Insight

WHAT LURKS IN YOUR SUPPLY CHAIN?

Why and how supply side CSR is something we must take seriously

August 2016

Supplier Relationship Management

Pick up an annual report and you are highly likely to read a Corporate Social Responsibility (CSR) statement setting out the company's commitment to making the world a better place. Progressive organizations turn policy into action and can proudly demonstrate a range of initiatives that have achieved a successful social, environmental or good neighbour outcome. But what about the Supply Chain?

CSR programs seldom extend to this key area. Although some are still figuring it out, considerable progress has been made in businesses where CSR is a core value. That said, driving CSR into the supply chain undoubtedly represents a significant challenge. Whilst it is an area that can harbour the biggest risks, for some it is also where the biggest opportunities can lie.

An organization that sets out to be responsible will inevitably suffer serious, costly brand damage should child labour be exposed at one of its factories, or poor working conditions be found at a plantation. There is certainly no shortage of relentless investigative journalists out there, keen for a story that could bring a big corporation to its knees—and the bigger and more seemingly virtuous the brand, the better the story.

Preventing brand damage is a compelling reason to embrace CSR, but there are others. When asked, most buyers and customers will say they support responsible buying and sustainable procurement. Why wouldn't they? But when push comes to shove, this interest does not always translate into action. So-called "shopping basket activists", consumers who will intentionally choose alternatives or pay more for a responsible product are the minority, but thankfully their numbers are growing. As a rule of thumb however, customers, shareholders and stakeholders hold the expectation that the brand they trust is good in every way.

Finally, some organizations are driving in CSR because they genuinely want to. It supports their core values, the beliefs of the business and its owners, or because the brand proposition is built upon ethical principles.

Clearly there exists a range of motivations to adopt a CSR strategy that put it firmly on the boardroom agenda. However, once a business is clear about the need for intervention in this space, doing something about it is not straightforward. Many organizational CSR programs initially tend to be inwardly focused, as those areas under their direct control are the easiest to influence.

Waste management programs, energy and water saving initiatives, social support programs and so on are a good start, but if an organization is truly serious about its CSR policies, then inward-facing initiatives only represent part of the picture. Instead, a firm must consider how it exists, interacts with and impacts upon its environment. This includes the end-to-end value chain that the organization exists within, particularly the Supply Chain, and what might lurk within it.

Supply Side CSR is based upon taking action to understand and monitor the full extent of the Supply Chain and then deciding how, and when, to act. Learn how to understand what's lurking in your supply chain and act upon it with these three steps:

1. UNCOVER WHAT LURKS IN YOUR SUPPLY CHAIN

It is difficult enough to maintain a clear and detailed picture of those immediate suppliers with whom we have a contractual relationship. Looking back up the full supply chain with its contractual steps, many of which we can exert no direct influence over, is even harder.

Completely mapping a single supply chain to fully understand it is a significant undertaking; mapping all of our supply chains is an impossibility. So, if we are to make any headway in understanding where any potentially detrimental impacts lie, we need to focus our efforts on looking for 'hot spots' and examining those supply chains that are associated with:

- known problematic geographies
- industries that involve high risk processes
- products or services known, or suspected, to be problematic (won't place a break in).

For example, if our supply chain uses palm oil, or we know some ingredients originate from the Ivory Coast, then they are hot spots that warrant deeper investigation.

2. KNOW WHAT TO PRIORITIZE

With a greater understanding of the supply chain comes the ability to determine priorities for either immediate action or further and deeper investigation. Consider the nature of the potential impacts and evaluate scale through a risk assessment approach. If our brand's core values are founded on certain well-known or highly visible principles, then we are hugely vulnerable if our supply chains do not reflect them.

3. DRIVE ACTION

Once we have identified, evaluated and prioritized the supply chain impacts, we need to create a strategy to mitigate the risk and then implement it.

Once again, the challenge here is one of control. The factors that drive risk are likely to exist several contractual steps up the supply chain from our immediate suppliers where we have no influence. This could be in countries where what is legislated and what is socially acceptable are very different and formal contracts may have less worth. Driving intervention with our immediate supplier to act will simply fail to permeate through the supply chain.

Sadly, there is no easy or fool proof way to drive the required action; in fact, the only effective way to deal with Supply Chain CSR risk is to go and get close to the original factory or plantation and establish key relationships, finding ways to incentivise and drive change through them. Granted, this takes time, resources, a great deal of patience and high degree of determination. Therefore, at this point, many companies give up. Yet if you persist, it can be possible to drive wholesale change.

Achieving change in remote parts of our supply chains demands communication, incentives and monitoring, rather than directives, policing and penalties. This may include finding ways to deal with areas of concern directly at the source, or agreeing ways to fund change.

The investment may need to be detached from the transaction. For example, when some commodities are traded in trading houses, their history and any detrimental impacts can be conveniently washed away. It's tempting to think that this might obviate any further action, but sadly not. Much can still be done, but it needs creative thinking to enable smart investment that will influence and directly help the original source to become more sustainable.

Companies serious about CSR will still need to buy the same commodities but ensure they buy those that have originated from the plantations they are working with, paying an agreed, premium over-market price so the growers receive the investment they need to operate sustainably.

Some companies choose to work directly with the producer to fund specific improvement projects but it's not just the growers that receive attention. All sorts of bad practices can exist in factories too, and a periodic audit might not provide the required certainty of compliance. Instead, investing in local representation working at factory level on an ongoing basis may be needed to really get close to what is happening.

Whatever the arrangement, one thing is clear: driving improvements back up the supply chain is no small task and it might require unconventional arrangements, ongoing investment, and close, local monitoring. Driving successful and sustained Supply Side CSR is about much more than setting policy; it needs a smart, coordinated and adequately resourced and sustained business effort to make a genuine difference.