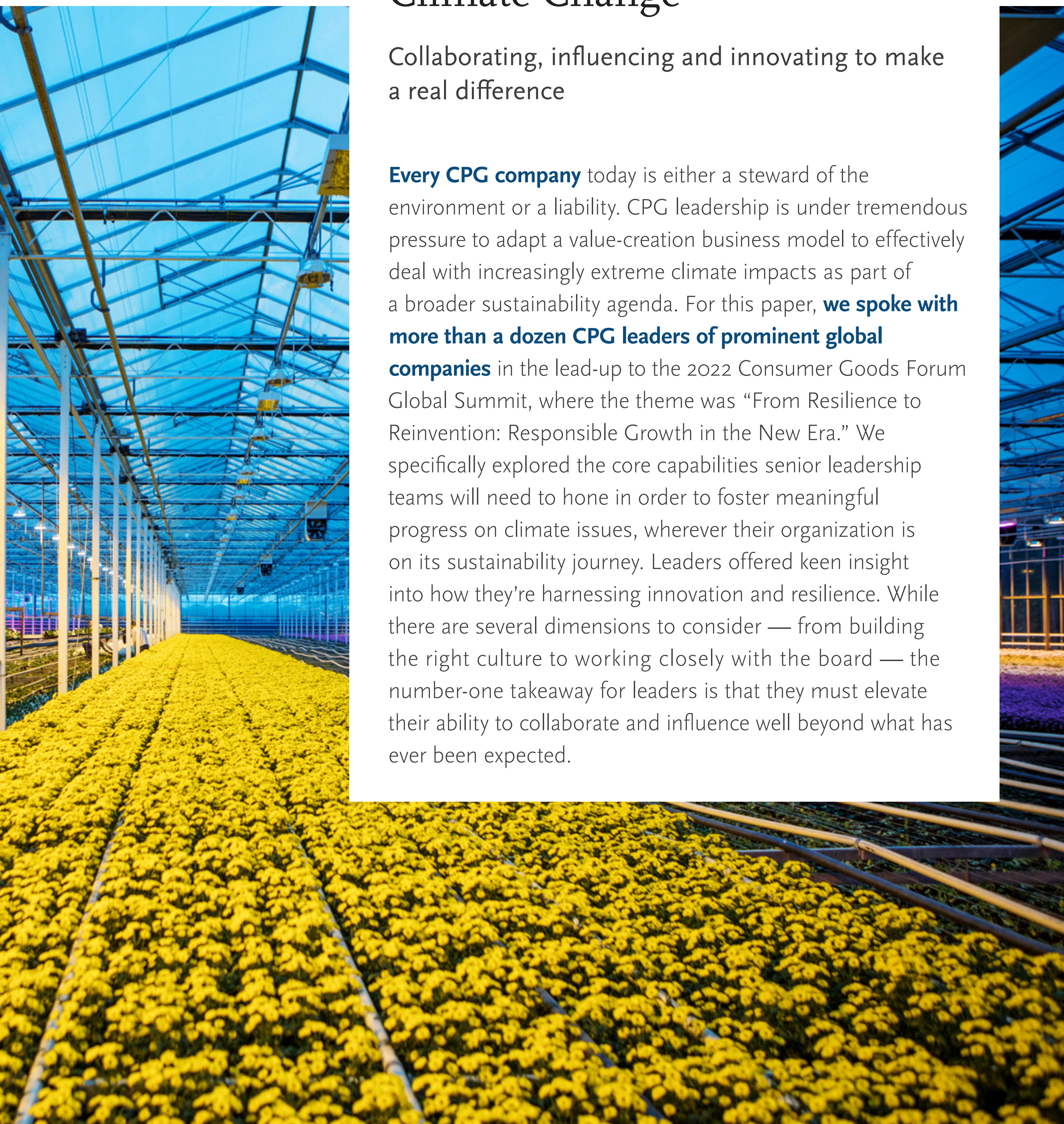
Global CPG Leadership on Climate Change

Collaborating, influencing and innovating to make a real difference



Every CPG company today is either a steward of the environment or a liability. CPG leadership is under tremendous pressure to adapt a value-creation business model to effectively deal with increasingly extreme climate impacts as part of a broader sustainability agenda. For this paper, **we spoke with more than a dozen CPG leaders of prominent global companies** in the lead-up to the 2022 Consumer Goods Forum Global Summit, where the theme was “From Resilience to Reinvention: Responsible Growth in the New Era.” We specifically explored the core capabilities senior leadership teams will need to hone in order to foster meaningful progress on climate issues, wherever their organization is on its sustainability journey. Leaders offered keen insight into how they’re harnessing innovation and resilience. While there are several dimensions to consider — from building the right culture to working closely with the board — the number-one takeaway for leaders is that they must elevate their ability to collaborate and influence well beyond what has ever been expected.

Introduction

The consumer packaged goods (CPG) industry is in the spotlight when it comes to the climate crisis, with individual companies under increasing scrutiny to reduce their carbon footprints and present cohesive climate-impact strategies for the future. In a heightened regulatory environment, including a proposed SEC climate change rule that would require listed companies to disclose climate-related financial risks and metrics to investors, leaders are experiencing pressure from their own boards and shifted expectations from other stakeholders, including customers and employees.

Several of the CEOs we interviewed shared the sentiment that climate change is perhaps the single biggest risk their organizations face long term. With no planet, after all, there is no business. One could argue that the biggest impetus for CPG companies to aggressively accelerate their environmental strategies is simply to ensure their own future. Climate change threatens the entire value chain.

> **“Here is a call for something different; it’s less about competing and more about the notion of converging and working collectively to find solutions. There needs to be more collaboration and less competition, even within the same industry.”**
>
> **ROBERTO MARQUES**
> EXECUTIVE CHAIRMAN OF THE BOARD OF DIRECTORS
> AND GROUP CEO, NATURA & CO.

