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Corporate social responsibility at Kraft Foods Lietuva: to be or not to be responsible?

Case study

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Our growth and long-term strategy have always been based on corporate responsibility - sustainable development, balanced diet, fight against hunger, health and wellbeing, food quality and safety, workplace and culture, adherence to laws, and fairness. Through active engagement in social projects, employee participation in voluntary activities, sincere and open communication with customers, responsible marketing, respect of diversity, human rights and equal opportunities we seek to build trust among our employees, customers, clients and community.

Kraft Foods Lietuva homepage

1. Introduction

Rasa Bagdonienė, Manager of Corporate Affairs, Baltics, Kraft Foods Lietuva (KFL), was driving home from Vilnius, where she attended a business practitioner conference and made a presentation on KFL engagement in CSR activities. As it was a late Friday night and there was hardly any traffic on the highway to Kaunas, she could take her time to reflect on what had happened earlier that day. The conference that she had been looking forward to so much turned out a complete disaster. Acting responsibly in all spheres of business and towards society at large was an issue that nobody had ever doubted at Kraft Foods Inc. So what a shock it was to her when after her presentation on CSR at Kraft Foods General Manager of a large manufacturing company stood up and firmly asserted that CSR was nothing but a well-disguised PR tool used to enhance corporate image in the eyes of the public. To her further surprise and dismay, the audience broke into a loud applause when he added that after all an organization should only be concerned about profit maximisation.

The usual an hour and a half drive home felt like an eternity to Rasa that night, as she could not find a simple answer to the questions on her mind. Was that man right? And did all those people in the audience really support his point of view? If it were true, why was Kraft Foods Inc. investing so heavily in CSR all over the world? Could it be that CSR worked elsewhere, but the idea of it was not applicable in this country? Was it just a specific Lithuanian, a post-Soviet country, phenomenon? If yes, should Kraft Foods Lithuania continue its current CSR strategy and activities, or should they concentrate on profit maximization and invest in business development instead?

2. Company background

Kraft Foods Inc. is a US-based multinational company with approximately \$50 billion in revenue. It is the world's second largest food producer and number one in the North American and global confectionery and biscuit market. Kraft Foods Inc. markets and sells its produce in over 170 countries and runs operations in over 70 countries. Globally, it has about 140,000 staff. It was one of the first MNCs to enter the Baltic region in the nineties after the countries' reestablishment of independence. Kraft Foods Lietuva (KFL) was established in 1993 when Kraft Foods Inc. acquired a majority stake in Kaunas confectionery factory.

Kaunas confectionery factory was established in 1921 and called Tilka after the merger of the Kaganai chocolate factory and Tilmansas bone-milling factory. At the start, it produced chocolate, sweets, bone powder, bone glue, matches and plywood. However, in no time chocolate became its number one product and Tilka became the largest chocolate producer in the country making 20 tons of chocolate and 12 tons of sweets a month. During the pre-WWII period it exported chocolate and sweets to Switzerland, Germany, US, UK, Australia, Canada, Columbia, Argentina, etc. After the Soviet occupation in 1941, Tilka was nationalized and first called May the 1st, then Ramune (a marguerite) and finally Karolis Pozela (in the honour of one of the founders of the Lithuanian Communist party) confectionery factory. In 1993, following the re-establishment of Lithuania's

independence in 1991, the factory was privatized. Part of the factory shares were acquired by its employees, while Kraft Foods Inc. obtained the majority stake.

The KFL headquarters are located in Kaunas, Lithuania's second largest city, where KFL has a production unit too. It also has sales and marketing units in Latvia and Estonia. Kraft Foods Lietuva employs about 500 people in the three Baltic countries, out of which 365 work in Kaunas. Majority of the company Board members are local people. Kraft Foods Lietuva is a leading coffee and chocolate producer in Lithuania generating over 60 per cent of the total Baltic revenue. Major brands include chocolate tablets *Karūna* and *Karališkas*, snacks *Manija*, coffee *JACOBS*, biscuits *Disco* and *Barni*, breakfast cereal biscuits *Belvita*. In 2009, the company's production volume totalled to 17,761 tons and the turnover reached 410 million Litas¹. About 70 per cent of the factory's produce are sold abroad under foreign brands. Kraft Foods Lietuva has been focused on product quality since its setup. It was the first food company in Lithuania to be certified with ISO 9001 Quality (1997), ISO 22000 Food Safety (2006), ISO 14000 Environment and ISO 18000 Safety (2008).

