



---

## CORPORATE GOVERNANCE IN AFRICA CASE STUDY SERIES: NO 5

---

### The Woolworths *Good business journey*

---

*This case was prepared by Justin Smith for the purpose of class discussion. It is not intended to illustrate effective or ineffective behaviour. Disguises may have been used to protect confidentiality in some cases. This case may be reproduced for educational purposes without written permission. All other rights reserved. The Unit for Corporate Governance in Africa would like to be informed when this case is used, and would appreciate any feedback. © 2009 Unit for Corporate Governance in Africa PO Box 610, Bellville, 7535, South Africa.*

*Email: [governance@usb.ac.za](mailto:governance@usb.ac.za)  
[www.governance.usb.ac.za](http://www.governance.usb.ac.za)*

---

*Justin Smith<sup>1</sup>*

#### **Executive Summary**

*'Corporate responsibility' or 'sustainability' is a fundamental part of a company's governance practices. It also is an opportunity to position the company in a positive light to its customers and other stakeholders. An integrated sustainability programme can thus be a way of managing key social, environmental and economic risks as well as of seizing opportunities for new products, services and markets.*

*The Woolworths Good business journey programme was launched in April 2007 as a formalisation of Woolworths' sustainability commitments and in the recognition that sustainable growth can only be achieved through paying greater attention to the world around us. For over 75 years, these issues have been at the heart of Woolworths' values but the launch of the Woolworths Good business journey marked a change in the way we will operate going forward, ensuring that we drive a virtuous circle that will benefit all our stakeholders.*

*The Good business journey is the result of a comprehensive and systematic review of the way Woolworths addresses sustainable growth within the context of South Africa's changing social and environmental needs. It uses the Woolworths Sustainability Index as the strategic framework. This is a company-wide index which is tailored to deal with sustainability issues that affect Woolworths – nearly 200 indicators have challenging 1 to 5 year targets in place. The targets are centred on four key priorities: accelerating transformation, driving social development, enhancing our environmental focus, and addressing climate change.*

*The Good business journey is a business imperative for Woolworths. Many aspects of it are linked together to generate a multiplier effect -- the largest aspect of this multiplier effect can come from broadening Woolworths' work with its customer and supplier bases. Woolworths' existing Supplier Code of Business Principles, against which all suppliers are regularly audited, will be bolstered by the company sharing and encouraging initiatives across the supply chain in critical areas, and encouraging customers to use their purchasing power where it can make a difference to South Africa as a whole.*

---

<sup>1</sup> 082 3717662

The programme has had a number of benefits so far – identifying opportunities for operational efficiencies and saving costs (both for the company and its suppliers, with a long-term expectation of cost-savings for customers too), positioning the company as a responsible corporate citizen to a wide range of stakeholder groups (including employees wanting to work for an ethical organisation) and influencing change in the retail sector and its value chains.

#### **THE WOOLWORTHS GOOD BUSINESS JOURNEY**

‘Corporate responsibility’ or ‘sustainability’ is a fundamental part of a company’s governance practices, but also an opportunity to position the company in a positive light to its customers and other stakeholders. An integrated sustainability programme can thus be a way of managing key social, environmental and economic risks as well as of identifying opportunities for new products, services and markets.

The Woolworths *Good business journey* programme was launched in April 2007 as a formalisation of existing Woolworths sustainability initiatives, partially in response to a number of similar public commitments in the retail sector internationally, including by Marks & Spencer and Walmart.

To quote CEO Simon Susman: ‘It is becoming increasingly obvious that sustainable growth can only be achieved through paying greater attention to the world around us than has been the case in the past. The links between economic growth, transformation, poverty alleviation, the environment and climate change can either form a vicious or a virtuous circle.’

Woolworths’ largely higher-income customer base and its employees expected the company to take a lead on issues such as this. The *Good business journey* is, therefore, the result of a comprehensive and systematic review of the way Woolworths addresses the issue of sustainable growth within the context of the changing social and environmental needs of South Africa. It is a 5-year plan, changing the way we do business, and incorporating a series of challenging targets and commitments, centred on four key priorities: accelerating transformation, driving social development, enhancing our environmental focus, and addressing climate change.

