Corporate Governance The Case of Nestlé Waters

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Global governance is an idea that encompasses the relationships among diverse actors, whether they be states, multinational corporations, or international bodies, and the way they exercise their political and economic power. All these relationships occur within the dynamic of capitalism, characterized by a triple hegemony: in the economy through the increasingly strong domination of the market economy and its mercantile logic; that of the great corporations and the marked influence of their business methods above and beyond those of other kinds of organization; and the hegemony of business thinking in other spheres of society. This has generated important global changes in the rules of the game for actors, in national and international institutions, and in incentives, and, therefore, has sparked new forms of governance on a global level.

The concept of governance is also applied to the way in which multinational corporations (MCs) relate to governments and companies relate to their suppliers, as well as how a MC operates internally. For Gary Gereffy, governance is made up of "authority and power relations that determine how financial, material, and human resources are allocated and flow within a chain."[1] It is a concept that spans the relationship among diverse actors, not only those with political power, but also those who have the economic power to determine what is produced and where and how the surpluses will be distributed. His study leads me to think of a geography of economic governance and the centralization of economic activities and power.

This assumes that national states are no longer the only field of research worldwide, since other actors with political weight exist in the international arena, like international organizations or civil society organizations, as well as those with enormous economic power, like multinational corporations. The latter represent 25 percent of global output, of which 44 percent is produced in their overseas branches. Of the 100 most important MCs worldwide, approximately 70 percent have branches located abroad.


Reuters Photographer

All production-related indicators of MC affiliate economic activities increased in 2011. In that year, overseas affiliates employed approximately 69 million workers who generated US$28 trillion in sales and US$7 trillion in value added, demonstrating their power internationally.[2] A multinational corporation's output is not accumulated by a national state, since an important part is produced by the networks that have been woven worldwide and have become even stronger through intra-company trade.

What has contributed in recent decades to the consolidation of MCs as important global actors has been the introduction of new information technologies (NICs). This has facilitated better forms of control for monitoring their boards of directors, employees, etc. It has also allowed them to decrease transaction costs by having more efficient information systems. The NICs redefine the firm's borders by shoring up value creation by simply sharing and transmitting information or specific knowledge. These new controls and organizational benefits transform the way they relate to the countries where they set up business. The NICs generate geographically detailed knowl-

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edge so they know how their networks interact with local governments. This allows them to construct a kind of geography of decision-making in the home office, where the decisions are always made.

The firm Nestlé Waters North America is an exemplary case of global governance in carrying out its activities with a centralized decision-making geography. Nestlé is one of the world's biggest food corporations. It operates 481 plants in 87 countries, making 10 000 different products; it sells one billion of them every day in a total of 130 countries and employs almost 250 000 persons. It is an international organization that, like any company, has faced challenges in the fields of production controls and monitoring, but, thanks to its restructuring, it has managed to reaffirm its strong market presence.

Despite being a global company, until the 1990s, it operated through geographically- and product-determined strategic business units. The limitations of this kind of organization were made clear with the changes in the market, since it did not allow the corporation to react swiftly and forced it to negotiate different contracts with a single supplier.

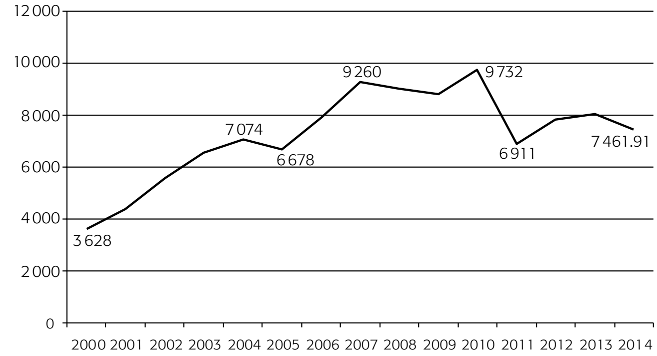
As time passed, the corporation realized that its strategy, based on the decentralization of its products, brands, and communications to respond to local needs, created coordination problems. This was because most of its employees only had access to the data of their specific subsidiary as an isolated unit, and not to the information about the production and sales of other units.

In the market turbulence and increased competition of the 1990s, Nestlé recognized the need for better integration to facilitate global learning in order to exploit synergies and reduce production and transaction costs. The acquisition of new businesses increased the heterogeneity and complexity of its product portfolio; so, the firm began changing its management strategies mainly to reorganize in two ways: the division of products and geographical regions, but also differentiating their functioning. This reorganization resulted in the creation of three big divisions: Nestlé Nutrition, Nestlé Waters, and Nestlé Professional. These changes were significant because the company went from a decentralized to a centralized system with greater coordination and control.

The creation of the Nestlé Waters North America Division (NWNA) was the first example at Nestlé of the creation of a management structure based on a global product. As part of NWNA, the company set up very specific global product branches by creating two business units called Perrier Vittel and San Pellegrino to control production, distribution, and commercialization of these two brands through a global product/brand strategy.