3. Healthy life-style promotion: genuine concern about consumers or a PR trick?

There are three major imperatives that apply to making food at Kraft Foods Inc. *Food has to be delicious. Food has to be loved by people worldwide. And food has to be wholesome.* All three are taken equally seriously.

In the past few decades people have become more concerned about their health, healthy nutrition, and food safety. This is associated with the growing consumption of genetically modified products, their lasting impact on people's health, and usage of artificial food supplements. Therefore, the company tries to keep the consumer informed about its product composition, i.e. product labels provide information on allergens if there are any possible sources of them in the product and genetically modified (GM) ingredients if any have been used. Besides, GM ingredients, even if tested and found safe, are only used in products made for sale in countries where consumers are not concerned about them.

With the growth of overweight and obese population in the world, the corporation, being a producer of chocolates, snacks, etc., provides nutritional information and daily amounts of nutrients required by an average adult for a healthy diet on its produce labels. Information of the kind is provided on labels even in countries where it is not required by law.

The corporation's concern about consumer health, however, is not limited to the provision of nutritional information. Kraft Foods Inc. is engaged in various *Health and Wellness* initiatives aimed at educating people on healthy nutrition. The initiatives are not limited to its consumers; rather, they are largely aimed at the general public. H4S (Health For Schools), a project aimed at the promotion of a balanced diet and the relevance of physical activity, makes a good example of such initiatives.

Taking into account the above experience of their colleagues, Kraft Foods Lietuva launched such a project at a small number of schools in the town of Panevėžys in 2007. The aim of the project was to develop a culture supporting healthy nutrition and physical activity at schools. The project turned out to be a great success. A number of county schools joined it, where it was supported by both teachers, ambassadors of the idea, and students, who could decide themselves which project activities that ranged from dance breaks to joint lunch to get involved in. In cooperation with the National Nutrition Centre, a survey of student nutrition and physical activity skills was conducted. The survey is planned to be repeated in 2013 to analyse respective changes.

¹ 1 euro equals approx. 3.45 litas

Kraft Foods Lietuva had to decide what to do about the project in the future. Should they continue the project? If yes, should it be carried out at a limited number of schools in a certain county again, or should they launch a national project? The decision was to go national.

As the overall goal of the project was to educate students about healthy nutrition and lifestyle rather than to raise their awareness of Kraft products, Kraft Foods Lietuva started looking for partners to run a joint project at the national level. They addressed a number of organizations including other large food producers, public and non-government organizations, etc. In 2008 the project called Healthiada was continued in Panevėžys county and launched in Vilnius and Kaunas counties. Every following year it covered more and more regions and schools. By 2012 the project aimed to cover the whole of the country. The aim was attained in the academic year 2011-2012 when the project was run in all ten counties in the country.

Today Healthiada is administered by Maisto Bankas, a local NGO, as legally it is not allowed for any other type of organization to receive financial support from legal or physical entities. It has eleven partners, the so-called donors, each of which has a representative serving on the project board. Among the partners there is Ministry of Health, Ministry of Education and Science, Public Health Institute, three multinational and two Lithuanian food producers, a PR agency, and an NGO. Kraft Foods Lietuva is one of them. Interestingly enough, administration, teachers and students of numerous schools involved in the project have no clue that KFL was the project initiator and is one of its sponsors today. As in its other CSR initiatives, the primary purpose of their engagement is a voluntary act of responsibility; corporate brand awareness is not an issue here. In its final stage, the project is to cross the national boarder boundaries and continue the initiative in Latvia and Estonia.

