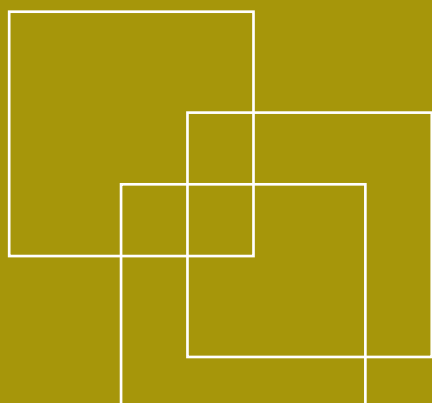




International
Labour
Office



Introducing **Sustainability** into the **Supply Chain**



TEACHING GUIDE



Nottingham University
Business School

UNITED KINGDOM • CHINA • MALAYSIA



Introducing
Sustainability
into the **Supply Chain**



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Introducing Sustainability into the Supply Chain

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About the ILO

The International Labour Organization is the international organization responsible for drawing up and overseeing international labour standards. It is the only 'tripartite' United Nations agency that brings together representatives of governments, employers and workers to jointly shape policies and programmes promoting Decent Work for all.

The *ILO-Business Schools Initiative* is coordinated by the ILO Multinational Enterprises Programme, ILO Job Creation and Enterprise Development Department, in collaboration with the International Training Centre of the ILO (ITC-ILO).

The Multinational Enterprises Programme is responsible for the promotion and adoption of the Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (MNE Declaration), which is the organization's core instrument for promoting labour standards and principles in the corporate world, and operates the ILO Helpdesk for Business, providing guidance to employers, workers and governments on implementing labour standards.

The International Training Centre of the ILO (Turin) is the training arm of the ILO. The Turin Centre is at the heart of a global network for learning, training and knowledge-sharing. The Centre is committed to assisting countries in their social and economic development through learning and training.



Table of Contents

Acknowledgements.....	vi
List of Abbreviations and Acronyms.....	vii

TEACHING GUIDE

Introduction.....	1
How to use the Teaching Guide.....	3

Session 1

From Sustainable Development to Sustainable Supply Chains.....	5
--	---

Session 2

Governance of Supply Chains I: From Compliance to Voluntary Standards.....	39
--	----

Session 3

Governance of Supply Chains II: Introducing International Labour Standards	67
--	----

Session 4

Sustainable Supply Chains as a Lever of Competitive Advantage	109
---	-----

Session 5

Integrating Sustainability into the Supply Chain	135
--	-----

Session 6

Managing Stakeholder Relations	165
--------------------------------------	-----

Session 7

Building Supply Chain Partnerships	195
--	-----

Session 8

Measuring and Communicating on Sustainable Supply Chain Performance	223
---	-----

PARTICIPANT HANDBOOK	259
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List of Abbreviations and Acronyms

BITC:	Business in the Community
BMS:	Business Measurement Systems
BSC:	Balanced Score Card
BSCI:	Business Social Compliance Initiative
BSR:	Business for Social Responsibility
CA:	Competitive Advantage
CEO:	Chief Executive Officer
CEP:	Council on Economic Priorities
COP:	Communication on Progress
CSR:	Corporate Social Responsibility
DJSI:	Dow Jones Sustainability Index
ETI:	Ethical Trading Initiative
EU:	European Union
FAO:	Food and Agricultural Organisation
FTSE:	Financial Times Stock Exchange
GAP:	Good Agricultural Practice
GFAs:	Global Framework Agreements
GRI:	Global Reporting Initiative
GSCP:	Global Social Compliance Programme
GUFs:	Global Union Federations
ICCPR:	International Covenant on Civil and Political Rights
ICESCR:	International Covenant on Economic, Social and Cultural Rights
IFAs:	International Framework Agreements
IFOAM:	International Federation of Organic Agriculture Movement
ILO:	International Labour Organisation
ILS:	International Labour Standards
IO:	Intergovernmental Organization
IOE:	International Organization of Employers
IP:	Intellectual Property
ISO:	International Organisation for Standardization
ITGLWF:	International Textile, Garment and Leather Workers Federation

