

Living Sustainability

An Amrop Interview

Guillermo Garza Martínez
Chief Public Affairs, Communications
and Sustainability Officer

ARCA CONTINENTAL



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Leaders For What's Next

Living Sustainability

Arca Continental produces, distributes and markets beverages and snacks to 128 million consumers across its operating markets.

In an exploration of sustainability within an industry that is under a relentless spotlight, Amrop discusses the leadership implications with Guillermo Garza Martínez, Arca Continental's Chief Public Affairs, Communications and Sustainability Officer.

Interview by Jaime Montemayor, Member of the Global Amrop Board and Managing Partner, Amrop Mexico.

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ABOUT ARCA CONTINENTAL

Arca Continental produces, distributes and markets beverages under The Coca-Cola Company brand, as well as snacks under the Bokados brand in Mexico, Inalecsa in Ecuador and Wise and Deep River in the United States.

With over 66,000 employees and 390 production and distribution centers it is the second-largest Coca-Cola bottler in Latin America.

The company operates a sustainable business model. Its mission is to generate more shared value for its stakeholders, and its vision specifies that it should do so profitably and sustainably.

In the group's latest Integrated Annual Report, Chairman C.P. Jorge Humberto Santos Reyna and CEO Arturo Gutiérrez Hernández attribute Arca Continental's shared value creation directly to its sustainable business model. Consolidated sales grew 13% in 2022, with a 21% rise in share price over the previous year.

Arca Continental commits to the Dow Jones Sustainability MILA Pacific Alliance Index of S&P Global, the S&P/BMV Total Mexico ESG Index, the MSCI ESG Focus Indices and the FTSE4Good Index. For 20 consecutive years it has been recognized as a Socially Responsible Company in Mexico, achieving this recognition for the 9th year in Peru and for the first time in Ecuador.

Mr. Garza Martínez joined Arca Continental in 2008 as Director of Communication and Social Responsibility. In 2016 he was appointed to his current post as Chief Public Affairs, Communications and Sustainability Officer.



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C-suite Messages



Based on more than 25 years of corporate experience in sustainability, what is Guillermo Garza's advice to peers?



Integrate sustainability into the everyday.

Sustainability must be a way of acting in every department and process. The objective is that specific areas say: 'the way I do business takes into account all the concepts of sustainability — what I'm doing every day.'



Goal-setting is not enough. The path is as important.

Companies often define sustainability targets, however they do not sufficiently address how they're going to manage them. To build momentum, these two inter-connected perspectives need consideration.



Committees cannot be echo chambers.

Sustainability committees should not purely be composed of sustainability specialists, but of domain experts: HR, operations and legal (among others). Each needs its own gap analysis, setting performance, targets and timescales vs. the standard's requirements.



Conduct a materiality analysis to sharpen focus.

This interview confirms the materiality assessment as a vital first step in defining key performance categories. A full stakeholder analysis provides an objective picture of expectations. Sustainability Indices such as the Dow Jones Sustainability Index, the FTSE4Good and Morgan Stanley define the path of the organization.



Exercise servant leadership.

C-suite leaders have to see success as part of the company's performance, not that of the CSO* or their team. This mindset also frees practitioners from inertia that can come from silo thinking and the resulting lack of momentum in the organization.



Manage sustainability like anything else.

Maturity demands professional management: metrics, compensation structures, objectives, committees, executive involvement. Objectivity, focus and a methodical approach are vital. So is a realistic assessment of the organization's capabilities versus its ambition.



Use a scorecard to zoom in on what matters.

External checks and balances keep efforts on track, but the sheer number of standards, certifications and success factors are problematic. One answer is a sustainability scorecard complementing the company performance and highlighting zones of improvement for each specific area. (It is not an excuse to tick boxes).



No company is an island. Aim for shared value.

To earn legitimacy an organization must be part of its community, creating shared value and transcending legal norms or a basic moral perspective. Relying on regulation or legal requirements equals followership, not leadership.



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*Chief Sustainability Officer or equivalent

Living Sustainability



How does Mr. Garza address a multinational role covering not just sustainability, but public affairs and communications as well? “It’s an eclectic combination of risk management and sustainability. Sustainability serves as the backbone of the company’s shared value strategy, but reputation and Public Affairs are also important to meet our long-term goals.”

