

**GUINNESS ANCHOR BERHAD  
BREWING SUSTAINABILITY BEYOND COMPLIANCE**

**Stock Exchange: Malaysia**  
**Market Capitalization: US\$1.583Billion**  
**Institutional Ownership: 185.7m shares / 61.5%**  
**Institutional Ownership as % of free float: 21.4%**  
**Sector: Beverage**  
**Fiscal Year End: June**

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## 1.0 INTRODUCTION

### 1.1 Company Description

**Guinness Anchor Berhad (GAB)** is a major **producer of beer and stout in Malaysia**, and engages directly in the production, packaging, marketing, and distribution of its products. It has been listed on the Main Board of Bursa Malaysia since 1965. Among the brands they produce and market are Tiger Beer, Guinness, Heineken, Anchor Smooth, Anchor Strong, Kilkenny, Anglia Shandy, Malta, Paulaner, Strongbow, and Sol. To put its scale of operation into context, GAB is approximately four times the size of New Belgium Brewing Co. in terms of revenue, and has a workforce of 560 employees in a highly automated manufacturing setting. GAB is majority owned by **Diageo** (25.5%) and **Heineken NV** (25.5%). Its lineage to multi-national corporations has enabled GAB to share good practices and framework for improvement. (GAB 2011a, p. 12)

Malaysia is a Muslim country where drinking is officially haraam, meaning forbidden. The Malaysian government only issued two beer licenses in Malaysia and GAB shares a virtual duopoly market with Carlsberg. For this reason, even though Malaysia's excise tax on beer is 2<sup>nd</sup> highest in the world after Norway, against one of the lowest per capital income, it is still a very profitable business for GAB. As a matter of fact, GAB has delivered 11 consecutive years of growth since 2001. GAB operates its brewery facility in Selangor, near the Sungai Way River.

Sustainability is to undertake “development that meets the needs of the present without compromising the ability of future generations to meet their own needs.” (Blackburn, W, 2007a, p. 22) The purpose of this paper is to examine GAB's existing sustainability footprint, and explore how the company can improve its sustainability stewardship, by benchmarking against the strategies of multinational corporations and incorporating international frameworks, and thoroughly imbed sustainability into its business strategy and management system.

### 1.2 Business Case

Corporate Responsibility (CR) stewardship can be the lifeline to GAB's survivability as paying high tax may not be sufficient to offset a 'sin' industry's sustainability footprint down the path, as stakeholders' level of sophistication and awareness of sustainability issues continue to rise in a world of globalization. The failure to give back to, and enhance the survivability of the community through its operation, can raise significant risk to the company's own survivability. (Blackburn, W. 2007b, p. 28) It is therefore paramount for GAB to demonstrate good citizenship to bolster its corporate image, in order to preserve its **'license to operate'**, what is also referred to as “bank account of goodwill”. (Googins 2004a, p. 233)

Being a good corporate citizen also brings material benefits to GAB. William Blackburn of The Sustainability Handbook (2007) provided a **practical** justification to sustainability through his Show-Me-the-Money Model, and substantiated step-by-step how a proactive approach to various sustainability topics can strengthen a business. (Blackburn, W. 2007c p. 36). He presented seven key factors that drive profits and dividends and discussed how a strong sustainability program can have significant impacts on the profitability of a company through:

1. Stronger Reputation: *critical for GAB to keep 'license to operate'*
2. More competitive products: *easier to get regulatory approval for new products*
3. Improved Productivity: *sustainability practices enhance efficiency and reduce cost*
4. Reduced operational burden and interference: *reduced risk of distrust and unnecessary or excessive scrutiny*
5. Reduced supply chain costs: *reduced risk of supply disruption and better cost control*
6. Reduced cost of capital (improved lender and investor appeal): *Reduced risk premium on share valuation*
7. Reduced legal liability: *reduced potential legal liabilities*

(Blackburn, W. 2007d, p. 38)

According to its 2011 CR Report, for the 3 years between 2008 and 2011, GAB has delivered tangible savings from reduction of environmental impact: 1) Less electricity consumption (-8.4%), 2) Less waste (-14.2%), and 3) Less water usage (-8.4%).

In addition, **socially responsible investing** (SRI) has climbed to US\$2trn in the US, comprising one in every ten dollars of managed portfolio investments, and this practice is taking hold in Malaysia as well. (Blackburn, W.R., 2007e p. 616) GAB 2011 CR Report also mentioned ESG index is in the pipeline for Malaysia, and aims to enter the index. (GAB 2011b, p.21) Eligibility for ESG index will strengthen GAB brand reputation and also bring fresh investments to its listed counter. Higher share valuation provides a number of economic benefits including lower financing cost and lowering cost of the company in the event of share related transactions.

### 1.3 Positive View

In GAB's 2011 CR Report, the title page reads "**Together, We Brew Sustainability**", this comes across as an extremely positive statement conveying how the company approaches its sustainability efforts moving forward, that sustainability is synonymous to its core business.