Graph 1

Nestlé Waters Total Sales (billions of usd)



Source: Developed by the author using Nestlé financial reports (2000-2014), http://www.nestle.com/asset-library/documents/library/documents/annual_reports /2014-annual-report-in.pdf, accessed October 21, 2015.

With the creation of NWNA, it also launched a comprehensive measurement and information system that operates by using the same language throughout the operation for bottled water worldwide, including its two business units. The result is greater integration based on close collaboration among the different specialized sections that are part of all its organizational units in order to unify efforts.

NWNA was created in 1992, headquartered in the United States; today it is one of the world's main water bottling firms. It has approximately 100 bottling plants in 36 countries, 33 500 employees, and a portfolio of 63 unique brands. It has managed to integrate into a global organization with a group of affiliates, some completely owned and others partially owned, situated on different continents. NWNA was a pioneer in the North American market, while its competitors Coca Cola and PepsiCo entered the water bottling business later.

One good reason for placing NWNA's water bottling division and the coordination of its two business units in the United States is that the region considered North America consumes 30 percent of the entire world's bottled water; it is followed by Europe, with 28 percent, and Asia, with 28 percent, with the rest distributed in the remainder of the world. But not only that. The United States represents a very attractive market because of its high income —per capita income from 2010 to 2014 rose from US$48 374 to US$54 600— in an area where a little over 320 000 000 inhabitants consume the most bottled water.

> In the U.S., bottled water is not a basic product, as it is in Mexico, but a luxury that can stop being consumed when family finances are affected.

Mexico and the United States together consume 96.2 percent of the region's bottled water (600.6 million hectoliters), while Canada's consumption is marginal. On a global scale, bottled water consumption in 2010 was concentrated in four countries: the United States, Mexico, China, and Brazil consumed almost 50 percent of the world's total.

Total NWNA sales rose steadily from 2000 to 2008, but in 2011 they dropped. However, despite their recovery, by 2014, they had still not returned to their 2010 levels. This behavior reflects to a great extent the U.S. economy's zigzags, confirming that this is its main market (see Graph 1).

By 2002, of the total NWNA sales by region, a large part was concentrated in the United States. During the economic crisis they dropped, but by 2013 and 2014 they had recovered, concentrating in that market and Canada 51 percent of the total (see Table 1).

The evolution of bottled water consumption in the United States is worthy of note. This country is currently the world's first consumer and one of the main countries in per capita consumption, with sales increasing steadily from 2000 to 2007, dropping slightly in 2008 and 2009 due to the economic crisis, but clearly recovering from 2010 on until 2013, when U.S. and Canadian sales came to US$4.11 billion, 51 percent of the total. This indicates that bottled water is not a basic product, as it is in Mexico, but a luxury that can stop being consumed when family finances are affected since the population has the option of using public utilities for their supply. The data reflect that the consumption of bottled water in the United States is linked more to marketing and income issues that NWNA has been able to handle appropriately.

The NWNA strategy for expanding in the North American market was to acquire several water bottling companies with long-standing traditions in the United States and Canada, just as it had in Europe with other well-known brands: it acquired seven of the most important companies producing spring water.

In 1980, NWNA bought Poland Spring,[3] which dated from 1845 and was going broke. It is the leading bottled water brand and has a large distribution network in the United States, where it supplies 11 western states.

In 1984, NWNA purchased Zephyrhills Natural Spring Water, founded in the 1960s and distributing mainly in Florida. Later, in 1993, it acquired Deer Park Sprint Water, which was about 100 years old and gets its water from the Appalachian Mountains, distributing it mainly to nine eastern states. In 1989, it purchased PepsiCo's Ice Mountain Bottling Company, whose market is mainly in the Midwest. Another company acquired by NWNA is the Calistoga Bottling Company located in California's Napa Valley, which dates from 1924.[4]

NWNA also created its own brand, Nestlé Pure Life with water from public utilities that it purifies, bottles, and distributes nationwide, but mainly in the central south U.S. (see map).

The map shows that NWNA operates in the entire country through its different brands by specific regions without their competing with each other. The new information technologies established on a global level allow them to know in real time their brands' performance the world over so that they can get ahead of any changes that might occur. The