Confronting climate change means something different at every CPG organization, so companies must prioritize different tactics for reducing their carbon footprint. One producer of health and hygiene products worries about how climate change will impact the health of customers, while a large food producer is concerned with how climate change will affect the quality and quantity of available ingredients. Another company might prioritize developing science-based targets to reduce greenhouse gas emissions across the operations and supply chain, while yet another works closely with growers on sustainable production. Even within one organization, there are typically specific environmental goals for different brand lines. One American CPG leader we talked to has a set of goals for one brand, focused on increasing the ratio of plant-based ingredients to conventional dairy, and a separate set for another brand, focused on reducing plastics and increasing the use of recycled materials in packaging.

While the climate issue represents just one dimension of a broader sustainability agenda for all of these organizations, it's certainly a critical one. In almost every large CPG we studied, a complex and ambitious climate-focused strategy is in the works. But to tackle the broader dimension of climate change implies a cascade of relationships, connections and engagement among multiple operators, from upstream supply chain partners to board members to customers. This, in turn, implies specific leadership and culture needs, including the ability to effectively communicate, influence, engage and convince all the constituents along the way.

This is all broad-stroke context for why every CPG company has specific leadership needs around ESG, including the "E" and climate initiatives. Not surprisingly, many top leaders we spoke with talked about how they are adding particular goals to their team's compensation plans — a relatively simple way to get a team's attention. Many CEOs face a very real dilemma: either take the initiative to get out in front of climate change now, or run the risk of being mandated to by retail customers later. The lag could prove both costly and penal.

Senior leadership teams must be equipped to adopt a value-creation business model along with strategies to effectively deal with growing climate impacts. The many facets of this effort include having the right leadership capabilities and mindsets, the savvy to engage with multiple and varied stakeholders, and the foresight to create changes in organizational structure, culture and talent development to ensure teams can innovate and ultimately succeed in climate initiatives.

In preparation for the Consumer Goods Forum Global Summit in Dublin in June of 2022, we spoke with 17 senior leaders of CPGs to explore their perspectives on this topic. They shared the cultural, team and organizational capabilities they see as essential to succeed within their climate strategies, along with how they're balancing profit and purpose.

Our key takeaway: Collaborating and influencing to drive real change

Within Spencer Stuart's point of view on the nature of exceptional leadership, **collaborating and influencing** is one of the six critical leadership capabilities for navigating and leading on climate change.