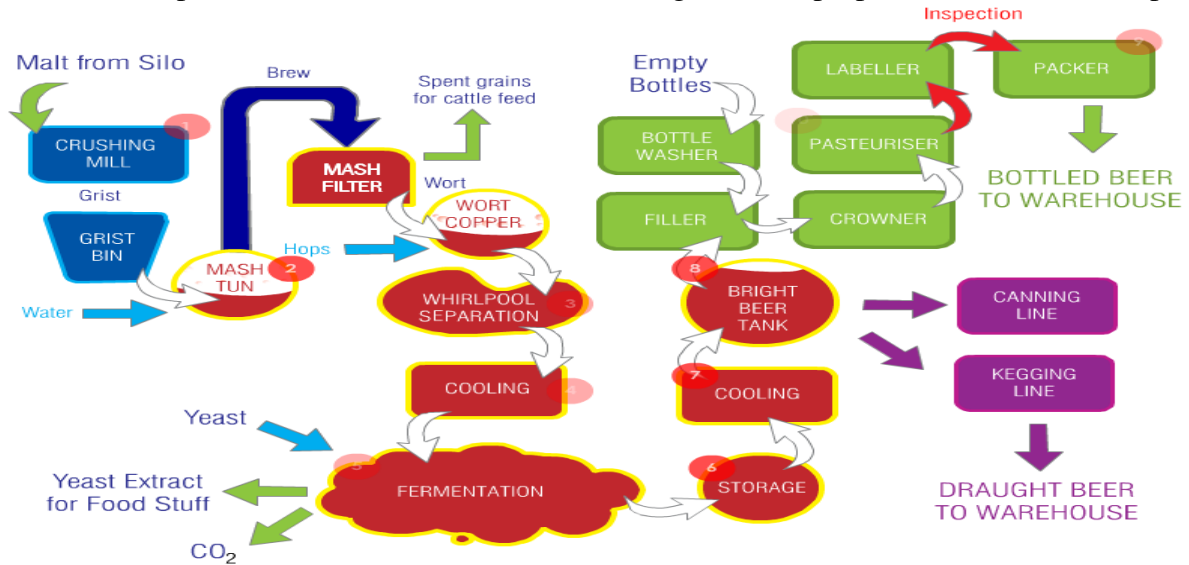
In GAB's Message from the Managing Director, Charles Ireland made a celebratory comment with regards to both its 10 consecutive years of profit and market share growth, as well as its "equally impressive achievements in our corporate responsibility performance" in the first paragraph. (GAB 2011c p. 2) Ireland went on and commented that reduction in energy use, water and waste minimize environmental impact *and* provides efficiencies and cost savings for the company, labeling this as a "**win-win for all**" (GAB 2011d p. 2). Here, reference to improvement in sustainability was made hand-in-hand with the company's strong profit growth, implying that the two will move forward together in future, with same level of relevance.

GAB's positive view of a sustainable future is driven by four CR core values that correspond to Malaysia Stock Exchange's CSR framework. (GAB 2011e, p.11). They are 1) Enriching communities, 2) Good environmental performance, 3) Leading workplace practices and 4) Responsible marketplace practices. GAB believes excellence across all four CR pillars hold the key to mitigating risk and leverage opportunities for the company. (GAB 2011f, p. 14)

## 2.0 Background

### 2.1 Sustainability Footprint

To identify the sustainability footprint of GAB, a cradle-to-grave **life cycle analysis** is used to define the boundary of its direct activities, as shown in the diagram here. (OSK, 2012) The blue arrows are the input, the boxes are the activities, and green and purple arrows are the output.



Below is an **inventory of the activities, products and services** that GAB controls or influences, together with their respective impacts on the society and environment.

Value Chain of GAB (GAB, 2011g, p. 12)

ASPECT	IMPACT	
	Environmental	Society
<b>Inventory Component</b>		
Raw Ingredients Agricultural products	<ul style="list-style-type: none"> <li>-Energy Consumption/fossil fuel depletion</li> <li>-Water usage / Water Depletion</li> <li>-Water Release / Contamination</li> <li>-Irrigation - Water leakage or evaporation</li> <li>-Depletion of arable farmland</li> <li>-Degradation of soil quality</li> </ul>	+ Provide employment Labor practice
Raw Material Extraction	<ul style="list-style-type: none"> <li>-Carbon emission</li> <li>-Deforestation</li> </ul>	
Manufacturing/ Brewing Process	<ul style="list-style-type: none"> <li>-Thermal energy (91.87MJ/hl)</li> <li>-Electricity Consumption (11.24kWh/hl)</li> <li>-Water -- Overuse(4.6hl/hl) &amp;Evaporation -- release (COD 100ppm)</li> <li>-GHG emission from Boiling processes</li> <li>-Carbon emission from cooling process</li> <li>-Industrial Waste generation (17.18kg/hl)</li> </ul>	+ Provide employment

	-Air Pollution/ Ozone depletion	
Transportation & Refrigeration	-Carbon Emission	+ Provide employment
Consumption / Product responsibility	+ Recycle of bottle/can - Cradle-to-Grave/ Landfill	- Alcohol abuse - Obesity
Philanthropic activities	+ River rehabilitation + Education Fund	+ Better education + Better water quality
Employee training, Workplace safety	+Training hours increased 5% in 2011 HACCP Hazard Analysis & Critical Control Point	+ Employee wellbeing + Lower accidents (<1.8LTA)

## 2.2 Corporate Governance

Corporate governance is the system by which companies are directed and controlled. Investors are prepared to pay a premium for companies exhibiting high governance standards and this helps to keep cost of capital low. (Blackburn, W. 2007f p.97) GAB's **Principles of Corporate Governance** is stipulated in accordance with the Malaysian Code on Corporate Governance. The Board of Directors is the highest governing body supported by the Management Team, and the Chairman is separate from the CEO. CR strategy is set by the Management Team and reported to the Board. Remuneration of the Management Team is linked to compliance with the Company's triple bottom line policies and strategies. Its corporate governance structure is supported by a Risk Management and Compliance Program – internally known as **CARM** (Control Assurance & Risk Management). CARM is part of Diageo's compliance with the requirements of the **US Sarbanes-Oxley Act** and provides a level of assurance to GAB corporate governance system. (GAB 2011ga, p. 10)