Children are highly sensitive to advertising. It plays a critical role in children's choice of food. Therefore, in 2005 Kraft Foods Inc. announced *Sensible Solution* nutrition criteria and initiated a voluntary self-regulation of children's food advertising. They are the first company in the world to apply nutrition criteria in making advertising solutions for children aged between 6 to 11 years. Self-regulation of children's food advertising is a voluntary commitment to limiting or completely restraining from communication addressed at the children's audience. Other multinational food producers have joined KFL initiative and today the leading food producing companies are committed to limiting advertising directed to children. In the EU, The EU Pledge was launched by leading food and beverage companies. Its underlying principles are as follows: no advertising of food products in media primarily directed to children under 6 and limited advertising to children aged 6-12 based on certain nutrition criteria. In cooperation with advertising companies, some additional activities are carried out too such as for instance raising marketing communication awareness by means of education and interactive programs.

Voluntary limitation of marketing communication means more than restrain from showing promotional video clips during TV programs for children. It also refers to restrain from participation in projects where children unattended by adults may be affected by marketing communication. For instance, KFL does not take part in *Dainų dainelė*, a popular TV song contest for children, for it would be dishonest to award children with bags of sweets or seek marketing benefits from participation in a popular children program. KFL products are given to children only in the presence of adults who can explain or decide if a child can eat the products.

KFL has not estimated losses incurred due to responsible marketing. What is important is the fact that this public concern was supported by the entire food industry. Kraft Foods tries to approach its marketing communication in a creative manner and find other possibilities to promote its products.

4. Employees - a resource or a stakeholder?

Corporate philosophy and politics in respect to employees is provided in its Corporate Responsibility Guidelines (Exhibit 2). There are multiple references to employees - current and

potential - in the document: forced and child labour, diversity and inclusion, safety and health, harassment and abuse, third party representation, compensation and development, etc. Of course, many of these have been introduced following national and international legal requirements. Kraft Foods Inc. markets its products in about 170 countries. However, Kraft Foods Inc. seems to be doing more than it is required by law. Had it not, would it have been recognized as one of the “Working Mother’s Best”, “Top employer for Latinas”, etc.?

How does its voluntary responsibility towards employees translate into everyday corporate life? Employees here are paid a salary that is one of the highest in the market and rewarded for individual contributions and excellent business results. On top of that, Kraft Foods Lietuva offers generous financial support to its employees in case of illness, birth of a child, loss of a close family member, etc. (Exhibit 3). This is done in addition to the payments that employees would normally receive from *Sodra*, the State Social Insurance Fund. The latter, however, are of considerably lower monetary value. Besides, Kraft Foods Lietuva offers its employees substantially subsidized catering services at an on-site canteen, free coffee and tea, has its own medical station, sponsors various socializing activities, etc.

During the late-2000’s recession, Kraft Foods Lietuva did not make redundant a single employee. Nor did it turn to compensation reduction measures, which were wide-spread business practices in the country and worldwide. On the contrary, it even managed to raise the pay level for some of its employees. Nearly 70 per cent of the company’s produce is made for export; therefore, the shrinkage of the local market did not have a significant effect on the scope of production. Besides Management Appraisal Performance (MAP) system, under which a pay raise is associated with the attainment of personal objectives, assisted in neutralising consequences of the recession. An annual re-determination of the pay is one of the elements of the employee motivation system. At the start of a year employees discuss and approve their personal objectives with their manager, then review the objectives after half a year and finally at the end of the year have their performance and conditions that have led to it appraised.

Following the public promotion of a healthy life-style under various *Health and Wellness* initiatives, in 2008 Kraft Foods Lietuva extended it to its employees. The company approached the issue in a rather creative way. Instead of offering its employees free or subsidized sport club membership, as is one of the most popular business practices in the country, which unfortunately is not necessarily highly appreciated by employees, Kraft Foods Lithuania sought for other ways to engage employees into physical activity and inform about healthy nutrition. That year KFL organized a number of events and lectures. For instance, during the “Apple day” employees were offered free apples to remind them of the essential role of fruit in daily nutrition. Similarly, on the “Water day” employees were offered free bottled water and engaged in a water-related quiz. Other events included “Get moving day”, “Vegetable day”, “Kraft products in your diet day”, “Ergonomics day”, “Vitamin day”, etc. The “Health and Wellness Program” is not directly associated with the business activities of Kraft Foods Lietuva. It is first and foremost aimed at promoting a healthy life-style among the employees. However, it also contributes to the development of the organizational climate, employee motivation and well-being.

