

Guest blog: Parag Agarwal and Rituj Sahu

Beyond the factory gate: Why food-system integrity belongs in corporate governance

Food companies cannot protect consumer trust if their boards see only the factory gate. Oversight must extend upstream to understand how food is produced, where risks accumulate and whether supplier policies work in practice.

Over recent months, the Food Safety and Standards Authority of India (FSSAI) has stepped up scrutiny of some of the country's largest food and beverage businesses. [Actions](#) involving listed companies such as Nestlé India, Marico and United Spirits have covered [alleged](#) contamination and hygiene lapses, product claims, flavouring practices, and labelling and packaging requirements. Some have resulted in notices; others in products being seized or restricted. In several cases, companies have disputed the allegations or the regulator's interpretation of the rules.

One recent [notice](#) to Nestlé India followed an online complaint alleging contamination in a Maggi packet. The company disputed the allegation and said its internal and laboratory checks found no infestation. FSSAI nevertheless reportedly sought vendor details, batch-level quality-control records, corrective action and measures to prevent recurrence. The notice prompted stock exchanges to seek clarification, and Nestlé India's shares closed more than 3% lower that day. The market response was immediate, even before responsibility had been established.

The cases involve different products and alleged violations, but they expose a common governance test. Can a company identify where a problem originated, determine which products and suppliers may be affected, and show that its controls work? The risk may have developed much further upstream: at a farm using antibiotics without adequate controls, through an intermediary unable to identify the source, or across suppliers whose standards are neither measured nor verified.

By the time it reaches the consumer, it is treated as a food-safety event. Before then, it is often somebody else's operational responsibility. This is the governance gap. For quick-service restaurants, food retailers, dairy businesses, packaged-food companies and hospitality groups, supply chain integrity is central to the business model. Yet board reporting can stop at quality tests, audit completion rates, customer complaints and regulatory notices. These indicate whether a problem has

surfaced but reveal less about whether the company understands and can influence its source.

Food-system risks often do not fit neatly into environmental, social or governance categories. Poor animal health and welfare can increase disease pressure and reliance on routine antibiotics, contributing to Antimicrobial Resistance (AMR), residue and food-safety risks. With weak traceability, companies may not know which suppliers use antibiotics, whether sourcing standards are followed, or how quickly affected supply can be isolated. The consequences include supply disruption, higher testing and sourcing costs, loss of consumer trust and damage to brand value. A farm-level practice can become a material risk for the company buying and selling the product.

Public health exposure is substantial. The World Health Organization (WHO) [estimates](#) that unsafe food caused more than 866 million illnesses and 1.52 million deaths globally in 2021. AMR is a different but connected systemic risk. The World Bank estimates that annual global GDP could be 1.1% to 3.8% lower by 2050 under different AMR-impact scenarios. WHO has also recommended that farmers and the food industry stop routinely using medically important antibiotics to promote growth or prevent disease in healthy animals.

None of this makes a restaurant company or dairy board responsible for solving a global public-health crisis. It does mean that boards of companies materially dependent on animal-protein supply chains should understand their exposure, and whether management has a credible response.

Asia Research & Engagement's (ARE) experience engaging Indian food companies shows that these risks are often viewed in isolation. Dairy businesses generally treat heat stress as a farmer-productivity issue because it reduces milk yields. Yet it also affects animal health and welfare, farmer incomes, procurement costs and supply reliability. In poultry, companies usually have stronger controls over end-product safety than over the production conditions shaping it. Visibility over antibiotic use, biosecurity and animal welfare is often limited, despite their relevance to AMR, residues, disease outbreaks and consumer trust.

A similar gap appears in climate reporting. Companies can measure emissions from their operations more readily than those from feed production, farming, land use and animal production. CDP found upstream Scope 3 emissions to be, on average, 11.4 times higher than operational emissions. In ARE's engagements, the constraint

is usually the traceability, supplier data and procurement oversight needed to measure and reduce them. The governance question is whether the board knows where the company's largest upstream exposures sit, and whether management can address them.

For most food companies, that leverage sits in procurement. Corporate policies on responsible sourcing, animal welfare or antibiotic use are a starting point, but do not show whether risk is being managed. A supplier code may address food-safety while remaining silent on antibiotic use, biosecurity or production conditions. A global policy may not explain how it applies across India's fragmented supplier base. Without disclosure of the suppliers and commodities covered, applicable standards, monitoring and consequences for non-compliance, boards and investors cannot distinguish commitment from implementation. Supplier contracts, purchasing standards and longer-term relationships already give companies tools to influence upstream practices.

Boards must therefore ask not merely whether a policy exists, but how it travels through the supply chain

India's governance architecture provides room for this oversight. The National Guidelines on Responsible Business Conduct ask companies to provide safe and sustainable goods and services, protect the environment and engage responsibly with consumers. The Business Responsibility and Sustainability Reporting (BRSR) framework requires the top 1000 listed companies to explain material responsible-business risks, policies and performance. SEBI has made value-chain ESG [disclosures](#) voluntary for the top 250 listed entities from FY2025–26, but the underlying business risk is not voluntary.

Oversight does not require a new board committee. Responsibility will generally sit with the Risk Management Committee or a board-level sustainability or ESG committee covering business and supply-chain risks. The full board retains ultimate oversight. Directors should know which committee and executive are accountable, what information reaches the board and how serious supplier failures are escalated.

The board must establish visibility. Which ingredients and commodities are most material to revenue, consumer trust and continuity? How far can the company trace them? Which suppliers present elevated food-safety, animal-health, antimicrobial, environmental or labour risks? Where does the company rely on contractual assurances rather than independent evidence?

It must then decide what information merits regular review. Directors do not need farm-level data on every shipment, but they need a few decision-useful indicators: the proportion of key commodities traceable to source; material suppliers covered by sourcing standards and assessed against them; significant food-safety incidents and near misses; recurring audit findings and closure times; supplier compliance with the company's antibiotics policy; and progress against animal-health, welfare or sourcing commitments. Trends, exceptions and unresolved findings are more useful than undifferentiated audit data.

Finally, the board must test the credibility of assurance. Supplier self-declarations may be a starting point, particularly where supply chains include thousands of small producers, but higher-risk categories may require independent audits, residue testing or traceability checks. Boards should know whether supplier failures lead to corrective action, support for improvement, suspension or merely a recorded exception.

Upstream standards can impose costs on small farmers and suppliers with limited capacity. A governance response that ignores this reality may shift risk rather than reduce it. Expectations should therefore be proportionate, phased and, where appropriate, supported by training, technical assistance or longer-term purchasing relationships. But fragmentation cannot permanently excuse not knowing how a material input is produced. Having difficulty seeing the supply chain itself is information the board should have.

For investors, these questions are a test of the quality of oversight. A board receiving only lagging food-safety indicators may understand yesterday's incident but be poorly prepared for tomorrows. A responsible-sourcing policy without coverage, implementation or assurance data gives investors little basis to judge whether it is operational. A company that identifies material upstream risks, assigns accountability and reports progress offers stronger evidence of a functioning governance system. Where that evidence is absent, the stewardship question is what investors should ask for, how long they should allow companies to respond, and when persistent weaknesses in oversight should influence voting at the AGM.

Food-system integrity belongs at the board because it affects product safety, regulatory compliance, supply continuity, brand trust and long-term value, not

because it carries an ESG label. Directors need not manage farms or suppliers from the boardroom. They do need enough visibility, information and control to exercise judgement over risks on which the business depends. When that visibility is missing, the governance gap is already clear.



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