The programme is strongly influenced by the sustainability agenda of the international retailers such as Marks & Spencer and Walmart, as well as by the Global Reporting Initiative (GRI) guidelines, JSE Socially Responsible Investment (SRI) index criteria and other legislative requirements, but places a uniquely South African perspective on these issues via a strong focus on transformation imperatives and social upliftment.

Each business unit has specific targets, and progress is measured twice per year across the 200 indicators. This provides the executives and board with a measure of both annual progress and advancement towards 2012 targets, to the level that a single overall score for the company and each business unit can be provided.

The programme is managed centrally from the corporate governance business unit. However, specific indicators have been included in the overall business strategy and scorecard as well as the in scorecards of each business unit, placing accountability for delivery of particular projects within the business units. Progress is overseen by a Board Sustainability Committee that meets quarterly.

We have used the phrase the *Good business journey* because this truly is a journey and there have proven to be few easy solutions. We are committed to meeting the 5-year targets we have set and to do this, we are exploring new ways of doing things in many areas. Reaching these destinations will require significant behavioural and cultural change. If we can take our customers and suppliers along with us, this journey will have an even more meaningful impact on the wide range of transformational, social and environmental challenges that face South Africa. This is a unique opportunity for any company.

**First priority: Accelerate transformation***South Africa first*

Woolworths' priority is to accelerate transformation, with the focus on enhancing BEE, skills development and equity ownership plans, ensuring a collaborative approach with suppliers, government and franchisees, and driving our policy of 'South Africa first'. Woolworths is a proud South African business with a long tradition of quality and innovation in South Africa. We are committed to buying as much of our product locally as possible – for many reasons, buying from local suppliers suits our business, and enables us to meet our customers' needs. Only where we cannot get the right level of quality, value and technological innovation from our local suppliers, do we look to other countries.

*Employee share ownership scheme*

An extensive BEE employee share ownership scheme was rolled out in mid-2007. Beneficiaries have collectively received millions in dividends since the scheme was launched.

*Supplier programmes*

Woolworths is also uniquely placed to drive enterprise development projects, and we have set up teams devoted to working more closely with emerging suppliers, further driving our commitment to supporting South African businesses first.

*Skills development and training*

Skills development and training will continue to be a focus throughout the business in order to establish a pipeline of talent that can rise to senior levels of the business. To this end, we will establish three new provincial learning centres to provide accredited courses in the core skills required in modern retailing.

*Culture of transformation*

Woolworths is committed to transformation across the business and has already embarked on a company-wide planning and development programme to ensure that transformation becomes an entrenched way of doing business. For Woolworths, this is both holistic in nature – transforming the way we do business across all aspects of the Department of Trade and Industry (DTI) scorecard – and collaborative in approach, working in partnership with our franchise partners, our suppliers, and the public sector, including government.

Woolworths' ultimate goal is to become a level 4 BEE contributor (DTI codes) by 2012. Woolworths improved its status to a level 6 contributor in 2008 (level 7 in 2007), as verified by an independent verification agent.

**Second priority: Drive social development**

Woolworths' second priority is to work harder to drive social development – poverty drives environmental destruction and that in turn creates more poverty. To help alleviate poverty, we need to expand the existing initiatives of the Woolworths Trust and link with the transformational goals to drive enterprise development.

*Increasing contributions*

Increasing our contributions through Woolworths already makes a substantial contribution to the community through the distribution of our surplus food and clothing, and our investment in carefully selected CSI initiatives under the auspices of the Woolworths Trust and our *MySchool* programme. The commitment is to significantly increase this contribution, making an even greater difference to the lives of many South Africans. In particular, we aim to:

- increase Woolworths' social contributions to more than R300m by 2012
- expand the *Eduplant* programme to deepen the support and broaden the reach and impact

- develop a more effective model, preferably through an enterprise development initiative, to distribute our surplus food and clothing, and
- support our employees (which number over 20,000) in their community initiatives by matching corporate funds so that we can increase their contribution to needy causes at a local level.