Collaborating and building partnerships within organizations is increasingly recognized as a foundation for tackling enterprise-wide challenges and opportunities, including those around climate change. Yet, all of the leaders we spoke to for this article confirm that to effectively address climate change, transformational partnerships beyond the boundaries of their own enterprises are required. They recognize that to successfully achieve their goals, leadership teams will need to elevate and expand their *collaborating and influencing capability* from a focus on building internal partnership networks to building effective external partnerships along three primary avenues:

1. Creating significant mutually beneficial partnerships with suppliers, distributors and customers
2. Building innovative and distinctive cross-industry partnerships with competitors
3. Leveraging a wide network of relationships among organizations with different goals and concerns to create mutual benefits on this societal challenge

Discover Spencer Stuart's point of view on what it takes to be a successful leader today

Leadership capabilities, mindsets and culture-setting

> **"As leaders, we need to be honest and admit that sustainability overall — and climate protection, in particular — are incredibly complex and long-term topics. What's important is that we understand the urgency for action, and then set and support the right strategies."**

CARSTEN KNOBEL
CEO, HENKEL

Environmental priorities are front and center for business today. But leaders must understand the specific capabilities, leadership traits and mindsets they need to develop in order to successfully deliver on their climate strategies.

Fluency around climate efforts is a baseline

The traditional Western leadership model of focusing almost exclusively on P&L results is outdated. Environmental efforts can't stop with "the green sheen" around marketing products. As Ivan Menezes, CEO of Diageo, says, "It's no longer merely a sustainability or reputational issue, but goes to the heart of how companies will need to operate to succeed in the near future. This requires an integrated approach across all aspects of a business and the development of leaders with a deep understanding of ESG and how it drives commercial performance and competitive advantage."

To keep pace with changes in climate mitigation, leaders must have a deep grasp of the skill sets, metrics, criteria and reporting mechanisms required to succeed. Michael Patten, chief ESG & corporate affairs officer for Glanbia, says, "Leadership teams need to become fluent in the language of climate regulation and reporting. The actions we're taking now will play out for decades; staying in the moment is the enemy of climate change."

While CPG leaders won't necessarily become deep subject-matter experts in climate change science, they must still develop a certain level of technical fluency so they can have educated discussions with those who are true subject-matter experts. Just as any chief marketing officer is expected to have a decent level of financial fluency, without necessarily having the deep expertise of the chief financial officer, company leaders must understand the lexicon of climate change so they can speak to investors, board members, business partners and the general public.

In addition, embedding sustainability across all the processes in the business will help drive wholesale transformation across an organization, making it much more likely to succeed in adopting aggressive environmental efforts. Leaders must hold climate change as a key priority while keeping it in the perspective of the greater business and other ESG mandates.

The leadership traits essential to fighting climate change

> **"In the world of ESG, everything is advancing very fast, which requires continuous updating of knowledge and technology. Four years ago, we used to log what we do with farmers on spreadsheets; today we are digital. Four years ago, carbon accounting standards did not exist. They do today. There was no regulation, and now it is planned in two years. All of this means continuous learning and agility to implement."**

PABLO PERVERSI
CHIEF INNOVATION, SUSTAINABILITY & QUALITY OFFICER
AND GLOBAL HEAD OF GOURMET, BARRY-CALLEBAUT

So what are the specific leadership characteristics required to take ownership over climate change in the CPG industry? At first glance, they're much the same as in other industries: strategic thinking, proven strength in driving results, a talent for leading people and, of course, a steadfast ability to create real change. Leaders must be particularly adept at adaptation and creative thinking.

Leaders must also be able to view climate change in terms of both risks and opportunities. At Reckitt Benckiser, a British multinational consumer goods company, CEO Laxman Narasimhan is focused on reducing transition risks from carbon emissions in the company's operations through green energy and building resilience. He also recognizes a rich opportunity to design future products suited for a low-carbon economy. The leaders who thrive in this economy will be good at mitigating climate risk and taking advantage of the opportunities for new and better products.

For this reason, another priority in the domain of leadership is to hire leaders who are strategic forward-thinkers in the first place. Stefan Descheemaeker, CEO of Nomad Foods, is blunt about this: "You have to have smart people thinking about disruptions, because they will happen, whether it's geopolitical issues or global warming."

