

Walter Scheel Colloquium and Award Ceremony 2015

TOPIC III: Sustainable Supply & Value Chains

Implementing the UN-Principles “Business & Human Rights” at the level of companies - An Academic Perspective

By

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Framing the Problem - Private sector obligations

- The obligation to implement the UN-principles is a great challenge to SMEs around the globe
- SMEs are requested to commit to respect human rights through developing:
 - an internal policy commitment to establish a human rights due diligence process
 - processes to enable the remediation of any adverse human rights impacts caused by or contributed to

Framing the Problem - Core questions

- SMEs need support to meet UN principles along global supply and value chains
- Core questions:
 - How can SMEs make their *supply and value chains* sustainable?
 - How can *reporting* requirements for sustainability be fulfilled?
 - How the establishment of reliable *complaint mechanisms* in practice look like? Are there examples of good practice?
 - Which networks and best practice-databases can give *support*?

Presentation Outline

1. SMEs and sustainability challenges
2. Human rights sustainability challenges
3. Supply chain management sustainability challenges
4. Sharing supply chain information within the context of sustainability reporting
5. Conclusions

SMEs and Sustainability Challenges – Key Areas

Economic (cost, quality, resilience, resource utilization, visibility, innovativeness)

Environmental

Level 1: pollution abatement and control

Level 2: climate change, decline in ecosystems & biodiversity;

Level 3: resource depletion, energy and water conservation

Social human and workers' rights: child labour, health & safety, equality, poverty alleviation

Supply Chain Levels

- Raw material sourcing
- Manufacturing
- Packaging
- Warehousing
- Logistics (Transportation & distribution)
- Retail
- Consumption

SMEs and Sustainability Challenges: Research findings

“ What drives environmental practices of SMEs?” B. Hoogendoorn, D. Guerra & P. van der Zwan, Small Bus Econ (2015) 44:759–781

- Firm-level characteristics are relevant when explaining the environmental behavior of SMEs

Dependent variables:

- Greening processes
- Green products & services

Control variables:

- Firm age
- Proactive vs reactive EMS

Independent variables:

- Firm size
- Sector tangibility
- Type of market served
- External support
- Environmental legislation (country variable)

SMEs and Sustainability Challenges: Research findings

“ What drives environmental practices of SMEs?” B. Hoogendoorn, D. Guerra & P. van der Zwan, Small Bus Econ (2015) 44:759–781

- It is important to distinguish between the types of environmental practices

Dependent variables:

- Greening processes
- Green products & services

Control variables:

- Firm age
- Proactive vs reactive EMS

Independent variables:

- Firm size
- Sector tangibility
- Type of market served
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SMEs and Sustainability Challenges: Research findings

“ What drives environmental practices of SMEs?” B. Hoogendoorn, D. Guerra & P. van der Zwan, Small Bus Econ (2015) 44:759–781

- SMEs are more likely to engage in greening their product & service offerings when environmental legislation is strict

Dependent variables:

- Greening processes
- Green products & services

Control variables:

- Firm age
- Proactive vs reactive EMS

Independent variables:

- Firm size
- Sector tangibility
- Type of market served
- External support
- Environmental legislation (country variable)

SMEs and Sustainability Challenges: Research findings

“ What drives environmental practices of SMEs?” B. Hoogendoorn, D.

Guerra & P. van der Zwan, Small Bus Econ (2015) 44:759–781

- There is a more pronounced positive relationship between **firm size** and **greening processes** than between firm size and **greening product** and service offerings

Dependent variables:

- Greening processes
- Green products & services

Control variables:

- Firm age
- Proactive vs reactive EMS

Independent variables:

- Firm size
- Sector tangibility
- Type of market served
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SMEs and Sustainability Challenges: Research findings

“ What drives environmental practices of SMEs?” B. Hoogendoorn, D. Guerra & P. van der Zwan, Small Bus Econ (2015) 44:759–781

- SMEs active in resource-intensive or tangible sectors and SMEs that receive financial support are more likely to be involved in both environmental practices

Dependent variables:

- Greening processes
- Green products & services

Control variables:

- Firm age
- Proactive vs reactive EMS

Independent variables:

- Firm size
- Sector tangibility
- Type of market served
- External support
- Environmental legislation (country variable)

Human Rights Sustainability Challenges: The context of social responsibility – Key features

- Social responsibility is implemented as part of the ***triple bottom line sustainability*** definition (economic, environmental and social)
- Social responsibility necessitates the application of responsible ***management practices*** which takes into consideration the rights of labor and communities
- Social responsibility recognizes ***stakeholders*** within the supply chain and attempts to ensure long-term benefit for society