Table 1

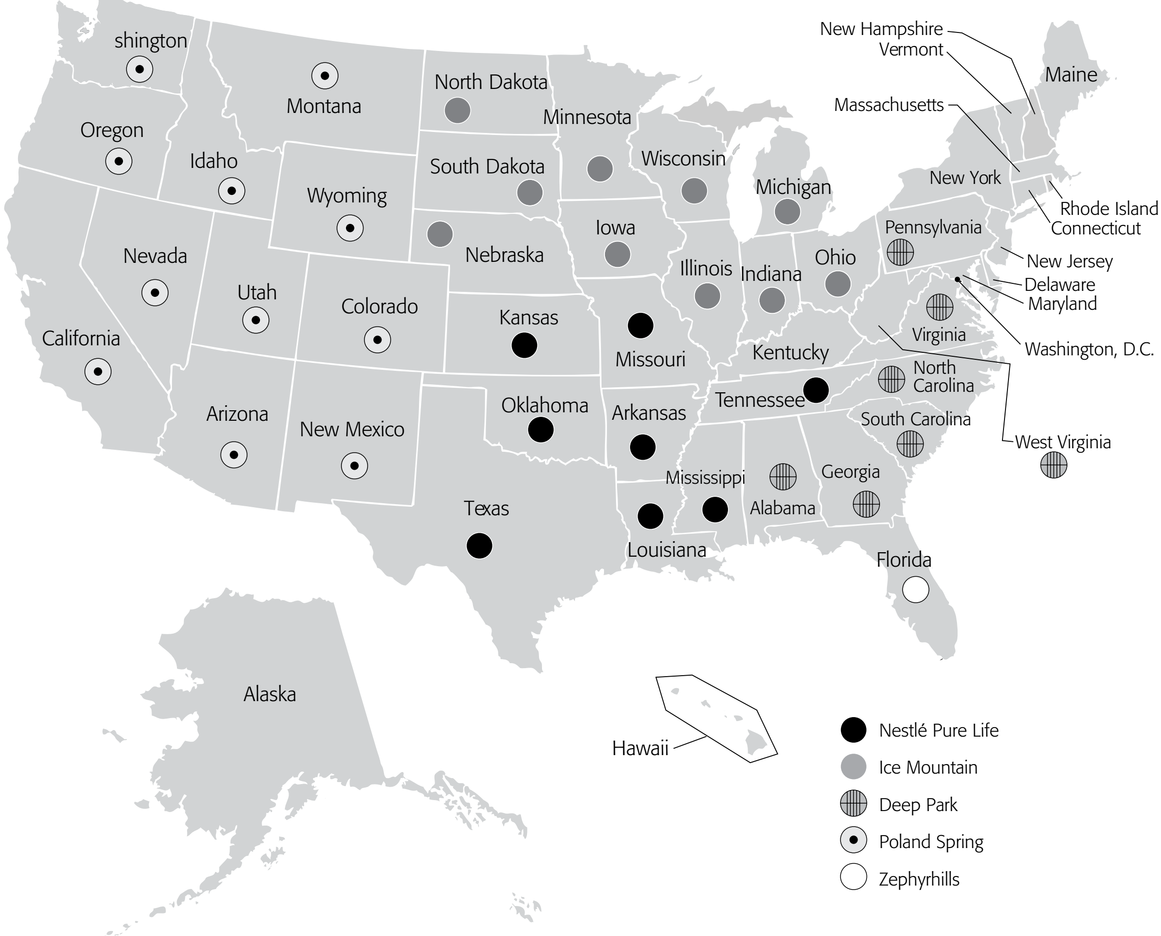
Nestlé Waters by Region (millions of USD)* and as a Percentage of the Total

	2002	(%)	2008	(%)	2013	(%)	2014	(%)
Europe	2 522.88	45.40	4 005.34	44.40	2 446	30.50	2 211.31	29.60
United States and Canada	2 692.08	48.40	4 288.28	47.60	4 109	51.20	3 816.78	51.20
Other regions	343.44	6.20	720.04	8.00	1 470	18.30	1 433.82	19.20
Total sales	5 558.40	100.00	9 013.66	100.00	8 026	100.00	7 461.91	100.00

Source: Developed by the author using Nestlé Annual Reports (2002-2014), http://www.nestle.com/asset-library/documents/library/documents/annual_reports/2014-annual-report-en.pdf, accessed October 21, 2015.

*The original figures were in Swiss francs and have been estimated in USD based on the exchange rate for each respective year.

MAIN NWNA BRANDS IN THE UNITED STATES



Source: Developed by the author based on the document "Beverage Marketing Corporation" and the Nestlé Waters official website.

case of the United States is just one example that shows the consolidation of a broad distribution network of its vast range of brands that bottle water nationwide, consolidating a geography very well defined by brands, boosting and centralizing its power in each region. Its production and distribution networks also use these technologies for marketing their bottled water in Europe under brands like Perrier, Vittel, and San Pellegrino. NWNA takes on board the fundamental principle of the Nestlé group of always being very close to the consumer; undoubtedly, this strategy has allowed them to report sales for US$3.8 billion in 2014 in the United States. VM

FURTHER READING

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NOTES

[1] Christof Parnreiter, "Geografías de la gobernanza económica," seminar at the Autonomous Metropolitan University, Iztapalapa campus, Mexico City, October 2015.

[2] UNCTAD, "World Investment Report, Towards a New Generation of Investment Policy," 2012, http://unctad.org/en/PublicationsLibrary/wir2012_embargoed_en.pdf, accessed October 22, 2015.

[3] See http://www.polandspring.com/#/assured/history_and_heritage.

[4] For more details about the bottling companies that are part of the NWNA group, visit http://www.careers.Nestlé-watersna.com/OurLocations/Default.aspx.