The role of culture, and how leaders can shape it

> **“Our culture encourages the development and implementation of innovative ideas related to sustainable production and business practices, and empowers our team to meet environmental challenges head on.”**

SEAN CONNOLLY
PRESIDENT AND CEO, CONAGRA

Since the “E” in ESG must be embedded in day-to-day business to be successful, purpose and its manifestation, culture, are inherently important to harness. Companies that have built their purpose and brand on sustainability from the start are growing fast in the market. Swedish company Oatly, for instance, has a mission statement that includes “not recklessly taxing the planet’s resources,” and the company’s success revolves around a product (oat milk) that lends itself well to reducing carbon emissions and, as a result, positively affecting climate change.

Not every CPG company, though, has the environment at the core of its brand ethos and culture, so most have work to do to transition to a focus on climate impact. The vast majority of CPGs were born and raised on a mentality of execution, so to shift to a shared focus on innovation and execution requires a culture change. Miguel Patricio, CEO of Kraft Heinz, makes sure to find time in the agenda for "curiosity" as a cultural lever: "Having a culture that praises curiosity and learning, and invests in these things, is critical. To have people who are curious, like to learn and feel comfortable in the uncomfortable is crucial to find success."

> **"The energy this brings to our business and culture is palpable and exciting. Young people from universities who want to work for a purpose-driven organization are drawn to this work. They see that we are investing here to really make an impact. This is very much a place within the organization that top talent is gravitating towards because they want to make a difference."**
>
> **BETH FORD**
> PRESIDENT AND CEO, LAND O'LAKES

Japanese beverage company Kirin Holdings has a pinnacle management policy in place called Creating Shared Value (CSV). CEO Yoshinori Isozaki explains that "Addressing the social issues through leveraging of the Kirin Group's strengths will promote transformed awareness and creative ideas, which in turn will lead to further innovation. Through this, we will increase the group's organizational capabilities and sustainably deliver value to customers."

Along with culture, aligning the proper organizational structure is a key consideration on a practical level. Adding a new "arm" for environmental efforts can overly complicate "the machine" and actually reduce the broader team's ability to make an impact. Sustainability efforts must be ingrained in the day-to-day thinking and culture across the organization, not just a specialty project or siloed think tank. The best examples we have seen involve partnerships beyond the business itself.

Collaboration is essential to climate efforts

> **"ESG awareness is there, but the journey is long. We must learn how to work better with suppliers to engage them as well in solutions. The more we learn, the higher our goals. Everywhere you turn, there is something to do."**

