

Why Science Isn't Enough - What Consumers Need To Trust Dairy Today

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■ Take Home Messages

- ▶ Every organization operates with some degree of social license. Once lost through a single event or a series of events, it is replaced by social control (legislation, regulation).
- ▶ Today's operating environment mandates transparency. In this age of social media, food system stakeholders must develop new models for authentic engagement.
- ▶ A truly sustainable system is ethically grounded, scientifically verified and economically viable

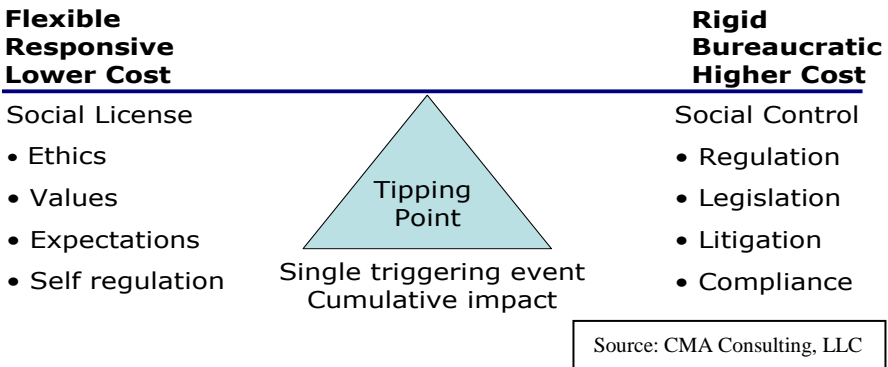
■ The Social License to Operate

Every organization, no matter how large or small, operates with some level of social license. A social license (illustrated below) is the privilege of operating with minimal formalized restrictions (regulation, legislation or market based mandates) based on maintaining public trust by doing what's right. You are granted a social license when you operate in a way that is consistent with the ethics, values and expectations of your stakeholders. Your stakeholders include customers, employees, the local community, regulators, legislators and the media.

Once lost, either through a single event or a series of events that reduce or eliminate public trust, social license is replaced with social control. Social control is regulation, legislation, litigation or market action designed to compel you to perform to the expectations of your stakeholders. Operating with a social license is flexible and low cost. Operating with a high degree of social control increases costs, reduces operational flexibility and increases bureaucratic compliance.

A U.S. case in point is Arthur Anderson and Enron. Prior to the collapse of Enron, public accounting firms operated with a fairly broad social license. The accounting industry had established the Financial Accounting Standards Board to regulate the implementation of Generally Accepted Accounting Principles by Certified Public Accountants. The accounting industry created a structure for self-regulation based on the expectations of their stakeholders which included investors, banks, the Securities and Exchange Commission, financial media and others.

The Social License To Operate



Stakeholders relied on the industry to operate in a way that maintained public trust and in return the public was willing to grant accountants broad social license. The Enron debacle cost the accounting profession its social license. That single event was the tipping point that compelled Congress to replace the social license of the accounting profession with the Sarbanes-Oxley Act, a law that requires extensive reporting and verification of financial information by publicly traded companies. According to research by Foley & Lardner, the average cost for a public company to comply with Sarbanes-Oxley is between \$10 and \$15 million per year. Those are costs that could have been returned to shareholders as dividends, or reinvested in research and development.

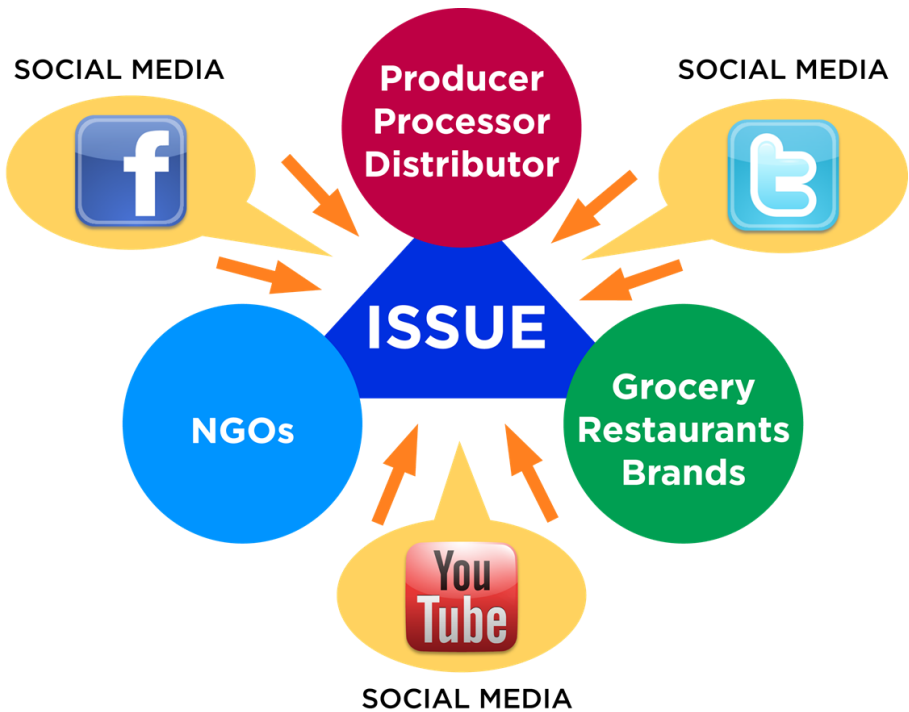
The question then becomes, what can be done to maintain public trust that grants the social license and protects freedom to operate?