GAB addresses its 3 responsibilities through the GRI reporting framework, ISO 9001 standard and the Heineken Utilities Benchmark Model for energy and water usage optimization. GAB Foundation and HACCP addresses social responsibilities. GAB also has a Code of Marketing Practice that adheres to the Malaysian Code on Corporate Governance. The GRI Reporting Framework defines the principles and indicators that organizations can use to measure and communicate their performances, and is a widely used framework for sustainability reporting.

To create an integrated governance system, GAB can benchmark against Diageo's framework and set up an Executive-level steering committee and a tier of multi-functional committees to support and oversee citizenship in the company's lines of business. This includes setting targets, establishing KPI, and monitoring performance through balanced scorecards. (Googins, 2007b, p.86) GAB needs to engage stakeholders, and listen and learn from them for areas of improvement, and appoint a governance-rating firm to help maintain its level of good corporate governance. GAB may be able to leverage on Diageo's corporate citizenship team of internal

consultants before setting up its own. Corporate mission, vision statement and core value should be modified to include specific charge towards the three responsibilities, as a constant reminder to internal and external stakeholders.

## 2.3 Stakeholder Engagement

Stakeholder Engagement (SE) is one of the most important elements of business sustainability. Businesses must give something to its stakeholders in order to receive from them what it needs to be successful over the long run. (Blackburn, W. 2007g) SE includes meaningful discussions, entering in to problem-solving analysis, and undertaking planning processes together. (Farver, S. 2012a) “Our license to operate is achieved through strong and constructive relationship with all our stakeholders.” (GAB, 2011h, p. 15) GAB’s SE was designed in accordance with the **CSR Asian’s SE framework**, that combines the principles of ISO26000 and AA1000 SE standard. (GAB 2011i, p. 16-17) Below is a table that describes GAB’s current stakeholder engagement.

Stakeholder Group	Engagement		Engagement Model	Priority Stakeholder (based on SRA)	GAB Presence?	Report Available?
	Yes	Not Yet				
Senior Management	X		One-on-One Interview	X	Yes	No
Employee - brewery	X		Focus Group & survey	X	No	Yes
Suppliers	X		Focus Group & survey	X	No	Yes
Government Agency	X		One-on-One Interview	X	Yes	No
Steering Committee Water Projects	X		Focus Group		No	Yes
Child Development Expert	X		One-on-One Interview		No	Yes
Parent Representative	X		One-on-One Interview		No	Yes
Investors/Analysts	X		One-on-One Interview	X	No	Yes
Distributors	X		Q&A with MD	X	Yes	No
Consumers*		X	Survey/media briefing/website		N/A	N/A
NGOs*		X	Consultation Event		N/A	N/A
Media*		X	Survey & panel discussion?		N/A	N/A
Competitors*		X	Dialogue & Group		N/A	N/A
Trade Assoc.*/Labor Union*		X	Trade engagement event/ focus group		N/A	N/A

Heineken’s 2011 Sustainability report reads like a stakeholders’ report. If this relationship is synonymous to a long term marriage, GAB’s stakeholder engagement would be closer to what Blackburn describes as ‘sporadic blind dates’. (Blackburn, W. 2008h p. 381)

CSR Asia is a leading provider of CSR advisory services and the Project Director was involved in the development of the AA1000 Stakeholder Engagement standard. However, compares with a ‘typical arrangement of stakeholders according to priority’ with primary and secondary stakeholders, GAB seems to have cherry picked certain groups for stakeholder engagement.

(SRA 2005, p. 12) It was in fact footnoted that CSR's involvement in GAB report does not constitute formal assurance. (GAB 2011j, p. 17) GAB has omitted *all* of the 'typical' key secondary stakeholders (asterisked in the table), and replaced them with stakeholders that have smaller voice, e.g. Child development expert.

A SE plan should be implemented systematically throughout its value chain as part of risk identification and management, and should be used 1) as a source of innovation, and 2) to drive strategic direction as well as 3) to ensure operational excellence. (AA1000, 2011a) One of the 3 key **AccountAbility** principles in SE is Inclusivity, where stakeholder at all levels should be included. **Consumers** should be included in order for GAB to listen to 'their voice' for obvious reasons. The **Baldrige Criteria** is an excellent performance framework with a section on Customer Focus that emphasizes the importance of customer engagement as an important outcome of an overall learning and performance excellence strategy. (Baldrige, 2011a)

There are now 18 **NGOs** in Malaysia, 6 of which are preoccupied with consumer issues and their influences are rising rapidly in recent years. (Blackburn, W. 2007i, p. 399) It is also important to engage **Competitors** to leverage on each other in common issues, and also to actively engage **Trade Unions**, even it is to listen to 'brutal facts', as leaving them unchecked can result in reputational damage, product delays, boycotts, and other problems. (Blackburn, W. 2007j p. 373) To improve its SE process, GAB should conduct a **Materiality** exercise, where significance of impacts and stakeholder's interests are measured to help prioritize issues and target entities.