How is the group’s sustainability infrastructure geared to support this wide-ranging mandate? “I report to the CEO, and we have specific teams reporting directly to me in each of Arca Continental’s five countries.” The sustainability teams also report functionally to their respective country leaders.

Why the extra reporting line? It’s a question of operating freedom, Mr. Garza explains. Dual reporting liberates teams from corporate oversight and local compromise. “Maybe it is not the right formula for some, but for us it is very effective.”

Mr. Garza’s background is as eclectic as his role, he says. “It’s part of my therapy to say out loud that I was a journalist for many years. I also have my bachelor’s degree in communications and my master’s in science, with the emphasis on policy and communications. I also have certifications in corporate relations, sustainability and risk management. But I think in this community, you have to complement yourself with very specific on-the-field knowledge that comes more from experience than from an academic background.”



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The tool is not the toolbox

ESG is often used as a shortcut for sustainability in the business community. What definitions guide Arca Continental today?

ESG, he explains, seeks specific metrics on a company’s resilience and provides an analytical basis for investment decisions. “ESG is sometimes referred to as the cause of success, because ESG is very well known. But it has to be understood well and we see strong differences between these two concepts: we understand ESG as the efforts of the financial community to aggregate the sustainability initiatives and progress of any given company.” He views ESG as a useful tool to quantify achievements that would be otherwise difficult to demonstrate.

Sustainability transcends economic, social or environmental value. “For us sustainability is a broader concept — the capacity of the organization to succeed in the long run. So it is not about meeting a specific metric, but to have a sustainable business model for the viability of the company. This is how the whole company thinks about its way of doing things.”



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Absorbing sustainability

In short, sustainability is a mindset and a *modus operandi*: “a comprehensive, holistic way of doing business.”

A tour of Arca Continental’s 2022 Integrated Annual Report presents a large number of interconnected — and quantified — sustainability actions. This rich tapestry is difficult to absorb on first reading. How would Mr. Garza summarize the company’s strategic approach to the domain?

“It’s not easy. You always have the temptation to focus on the short term and specific metrics (mainly environmental).” But Arca Continental is resisting the seduction of the superficial. “We want this to be a very strong pillar that goes from the board of directors, with a specific committee that oversees progress, to all business areas.”

So sustainability is not an isolated strategy then, but a way of acting, embedded in every department and process. “We don’t want a specific area to say: ‘this is my profile or mandate, and I do a few things on sustainability’. No. What we want is for specific areas to say: ‘the way I do business takes into account all the concepts of sustainability — what I’m doing on a daily basis.’ ”

He believes that the sustainability team’s success will be marked by its “extinction” or seamless presence in ten years. “I’m trying to convey that sustainability is not a team or a group initiative. It’s the way we run the entire organization... not tempted to cut costs, or in times of crisis, to say ‘we’re not doing sustainability anymore’. We want the people who interact with us to see that we’re creating and sharing value with the community, in everything we do.”

Any strategy is about big picture goals, differentiating what is important from what is not. Thanks to its embedded sustainability approach, it seems the Arca Continental organization generally understands what is critical and how to move forward. There is clearly a desire for a sustainable business model across the company’s board and operating countries.

But change is also ignited through structure, leadership, and positions. Can Mr. Garza talk more about Arca Continental’s human infrastructure? What key changes got the sustainability agenda moving?