■ **Transparency is no Longer Optional**

Today, anyone with a cell phone is a cinematographer. Research over the past four years clearly indicates that consumers increasingly go online to look for information to answer their questions about food. The power of social

media to change the food system became clear in 2012 when concern over Lean Finely Textured Beef (LFTB) by a mommy blogger in Houston created an online firestorm that drove leading branded food companies, restaurants and grocery chains to eliminate a product that was supported by science.

In today's age of unbridled social media food system stakeholders have to develop new models for authentic engagement. Growing skepticism about food safety and the use of technology fuel online communities that are raising issues and making their voices heard with increasing volume and frequency. In this dynamic new environment (illustrated below) producers, processors and distributors are inextricably linked to their customers and non-governmental organizations (NGOs) interested in food issues. The question for food companies is no longer "will you be transparent," but rather, "how will you protect your social license in an age of radical transparency?"



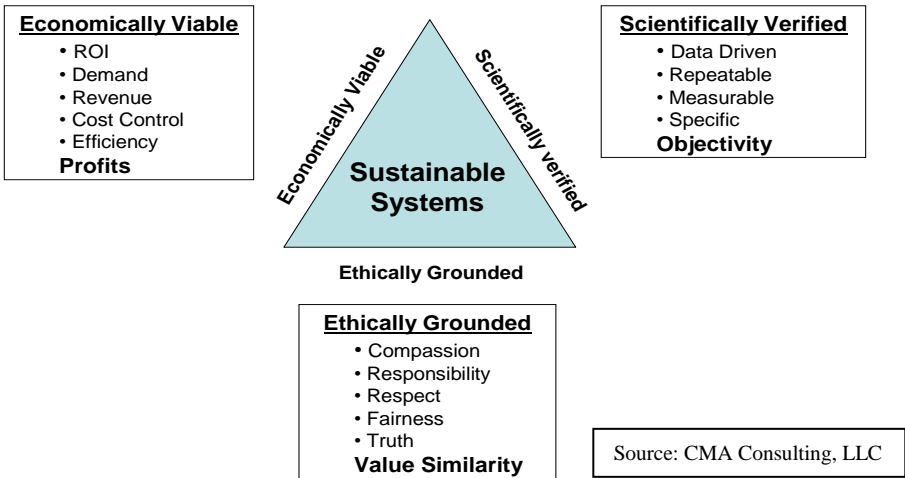
Source: CMA Consulting, LLC

■ New Models for Building Trust

The food system has an incredible challenge and opportunity ahead. By mid-century we have to more than double food production to meet the needs of more than 9 billion people. We have to produce more food by the end of this century than we've produced in the last 10,000 years combined. To meet that challenge we have to embrace new models of public engagement that build and maintain public trust and our social license to operate.

We need stakeholders who control social license to understand that while our systems have changed and our use of technology has increased, our commitment to doing what's right has never been stronger. We need to be able to verify our claims with objective science and we have to be able to continue to operate profitably if we want to survive. We need to adopt systems and practices that are ethically grounded, scientifically verified and economically viable. (see model below)

Balancing for Success



It is only by achieving and maintaining this balance that we can create systems that are truly sustainable. Each side of the sustainability triangle has stakeholders focused on maintaining the strength of that side, even at the expense of maintaining balance. There may be times when stakeholders have to look beyond short term self-interest to foster truly sustainable food systems.

If food system practices are not ethically grounded they will not achieve broad-based societal acceptance and support. If they are not scientifically verified there is no way to evaluate and validate the claims of sustainability, and if they are not economically viable they cannot be commercially sustained. For a system to be truly sustainable, it has to be ethically grounded, scientifically verified and economically viable. This model encourages stakeholders to look for balance in an effort to find true sustainability.

Ethically Grounded

Those who focus on ethics want food system practices that are consistent with the shared values of compassion, responsibility, respect, fairness and truth. They want to ensure that our increasingly sophisticated and technologically advanced food system doesn't put profits ahead of ethical principles and that science is not used as moral justification. When this side of the triangle is out of balance, critics claim there is no scientific basis for the claims being made and that the ethical demands will jeopardize the economic viability of the system.

Scientifically Verified

Those with a primary interest in scientific verification are data driven. They want specific, measurable, and repeatable observations to provide the basis for their objective decisions. They believe science can provide the insight and guidance necessary to make reasonable determinations about how food systems should be managed. When this side of the triangle is out of balance, critics claim the organization is relying on science while ignoring ethical considerations and that research may be done and recommendations made without consideration of the economic impact.

Economically Viable

Those responsible for the "bottom line" are focused on profitability. They work every day to respond to demand, control costs and increase efficiency to maximize the return on investment. They have to manage the increasingly complex demands of competing in a global marketplace with volatile commodity markets and ruthless competition. When this side of the triangle is out of balance, critics claim profits outweigh ethical principles and that business decisions are made without the benefit of scientific verification, placing those decisions at risk when questioned by those who value validation.

If we can't operate a system that maintains a balance of practices that are ethically grounded, scientifically verified and economically viable, it will collapse. That collapse may subject producers, processors, restaurants or

retailers to undue pressure that includes consumer protests or boycotts, unfavorable shareholder resolutions, uninformed supply chain mandates, regulation, legislation, litigation or bankruptcy.

Maintaining balance is never easy. Success demands an increased level of communication and engagement and willingness to look for solutions that are ethically grounded, scientifically verified and economically viable for each segment of the food system. Only by working with stakeholders across the food chain can we maintain the integrity of the sustainable system.

■ Conclusion – It’s about Trust

As we increase both the distance most consumers have from farming, food processing and the level of technology we implement in food production we have to dramatically improve our ability and commitment to build trust with our customers and other stakeholders who grant social license. This will require a new way of thinking, a new way of operating and a new way of communicating.

To be successful we have to build and communicate an ethical foundation for our activity and demonstrate our commitment to practices that are ethically grounded, scientifically verified and economically viable.