GAB does *not* engage directly with 2/3 of its existing engagement groups, it claims that it is CSR Asia's advises to 'step back' from the engagement process to ensure 'stakeholders feel at liberty to express their opinions'. (GAB 2011k p. 16) This practice however, was not advocated in AccountAbility or ISO26000, two acclaimed stakeholder engagement references, which encourages deep engagement to build a trust based relation. GAB's absence can actually lead GAB to forego valuable opportunity to engage with its stakeholders, particularly on contentious topics, and miss the chance to detect early warning signals. (Blackburn, 2007k p.373) GAB should take a pro-active approach to SE and embrace AA1000's three-step process, 1) Commitment & Integration, 2) define Purpose, Scope and Stakeholder, and 3) SE plan-do-check-act, so as to receive a full and formal assurance from CSR Asia. (AA1000, 2011b)

### 3.0 Discussion

#### 3.1 Environmental Responsibility

Fossil fuel depletion, climate change, deforestation, freshwater depletion, and ozone depletion are all threats to a sustainable environment facing us today. (Blackburn, W. 2007l p. 572-596) Every corporation has the responsibility to protect and renew the 'Natural Capital' of the world, to ensure our future generations can also meet their needs. (Farver, S., 2012b p. 3)

GAB environmental responsibility is addressed by one of its four CR pillars, 'Good Environmental Performance'. This section accounted for eight of its 64 page CR report, including four pages on the River Rehabilitation Project, which should technically fall into the 'Enriching Community' pillar, as it is governed under the GAB Foundation as a community project. The remaining four picture-filled pages focused on GAB's direct impact.



GAB environmental management is ‘supported’ by Heineken’s team of environmental and utility specialists. It did not specify the depth or extent of Heineken’s support, although GAB ‘follows’ the **Heineken Utilities Benchmark Model**, which is used to identify the optimal level of energy and water usage for breweries. (GAB 2011l, p. 34) GAB also mentioned that it is “guided by the precautionary principle and attempt to apply” the zero-loss mindset of Diageo’s **Total Production Management (TPM) system**, which is a closed loop approach to constantly improve the effectiveness of manufacturing equipment. (TPM, 2012) GAB presented some data on water consumption and reported that its wastewater contamination level, COD, of 100ppm is well below the 400ppm prescribed by the Department of Environment. The company provided some data on Recycling Waste and reported 100% recycling rate for industrial waste. Finally, under the section of ‘Addressing Climate Change’, GAB addressed the use of thermal energy as it is regarded as ‘its greatest direct impact’. GAB also mentioned the use of lighting timer controls in its facilities giving a sense of green building agenda. (GAB 2011m, p. 41)

The opening remark in the environmental section reads, “Over the past year, we have engaged each operational team to find solution to meet our targets and develop more efficient production methods.” (GAB, 2011n, p. 34) GAB also mentioned that it has ‘deliberately excluded outsourced operations’, including transportation and logistics, from the scope of its sustainability report, without further elaboration. (GAB, 2011o, p. 50)

GAB’s environmental management strategy is multi-faceted, and each ‘operational team’ works in separate SILO, trying to reach annual targets set perhaps by the Heineken environmental and utility specialists, who are helping to ‘support’ GAB environmental management. (GAB 2011p, p.34) Equally important is, most of the environmental footprint of a brewer (some put the figure at 95%) is outside of its oversight, it is therefore necessary for GAB to **go beyond the measurement of direct emissions**, and conduct a process mapping of the entire life cycle of its product, and divide the total process into subsystems, and measure the GHG emissions of its suppliers and customers, before devising an environmental reduction plan. (Svoboda, S. 1995)

GAB needs to take the entire value chain into its realm of environmental responsibility and set up its own Policy or Code to cohesively target measurable environmental footprint. The United Nations Global Compacts (UNGC) provides one of the most notable guiding principles as it reads like an instruction manual with a ‘getting started’ section, 10 guiding principles, and step-by-step guidance on how to work with the entire supply chain sustainability. For additional reference, SIGMA also provides useful guidelines to help a company develop its own goals for environmental stewardship. Benchmarking Coca-cola’s effort, GAB can join the CERES coalition and leverage on Ceres-led stakeholder dialogues to better understand their environmental and social impacts, and effectively identify emerging risks and seize opportunities

that meaningfully improve their sustainability performance and disclosure. (Coca-cola, 2011) GAB should continue to track against GRI reporting, as a reminder of “what gets measured gets managed.” One of Diageo’s breweries, St. James’s Gate Brewery, is ISO14001, ISO22000, EN16001 and OHSAS 18001 certified, and GAB can study its exemplary environmental report for reference. The Brewery conducts self monitored monthly emission data and provides a detailed environmental and energy management program. (Diageo, 2012a)

### 3.2 Social Responsibility

A business's contribution towards the wellbeing of a society can help to create a "license to operate" through the community consent and support of the operations of the organization. (Farver, S. 2012c p. 111) It also helps safeguard the Human and Social Capital of the Company. Overseen by a dedicated CR Taskforce comprising senior managers from every department, GAB addresses its social responsibility through three of its 'four pillars of CR strategy', 1) Leading Workplace Practices, 2) Enriching Communities, and 3) Responsible marketplace Practices, which in turn, addresses the aspects of 1) Labor & Human Rights, 2) Society wellbeing, and 3) Product Responsibility, respectively. (GAB 2011q, p. 60-63)

