

HEINEKEN values the consistent and comparable reporting offered by the Forum's metrics



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Introduction

HEINEKEN is an international brewer and marketer of more than 250 premium beers and ciders. The company employs 81,000 people and operates more than 180 breweries in 70 countries. As one of the first companies to adopt the Forum's SCMs, HEINEKEN reported against all the core metrics in its 2021 integrated annual report.

HEINEKEN updated its matrix of material issues in 2020, based on three criteria:

- Does the issue have a significant current or potential impact on our business or vice versa?
- Is the issue of significant interest to our stakeholders?
- Is it an issue over which we have a reasonable degree of control when it comes to our impacts?

The outcome of this process revealed that the company's priority environmental concerns, in terms of stakeholder interest and business impact, are water security, carbon emissions, and resources and circularity, while the top social concerns are responsible drinking, sustainable and responsible sourcing, diversity and inclusion, and a fair wage.

When HEINEKEN did a gap analysis comparing its position to the core SCMs, almost 80% of the Forum's metrics were covered in the company's top materiality list. "We already had a strategy, action plans, targets and reporting process aligned to this list," says Olga Smirnova, Manager of Sustainability Reporting for HEINEKEN, whom we interviewed for this case study. "It was good to know that the issues we had selected were in line with what the world is looking at," she adds. That said, the company continues to push its reporting boundaries by exploring what the Forum's expanded metrics have to offer; for example, in terms of evaluating the environmental and social impacts of value chain partners.

“ We really welcome the Stakeholder Capitalism Metrics – they are the first real prototype of an internationally recognized framework that will drive more consistent and comparable reporting.

Olga Smirnova, Manager, Sustainability Reporting, HEINEKEN

Key takeaways

- Water security is a top concern for HEINEKEN – as with carbon emissions, around 90% of the company's water consumption is in its value chain, but measuring this is proving complicated.
- Another challenge the company is facing is how to measure the impact on biodiversity of its use of agricultural raw materials – there are currently very few agreed reference points.

- HEINEKEN welcomes the commercial angle that the Forum’s Prosperity pillar adds to the mainstream ESG reporting process – but measuring the societal impact of, for example, corporate tax contributions remains a work in progress.
- Initiatives such as the Forum’s metrics and the IFRS Foundation’s work are increasing demand for data on issues such as Scope 3 emissions – this in turn will trigger badly needed market-based IT data solutions.
- Since 2016, HEINEKEN has produced an integrated report that captures both financial and non-financial information – this process of integration has improved the rigour, timeliness and actionability of the company’s sustainability data.
- When it comes to reporting against the Forum’s metrics, HEINEKEN’s advice to its peers is simple: the sooner you start reporting the better. And the more you engage with and encourage your colleagues to contribute (especially in finance functions) the higher the quality of the disclosures.
- HEINEKEN would like to see its peer organizations reporting against the same set of metrics, to build up a set of comparative data so that companies can learn from each other.
- The advantage of adopting the Forum’s metrics, in HEINEKEN’s view, is that they are both simple but comprehensive, cover all the core topics, are industry-agnostic, and fall in line with existing corporate strategy and reporting. By combining ESG and Prosperity metrics, the process delivers a unique snapshot of corporate health.

Rationale for reporting: frame a consistent picture of performance while pushing into new areas of impact

The principal advantage of the SCMs for HEINEKEN is that they help the company to report its progress on sustainability in a way that is consistent and comparative in relation to its peers.

Investors have shown a particular interest in climate reporting, ramping up the pressure on HEINEKEN to report in line with the framework of TCFD. Meanwhile, the company’s non-governmental organization (NGO) and community investors are more interested in social metrics, such as employees’ terms and conditions.

“ Investors expressed interest in HEINEKEN reporting against TCFD, which we adopted in our 2021 reporting.

Olga Smirnova

Naturally for a drinks company, water security is a critical issue. Most of HEINEKEN’s water consumption comes from its value chain. As with many companies, it is very challenging to obtain consistent third-party information, especially from smaller suppliers that often lack developed reporting processes. For water, this is even more complex than for carbon, because the technologies and methodologies for measuring water are not yet as mature as they are for carbon. “It’s a very complicated problem,” says Smirnova, “we’re doing pilots with them and we’re going into our direct suppliers’ data – it’s a work in progress.”

“ Information about water consumption in the value chain is even less readily available than data on carbon.

Olga Smirnova

New challenges that are emerging include the impact on biodiversity from using agricultural raw materials. “There are still very few established reference points, but the topic is evolving very fast,” says Smirnova. Although the Taskforce on Nature-related Financial Disclosures (TNFD) is making progress, there is no consensus yet on definitions or methodologies. Smirnova predicts that the Forum’s core metric on land use and ecological sensitivity – which measures land owned, leased or managed in or adjacent to key biodiversity areas – will evolve.

The metrics in the SCM’s Prosperity pillar – such as rate of employment, economic contribution, capital investment, R&D expenses and total tax paid – also present a new challenge for HEINEKEN to report against. “To produce the numbers is only the first step,” says Smirnova, “we still need to learn how to interpret the data.” For example,

the Forum's metric on total tax paid (adapted from an existing GRI metric) is framed as a corporate contribution to "community and social vitality", which would suggest that the more tax paid, the better. "But we need to better understand the actual impact of those taxes," says Smirnova.