#### *Our achievements*

Below are our achievements to date:

- Woolworths Trust *EduPlant* is the Trust's flagship project which assists South African schools in developing permaculture food gardens. 2,400 schools have benefited on an annual basis from the Woolworths Trust *EduPlant* programme, co-ordinated by Food and Trees for Africa.
- Woolworths contributes to the improvement of education in South African schools through *MySchool*, including benefiting 1,900 schools through our *Making the Difference through Design* and *Making the Difference through Nutrition* programmes.
- Woolworths contributed more than R72m over 5 years to *MySchool* on behalf of our customers. The contributions have supported more than 10,000 schools, many in impoverished areas.
- The Woolworths Trust is committed to supporting orphaned and vulnerable children in South Africa. Woolworths Trust partners with Heartbeat to promote and enable community care for orphaned and vulnerable children. Some 3,000 orphaned and vulnerable children are able to stay in their own communities as a result of the project.
- Woolworths Trust matches the funds raised by employees. In addition, stores have their own community giving programmes distributing surplus food and clothes to local charities.
- R239m worth of goods was donated by Woolworths to needy charities in 2008 (2007: R183m). These figures represent the cost to company, not the retail price of the items. The food items are surplus that have passed their 'Sell-By' dates but not their 'Best Before' and 'Use By' dates.

#### **Third priority: Impact on environment**

The third priority relates to Woolworths' impact on the environment, in particular the issue of diminishing biodiversity. Organic production, conservation and a new approach to packaging are the key areas of focus.

##### *Organic products*

Woolworths will continue to drive the organic food and clothing offering, aiming to increase organic food sales by a multiple of 5 and to sell more than R1 billion of organic-content clothing by 2012. The resultant reduction in the use of potentially harmful pesticides and chemicals will be of significant benefit to both consumers and to South Africa's water quality.

##### *Health*

Nutrition and healthy living are already a cornerstone of the way Woolworths does business, with the *Good food journey* having made major strides in improving awareness and offering customers the right food for a healthy lifestyle.

##### *Water and natural resources*

Water is one of South Africa's scarcest natural resources and Woolworths is targeting a 30% reduction in water consumption and is developing a programme to encourage our suppliers to do the same. A number of programmes are also being established to encourage and protect South Africa's biodiversity, including crop planning to address the impact of global warming, a strict policy of not selling products which might cause harm to endangered species, and the adoption of more environmentally-sensitive farming practices throughout our supply chain.

As a fast-growing business in the food and clothing sector we have to ensure that we support the protection of these scarce and unique natural resources – be it water conservation, predator-friendly lamb, fynbos-friendly potatoes, or ensuring that key raw materials only come from the most sustainable

sources.

#### *Packaging and recycling*

Packaging has become a major selling tool for retailers, but at significant environmental cost. Woolworths' focus in packaging will be to reduce, recycle, re-use or compost all packaging. This is one of the toughest issues for us to address. Packaging will be reduced to the essential requirements of product protection, promotion and information. The packaging shift will start with reduction where possible, and include a focus on recycling, re-use and the investigation of compostable packaging.

Our targets include a one-third reduction of packaging in clothing and a 20% reduction in food packaging. Customers will continue to be encouraged to use re-usable shopping bags, thereby reducing the number of new shopping bags required, and there will be an increase in the percentage of recycled material in all Woolworths' plastic shopping bags. Woolworths clothing shopping bags will be made from 100% recycled material by 2012.

Woolworths will also work with other corporate and government partners to make the recycling process easier for customers.