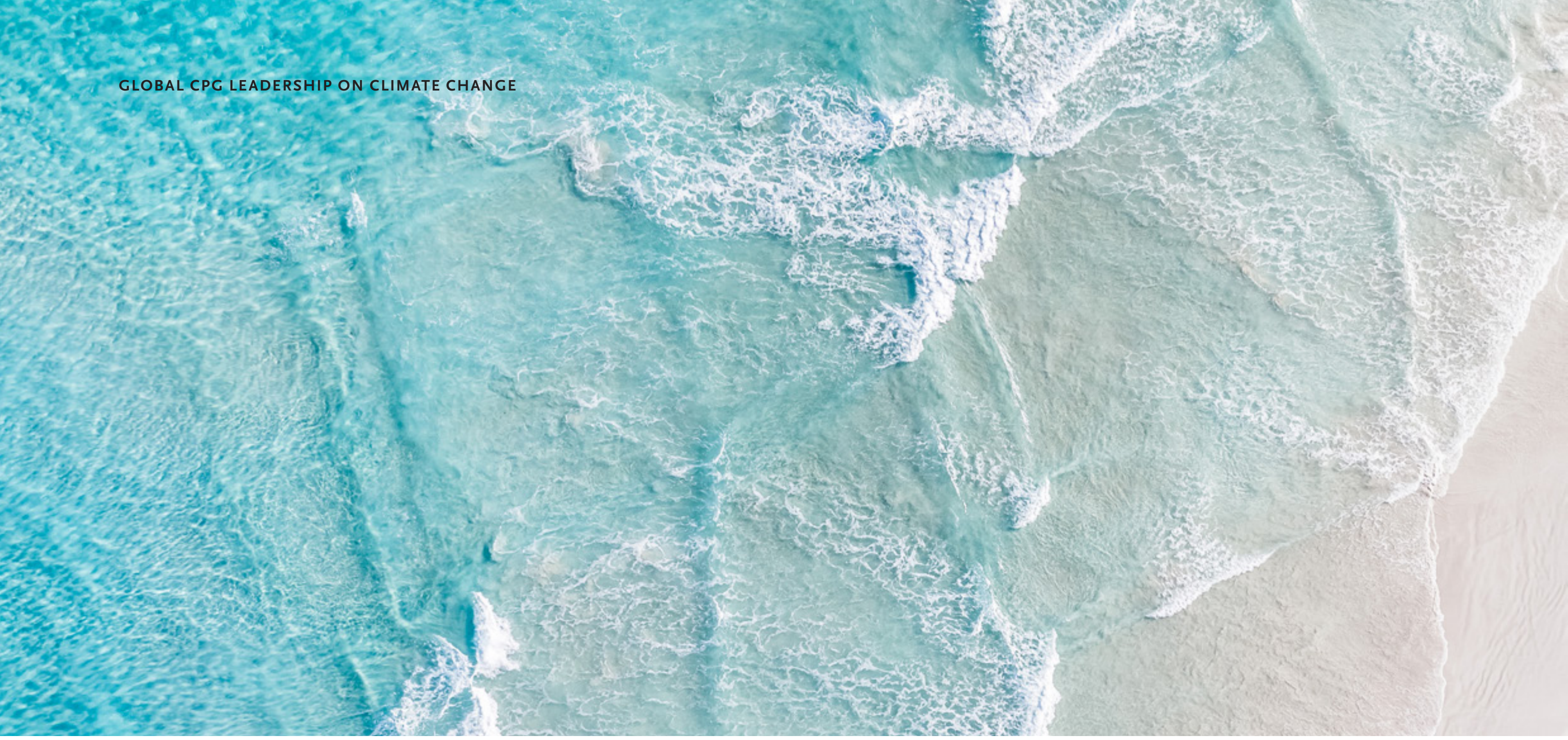
JOHN SANTA MARIA
CEO, COCA-COLA FEMSA

Most climate change initiatives won't be successful based on one company alone. CPG companies can have enormous carbon footprints, yet only directly control a small fraction of the emissions linked to their products. The rest come from their supply chain and partners, so collaboration is paramount. Successful CPG leadership must elevate individuals' ability to collaborate and influence — one of the six critical leadership capabilities, and arguably the most important one in this area.

To succeed with a climate agenda, collaboration is indeed a number-one leadership skill, both to create internal partnership networks and to forge industry-wide cohesion. The carbon footprint of any CPG company has much to do with downstream partners within the supply chain, so collaboration with those partners is critical. These efforts also require engagement more broadly with outside parties such as politicians, governments, nonprofits and policy decision-makers to help map climate change risks and opportunities and tap into best practice around goal-setting and metric-gathering.

> **"Seventy percent-plus of our carbon footprint is coming from the upstream part of our value chain — the agriculture. We can't do this without the farmers. We are building on numbers of years of collaboration with farmers and with cooperatives either directly with the farmers, the cooperatives or, indirectly, through our suppliers."**

MAGDI BATATO
EXECUTIVE VICE PRESIDENT, GLOBAL HEAD OF OPERATIONS, NESTLÉ



Innovation, after all, does not happen in a bubble; it requires an exchange of ideas and labor, both within the culture of a company and with its entire ecosystem of suppliers and logistics partners. Common language, agreed-upon goals and standardized metrics are essential to making progress on climate change and require one last domain of climate collaboration: among competitors.

As Beam Suntory CEO Albert Baladi expresses: "At the end of the day, we are all in this together. I am proud that we have set ambitious goals, but the truth is that success will require partnerships across the industry — with peer companies, suppliers, customers, communities and governments. We shouldn't be thinking about competition, but rather about what we can be working toward jointly for humanity and for the planet."