1) Leading Workplace Practices – GAB dedicated 8 of its 64 page Sustainability Report to this topic and delve into workplace practice by addressing its 7 HR pillars. GAB observed SIGMA guidelines on Human Capital by providing what is needed for people to be productive and to earn enough to achieve a better quality of life. However, it has not engaged with its workforce to drive sustainability. (SIGMA, 2003a) New Belgium Brewing Company (NBBC) has pushed beyond the boundary with its "high involvement, ownership culture" to move towards an employee-owned company through employee stock ownership program (ESOP). (NBBC, 2012a) Involving employees at all levels of the company is crucial and an accountability mechanism will help to ensure employees do their part to improve sustainability footprint. When a significant portion of bonuses or other rewards are attached to performance against specific goals, a powerful accountability mechanism is created, tugging at both the hearts and the minds of affected employees and instilling the focus and motivation essential for moving the firm towards its goal. (Blackburn, 2007m, p.225)

2) Enriching Community – 8 pages + 4 pages on River project. All of SIGMA core principles emphasize shared value, two principles, Human Rights and Environmental, are also aligned with **philanthropy projects** for bettering the community (SIGMA, 2003b)

- Sungei Way River Rehabilitation Program - Water often has a place in 'strategic philanthropic' projects for brewers, and it is no exception for GAB. This can go a long way to justify the company's use of fresh water, as seen in New Belgium Brewing Company's extreme case of using underground reserve water after river pollution. (Paddling Life, 2012)
- Scholarships & English programs for children - Education is also a mainstream philanthropy project adopted for improving literacy and longer term affluence of the community. GAB aligns this effort with ISO 26000 6.8.9.2 by "avoiding actions that perpetuate a community's

dependence on the organization's philanthropic activities, on-going presence or support" through facilitating intellectual development of members of the community. (ISO, 2010a)

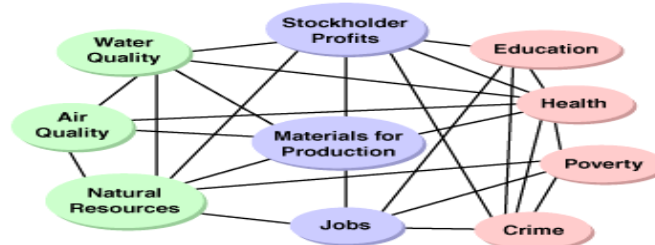
3) Responsible Marketplace Practice – GAB has a Code of Marketing Practice that adheres to the legal requirements set by the Malaysian Advertising Standards Authority, and runs a 'Drink Sensibly' website and advocates Responsible Drinking. ISO 26000, 6.7.1.2 talked about "Consumer issues regarding social responsibility are related to, among other matters, fair marketing practices, protection of health and safety". (ISO, 2010b) Benchmarking ABInBev, GAB can do more **to help avoid problems of obesity and alcohol abuse**, for instance, through

Designated Driver advocacy, providing ID-checking materials to sales people and training on responsible alcohol sales or even supporting venues that stop serving consumers who seem to have gone over the limit. (ABInBev 2011a) Molson Coors also has a training program to reduce underage drinking. (Molson Coors, 2011a)

**SIGMA** provides an important framework for GAB to consider here. It named three elements of **Accountability: Transparency, Responsiveness** and Compliance. Accountability also supports improvement in overall performance of the organisation, enhance financial performance and long term value of the organization to shareholders. SIGMA also discusses the need to **respect social capital** and safeguard its financial capital. (SIGMA, 2003c) GAB can be risking its financial capital; the intangible value such as brand and reputation if it merely puts forth some ‘responsible remarks’ while many alcoholic beverage manufacturers are moving to a more responsible role of taking charge to warn consumers of the possible *negative consequences* of alcohol abuse. GAB must focus on preserving the long term capital value of the company and **operate ethically and responsibly** in carrying out its social responsibility in the marketplace.

### 3.3 Economic Responsibility

Economic responsibility is not only about changes in the financial health of the organization itself. (BSR/GRI 2005) The 2002 GRI Guidelines stipulates that “economic impacts in the context of sustainability reporting focus more on the manner in which an organization affects the stakeholders with whom it has direct and indirect economic interactions.” As Maureen Hart’s sustainability indicators show in her ‘community web’, all three elements, the environment, economy and society are very tightly interconnected. (Sustainable Measures 1998)



Economic activities of GAB can create direct and indirect impact on the economy, the society, and the environment around them, and this is quantifiable by appropriate tools. GAB applied the

Keynesian Multiplier Model, and arrived at a Malt Liquor Industry Multiplier of 1.73. (GAB 2010a, p. 10) Using this Multiplier, GAB was able to quantify the positive impact it has made to Malaysia’s employment (30,000 indirect jobs), tax revenue (RM830m) and the economy (RM3.2bn) and participate in GRI quantitative and qualitative environmental indicators under the Environment category. (GAB 2011r, p. 57-59)

It is a fundamental pre-requisite for a company to fulfill its economic responsibility of generating good profit for the company through prudent capital risk management measures to safeguard the Financial Capital of the firm. (Found, 2006) GAB corporate governance structure is supported by a Risk Management and Compliance Program – internally known as CARM (Control

Assurance & Risk Management), which is adopted by benchmarking Diageo's program. It is a web-based self assessment program which requires each business function to evaluate and ensure it has appropriate control in place to manage a board range of risks arising from day-to-day business activities. CARM is part of Diageo's compliance with the requirements of the **US Sarbanes-Oxley Act**. (GAB 2011s, p. 10) The nature of a self-assessment rather than a dedicated compliance team to execute the risk management framework seems inadequate in view of continual tightening of requirements for risk reporting around the world. GAB can appoint a dedicated Risk Management team to engage in Enterprise Risk Management (ERM). ERM is increasingly recognized as one of the most effective means of managing compliance and avoiding the risk of non-compliance and is also an effective and proactive approach to increasing shareholder value. (Roberts, 2005) Developing a governance system and internal control mechanisms, with tools such as ERM, are an important part of economic responsibility.