ITUC:	International Trade Union Confederation
IUCN:	International Union for Conservation of Nature
MDGs:	Millennium Development Goals
MNE:	Multinational Enterprise
MSC:	Marine Stewardship Council
MSI:	Multi-stakeholder Initiatives
NGO:	Non-governmental organisations
OECD:	Organisation for Economic Co-operation and Development
OSH:	Occupational Safety and Health
PMS:	Performance Measurement Systems
RFE:	Rainforest Expeditions
RSPO:	Roundtable on Sustainable Palm Oil
SA:	Social Accountability
SAI:	Social Accountability International
SAI:	Sustainable Agriculture Initiative
SAN:	Sustainable Agriculture Network
SC:	Supply Chain
SCM:	Supply Chain Management
SEA:	Social and Environmental Accounting
SSC:	Sustainable Supply Chain
SSCM:	Sustainable Supply Chain Management
TSC:	Tourism Supply Chain
TU:	Trade Union
UDHR:	Universal Declaration of Human Rights
UK:	United Kingdom
UN:	United Nations
UNCED:	United Nations Conference on Environment and Development
UNEP:	United Nations Environment programme
UNGC:	United Nations Global Compact
UNSRSG:	United Nations Special Representative of the Secretary General
US:	United States
WBCSD:	World Business Council for Sustainable Development
WRAP:	Worldwide Responsible Accredited Production
WTO:	World Trade Organisation



About the Teaching Module: “Introducing Sustainability into the Supply Chain”

The *ILO-Business Schools Initiative*, aligned with the United Nations Principles for Responsible Management Education¹, was launched in 2009 with the objective of promoting sustainable and responsible business practices in management education, with a particular focus on ILO’s decent work mandate. The initiative brings together leading educational institutions, academics and experts working in the field of sustainability and corporate responsibility to jointly develop and deliver a coherent set of research programs and teaching activities that promote education on sustainable and responsible enterprises at a management level.

The Teaching Module: “*Introducing Sustainability into the Supply Chain*” constitutes the first capacity building project of the initiative and consists of an 18-hour teaching programme targeted at entrepreneurs or mid-career managers, to be offered by Business Schools or other management development institutions either as a stand-alone course or embedded into broader executive education programmes as a specialised or elective module. The modules were developed in collaboration with academic contributors from diverse continents and aim to help accelerate access to teaching resources on this emerging field of study, particularly to support the fast growing number of business schools in developing economies.

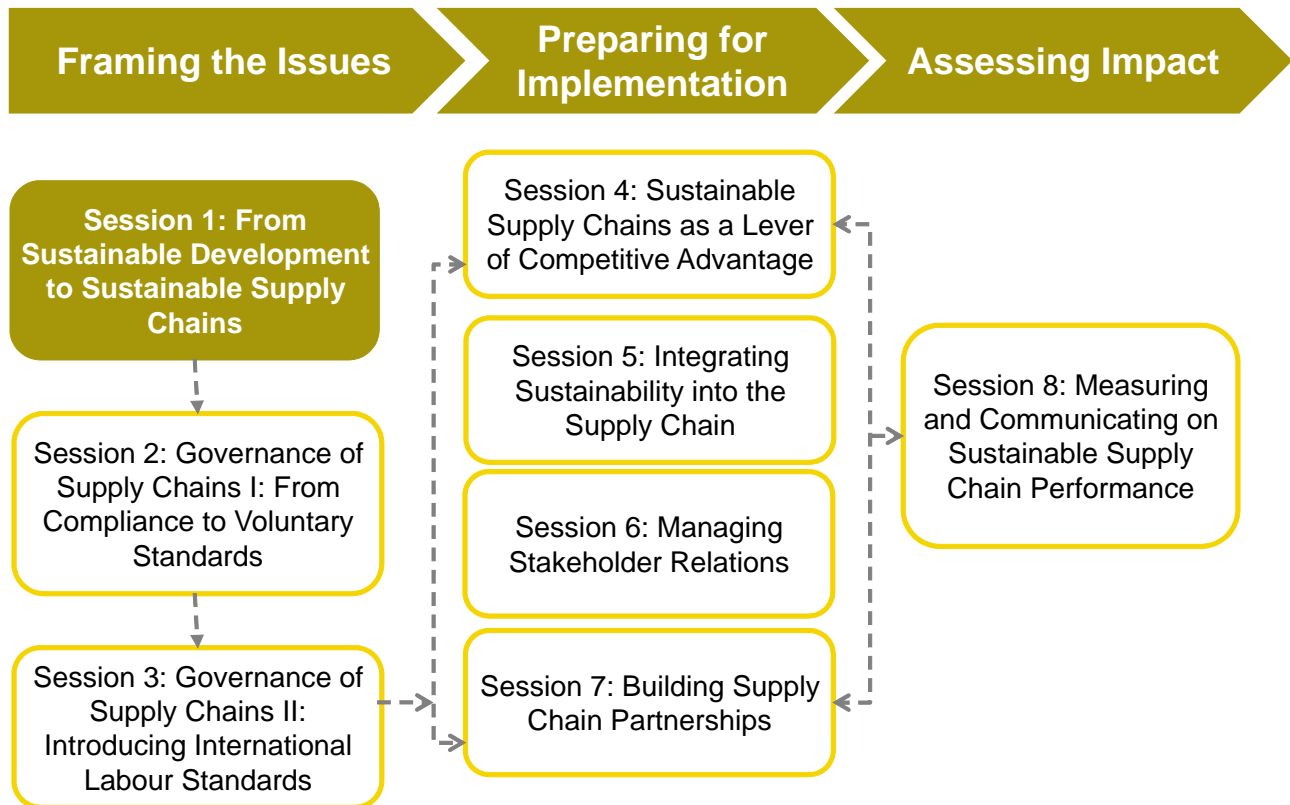
Developing teaching modules for others to adopt and use is a challenging undertaking. It is expected that the modules will be customized by the users to meet their needs. Sustainable Supply Chain Management is furthermore an emerging field and there are a number of concepts and topics where there is no consensus, even on basic definitions. This product is therefore to be seen as an iterative product to be reviewed and refined on a continued basis. However, by pilot testing the module in two diverse business school environments, Ghana and China, the relevance of continued study and teaching in this area have been reinforced.

