

ECCR Open Debate

'The Ethical Supply Chain – Shareholder Value or Impossible Ideal'

ECCR held this meeting at Methodist Church Offices, Marylebone Road, London, on 27 September following its AGM. Introducing the event, Barbara Hayes, ECCR's retiring Chair, reminded all present of the stand of ECCR and its international partners, who have always believed that major companies have a responsibility to ensure good practice among suppliers.

Profits cannot be built on sweated labour, environmental degradation and negative impacts on communities. This principle is enshrined in the *Bench Marks* document by which company behaviour is measured. The value of adopting and monitoring codes as a way to improve practice in supplier companies and to demonstrate corporate responsibility has been questioned. Does it work? Can it work?

To discuss these issues ECCR brought together speakers from the corporate, accountancy, trade union and NGO sectors with an audience of investors, company executives, and justice and peace groups and ECCR members. The following meeting report was compiled by several ECCR members.

Fiona Gooch – Traidcraft

"Producer perspectives on responsible purchasing"

Fiona Gooch is Traidcraft's Private Sector Policy Adviser, working with Traidcraft's partners in developing countries. Traidcraft's primary purpose is that of improving the impact of international supply chains. Traidcraft is composed of Traidcraft plc and Traidcraft Exchange - a business with development objectives and a development NGO specialising in business respectively. The focus of the two is to aid small enterprise development, facilitate market access, and provide policy work to improve the impact of trade on the poor in developing countries.

A supply chain is the different stages that a product undergoes, from its start as raw materials to its end as a finished product in the hands of the consumer. Fair Trade has demonstrated that to be part of a fair international supply chain can be a very positive experience for thousands of producers and workers in developing countries. However, Fiona argued that the way many mainstream supply chains operate can mean that the producers receive very few of the benefits from increased international trade. Some of the trading and buying practices in international supply chains actually put workers at risk.

Fiona raised the questions: Are UK companies enabling or disabling good working conditions? And are investments enabling companies to enable good supplier relations?

Shifting power

In the current trend of globalisation, companies pursue flexibility, lowest raw materials prices and cheap labour. Increasingly benefits accrue to companies at the top of the global supply chain - reaped at the expense of those at the bottom.

Current trends provide a gloomy scenario from suppliers' viewpoint:

- Shorter lead times
- Lower value orders
- No long-term commitment to suppliers
- Checking on standards - technical, working conditions.

Conditions in the supply chains of international trade are continually weakening the position of workers and small producers at the bottom of the chain in relation to increasingly powerful companies at the

top. Protection for workers and small producers has reduced whilst the rights of companies have increased. This has resulted in the large and growing number of suppliers competing to sell to fewer and fewer, but ever more powerful, buyers.

The trend is of a few big brands controlling access to consumers, so suppliers are limited to trading with a small number of buyers if ever they are going to sell their products. This spells out a huge polarization of power in supply chains due to trade liberalisation, exacerbated by the reduction of developing country governments' policy space and the significant number of mergers and acquisitions. Due to trade liberalization, many developing countries are reducing protection for workers so as to attract foreign business, whilst conditions attached to aid payments deny or reduce these same countries' market support and agricultural advice for small producers.

The rise of corporate power

The culture of mergers and acquisitions has created enormously powerful companies. Some are economically larger than many countries' GDPs, and as a result wield huge influence. The enormous economic power of these companies enables them to pass business risks on to their suppliers. Suppliers then in turn apply their relative power to pass these risks down to their own workers or even smaller suppliers. Those at the bottom of the chain, usually poor workers and producers in developing countries, bear the brunt of the risk.

Shareholder pressure for high returns and consumer competition exert pressure on retailers and brand owners, who offload costs and risks down the supply chain. Retailers and brands push for: lower prices from producers, fast and flexible production, high technical and quality standards, better labour conditions but without a long-term commitment. Producers, as employers: hire women and migrants, use short-term contracts and evade benefits, put workers under excessive pressure, undermine organizing, hide labour rights violations. Precariously employed workers: are insecure on contracts with few benefits, exhausted by long hours and high targets, undermined in organising for their rights.

Overall there are insufficient safeguards for the most vulnerable and a lack of business accountability/responsibility for impact. Existing norms are ignored (e.g. International Labour Organisation standards), and there is a lack of transparency of business relations and impact.

How do UK companies fair?

Can we in the UK, especially investors and shareholders, testify to the fact that UK companies are enabling good supply-chain relationships? Do UK firms select suppliers carefully, assess their own purchasing practices, work with supply chain partners and support workers in knowing and accessing their rights?