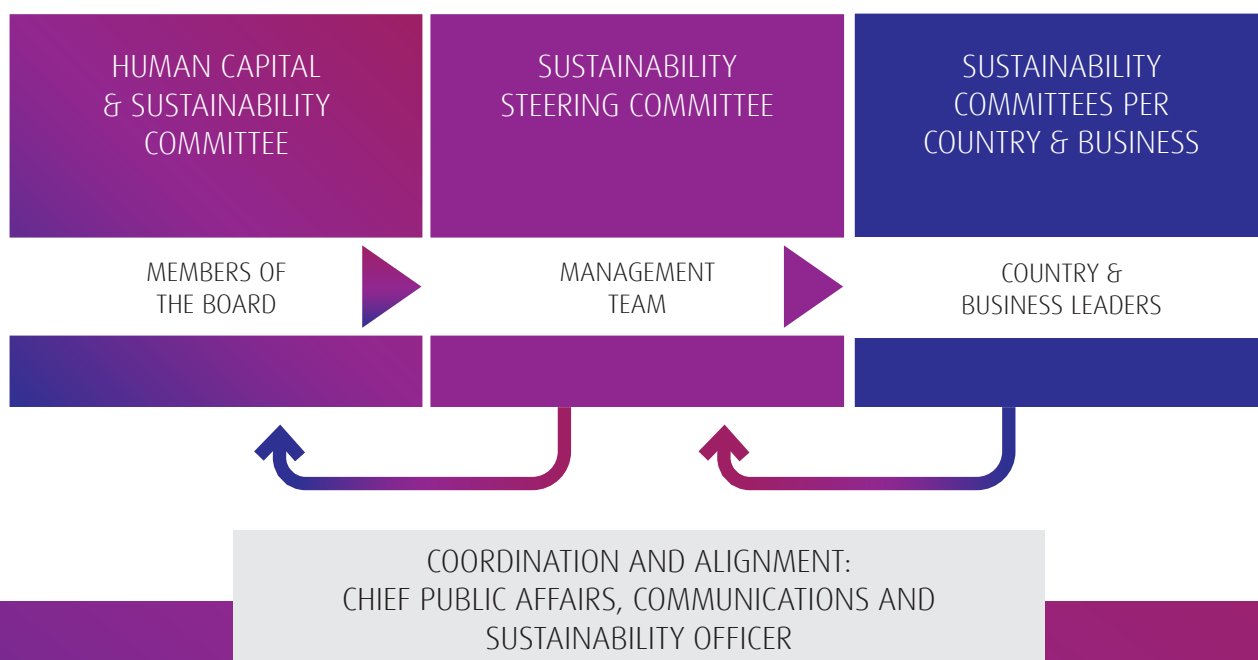
We don’t want a specific area to say: ‘this is my profile or mandate, and I do a few things on sustainability’. No. What we want is for specific areas to say: ‘the way I do business takes into account all the concepts of sustainability — what I’m doing on a daily basis.’ ”

A winning formula: goals + management = human infrastructure

“We understand momentum as combining two aspects of sustainability,” Mr. Garza explains: “the specific sustainability goals and the way you manage sustainability internally. Those have to go together.” Not always the case, he observes, as companies tend to define sustainability goals but fail to consider how to address them. “And that’s the human infrastructure. So for us, they’re equally important.”

He returns to the way in which Arca Continental has institutionalized sustainability: its board-level committee that oversees and guides the vision. “That’s the first step: showing the organization and establishing in our governance the utmost commitment of the board of directors as a public company.” He adds that committees are also established at country level to translate senior management initiatives into local operations and decisions (see the diagram below).

But the group’s sustainability committees are not echo chambers of sustainability evangelists. They are front line business forums. “You have the human resources expert, the operations expert, the legal expert, and so on. And each one of these leaders has the specific task to meet the standards established. The different standards that we use are integrated in a sustainability scorecard.” Each area has a dedicated gap analysis that examines the company’s performance, targets and timescales against the requirements of the standard.



Engineering sustainability

Sustainability is integrated from Arca Continental’s top management to each of the business units in its operating countries through a structure headed by the Board’s Human Capital and Sustainability Committee, made up of members of the Board of Directors, which guides and orients the Sustainability Steering Committee led by the CEO and selected Executive Directors. To deploy the strategies operationally, sustainability committees were re-defined for each country in 2022, strengthening the integration of sustainability at all levels of the organization, adapted to the local reality and aligned with the general goals of the company.

Four lenses, a single focus

How does the group decide on the critical wins? Like other sustainability leaders, Mr. Garza considers the materiality assessment to be a vital first step.