### 3.4 Corporate Sustainability Strategy

Planning is the first and most important step for a business, so much so that, 'failure to plan is planning to fail' (Blackburn, W. 2007n, p. 189)

**Structure & Framework** - GAB corporate sustainability strategy is formulated around the four pillars, Marketplace, Workplace, Environment and Community, that corresponds to Malaysia Stock Exchange's CSR framework. (GAB, 2010a. p.4) GAB has established a CR Taskforce comprising of 10 members: the Managing Director, a Director from Corporate Relations and Legal Department as the Head of CR Taskforce, a Finance Controller, and a Manager-level member from the remaining departments. A Brewing Technical Support Manager representing the Supply Chain Department suggests significant underrepresentation in terms of seniority and the number of members within the taskforce. This may further undermine environmental stewardship of GAB as the team 'operationalizes' sustainability in the company.

GAB can benchmark against Diageo's strategy framework, where its Corporate Citizen Committee is supported by 2 executive working groups, corresponding to '**Deployment Teams**' according to Blackburn's strategy model, one on Alcohol in Society, chaired by Director of Corporate Relations, and one on Environmental Performance, chair by the President of global Supply. (Blackburn, 2007o, p.194) GAB can strengthen its Supply Chain Division representation by re-appointing or adding a Director from that department to its Taskforce. GAB can set up 2-3

deployment teams, reporting directly to the MD, and ensure all key Social, Economic and Environmental impacts are tabled for prioritizing and improvement in an equitable manner.

**Setting Objective** – GAB has made effort to set measurable targets in 2011. However, all target dates were set for the end of the financial year, June 2012 without any long term objectives. (GAB, 2011s, p. 6) The 11 prioritized issues for 2011 include some measurable goals in each of the four pillars, but it is unclear how the company decided upon those issues for prioritization. The initiatives based in silo without alignment or strategic purposes may not only confuse employees and dampen drive to sustainability but in worst case, sow the seeds of new developmental crisis. (Googins, 2007c, p. 84) Strategy should be coordinated, concentrated and focused. (Googins, 2007d, p. 85)

Looking at its part-owner, Diageo's sustainability strategy covers 5 key social and environmental impacts across all channels in its value chain. Diageo identifies its objectives by conducting analysis of what it believes to be material by incorporating its own analysis of the major impacts as well as stakeholder's needs, and then these issues are prioritized against a set of weighted indicators representing the risk and opportunity for the company. (Diageo, 2011b) GAB should use materiality to prioritize its environmental or social issues for improvement. This should help reduce the chance of environmental issues being downplayed due to its 4-pillar CR strategy.

The success of incorporating sustainability into its strategic planning relies on its ability to create **'shared value'**, bringing benefits both to the stakeholders and to the company. When implementing the programs, the company should consider the extent to which it can create this double-sided return. GAB needs to **engage its stakeholders** and conduct a materiality exercise to determine what issues need to be addressed first, and take into consideration the risks and opportunities for the company, by performing a **SWOT analysis**, before deciding what long term objectives should be targeted. The **Baldrige Criteria framework** can be a helpful tool in guiding the company through the process as it emphasizes the importance of strategy planning and help the company to develop a plan to deliver customer value and achieve organizational success and sustainability. (Baldrige, 2011b)

Without taking into account the entire value chain, is the company missing any of the key elements in formulating its sustainability strategy? For instance, crop cultivation or watershed, these elements lie well beyond its four pillars but are critical to the sustainability of the business. Are all the risk, strength, opportunities and weakness exposed and considered by its current strategy? Is aligning its corporate sustainability strategy to the four pillars that corresponds to the Malaysian stock exchange's core value an appropriate strategy to achieve triple bottom line and preserve the 'license to operate' for the long term, when there are so many other stakeholders' interests and critical areas outside of those four pillars, that may also hold the key to GAB's business sustainability? If GAB is to weave sustainability into the corporate fabric, how should the company realign its strategy to incorporate sustainability and what kind of management system should be adopted to address the sustainability footprint impacts across its value chain?