For an ethically sound supply chain, these requirements become key objectives, because they will demonstrate how investment can enable good supply chain participatory approach, provide better communication, enable and support sustained change, and support the rule of law in sustaining an ethical investment climate.

Rebalancing power

It is possible to make international supply chains work for poor producers. This requires rebalancing power between the producer and the buyer, with rights and responsibilities on both. Fair Trade offers a key approach; voluntary ethical supply chains can deliver shareholder value for branded companies, companies producing high value products, companies with values-driven leaders and investors with social objectives.

Governments must provide greater regulation to safeguard the weakest, leveling out power imbalances in the supply chain. Public policy intervention to support ethical supply chains delivers shareholder value where workers and smallholders are vulnerable to exploitation.

Muriel Johnson – consultant to Marks & Spencer

“Ethical trade in the supply chain as we do it”

Ethical trading is possible but not easy. It is important to ask “who are we calling to be ethical: consumers, companies, or the supply chain?” If it is the companies, do we ask them to be ethical towards their employees only or is it wider? Many companies make efforts to use an ethical supply chain in response to market expectations and media pressure, but they must always ask the question whether this leads to shareholder value. Marks & Spencer’s vision is “*To reassert our position as a leading socially responsible business.*”

Customers are interested in where products were made and under what conditions for workers. Investors want to know whether you are a sustainable, responsible company. For this the bottom line is profit, with reporting on environmental impact and social responsibility complying with the law. Staff want to be sure they agree with the company’s values, and workers need to be sure that they will be well treated.

Global sourcing must meet the law of the country involved, and companies are coming together to share information about best practice. Issues involved include child labour, hours of work, health and safety, union rights, payment according to the minimum wage, and care for the environment. Labels must show the correct country of origin; audits and records must be accurate and transparent.

Making it happen

With over 1,000 factories (in the case of M&S), how can these demands be met? Relationships with suppliers have been important, together with standards set out in manuals, audit procedures with a data base and auditor training. Minimum entry standards must be met by suppliers.

Relationships with suppliers have involved weekly joint meetings, a collaborative approach which has been totally open and in which both shared responsibility and joint risk are ensured. It is necessary to help suppliers understand consumer requirements. Manuals and self-help guides written for this purpose have been translated into local languages and made available on websites. Workshops relevant to the country have been set up to build the capacity of local managers. “Benchmarking groups” have been set up with partners in Morocco, Sri Lanka, Indonesia, Turkey, Egypt, India and Vietnam.

Improvements have included reductions in working hours, improved wages for many, the provision of lawful benefits, improved safety and welfare standards. There has been an increase in employer/employee consultation, a reduction in child labour and more fairness in the workplace in many countries, but there is still far to go.

It is important to learn about local problems, and a local person with ethical standards can normally be found to help with this. Other issues can also make a real difference to helping those in the supply chain, such as contributing to schooling for children, and health education provision. For example, literacy training programmes were started in Morocco with one supplier providing classes for the employees. Now all the suppliers in Morocco are doing the same.

Difficulties arise where the informal sector is used as a source (e.g. home working). Control is difficult. It is possible but not easy to ensure a minimum wage and also the possibility of schooling, because children will get involved and help with work in many cases.

Is it all worth it?

Companies have to ask if it is worthwhile regarding shareholder value, because the market for ethical consumers is still not big enough. Many people are concerned only about obtaining more and cheaper. At least the existence of fairly traded goods gives the opportunity to talk more about it

and raises consumer awareness.

One obvious problem is that of rapid changes in fashion, which are difficult to convey fast enough to suppliers of quality goods. However, Marks & Spencer appears in the FTSE 4 Good (an index designed to measure the performance of companies that meet globally recognized corporate responsibility standards and to facilitate investment in those companies) and are ranked No 1 retailer in the Dow Jones sustainability index and in the Corporate Responsibility Index.

A World Bank report says: *“They (Marks & Spencer) stand head and shoulders above many in the retail world because of their relationship with their suppliers.”*

Success has to be a team effort between M&S buying, direct suppliers (agents), subcontractors and component suppliers. Future challenges are to move from protection to promotion, fair trade, and the empowerment of workers, and to sustain all the improvement.

James Stacey – KPMG

“Verifying company reports – the accountant’s view”

James Stacey’s profile states that he is Head of Sustainability Advisory Services at KPMG. If this seems a little obscure, it is largely clarified by the references to his long experience in “CSR, risk identification and management” and to “CSR report assurance”.