“We combine four aspects that we consider very important. The first is the *business objectives*. It is key, at least for us, to use business objectives as the starting point for sustainability. The second is to define and prioritize the *risks* associated with what the company wants to achieve.” The third involves understanding *stakeholder* expectations and needs — based on facts rather than feeling. “Every other year we conduct a very ample stakeholder engagement analysis¹ in which we include thousands of polls, interviews, focus groups, et cetera.” The fourth area concerns the *social and political agenda*; implementing sustainability within a country or community and tying it into aspects of political or public policy.

“The combination of those four will define, from the stakeholder perspective, the focus of the company. We combine the standards and certifications of the Dow Jones Sustainability Index, the FTSE4Good, Morgan Stanley, MSCI, et cetera, to define the path of the organization.”

Connecting these yardsticks enables the right targets and milestones to be set and reached.

“We have specific goals in water, in recycling, in climate...” He stresses the importance of combining company and stakeholder perspectives. “So we can clearly identify the material topics that are the most important for the organization and be sure that we are doing what the communities need.” This is critical, because ultimately, “if you’re not helping solve the root causes in the community or in society, your work is not complete.”



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¹ In 2022 Arca Continental conducted its most extensive materiality analysis to date, surveying more than 900 individuals, groups and organizations belonging to the different interest groups of its operating countries. As a result the company redefined the focus of its sustainability actions, defining specific objectives, strengthening indicators, and confirming priority actions, programs and initiatives. Taking into consideration the particularities of each territory, the company identified 11 material issues resulting from the intersection between stakeholder expectations, its objectives, priority risks, and the political and social agenda.



You have to be very clear that sustainability success is going to be the success of the company, not of the CSO or sustainability team.”



Servant leadership

Pushed and pulled from all directions, including different spheres of public policy from state to city-level, it takes a special kind of leadership to move from ambiguity to impact.

What attributes help his teams (and indeed the whole organization) to stay on track?

“This is the million-dollar question,” says Mr. Garza. It all begins with a single (humble) philosophy: “You have to be very clear that sustainability success is going to be the success of the company, not of the CSO or sustainability team.”

Embedded sustainability means that as a company “we have achieved such a level of maturity in sustainability that it is completely integrated in the way of working. So sustainability becomes business as usual. I think that’s the main goal, the main mindset of a CSO.” This approach also enables the CSO and team to steer clear of the inertia that can stem from a problematic combination of naval gazing and a lack of organizational momentum.

There are precedents for the sustainability movement, he says. For example, continuous improvement and quality assurance evolved from being unfamiliar concepts to becoming part of organizational life. “I think sustainability has to seek that same path.”

From realism, methodology and relevance, maturity will come

Mr. Garza is really describing an internal drive or desire for sustainability concepts in everyday business: in every deal, purchasing process or commercial activity. With 20/20 hindsight, how does he think the sustainability agenda has evolved since he joined the organization in 2008?

“We are the result of many mergers and many different ideas and approaches about sustainability. But I think we evolved from doing good with the value created within the company, to sharing value through a sustainable business model. Having the philanthropic approach of our founder families as a very solid legacy, we have complemented this with a sustainability management approach taking the same terms, metrics and key performance indicators as any area of the organization. It’s not a question of doing business on the one hand and running a handful of philanthropic or volunteering programmes on the other, he emphasizes. “The evolution for us is to have metrics, compensations, specific objectives, committees, ways of involving executives in sustainable metrics. That’s the big change.”

Based on this experience, and irrespective of sector, what advice would he share with the C-suite of other organizations, including the CSO? Again, he is modest. “I’m not in a position to give advice because I think that every sustainability effort, every company, is very positive.” He does, however, counsel objectivity and focus in a methodical approach to defining specific impact areas and how they will be achieved and measured. “I think that definition is one of the main steps.”



And this definition begins with a tough self-assessment. “How mature are you in terms of managing sustainability in the organization? You have to understand what the actual capabilities are and the evolution you want.”

For example, if your materiality analysis yields a specific area of intervention, “you have to define the structure, the specific capabilities, the kind of management that you need generally in the organization to accomplish that.”

Relevance is also critical and there are no instant recipes. “Find what is specific to your organization. Not every organization is built equally, the mission, the ambition is different... You need to have something that makes sense to the organization in terms of what you want to accomplish as business objectives.”

