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**TOPIC III: Sustainable Supply & Value Chains – Implementing the
UN-Principles “Business & Human Rights” at the level of companies**

An Academic Perspective

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Framing the Problem

The obligation to implement the UN-principles means a great challenge to the private sector around the globe. They are requested to commit themselves to respect human rights by: an internal policy commitment to establish a human rights due diligence process and to establish processes to enable the remediation of any adverse human rights impacts they cause or to which they contribute.

Mainly small and medium-sized-enterprises (SMEs) need support in order to assume their responsibility along global supply and value chains.

Core Questions:

- How can SMEs make their supply and value chains sustainable?
- How can they fulfill the new reporting requirements for sustainability?
- How can 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?

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

1. SMEs and the Sustainability Challenges

- Economic issues: cost, quality, speed of delivery, flexibility, resource utilization, visibility and innovativeness
- Environmental issues:
 - Level 1: pollution abatement and control
 - Level 2: climate change; decline in ecosystems & biodiversity; deforestation; soil degradation
 - Level 3: resource depletion, energy conservation, water conservation
- Social issues: respect of human and workers' rights: child labour, health and safety in working conditions, gender equality, poverty alleviation

Supply chain levels:

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

1. SMEs and the Sustainability Challenges

Research findings: paper titled “ what drives environmental practices of SMEs?”

Two types of environmental related practices have been considered: engagement in greening processes and in greening product and service offerings. Research main findings include:

- Firm-level characteristics are relevant when explaining the environmental behavior of SMEs.
- It is important to distinguish between the types of environmental practices. That is, the type of customers served only affects SMEs' engagement in greening product and service offerings.
- SMEs are more likely to engage in greening their product and service offerings when environmental legislation is strict.
- There is a more pronounced positive relationship between firm size and greening processes than between firm size and greening product and service offerings.
- Additional findings are that 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
- Greening products

Independent variables:

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

Control variables:

- Firm age
- Proactive versus reactive EMS

2. Human Rights Sustainability Challenges

Human rights within the context of social responsibility

- Social responsibility is implemented as part of the triple bottom 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.
- 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

2. Human Rights Sustainability Challenges

One example from the published research papers on the subject

Purpose:

The purpose of this paper is to investigate why developing country suppliers are adopting socially sustainable practices and how the implementation process is both impeded and enabled

Findings:

- One factor motivating implementation is labor retention – a skilled labor shortage means employees will migrate to other factories if suppliers do not improve certain social standards.
- Barriers to implementation include a misalignment between the requirements of western codes of conduct and the cultural and socio-economic context in Bangladesh. Enablers include a shift from auditing and monitoring to more open dialogue and trust between buyers and suppliers.
- The paper also reveals evidence of mock compliance, e.g. suppliers keeping two sets of timesheets, and of the complexities of social sustainability. 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.

3. Supply Chain Management Sustainability Challenges

Related Topics:

- Sustainable supply network management
- Supply and demand sustainability in corporate social responsibility 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

Main Source:
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

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.

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.

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 across the entire value chain for each product
- Encompassing the entire product life cycle within a multi-disciplinary perspective

3. Supply Chain Management Sustainability Challenges

Recent trends in sustainable supply chain design

- Product design.
- Manufacturing by-products.
- By-products produced during product use.
- Product life extension.
- Product end-of-life.
- Recovery processes at end-of-life.

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

3. Supply Chain Management Sustainability Challenges

Analytical models for integrating sustainability into supply chain

1. Innovation capability.
2. Positive management orientation.
3. Reconceptualise SC members.
4. Collaborate with non-traditional SC members.
5. Supplier continuity is an important outcome.
6. SC performs well on traditional metrics.
7. Institute measurement and reward system.

- Scheduling
- Energy aware 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

Wu,Z. and Pagell, M, Balancing Priorities: Decisin-Making is Sustainable Supply Chain management, Jounal of Operation Management, 29 (2011), 577-590

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

- We will consider the new 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
- 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.
- Researchers have looked at issues related to reporting requirements, one approach is what they call Signaling theory. This theory suggests mechanisms for the transfer of information to another party with the target 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 .
- Research has shown that enterprises are more likely to certify their practices when information asymmetries with their stakeholders (e.g., customers and suppliers) are high. This certification is a signal to the market that firms within the supply chain operate with recognized environmental management practices.
- However, it has been found that a significant portion of an ISO 14001 certification is not awarded to the best environmentally performing enterprises

4. Sharing supply chain information within the context of sustainability reporting:

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.
- 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, while it is expected that competitiveness would be maintained through meeting customer needs and related economic criteria.
- The challenge SMEs are facing, specially in the developing world, is how to satisfy multiple and conflicting objectives such as maximizing profits while reducing operating costs, minimizing the environmental impacts and meeting the social sustainability requirements.
- 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. 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

4. Sharing supply chain information within the context of sustainability reporting:

More findings related to the subject

- 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
- Another challenge SMEs will face is lack of in-house resources capable to implement sustainability practices. In many cases, SMEs do not have adequate skills or resources to implement new development processes.
- Moreover, the lack of expertise limits their capacity to prioritize key elements and to make an accurate assessment of the time and resources required
- 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

4. Sharing supply chain information within the context of sustainability reporting:

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. 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.

(KSI): Key Sustainability Indicators

Marika Arena Giovanni Azzone, (2012), "A process-based operational framework for sustainability reporting in SMEs", Journal of Small Business and Enterprise Development, Vol. 19 Iss 4 pp. 669 - 686

KSI (from GRI)

Labor practices and decent work

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

Human rights

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

Society

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

Product responsibility

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

4. Sharing supply chain information within the context of sustainability reporting

Research findings of paper entitled: A process-based operational framework for sustainability reporting in SMEs

The objective of this work was to set out a process for identifying a set of KSIs able to support the implementation of proactive sustainability strategies among SMEs.

The starting point is the widely accepted idea that sustainability reports are an essential element for implementing proactive environmental and social strategies, and that they can therefore help companies derive financial benefits arising from more sustainable choices.

The approach proposed in this paper seeks to tackle this issue through a method for selecting a set of KSIs that is compliant with qualitative requirements of international sustainability reporting frameworks but it is specifically tailored on SMEs characteristics. This offers a number of advantages for SMEs:

- First, the approach described is consistent with the accountability requirements of voluntary reporting
- The second advantage is the “centralisation” of key decisions, which makes the proposed process quicker and less expensive than other approaches, coherently with the needs of SMEs
- Finally, the set of KSIs can be easily modified whenever there is any change in the conditions that determined the choice of indicators

5. 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?
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 4. Which networks and best practice-Databases can give support?