Learning approach and contents

The module approach and contents have been designed considering a multi-cultural global management audience, with tools that allow for adaptation to specific challenges and issues particular to developing countries. The modules are not only aimed at leaders in Multinational Enterprises, but take into account that in many countries, managers are more likely to work in SMEs or family-owned businesses. Therefore the module combines academic theory with contemporary management-practitioner approaches to knowledge transfer. The chart below depicts the logical flow of the teaching module.

¹ United Nations Principles for Responsible Management Education, see <http://www.unprme.org/the-6-principles/index.php>

Approach to “Introducing Sustainability into the Supply Chain”





How to use the Teaching Guide

Lecturers delivering the module and using the Teaching Guide are encouraged to adapt session materials and scripts as appropriate to their local context, industry or functional backgrounds as required by participants' profiles.

The Teaching Guide was conceived as a tool for Lecturers to support their advance preparation and delivery of the module and each individual session. It provides preparatory and delivery supports such as session scripts, presentations, reading lists, assignments, audio-visual materials or links, case studies and teaching notes per session.

Each session includes the following sections:

- **About the Session:** a general synopsis of the session, framing the topics addressed and the approach adopted;
- **Session Objectives:** an overview of the general and specific objectives of the session;
- **Key Learning Outcomes:** a summary of the main learning points or practical skills participants are expected to retain.
- **Session Outline:** this section is intended to facilitate planning of the session and activities by offering guidance on the contents and estimated timing of each unit;
- **Methodology and Faculty Script:** an overview of methodologies proposed per session, learning activities and guidelines for lecturers delivering the session;
- **Presentation and Speaker Notes:** this section offers the presentation slides and speaker notes proposed for the session;
- **Key Questions:** this section includes reflection questions for lecturers and participants in order to stimulate initial thoughts on the topics proposed and to prepare for learning activities included in the session, class discussions or case studies or other;
- **Mandatory and Complementary Readings:** a detailed list of supporting articles, reports and other proposed materials to facilitate understanding of the topics to be addressed during the session.
- **Teaching Resources:** this section describes the resources to be deployed and approaches to use for set-up and delivery of the module session in a classroom setting. This section also provides a further selection of optional teaching and learning resources available on the session topic.

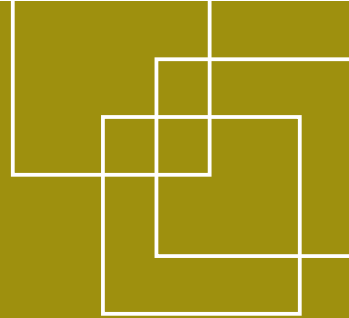
A separate Participant Handbook has been included as the final section of the Teaching Guide, for local adaptation and onward distribution to participants. The Participant Handbook includes session descriptions, anticipated learning outcomes, and guidelines on advance preparation such as reflection questions, assignments, and lists of required and complementary reading and other learning resources.