This also means defining how sustainability will become a competitive advantage for the organization to sustain growth in the long run. “We always say that Arca Continental cannot be a successful company in a failed community. So you need to be aware of what happens outside the organization. I think it is very important to include those aspects in the organizational strategy. So define your focus, your maturity, define the external variables and your path as a competitive advantage.”

The scorecard — zooming in to what counts

He returns to the value of external measurement, checks and balances in keeping the organization on track, but admits that this is difficult: “there are so many standards, specific certifications and intersecting success factors in sustainability.” So how did Arca Continental manage to make sense of this tangled web?

One response is the company’s sustainability scorecard for operations, highlighting zones of improvement. “Sustainability as a way to have a better specific x or y area. We don’t just want the areas to check the boxes. No. We want every department to be better; to analyze the way the company and the area in charge approach, for example, diversity or equal pay or human rights. That will make the specific area a better area. It is challenging because the sustainability approach nowadays demands systemic thinking, abandoning the idea of a single entity perspective.” It’s worth noting that an 87% employee commitment level was recorded in the group’s climate survey, (cited in its 2022 Integrated Annual Report).



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No company is an island. Legitimacy through shared value

Ultimately, sustainability is a question of excellence via shared value. “You have to be a part of the community, beyond what it is established in the norms of law or your moral perspective.

“You want the community to be a successful community because that’s what will create shared value for everyone. So if you rely only on regulatory certifications or legal requirements, you will only end up as part of the followers, not leading the company. I will share a specific example: Arca Continental has one of the top water efficiencies in the industry. We have specific metrics in the way we use water, we are self-sourcing water. In the old way of thinking about sustainability, that would have been enough.”

It is no longer enough. In the area of water alone, the figures demonstrate the shift in thinking. In 2022, in coordination with the authorities and social organizations, Arca Continental led and collaborated in initiatives focusing on access to water through 78 "Rain Schools" in Mexico that provided more than 12 million liters of water to over 21 thousand people. Overall the company provided more than 2 billion liters of water to communities – the equivalent of more than 85,000 Olympic swimming pools.

Problems are shared, and resources need to be shared as well. If the company has access to water, (albeit almost entirely self-sourced and not from a municipal network), but the community is deprived: “we have the same problem because we are from the same society. So we are now approaching water in a holistic, 360-degree way. It’s not enough to be efficient, you have to get involved in ensuring that the community has safe water to drink.

“So thinking ‘no barriers’ in terms of the success of the company and the success of society, I think has to be the right approach for any company.”



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Living Sustainability

6/10
PET bottles
collected.

60%
of portfolio
zero or low
calorie.

2,000
mn litres
of water
donated to
communities.

100%
of industrial
wastewater
discharges
treated.

100%
of strategic*
suppliers
evaluated by
2025.
*accounting for 82% of
global spend.

4,500
people trained
in inclusive
recycling.

100%
of palm oil, corn
and peanuts have
min 1 international
sustainability
certification

Technological
innovations in the US
to launch some of the
lightest PET bottles
in the Americas,
contributing to Coca-
Cola's 2030 vision
of "A World Without
Waste".

120
shared value initiatives deployed over
30,000
hours, dedicated by associates and families

6,500
trees planted.

60
public spaces
rehabilitated.

200
tons of waste
collected.

17,000
toys delivered
to
10,000 children
in vulnerable
situations.

How can Amrop help?

At Amrop, we have long believed that today's ethical, ecological and societal challenges call for executives who are not just accomplished and smart, but wise and purposeful. Using our Purposeful Leadership approach, we help our clients to build sustainable organizations. We advise CEOs and Boards and provide coaching and mentoring programs to help you deliver on ESG objectives.

Every organization now has the responsibility to install a culture of sustainability. More than simply paying lip service to a department carrying its name, sustainability is in the DNA of today's best leadership teams. They provide the frameworks to integrate it into the way their organizations think, decide and behave.

Let's talk about how we can help you create a culture of sustainability and wise, purposeful leadership



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Further Reading



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About Amrop

The Amrop Partnership is a premium leadership and executive search consultancy with 68 offices in 55 countries and a global team of more than 500 professionals.

We help our clients find and develop Leaders For What's Next.

Shaping sustainable success is our mission, craft and passion.

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