### 3.5 Sustainability Management System

In his book, *The Sustainability Handbook*, Blackburn drew parallels between a machine that processes input to produce output, to a Management System which processes People and Information to generate Risk Management, Compliance and Productivity. (Blackburn, 2007p, p.180) Every business needs an effective and consistent system to produce high quality results, and companies need to integrate its sustainability system into its existing operating system. GAB has not presented a structured sustainability system although it has set some annual sustainability targets and adopted certain tools to help meet the target. The launch of different programs in separate silos was referred by Googins, in his book, *Beyond Good Company*, as "a thousand flowers bloom", and can sow the seeds of a developmental crisis, as employees become confused and distressed with knee-deep initiatives, reports and programs and wondering what's going on and whether or not their citizenship initiatives make sense. (Googins, 2010e, p. 84)

Most SMS programs are based upon the **Plan-Do-Check-Act (PDCA) framework** presented in the international standard, **ISO 14001** (environmental standard). (Farver, 2012d p.142) The framework helps to make environmental and social impacts part of every decision that is made and not be sidelines to separate ‘initiatives’. ISO 14001 can be combined with other guidelines and standards to create a comprehensive system through which to process all the inputs, and be integrated into existing management system of the company. GAB can also benchmark against one of Diageo’s breweries, the St. James’s Gate Brewery in Ireland, which is ISO14001 and OHSAS18001 certified. The brewery produced a 77-page 2011 Environmental Report that makes GAB’s 4-page environmental section look amateurish. (Diageoc, 2012)

By adopting and presenting **ISO14001** as the Sustainable Management System, which provides the option to combine with some of the tools discussed earlier, including UNGC ten principles is good place to start, the Baldrige Criteria can help provide guidance on the planning and implementation of the strategy, and ISO 50001 which provides extra tips on energy management, ISO 31000 on risk management, and OHSAS 18001 on operational health and safety issues, the outcome would be **transparency and accountability** throughout the corporation. Part-owners, Diageo and Heineken provide valuable benchmarking opportunities, for instance, Heineken’s **supplier code** and **carbon credit 360 system**, and **Diageo’s TPM and CARM**, are directly applicable to GAB brewing business and can be integrated into ISO14001. Walmart Supplier Sustainability Assessment Questionnaire may well become a ‘supplier’s bible’ for all vendors of products that go on the shelves; its continual modification makes it an indispensable tool for any product manufacturers who aim to develop a roadmap towards zero emissions.

Plan-Do-Check-Act – Strategy planning and planning for the SMS can be done together, to establish the scope and priorities of the plan, followed by implementation and recording with the rest of the framework. (Farver, 2012e p. 143). Checking includes monitoring and measure the progress, evaluation of compliance with legal requirement as well as policy goals, and plans for how to deal with non-conforming results. The last stage of PDCA is reviewed by top management of the entire process to evaluate meet/miss, and making plans for future improvements. Commitment and adequate resource allocation are pre-requisites for PDCA.

Accountability helps ensure sustainability improvement initiatives are to be carried out as part of every employee’s job description. Sustainability criteria can be built into senior manager’s performance assessment, and targets can be included in bonus related performance objectives. With sustainability ingrained into the mission and goal for the company, interest aligned at individual level, and well defined strategy and management system in place to carry out sustainability stewardship, GAB should be able to achieve an equitable triple bottom line and safeguard its license to operate for many years to come.

### 3.6 Supply Chain Management

Supply chain sustainability is the management of environmental, social and economic impacts, and the encouragement of good governance practices throughout the life cycles of goods and services. (UNBC & BSR, 2010a, p. 9) There is also a compelling business case for supply chain sustainability, for the purpose of 1) managing business risk, 2) Realizing efficiencies, 3) creating

sustainable products, 4) new revenue opportunities, and 5) better brand positioning. (UNGC & BSR, 2010b, p. 15-16) The life cycle analysis presented by GAB looks like this:

Raw Material → Production → Outbound Logistics → Distributors → Marketing → Service

GAB's supply chain also displays the value chain concept developed by Michael Porter, a continuum where there is opportunity to add value each step along the way to make it a profitable company. (Porter & Miller, 1985) GAB highlighted a number of CR aspects with reference to each segment of the value chain; including water & energy usage for Raw Material, waste and water for Production, carbon emissions for Logistics. The company however, *does not* derive its sustainability strategy from its supply chain, instead, formulates its strategy around the four pillars, 1) enriching communities, 2) good environmental performance, 3) leading workplace practices, and 4) responsible marketplace practices. (GAB, 2011t, p. 12) and only focus on the environmental footprint within its own four walls.

Supply Chain emission is part of corporate emissions. (Gardner, M., 2012a) Nevertheless, GAB only addressed sustainability concerns in 'Production' segment of its supply chain. GAB has 770 suppliers, and employs a policy based Code of Conduct for its suppliers and addressed some ESG issues, by outlining 1) Labour Standard and Practices, 2) Environmental Policy, 3) Health and Safety, and 4) Competition Law. Raw Material is a critical part of value chain, and so is delivery and distribution, and end of life reclaiming, reuse and recycling. Sustainability thinking should be integrated into upstream *as well as* downstream of GAB, so that by linking up the entire process, the cradle-to-grave life cycle has a chance to become a cradle-to-cradle life cycle.

Walmart's Supplier Sustainability Assessment suggested that vendors should first ensure a life cycle analysis is conducted of its respective suppliers to understand their environmental impacts before constructing purchasing guidelines. (Walmart, 2011a) A CDP (Carbon Disclosure Project) report from its vendors will also help GAB understand the carbon emissions of its supply chain framework. (Gardner, M. 2012b, p. 12) United Nations Global Compact (UNGC) commends the use of Code of Conduct (CoC), and GAB should continue to build supply chain sustainability

into its CoC. It is a critical tool for establishing and managing expectations for both customers and suppliers and creates a shared foundation for sustainability and make informed decisions. (UNGC & BSR, 2010c, p. 23) Legal requirements should be met, while the document can also include the sustainability vision and goals for environmental and social concerns.