Session 1

From Sustainable Development to Sustainable Supply Chains



Introducing
Sustainability
into the Supply Chain





About the session

This session provides an introduction to the complete module and aims to provide course participants with a shared understanding of common definitions, key concepts and issues around “sustainable development”, “sustainability” (social, environmental, and economic), and “sustainable supply chain management”. The session begins by introducing participants to contemporary issues in human development, the impact of globalization on sustainable development, and the potential role of business in addressing development challenges, including through implementation of sustainable supply chains.

The session also outlines for participants the logical flow of the module and describes how each individual session can contribute to the participant's ability to better address sustainability challenges and introduce improved sustainability practices into their organization's supply chains.



Session objectives

- Introduce definitions of “sustainable development”, its evolution and key concepts
- Raise awareness for the global social, economic and environmental development priorities that the public and private sector are increasingly urged to address
- Explore the impact of globalization on supply chains and implications for businesses
- Identify leading drivers for introducing sustainability practices in supply chains



Key Learning Outcomes

The suggested session materials and techniques intend to bring together the main theoretical concepts and practitioner views on sustainability and supply chains. Through the combination of lecture contents, reflection questions and brainstorming exercises, participants will be able to:

- Understand the evolution of thinking and ideas around sustainable development and how the issue is being addressed by the international community, business and governments worldwide
- Identify and categorize key sustainability considerations in supply chains from an environmental, social and economic perspective
- Understand the broad concept of sustainable supply chains and the link between sustainability, supply chains and competitiveness

Hence, at the end of the session, participants should be able to:

- Build the case for building sustainable supply chains;
- Map supply chains and identify key sustainability issues to address;
- Pinpoint the drivers of sustainability in supply chains and their possible implications



Suggested Session Outline

In order to better manage the session and deliver within the allocated time, the following breakdown is recommended:

Session title	Time allocation	Slide presentation/ sub-activity	Time allocation
Unit 1.1: State of Sustainable Development		Session outline	2 minutes
		Session objectives	2 minutes
		Slide presentation	20 minutes
Unit 1.2: A review of key concepts	15 Minutes	Slide presentation	15 minutes
Unit 1.3: Globalization and Supply Chain Management: competition and global production systems		Slide presentation	15 minutes
		Brainstorming exercise and class discussion	15 minutes
Short/ Coffee break	(10 Minutes)	Optional	10 minutes
Unit 1.4: Drivers of Sustainability in supply chains		Slide presentation	10 minutes
		Video and class discussion	20 minutes
Unit 1.5: Case Discussion and Wrap Up		Buzz groups discussion in class or breakout groups	30 minutes
		Wrap up in Plenary	10
Total	150 Minutes		



Methodology

This session serves to familiarize participants with the topic of sustainable supply chains and begins framing of key issues; it relies on a presentation and a case study analysis and discussion in small groups (Michelin, Section 6). As an introductory session, it also seeks to generate excitement amongst participants about the module and start challenging their thinking through thought-provoking questions. The lecture is supported by a PowerPoint presentation (or slides using an overhead projector).

Lecturers are encouraged to be creative in finding ways to generate interest and engage the audience.



Faculty script

- Begin with the presentation (See Section 2) using the PowerPoint slides or making transparencies for an overhead projector. The presentation should take no longer than 45'. There are questions posed to participants throughout, however, it is suggested to balance intensity and length of discussions generated across session to ensure sufficient time for case discussion.
- Introduce and conduct Case Study Discussion using: “**Michelin: Green Gold Bahia Project (POVB)**”. We suggest you split the class in buzz groups (6-7 participants maximum) in different corners of the room or in breakout rooms (if available), to conduct the discussion questions.
- Call one group to the front of the plenary.
- Summarize the Case Study.
- Encourage participation as well as group discussions and small group work.
- Build on local experience. Discussions should include participants' own experiences and should take into account local realities and culture.



Special remarks

The use of the Michelin Case Study is encouraged, however, the lecture may be run without it as a “setting the scene” introduction to sustainable development. In this case, the lecturer may want to spend additional time discussing the video “Better work, better lives” (Ethical Trading Initiative, Norway) in Unit 1.4.

The case addresses the divestment of a Michelin rubber plant in Brazil and touches on a myriad of sustainability issues, from keeping a business running profitably to ensuring welfare of workers and positive impacts on the community and the environment. The added value of the case is that it provides a rich overview of challenges related to all three spheres of sustainability (economic, social, and environmental) and the complexity involved in identifying appropriate solutions.