Solutions: greater reporting will trigger new market-based data technologies

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Olga Smirnova

In terms of process, rather than have the sustainability department hunting down data, HEINEKEN has allocated reporting responsibilities to individual corporate functions, such as HR, production and so on. This has proved popular. "They are experts in the area and have all the content," says Smirnova, "and the process is much more efficient and effective when sustainability priorities are a part of regular functional activities. And of course, they're happy to share what they are proud of." Strong support from senior leadership has helped, as this ensures that corporate functions prioritize the reporting of sustainability data.

Measuring Scope 3 emissions is another challenging area. "We have specific teams working with our suppliers on this and we source data from them directly, so we only have to use assumptions and extrapolations in limited cases," says Smirnova. The technologies and methodologies for gathering and entering data on Scope 3 are still lacking. But, according to Smirnova, "Developments like the Forum's Stakeholder Capitalism Metrics and the IFRS Foundation's work are creating a big demand for this kind of data, and this will trigger new market-based IT solutions."

HEINEKEN began integrating its financial and non-financial information into a single report in 2016. Since then, the company has honed its sustainability disclosures from 180 indicators down to the 30 most material ones, to add more quality and depth in areas such as impact. Smirnova sees this as a very positive evolution because it shows how sustainability is connected to the company's wider management and financial performance. "The Stakeholder Capitalism Metrics fell very naturally into this flow," she says. And while there are different levels of assurance for financial data ("reasonable assurance") and non-financial data ("limited assurance"), this is viewed as a minor issue by stakeholders, who strongly support the integrated reporting process.

Impact, learning and advice

A key question is the extent to which the SCMs will help companies prepare for meeting the new regulatory requirements. "There is no direct one-to-one connection," says Smirnova, "but in some cases the Forum's metrics will overlap; for example, when they refer to accepted reference points such as the Greenhouse Gas Protocol."

HEINEKEN is closely observing the development of the new European Sustainability Reporting Standards (ESRS) currently being drafted by the European Financial Reporting Advisory Group (EFRAG). "We will have to report under this new EU legislation and it's quite prescriptive in terms of reference points and methodologies," says Smirnova. By contrast, the process being led by the IFRS Foundation is more principles-based: "They give more room for using different reference points, making it easier for companies outside the EU to find alignment," she says.

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Olga Smirnova

In terms of advice to peers, Smirnova recommends that companies invest in educating and encouraging their workforce, to build greater consistency, rigour, quality and timeliness in sustainability reporting. This is important to ensure the information is actionable, says Smirnova, "because if the information is late or it's not

good enough, management cannot take the right decisions when they make their investment allocations for the coming years.” Equally, colleagues may have considerable untapped knowledge and expertise to offer. “We found a lot of existing processes that we just hadn’t deployed actively in ESG reporting,” says Smirnova.

“ **The sooner you start reporting the better. Encourage your colleagues to get involved, because collaboration improves the quality of disclosures.**

Olga Smirnova

Engaging early on with the financial function will pay dividends, because they understand the importance of reliable, timely, actionable data delivered with rigour to the “right drumbeat”. And of course, getting the support of the top leadership is vital to inspire the organization and put sustainability at the top of the priority list.

Above all, says Smirnova, “The sooner you start reporting the better. Encourage your colleagues to get involved, because collaboration improves the quality of disclosures and triggers questions such as, ‘Are we doing the right thing, in the right way? Are we ambitious enough? Are we going fast enough?’”

From an industry-wide perspective, HEINEKEN would love to see its peers reporting against the same set of metrics, so that the sector can build up a set of comparative data and companies can learn from each other, through existing forums such as the beverage industry’s environmental roundtable. This in turn requires convergence between standard-setters – starting, for example, with the IFRS Foundation and the Forum merging their metrics into a priority set.

For the standard-setters, HEINEKEN would like to see international sustainability standards that are reasonable in scope and material to both preparers and investors, based as much as possible on existing reference points, with clear definitions and methodologies. “Listen to all the parties and try not to be too academic” is Smirnova’s advice.

Added value of the Forum’s Stakeholder Capitalism Metrics

HEINEKEN takes a highly focused approach to sustainability reporting – especially when it’s a voluntary process. “We are very critical, we don’t just jump onto every reporting framework or benchmark just for the sake of it,” says Smirnova, adding: “With all this alphabet soup of standards, we are very close to reporting fatigue.”

For HEINEKEN, however, the SCMs proved their worth. “The Forum’s metrics were really welcomed both within the firm and by our stakeholders because they are both simple and comprehensive, cover all the core topics, are industry-agnostic and fall very naturally in line with our strategy,” says Smirnova. She adds: “For me, the metrics are the first real prototype of an internationally recognized framework that will drive more consistent and comparable reporting.”

One of the most interesting aspects of the SCMs, in Smirnova’s view, is that they do not simply cover classic sustainability metrics on social and environmental issues; they also add Prosperity metrics that address employment, economic contribution, investment and tax. “This is very interesting for our readers,” says Smirnova, “because it pulls together a lot of information that is normally scattered and presents it like a balance sheet or health check.” As a body of comparable information is built up in the years to come, HEINEKEN will be able to map its progress using this dashboard of concise data to give a snapshot of the health of the company.

“ **The Forum’s metrics deliver an annual dashboard of comparable data on both sustainability and prosperity that will provide us a snapshot of how healthy our company is.**

Olga Smirnova