To improve the standard of its CoC, GAB can adopt The Ten Principles of the UNGC which includes principles supporting human rights, labor, the environment, and anti-corruption. ISO 26000 (social guidance), ISO 14001 (environmental standard), OHSAS 18001 (occupational health and safety), and AS 8000 (good governance principles) can all be helpful in drafting the code of conduct. (Farver, S., 2012e) UNGC advocates benchmarking against peer for opportunity to improve and to manage risk. (UNGC & BSR, 2010d, p. 18) GAB should benchmark against its part-owner, Heineken's new 2011 Supplier Code, an exemplary document of how a brewer can influence its suppliers. (Heineken, 2011a) After establishing a comprehensive CoC, GAB should step back and decide on 'how far to push this supply chain management' at the initial stage, given the multi-tiered supply chain of a company. (Farver., S, 2012f, p. 6) There may also be hotspots for improvements, or those suppliers that GAB sees as

critical to its survival and company should work with them first. Supply chain sustainability will allow GAB the opportunity to progress to the level of 'shared value', where expansion of wealth is created by connecting business success and social progress.

1) Raw Material Acquisition - Crop cultivation contributes a significant part of environmental footprint. Walmart's Supplier Sustainability Assessment Questionnaire asks its vendors to ensure a life cycle analysis be conducted of their respective suppliers before constructing the purchasing guidelines for them. (Walmart, 2011b) Heineken issued a new 2011 Supplier Code, and it can be cross referenced with Pepsico's Sustainable Agriculture Policy and Guiding Principles to ensure Sustainable Agriculture practiced by its raw material suppliers.

2) Material Manufacture – this section has been addressed in section 3.3 Environmental Responsibility

3) Final Product Assembly – Walmart Supplier Sustainability Assessment Questionnaire (WSSAQ) has a section on Material Efficiency and a packaging scorecard to help suppliers identify packaging reductions. A waste audit can also help identify the type and quantity of waste generated from a business's operations. (Walmart, 2011c, p. 12-15) It also has a Sustainability Index to rate environmental impact of all products where beer, was already included in its phase 1 rollout. By joining The Sustainability Consortium (TSC) GAB can link up with various stakeholders to improve its packaging sustainability footprint.

4) Transportation & Distribution – Benchmarking Heineken's Global Distribution Policy ensures GAB works with clean cargo and green freight groups for its logistics related activities.

5) Consumer Use and Disposal – Waste prevention is the best method to reduce resource use. A Waste Audit, as suggested by Walmart, measures recyclables and EPA, a US environmental

agency, contains detailed standardized instruction for measuring recycling rates. (EPA, 2012) Specific methods should be applied to maximize return of recyclable kegs, cans and glass bottles.

## **4.0 Results**

### **4.1 Sustainability Metrics and Reporting**

Global Report Initiative G3.1 (GRI) is a widely used reporting framework, which encompasses both leading and lagging indicators. It is impressive that GAB has tracked against the GRI G3.1 for two years. The 2011 data has been verified by an independent third party, Rapid Genesis Sdn Bhd. (GAB 2011u, p 51-63) For 2010, GAB employed another consulting firm, OWW, who has taken into account the principles of GRI G3.1, AA1000AS and ISAE3000, to provide a "low level of assurance of the data and text' in the report". (GAB 2010b, p. 80) The Company did not give explanation for the change of consultant but mentioned that "the focus has changed to reporting principles of the GRI rather than the standard disclosures and indicators, believing that this better meets the needs of its stakeholders". Juxtaposing the two GRI documents reveals GAB has actually reduced the scope of its reporting compares to the previous year.



Firstly, 2010 GRI report provided a GRI Index, which is a commendable effort, but this disappeared in 2011 report. Secondly, all entries were addressed in GAB 2010 GRI reporting, and even those without data/text provided reason for omission, but in the 2011 report, 25, or 20% of the 123 entries were totally omitted without explanation. In the environment section for instance, the reason for omission for 6 entries in 2010 was “insufficient material and aim to provide in next report”. Of these 6 entries in the 2011 reporting, three entries, EN1, EN10 and EN30, were totally omitted, EN9 became “not applicable”, and two entries, EN21 and EN22 were followed up and addressed. GAB’s reason for no data for EN29, which pertains to “environmental impact of transporting products”, was that, “this indicator is not considered material to our nature of business.” Looking at Heineken’s GRI report however, it has provided a full disclosure to EN29. In fact, Heineken has provided full disclosure to most of GAB’s omitted entries. (Heineken 2011b, p.1-27) Most of those sections pertain to indirect emissions, and reiterates the need for GAB to look at its entire supply chain in order to be a true sustainability champion. It is no wonder GAB gave a self-declared B as opposed to an A in the previous year’s report as there are still plenty to work on to address all of GRI G.3 indicators. At the micro-level, Key Performance Indicators, (KPI) is a valuable tool to help employees focus on key targets and stakeholders to review actual deliverables. ABInBev uses KPI extensively in each of its impact categories, and the outcome provides high degree of transparency and accountability. (ABInBev,2011b)

In spite of all of the ‘work in progress’, GAB is on the right path to champion sustainability. Both its parent, Heineken and Diageo, have embarked on a sustainability leadership role and GAB can leverage on their experience and capability to develop its own sustainability strategy and system. Sustainability is here to stay and it offers real business value for those pursuing shared value with its stakeholders. Reporting on this in a transparent and connected way to its stakeholders, will also ensure continued success and license to operate. (Farver, 2012f p. 190)

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