Three critical collaborative paths for CPG leaders

To succeed with their climate change goals, CPG leaders have three main areas of collaboration they must focus on and also balance:

1. Creating significant mutually beneficial partnerships with suppliers, distributors and customers
2. Building innovative and distinctive cross-industry partnerships with competitors
3. Leveraging a wide network of relationships among organizations with different goals and concerns to create mutual benefits on this societal challenge

Balancing leadership around climate efforts with good business

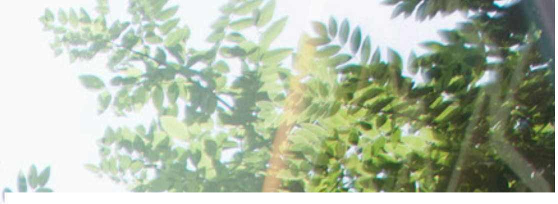
> **The climate agenda is becoming table stakes. No one queries the cost of quality today. It is the cost of business rather than a cost to the business. Sustainability will morph into a similar embedded cost of doing business now and in the future. Investors will increasingly come to see sustainability as simply a cost of doing business in their models."**

MICHAEL PATTEN
CHIEF ESG & CORPORATE AFFAIRS OFFICER, GLANBIA PLC

To paraphrase a common sentiment of the executives we interviewed, achieving environmental responsibility and profitability is not an either/or proposition for leaders. They're expected to simultaneously drive financial performance and progressive improvements in climate change mitigation. For this reason, the net-zero plan must be part of the business strategy, not something you do "on the side" or when "the sun is shining." And at the same time, leaders can't prioritize climate goals over business goals. **They simply have to deliver both.**

In our work with clients over several decades, Spencer Stuart has seen again and again how necessity drives innovation to create a better future, and this issue will be no different. Leaders are the critical link to making a positive environmental impact, and they must find creative ways to make sustainability efforts work and become more ambidextrous than ever before — hitting business targets AND their net-zero targets. Above all, companies must avoid greenwashing at all costs, focusing their creativity instead on innovative and authentic opportunities to make a difference in tackling climate change.

Like many companies, Coca-Cola FEMSA relies heavily on technical skills to make and measure progress, taking actions that are scientifically sound and assessing the actual impact. CEO John Santa Maria is exploring how to better engage partners within the business ecosystem to be more effective at delivering impact — for instance, trying out a more comprehensive decision-making process that weighs environmental impact with the traditional financial results. He's also implementing better management assessment and recognition processes that balance the immediate economic result of the individual and teams with the long-term impact on the environment and communities. This is just one example of a leadership approach that balances near-term business performance and sustainability efforts.



Engaging the board on climate change

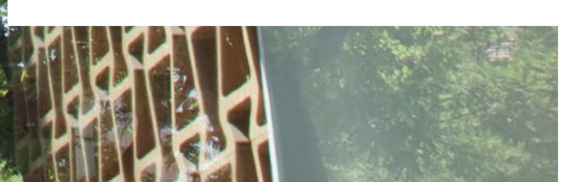
With stakeholder pressure mounting, we expect boards to be central in overseeing ESG risks and opportunities, including those related to climate change. In a recent Spencer Stuart study in partnership with Diligent Institute, nearly half of 590 corporate directors surveyed said that primary ESG oversight now lies at full board level, and 71 percent said they're incorporating ESG goals and metrics into overall company strategy. Roughly two out of five boards are engaged in upskilling and educating directors to increase fluency and competency in the ESG arena.

In our interviews, we asked how individual boards of CPG companies are educating themselves specifically on climate issues — in some cases, with the help of leadership — and how boards and leadership teams align on climate priorities. Conversations revealed that boards are generally aggressive, enthusiastic and increasingly more educated about climate strategy.

When Unilever took the decisive action of putting its climate transition action plan before shareholders in 2021, it was the first time a global company of this size had done so. The company sought a board-level vote on proposed emission reduction targets and the plan to set a net-zero mandate across the value chain by 2039, ahead of the Paris Agreement. Hanneke Faber, president nutrition, Unilever, says, "We were delighted that it got overwhelming backing from shareholders — over 99 percent of shareholders voting in favor."