While the case dates from 2005, its relevance was again renewed in 2011 when the global media reported on violent clashes involving indigenous people, arising from a new law that would allow for commercial exploitation of parts of the Rondonia Forest.



General remarks

Reference to names of firms, commercial products and processes, and initiatives does not imply their endorsement by the International Labour Office, and any failure to mention a particular firm, commercial product or process, or initiative is not a sign of disapproval.

PowerPoint Presentation and Speaker notes

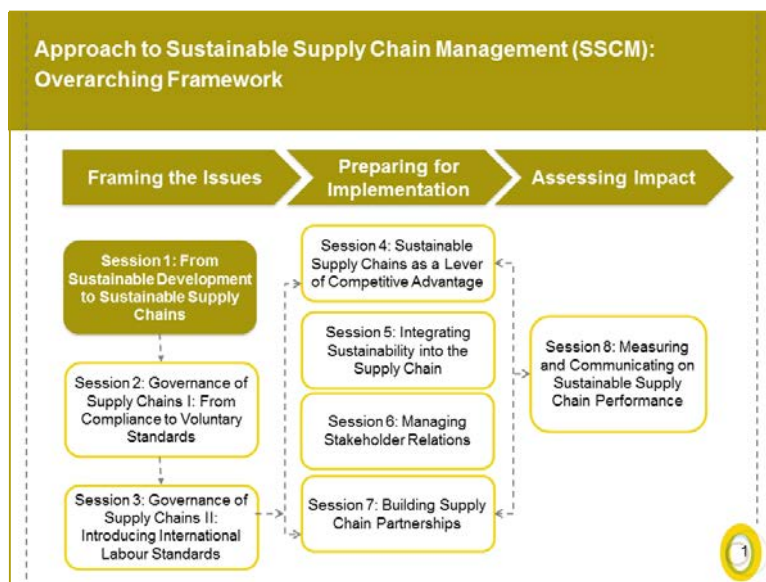
Slide 0: Welcome

Welcome participants, introduce yourself and any co-trainers or staff and ask participants to briefly introduce themselves.



Slide 1: Lecture Map

Please explain the flow of the programme and where the session stands according to the overall content





Slide 2: Session Objectives

Session Objectives

- Introduce definitions of "sustainable development", its evolution and key concepts
- Raise awareness for the global social, economic and environmental development priorities that the public and private sector are increasingly urged to address
- Explore the impact of globalization in supply chains and implications for businesses
- Identify leading drivers for introducing sustainability practices in supply chains

2

Slide 3: Session Outline

Session Outline

Unit 1.1	State of Sustainable Development
Unit 1.2	A review of key concepts
Unit 1.3	Globalization and supply chain management: competition and global production systems
Unit 1.4	Drivers of sustainability in supply chains
Unit 1.5	Case Discussion: Michelin Green Gold Bahia Project

3

Slide 4: Unit 1.1. State of Sustainable Development

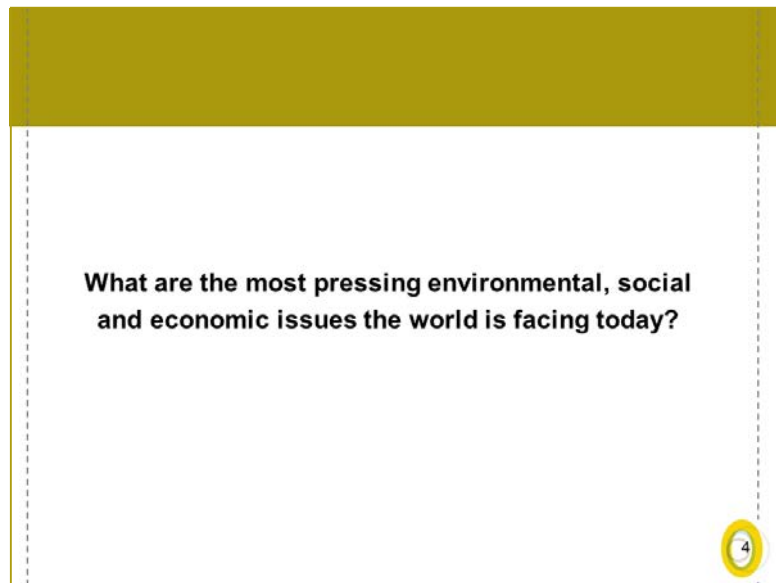
This unit aims at aligning participants at an equal level from which to begin the discussion on sustainable development and the role of business. As participants may come from different backgrounds and professional experiences, their understanding of these topics may vary; therefore, this part of the session allows participants to find common ground for discussing these issues.