#### *Our achievements*

Below are our achievements to date:

- *Organic leadership:* In February 2008 Woolworths launched over 100 new organic grocery lines which cater for both basic grocery needs and the more specialised tastes of the contemporary cook.
- A range of bamboo products, (a natural and sustainable fibre), was introduced in women's outerwear in 2008.
- A fleece jacket made from 100% recycled plastic bottles was launched in 2008.
- 35,2 tons of salt and 79 tons of sugar were removed from recipes.
- Unbleached teabags were introduced, reducing the possibility of harmful chemicals polluting water systems.
- Woolworths is working with conventional farmers to help them incorporate more responsible farming practices. This system uses compost and organic fertilisers while improving the natural fertility of the soil.
- Woolworths' head office has shown a 13% decrease in water usage to 62,238 kilolitres (from a 2007 volume of 71,614 kilolitres). Our benchmark for the reduction in water usage in our stores is 122 kilolitres per metre squared. We achieved just under a 5% reduction in relative usage in stores.
- Woolworths sources fish that is certified by the Marine Stewardship Council (MSC) as coming from sustainable sources.
- Woolworths was the first major retailer to sign with the South African Sustainable Seafood Initiative Retail Charter and use their red/amber/green colour coding system to indicate threatened species.
- Woolworths continues to endorse an NSPCA-approved Animal Welfare Code of Practice.
- Woolworths' entire private label range of toiletries and cosmetics was approved by *Beauty Without Cruelty*, as well as the newly launched earth-friendly range.
- 17% of the product lines in food currently use recycled packaging materials with a target of 25% set for 2012.
- Woolworths continues to seek raw materials that are independently certified as coming from approved sustainable sources, for example, material certified by the Forest Stewardship Council (FSC).
- Our new packaging is based on renewable and sustainable resources. The cardboard is certified as coming from well-managed forests, which means we are supporting responsible forest management. The window on the new sandwich package is made from cornstarch – another renewable resource.
- Almost 70% of Woolworths' food lines have symbols on the plastic packaging to help customers and recyclers easily identify packaging for resorting.

- The entire fleet of trolleys and all in-store shopping baskets will soon be made from recycled material. 68% of this fleet is currently made from recycled material from post-industrial sources.

#### **Fourth priority: Climate change**

##### *Reducing carbon footprints*

The fourth priority addresses climate change directly by focusing on reducing Woolworths' carbon footprint. Woolworths recognises climate change as an issue requiring urgent action if the risk of serious damage to global prosperity and security is to be avoided. Woolworths will reduce its relative carbon footprint by 30% by 2012 – this will be achieved through energy efficiencies (reducing relative electricity usage by 30%) and reducing product miles (reducing relative transport emissions by 20%). This reduction will also lead to significant operational savings which the business will reinvest in exploring additional sustainable business alternatives.

Woolworths will continue to support carbon offsetting, exploring alternative options but with an initial focus on greening to absorb carbon excess – this will be done by planting more trees on our own Midrand campus and at our *MySchool* schools and our *Eduplant* schools.

Woolworths will also work closely with suppliers and customers, mobilising them to understand their own carbon footprints and making it simpler for them to reduce their footprints. We are also one of the first retailers worldwide to only sell energy-saving light bulbs – our customers are no longer be able to buy traditional light bulbs in our stores.

##### *Our achievements*

Woolworths has made significant progress in reducing carbon emissions:

- Woolworths monitors energy usage through on-line metering in over 50 facilities.
- Woolworths has reduced relative energy usage by 10% from its 2004 benchmark.
- Energy-saving light fixtures and electronic ballasts were retrofitted in Western and Eastern Cape stores.
- The recycling of used cooking oil to generate a 5% bio-diesel mix in our Cape and Gauteng fleet resulted in a saving of 1,500 tons of CO<sub>2</sub> per annum.
- A pilot programme utilising a new refrigerant technology in food stores has led to a 35% decrease in electricity usage in these stores. The technology is being rolled out to all new stores.
- The Midrand distribution centre is producing savings of 9,370 kms of delivery-related travel per week, thus reducing Woolworths' carbon emissions.
- Woolworths is reviewing total network efficiency, from the location of suppliers to stores with tactical programmes to reduce transport costs. Initiatives include co-loading for multiple stores in single vehicles and combining food and clothing deliveries in single vehicles.