> **"We need to accept that we lead in a context of heightened uncertainty and volatility. But I am convinced that the direction is right and only a sustainable business will be a successful business."**
>
> **CARSTEN KNOBEL**
> CEO, HENKEL

When Reckitt Benckiser first launched climate initiatives, leaders discussed them in detail with the board in advance to get buy-in. CEO Laxman Narasimhan says, "They were truly supportive, recognizing that all our ambitions are about building resilience and opportunity for Reckitt and creating impact to tackle some of the world's biggest challenges." Now, the leadership team shares progress with the board through a dedicated subcommittee that looks at sustainability issues every quarter. They also host a series



of board-level listening sessions covering key topics in the ESG agenda and bring external experts into the discussion to learn more about leading practice, how policies are forming and expectations coming down the pipeline.

And at Oatly, the board intentionally includes people with what CEO Toni Petersson calls "world-class know-how around sustainability" who can ask questions in detail and ultimately drive thought leadership in the climate arena. Petersson boldly affirms, "Those people were picked deliberately, and that's the way it has to be." But not every company has the luxury of handpicking board members already skilled in and focused on climate efforts. In fact, board members have as many competing priorities as company leaders do — if not more — so it's simply not realistic to expect that most CPG companies are cherry picking board members with environmental chops.

> **Our board appreciated and valued that our farmer-owned cranberry cooperative was uniquely positioned as the only fruit on a global basis certified as sustainably grown. Where our board has grown further is in the shaping of our overall ESG agenda. It is a continuous effort — one that positively impacts our bottom line, is good for the environment and for people and, most importantly, is the right thing to do."**
>
> **TOM HAYES**
> PRESIDENT AND CEO, OCEAN SPRAY

A priority focus on climate change is a relatively new mandate for most CPG companies, and for this reason, traditional boards can be caught in the headlights with the velocity of change required and the responsibilities it entails. There must be an intentional approach on the part of both board members and leaders to get up to speed on the language and issues of environmental decision-making.

In recent years, there have also been shifts in the way ESG decision-making is structured within the board. At Nestlé, for instance, a board subcommittee on sustainability used to be grouped with the nomination committee, but in recent years has been split into its own independent committee. Now, governance of climate and other sustainability initiatives happens at the board-of-director level, a trend which we expect to see elsewhere.

Climate change lessons for leaders

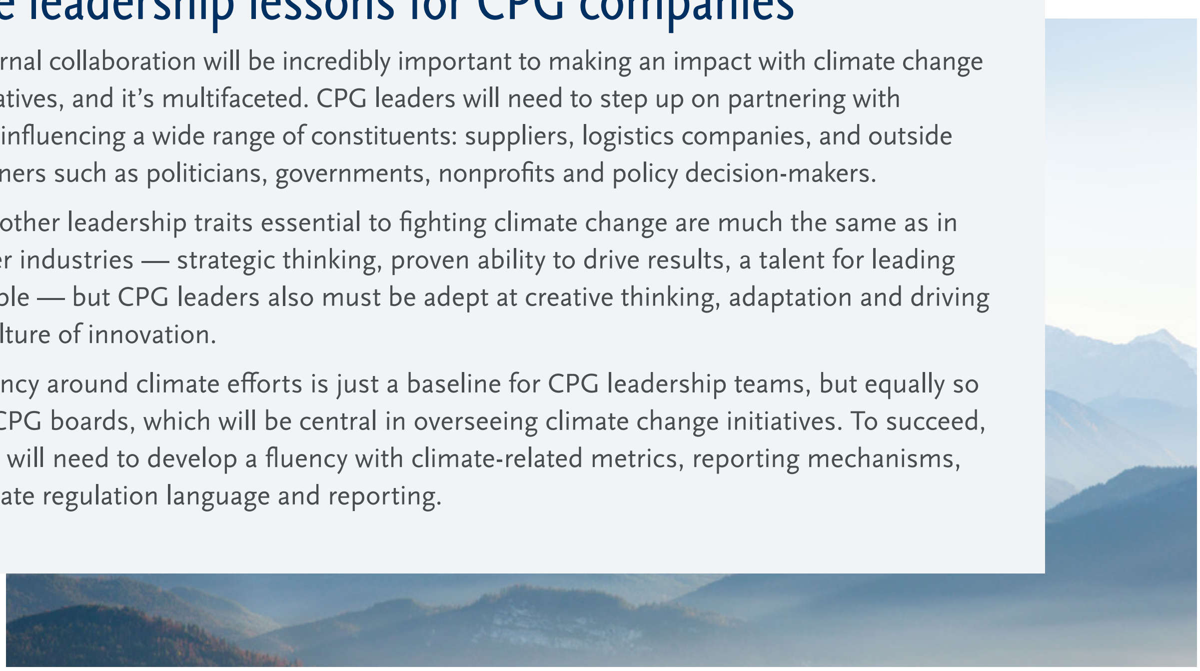
> **“It has to be real. And it all comes down to actions and impact. That should be a top priority for all companies, and a top item for all executives, boards and investors — for all companies out there. We are leaving predatory capitalism behind.”**