The *Health and Wellness Program* is run by an informal team of Kraft employees. To share resources, the program is run in collaboration of all Kraft Foods subsidiaries in Central Europe who take on different responsibilities in developing and executing the program. At the outset, conducted in the Baltics, the Czech Republic, Slovakia and Hungary, the program is now also run in Bulgaria and Romania. In the past four years the “CE Health and Wellness Program” included over a dozen of various health-related activities at each of the subsidiaries (Exhibit 4). The program is well supported by employees and will continue in the future.

5. To throw away or help people in need?

Kraft Foods Lietuva has a long history of active participation in various CSR initiatives in support of local communities. However, arguably the most significant contribution has been the launch and on-going support to Maisto bankas (a food bank).

The very idea of the food bank originated in the late 1960s in the US, when John van Hengel, a volunteer at St. Vincent de Paul, Arizona, found out that grocery stores were disposing of food that either had damaged packaging, or was close to the expiration date. Aware of the food shortage among some people in the community, he saw a golden opportunity to help them. John started collecting food for the community dining room. Soon, however, his food supplies exceeded the needs of his community. It was then that he came up with the idea of collecting food from groceries to some central location from which other agencies could receive donations and distribute them among those in need. This was the start of the first food bank. In its first year, the bank collected and distributed more than 250,000 pounds of food to 36 local agencies.

In 1983 John was approached with a request to assist with food bank development in Canada and Europe. In 1984 a food bank was established in France. In 2005 John started working on food bank establishment in Central and South America and Africa. The founder of the food bank maintained that there would always be poor people, but they did not have to be hungry.

In Lithuania, the idea of the food bank was unheard of till the late nineties. As Rasa Bagdonienė recalls it,

It was the year 1996, or 1997. I remember getting a postcard from Kraft Foods UK with a food bank logo and an inscription saying that by buying this postcard you were supporting a food bank. I got carried away with this idea and we started searching for opportunities to launch such an initiative in Lithuania. Originally our idea was to help people in the community during the cold winter season. At the time heating bills were extremely high and for many people the amount equalled to their monthly family income² or a larger part of it. If offered some free everyday food products, families could save up money to pay their heating bills.

At the start we targeted multi-children families³. We were all like a family at Kraft Foods Lietuva. Naturally we wanted to support multi-children families as the foundation of our society⁴. We could not start with a food bank at the time, as the underlying principle of a food bank charter is fight against food surplus. It does not allow donating money to buy food products. Back in the nineties there was no food surplus in the country; it was rather an opposite case.

Another issue we had to solve was finding an organisation which would execute the idea of food purchasing and distribution. As a business entity we could only donate money to an NGO. Thus we started working together with the charity and support foundation Lietuvos ir JAV iniciatyvos (Lithuanian and US Initiatives). For a couple of years we were giving them the funds and they were buying long-lasting food products at a good price (retail chains supported the idea by offering discounts) and delivering them to families on a regular basis.

The food bank, first as a programme and later on as an organisation, started its activities in Lithuania in August 2001. The foundation then was reorganised in accordance to its two major

² In 2000 the average pay in the country was approx. 1000 litas, or 250 USD (gross)

³ A family with three or more children

⁴ Birth rate decline constitutes a serious problem in Lithuania. For instance, from 1.97 in 1991 it dropped to 1.24 in 2002.

fields of activity – charity and community development. Eventually Lietuvos ir JAV iniciatyvos became Maisto bankas (Food bank). Today food supplies are allocated to people in 38 cities and regional centres within the country. In 2010 Maisto bankas distributed 2529 tons of food at the value of 10.1 mln. litas which in terms of beneficiaries meant monthly food supplies to over 35 thousand people. Maisto bankas is supported by business and other organisations, as well as ordinary community members who donate food products to those in need, mainly at Christmas and Easter. Today, a decade later, Kraft Foods Lietuva continues donating its production as well as offering indirect financial support (for instance purchase of a vehicle) to Maisto bankas, which amounts to approximately 100 thousand litas a year. The corporate brand of Kraft Foods Lietuva has never been directly associated with Maisto bankas. Officially the company is just one of the corporate partners.