#### **Results of the *Good business journey* programme**

##### *A strategic programme with broad effects*

The *Good business journey* is a business imperative for Woolworths. Many aspects of it are linked together to generate a multiplier effect: reducing product miles through encouraging more local sourcing will open up opportunities for enterprise development and preferential procurement; reducing packaging will result in energy and paper savings, thereby reducing the Woolworths carbon footprint.

Another already successful example of this effect is seen in the targets for sales of re-usable bags and reducing the use of plastic bags. A reduction in plastic bags not only has environmental benefits, but also saves both Woolworths and its customers' money. At the same time, two enterprise development projects make the re-usable bags that are sold, creating employment for over a 100 previously indigent women.

The largest aspect of this multiplier effect is expected to come from broadening our work with the customer and supplier base. We support the notion that if we are to fundamentally shift behaviour, we need to extend our influence to encourage our suppliers to change the way they do business and make it easier for our customers to adopt more sustainable practices in their daily lives. In this way, we can also directly influence social and environmental issues in the supply chain, setting new standards in ethical trade.

We can have substantial influence as a business with more than 20,000 employees, 300-plus stores, 6 million customers and a network of over 1,000 suppliers. It will involve investment, but we will not pass the cost of this on and we fully expect it to be recovered as we see the results of our actions. These results will open up new opportunities, create new targets and ensure that our journey is a dynamic one which will help address the issues of 21<sup>st</sup> century South Africa.

#### *Cost savings*

The programme has had a number of benefits so far -- especially identifying opportunities for operational efficiencies and saving costs (both for the company and its suppliers, with a longer term expectation of cost-savings for customers too). Savings of close to R10m have been achieved through energy efficiency programmes, packaging reductions, increasing recycled content in products and packaging, and through increased oversight of resource consumption and payments. Even greater savings are expected through new refrigeration technologies, water and energy savings, ongoing packaging reductions, and decreases in the use of plastic bags.

#### *Positive positioning of Woolworths*

Some successes have been noted in positioning the company as a responsible corporate citizen to a wide range of stakeholder groups. Customer tracking shows strong support for the *Good business journey*, while internal surveys show an increase in awareness around sustainability issues amongst employees, and good support for ethical business conduct.

It must be noted that the analyst community in South Africa has shown little interest in the programme to date, and the downturn in economic conditions over the last 6 months has focused the attention of many stakeholders on what they may perceive to be more basic or mainstream survivalist issues. However, we strongly believe that the programme is a long-term differentiator and adds significantly to the value of the Woolworths brand.

#### *Effects on the supplier chain: Making a difference in livestock farming*

Many suppliers have been very supportive in investigating and implementing new practices. One example of the influence that Woolworths can have is in preventing conflict between predators and livestock farmers.

Woolworths has been working with suppliers and environmental and conservation groups to find a lasting solution to the use of gin traps and other inhumane methods of managing predators. In September 2008, Woolworths released a comprehensive set of guidelines called 'Predators on Livestock Farms: A Practical Manual for Non-Lethal, Holistic, Ecologically Acceptable and Ethical Management'. Woolworths also funded the placement of 10 Anatolian Shepherd guard dogs for sheep farmers around the country. The trial is conducted in association with *DeWildt Cheetah & Wildlife Trust* and *Cheetah Outreach*. Following the introduction of the manual to Woolworths suppliers and other farmers, and the press activity around it, Cape Nature decided in November 2008 to change the provincial Hunting Notice. This means that the use of gin traps and night-hunting to manage predators may no longer be used in the Western Cape Province.

#### *Awards and recognition*

Finally, over the last year Woolworths has received a number of local and international awards for the programme including *International Responsible Retailer of the Year*, the *Mail and Guardian's Greening the Future* award, an energy efficiency award, inclusion in the JSE SRI index and a first place ranking in the South African Carbon Disclosure Leadership index.