TONI PETERSSON
CEO, OATLY

Climate change may prove to be the ultimate test of cooperation. We are truly all in this together, attempting to conquer a global challenge that can’t be fixed by one organization, or even a few, but requires the participation and, frankly, the brain trust of multiple stakeholders across various areas of responsibility and focus. Leaders are the link between an organization’s sustainability vision and the actual success of its efforts via an operating blueprint. Leaders make the distinction between lip service paid to climate efforts and real, lasting, authentic transformation. We’ll leave you with the three leadership lessons for CPG companies striving to make an impact on, literally, the whole planet.

Three leadership lessons for CPG companies

1. External collaboration will be incredibly important to making an impact with climate change initiatives, and it’s multifaceted. CPG leaders will need to step up on partnering with and influencing a wide range of constituents: suppliers, logistics companies, and outside partners such as politicians, governments, nonprofits and policy decision-makers.
2. The other leadership traits essential to fighting climate change are much the same as in other industries — strategic thinking, proven ability to drive results, a talent for leading people — but CPG leaders also must be adept at creative thinking, adaptation and driving a culture of innovation.
3. Fluency around climate efforts is just a baseline for CPG leadership teams, but equally so for CPG boards, which will be central in overseeing climate change initiatives. To succeed, they will need to develop a fluency with climate-related metrics, reporting mechanisms, climate regulation language and reporting.



How do you change the future? By discovering and developing authentic leaders who will drive an effective sustainability agenda. To read more about Spencer Stuart's approach to ESG leadership, visit our Sustainability page.

Interview participants

- Albert Baladi, President and CEO, Beam Suntory
- Magdi Batato, EVP, Operations, Nestlé
- Sean Connolly, President and CEO, Conagra
- Stefan Descheemaeker, CEO, Nomad Foods
- Hanneke Faber, President, Nutrition, Unilever
- Beth Ford, President and CEO, Land 'O Lakes
- Tom Hayes, President and CEO, Ocean Spray
- Yoshinori Isozaki, CEO, Kirin Holdings
- Carsten Knobel, CEO, Henkel
- Roberto Marques, Executive Chairman of the Board of Directors, and Group CEO, Natura
- Ivan Menezes, CEO, Diageo
- Laxman Narasimhan, CEO, Reckitt Benckiser
- Miguel Patricio, CEO, Kraft Heinz
- Michael Patten, Chief ESG & Corporate Affairs Officer, Glanbia
- Pablo Perversi, Chief Innovation, Sustainability & Quality Officer and Global Head of Gourmet, Barry-Callebaut
- Toni Petersson, CEO, Oatly
- John Santa Maria, CEO, Coca-Cola FEMSA

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Privately held since 1956, we focus on delivering knowledge, insight and results through the collaborative efforts of a team of experts — now spanning more than 70 offices, over 30 countries and more than 50 practice specialties. Boards and leaders consistently turn to Spencer Stuart to help address their evolving leadership needs in areas such as senior-level executive search, board recruitment, board effectiveness, succession planning, in-depth senior management assessment, employee engagement and many other facets of culture and organizational effectiveness, particularly in the context of the changing stakeholder expectations of business today. For more information on Spencer Stuart, please visit **www.spencerstuart.com**.

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