When asked to explain the reasons behind such a decision, Rasa Bagdonienė says,

Had we associated KFL name with the foundation and called it, for instance, *Kraft Foods Maisto bankas*, it would have discouraged other companies from partnering with Maisto bankas, which would also have affected the scope of the initiative and the numbers of its beneficiaries. We have been nurturing Maisto bankas so that one day it would become a strong, well-functioning and reputable non-governmental organisation operating on a national scale. Of course, we wanted to help as many communities as possible.

We had our own business reasons for that too. Such an organisation could take over from us the distribution of our products that were close to the expiration date. There are so many issues to be taken care of in the distribution of such food products – logistics, health and safety requirements, etc. Speed of distribution is also a big issue.

Another option would have been establishing our own food bank and investing heavily into it (warehousing facilities, refrigerators, transportation, etc.). However, we could hardly have been able to reach communities all over the country. On the other hand, we did not even consider such a large scale investment. Thus we chose the first option.

A few years ago we sponsored the placement of posters at bus stops which depicted people throwing away food and had slogans on them saying, “Why throw away if thousands are destitute?” By doing that, we wanted to raise public awareness of the issue. We also wanted them to push other organisations to get involved into activities of Maisto bankas. The foundation could never survive on people’s donations. It needs a larger scale support, which can only come from the business world.

The support of Kraft Foods Lietuva to Maisto bankas is not limited to the donations in the form of food products and indirect funds. Support is offered through employee volunteering activities too. For instance, a few autumns in a row KFL invited its employees together with their families to spend a Saturday picking apples in the countryside. The apples were then donated to Maisto bankas and were distributed to families in need. What about KFL people? They had a great time spending a day in the open air together with their families and colleagues. “Other companies pay thousands of litas to consultancies for teambuilding and training,” says Rasa Bagdonienė. “We’ve chosen a different approach. And not only does it help us with teambuilding. It also makes everyone feel good, as it is all done for a noble cause.”

6. To be or continued, redesigned or abandoned?

Back in her office the following Monday morning Rasa was looking through the files on CSR initiatives at Kraft Foods Lietuva. The smiles on people's faces in the photos from numerous events brought her fond memories and made her feel proud of what KFL had done. Rasa firmly believed in the idea of CSR. However, the words of that director at the conference last week were still ringing in her head - "PR trick" ... "profit maximization"... What did CSR mean in fact? In her opinion, the business acted responsibly only to an extent to which the public and its groups exerted pressure on them. How much pressure could, for instance, a retired person exert on business in this country? Could he or she really afford not shopping in a retail chain that was notorious for its social irresponsibly but was offering lower prices than the rest? And was it only the issue of affordability or perceived relevance of CSR as well?

Searching through her files Rasa came across an article of the 2010 awards of socially responsible business⁵. She studied the list of the awardees (Exhibit 5) and their selection criteria. KFL was an awardee only once, back in 2007.

Rasa started wondering about the meaning of CSR. She also started thinking of CSR activities at KFL. Should the company continue its current CSR strategy? Or did they need a new one? If yes, what were the activities in which they should engage in the future?

Exhibit 1. Kraft Foods Inc. Code of Conduct.

Exhibit 2. Kraft Foods Inc. Corporate Responsibility Guidelines.

Exhibit 3. Social guarantees offered to KFL employees.

Exhibit 4. Kraft Foods CE Health and Wellness Program 2009-2011.

Exhibit 5. Responsible business awardees 2007-2010.

⁵ Since 2008 the Ministry of Social Security and Labour along with the United Nations development program in Lithuania has been awarding businesses for their involvement in various CSR activities. The ceremony is aimed at promoting CSR benefits to the business, state and individual and encouraging other businesses to base their activities on CSR principles.