“Assurance” is a word of many inferences, from religious to financial. James used it frequently and without definition until the end, when it seemed to resolve itself as “telling the bosses that (with regard to CSR) *“nothing has come to our attention that suggests something is wrong”*”.

This gives the management of a company confidence that CSR regulations are being observed; and that, with assurance incorporated in the annual company report, shareholders and stakeholders will sustain their trust in management.

To this end KPMG employs 350 CR professionals in 33 countries for financial and non-financial reporting.

The case for reporting CSR, apart from it being, under recent pension fund law in the UK, a right of pensioners to be informed about the character of the companies in which their fund invests, is that it informs decision makers. It should therefore minimise the risk of accidents or bad publicity. Though not mandatory, the fact that peer/competitor companies do so becomes an incentive, if only for public relations purposes.

There is a wide divergence between businesses of the world’s sixteen wealthiest countries in reporting CSR, from Japan and the UK at the top to Belgium at the bottom. Shareholders with an ethical agenda can confidently put questions to a company, whether about the supply chain or any other aspect, including the identity of the CSR reporter.

Colin Meech – UNISON

“CSR, UNISON and developments in the UK labour movement”

According to the trade union representative Colin Meech, today unions “bestride a couple of rafts driven by conflicting currents”. On the one hand, the union’s task is to develop a strategy of bargaining, on behalf of members, with the private sector; on the other, his own responsibility includes that of developing UNISON’S capital stewardship programme. Largely this means ensuring that the members’ pension fund prospers through professional management of its investment.

Trade unions in the UK influence the investment of £260 billion. Meanwhile the International Confederation of Trade Unions, to which UNISON belongs, has to recognize the reality of globalisation

in its work. As more and more companies decide that prosperity lies in a shift to suppliers from “the South”, more UNISON members lose their jobs, for example.

The union therefore represents its members both as employees and as fund beneficiaries - but also as part of an international social movement concerned for human rights.

Principles and policies - or dilemmas?

The union needs to understand the supply chain impact of its public and private payments, and own and manage its funds accordingly. This raises several key issues:

- that corporate social responsibility does not result in higher pensions;
- that more benefits “here” mean fewer benefits “there”;
- that higher taxation of middle income earners impacts on union members;
- that economic growth is the way ahead [this last point was strongly challenged by one ECCR member on the basis of the sustainability imperative].

As to who controls the union’s capital, Colin spoke of the democratisation and training of pension trustees (50% members), including union reps on local government pension funds as well as in the private sector.

On reflection, his final statement that “*Investor activism should not penalise employees of sister unions worldwide*” needed question and clarification.

David Mellor – J.Sainsbury plc **“An ethical food chain”**

As the last speaker, much of the ground around the debate on the ethics of the supply chain had already been touched upon. David concentrated on giving the story of the ethical supply chain as he sees it in operation at Sainsbury’s. He has worked for Sainsbury’s for 17 years and is now the Socially Responsible Sourcing Manager, with the job of ensuring that there is good practice among suppliers.

Most of the company’s efforts in corporate social responsibility are in its supply chain, which is where David has worked hard to encourage good practice and bring about change. He recognises the complexity of the problem of the ethical supply chain, but feels it is possible to work with the ideal and make changes to get closer to achieving it.

Why do it? There would be two reasons – firstly the growing consumer expectation following greater awareness amongst the public; and secondly, to enhance the company’s reputation in the media. Sainsbury’s are aware that ethics are not static; expectations are growing all the time. They have to be aware of the shifts and keep up with them.

For the company, the issues involved include food and health, the environment, food safety, genetic modification, animal welfare, and pesticides. It is important to be up to date on the latest research in such complex areas so that they can respond quickly. Sainsbury’s do this by monitoring through a variety of channels and have seen their efforts rewarded.

For example, they were voted Organic Supermarket of the Year in 2004 (third year running); have raised over £7 million for Comic Relief; and have seen more than £17 m worth of benefits given to 22,000 schools as part of their Active Kids Scheme. One could ask how the latter actually measures ethical behaviour, however.

Sainsbury’s believe that addressing the challenge of corporate responsibility is the duty of everyone and feel they are doing their part. They want to make ethics easier and more accessible to their

customers so that they can be more involved in making choices. Their strategy is to continue to make a positive impact.

After the panelists' presentations, questions and discussion followed.

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