Human Rights Sustainability Challenges: The context of social responsibility – Where research stands

- The operation management literature on social sustainability presented:
 - Links with logistics and purchasing activities
 - Sustainable supply chain governance models
- Comparative research studies have looked at corporate Social Responsibility (CSR) policies and practices in specific industries, particularly labor intensive industries like food and apparel

F. Huq, M. Zorzini , (2014), Int. J. of Oper. & Prod. Manag., Vol. 34 Issue 5 pp. 610 - 638

Human Rights Sustainability Challenges: Selected publication

- F. Huq, M. Zorzini , (2014), Int. J. of Oper. & Pro. Manag., Vol. 34 No. 5 pp.610 - 638

Objective: Investigate why developing country suppliers are adopting socially sustainable practices and how the implementation process is both impeded and enabled

Findings:

- Labor retention is a major factor
- Barriers to implementation include a misalignment between the requirements of western codes of conduct and the cultural and socio-economic context in Bangladesh

Human Rights Sustainability Challenges: Selected publication

- F. Huq, M. Zorzini , (2014), Int. J. of Oper. & Pro. Manag., Vol. 34 No. 5 pp.610 - 638

Objective: Investigate why developing country suppliers are adopting socially sustainable practices and how the implementation process is both impeded and enabled

Findings:

- Enabling factors include a shift from auditing and monitoring to more open dialogue and trust between buyers and suppliers
- Mock compliance exists, e.g. suppliers keeping two sets of timesheets, and of the complexities of social sustainability

Human Rights Sustainability Challenges: Selected publication

- F. Huq, M. Zorzini , (2014), Int. J. of Oper. & Pro. Manag., Vol. 34 No. 5 pp.610 - 638

Objective: Investigate why developing country suppliers are adopting socially sustainable practices and how the implementation process is both impeded and enabled

Findings:

- For example, while some initiatives are unanimously positive, removing child labor from ready made garment industry suppliers has simply diverted it to other, less regulated and more hazardous industries such as construction.

Supply Chain Management Sustainability Challenges

Related Research Topics:

- Sustainable supply network management
- Supply/demand sustainability in CSR networks
- Green purchasing and procurement
- Green logistics and environmental logistics
- Supply chain revision incorporating the multi-player concept
- Satisfying the triple-bottom-line (TBL) concept

Supply Chain Management Sustainability Challenges

Definition:

- Sustainable supply chain management (SSCM) is defined
 - as the management of material and information flows,
 - as well as cooperation among companies along the supply chain
 - while taking into consideration the three dimensions of sustainable development, i.e. economic, environmental and social

Supply Chain Management Sustainability Challenges

Understanding: SSCM means

- Management of supply chain operations, resources, information, and funds in order to maximize the supply chain profitability while at the same time minimizing the environmental impacts and maximizing the social well-being

Paolo Taticchi Flavio Tonelli Roberto Pasqualino , (2013),"Performance measurement of sustainable supply chains ", International Journal of Productivity and Performance Management, Vol. 62 Iss 8 pp. 782 - 804

Supply Chain Management Sustainability Challenges

Understanding: SSCM means

Integrating environmental, economic and social concerns into the inter-organizational practices of SCM, assuming the following managerial practices:

- Reducing the negative environmental and social impacts
- Considering all the stages of the value chain for each product
- Encompassing the entire product life cycle within a multi-disciplinary perspective

Supply Chain Management Sustainability Challenges

Key Elements

- Innovation capability
- Positive management orientation
- Reconceptualization of SC members
- Collaboration with non-traditional SC members
- Supplier continuity is an important outcome
- SC performs well on traditional metrics
- Institutional measurement & reward system

Analytical models for integrating sustainability into supply chain

- Scheduling
- Energy awareness considerations
- Facility location
- Supplier selection
- Policy assessment, optimization
- Analytical hierarchy process
- Fuzzy decision making
- Heuristics such as genetic algorithm
- Life cycle costing and life cycle

Sharing supply chain information within the context of sustainability reporting: Introductory notes

Key Observations

- Reporting requirements within the context of supply chain information sharing
- The role of information sharing is critical for coordinating a supply chain
- The control and sharing of information is important not only for issues related to social responsibility, but also for international regulatory requirements

Sharing supply chain information within the context of sustainability reporting: Introductory notes

Key Observations

- Enterprises are dependent on suppliers to disclose environmental information about raw materials, semi-manufactured products, and other resources imbedded in what they supply (e.g., energy and water)
- It is easier for more established firms to acquire this information.
- On the other hand, some enterprises will seek a competitive edge through maintaining information asymmetry

Sharing supply chain information within the context of sustainability reporting: Introductory notes

Reflections on Literature – Signaling Theory

- Researchers have looked at issues related to reporting requirements, one approach is what is called Signaling theory
- This theory suggests mechanisms for the transfer of information to another party to resolve information asymmetries
- An example of signaling that a supply chain is environmentally sound is to have the ISO 14001 certification standard implemented among supply chain partners

Sharing supply chain information within the context of sustainability reporting: Introductory notes

Reflections on Literature – Certification

- Enterprises are more likely to certify their practices when information asymmetries with their stakeholders are high
- Certification signals to the market that firms within the supply chain operate with recognized environmental management practices
- However, a significant portion of ISO 14001 certification is not awarded to the best environmentally performing enterprises

Sharing supply chain information within the context of sustainability reporting: Introductory notes

Challenges Faced by SMEs

- Supply chain sustainability has been of great interest in the last decade for academia and the industrial world because of pressures from various stakeholders to adopt and commit to sustainability practices
- Lack of in-house resources capable of implementing sustainability practices is a major challenge. Often, SMEs do not have adequate skills or resources to implement new development processes

Sharing supply chain information within the context of sustainability reporting: Introductory notes

Challenges Faced by SMEs

- Sustainable supply chains (SSC) are a key component of sustainable development in which the environmental and social criteria need to be fulfilled by supply chain members to remain within the supply chain
- Furthermore, it is expected that competitiveness would be maintained through meeting customer needs and related economic criteria

Sharing supply chain information within the context of sustainability reporting: Introductory notes

Challenges Faced by SMEs

- How to satisfy multiple and conflicting objectives such maximizing profit while reducing operating costs, and minimizing the environmental impacts while meeting the social sustainability requirements is a challenge particularly in developing countries
- Moreover, the lack of expertise limits SMEs capacity to prioritize key elements and to make an accurate assessment of the time and resources required

Sharing supply chain information within the context of sustainability reporting: Introductory notes

Sustainability reporting

- Sustainability reporting would require sustainability measurements
- Many enterprises are starting to measure the sustainability of their business with mainly three goals: transparency and communication to stakeholders, improvement of their operations and strategy alignment

Sharing supply chain information within the context of sustainability reporting: Introductory notes

Sustainability reporting

- Within this context, metrics and frameworks have been proposed by industry such as the **Global Reporting Initiative**, the Carbon Disclosure Project or the International Federation of Accountants
- Committed and willing-to-report SMEs will face the problem that most of the tools available for supporting companies in producing sustainability reports have been developed in and for large companies

Sharing supply chain information within the context of sustainability reporting: Introductory notes

Sustainability reporting

- SMEs everywhere, and especially in the developing world, do not see the potential advantage of their sustainability improvement to the extent that they might feel that they do not have anything positive to report

Sharing supply chain information within the context of sustainability reporting: Introductory notes

The case of global reporting initiative (GRI)

- The best known framework for voluntary reporting of sustainability performance is Global Reporting Initiative (GRI, 2006)
- However, until now, SMEs have obtained only marginal attention by GRI

Sharing supply chain information within the context of sustainability reporting: Introductory notes

The case of global reporting initiative (GRI)

- This was partly the result of the tactical decision made by GRI founders, who focused on securing participation by large international business.
- Thus, at present, most of the GRI reporters are large multinational corporations; whilst SMEs are barely represented
- Key Sustainability Indicators (KSI)

M. Arena & G. Azzone, (2012), J. of Small Busin. and Enter. Devel., Vol. 19 Iss 4 pp. 669 - 686

KSI from GRI

Labor practices & decent work

1. Employment
2. Labor/management relations
3. Occupational health and safety
4. Training & Education
5. Diversity & equal opportunity

Society

14. Community
15. Corruption
16. Public policy
17. Anti-competitive behavior

Human rights

6. Investment & procurement practices
7. Non-discrimination
8. Freedom of association & collective bargaining
9. Abolition of child labor
10. Prevention of forced & compulsory labor
11. Complaints & grievances practices
12. Security practices
13. Indigenous rights

Production responsibility

18. Customer health & safety
19. Product and service labeling
20. Marketing communications
21. Customer privacy
22. Compliance

Conclusions

- The subjects of SMEs sustainability challenges, sustainable supply chain management and human rights are well covered in the literature
- The previous slides present the academia views regarding the four questions addressed:
 1. How can SMEs make their supply and value chains sustainable?
 2. How can they fulfill the new reporting requirements for sustainability?
 3. How can the establishment of reliable complaint mechanisms in practice look like? Are there examples of good practice?
 4. Which networks and best practice-Databases can give support?