The section introduces the three dimensions of sustainable development (Environmental, Social and Economic) by presenting a set of key issues within each of these dimensions. The issues are brought to life by showing facts through powerful images, statistics and examples.

1. This session should be covered at a brisk pace (15') bearing in mind that the message should be powerful and dynamic without being dramatic.
2. Emphasis should be on what these facts may mean for the future.

Question:

This question should lead participants to think about several issues related to sustainable development. As the idea is to warm up students, we suggest you take 5-6 contributions from the plenary maximum for about 5' and then move on with the slides.








Slide 5: Human use of natural resources

Human use of natural resources and the resulting climate conditions are making our environment vulnerable and uncertain

Begin with the environmental dimension of sustainable development by pointing out the impact of human use (and mismanagement) of resources. This slide focuses on three issues that will be further explored in the next three slides:

- Pollution
- Land use
- Oceans

Environmental Issues: Human use of natural resources and the resulting climate conditions are making our environment vulnerable and uncertain

Atmosphere	Land use	Oceans
 <p>(c) Alfredo Conza</p> <p>The World Health Organization states that 2.4 million people die each year from causes directly attributable to air pollution (1)</p>	 <p>(c) hispanoambiente</p> <p>Since the Neolithic Revolution about 47% of the world's forests have been lost to human use (2)</p>	 <p>(c) pricesofcal.org</p> <p>10% of the world's population (600 million people) live in low lying areas vulnerable to sea level rise (3)</p>

Source: (1) 'Estimated deaths & DALYs attributable to selected environmental risk factors, by WHO Member State, 2002', Retrieved 2010-05-29
 (2) World Resources Institute (1996). *World Resources 1996-1999*. Oxford: Oxford University Press
 (3) NOAA. *WaterWise* 2010.

5




Slide 6: Key resources consumption

The excessive consumption and poor management of key resources is contributing to a yet more vulnerable world

This slide introduces three Issues related to the environment and human consumption:

- Energy
- Water
- Waste

Environmental Issues: The excessive consumption and poor management of key resources is contributing to a yet more vulnerable world

Energy	Water	Waste
 <p>(c) eni/andrea/andrea</p> <p>To meet the energy demand of all households worldwide, energy supplies must double by 2050 (1)</p>	 <p>(c) hollandwatergoesafrica</p> <p>Only half of the population of Africa has access to clean water leading to thousands of deaths per day (2)</p>	 <p>In 2008, the EU-27 produced about 2 600 million tonnes of waste, of which 37% was hazardous. Relative to the size of the population, that averaged 5,300 kg per inhabitant (3)</p>

Source: (1) 'Deciding the Future: Energy Policy Scenarios to 2050' World Energy Council 2007, (2) Waterfacts. *Water.org* 2011, (3) European Commission's Eurostat

6

- Jobs and Labour
- Peace, security and social justice
- Education

Social Issues: Child labour and lack of access to education remain strong blockers of economic and human development in many regions		
Jobs and Labour	Peace, security and social justice	Education
 <p>Hazardous work is increasing among older children, aged 15–17. Within four years, it jumped 20 per cent – from 52 million to 62 million. Boys outnumber girls by two to one in this age group¹</p>	 <p>Social disruptions like war, crime and corruption divert resources from areas of greatest human need, damage the capacity of societies to plan for the future, and threaten human well-being and the environment²</p>	 <p>Conflict has far-reaching consequences in education. While Liberia now has peace and stability, 447,000 of its children were out of school in 2008 – an increase of almost 180,000 over 1999³</p>

Sources: (1) ILO's Hazardous Child Labour Report 2011, (2) Blewitt (2008), (3) UNESCO's Education For All Progress Monitoring Report 2010

- Population
- Food
- Poverty

Take time to observe the last point on poverty. Not all people have benefited equally from economic growth. Women and girls are disproportionately affected by poverty: some 829 million females (girls, young and adult women) by comparison to 522 million males (boys, young and adult men) were identified as living below the \$1.25 per day poverty threshold (ILO, 2009). Underscore that for sustainable development to occur, economic growth must be socially inclusive: Women, youth, and disabled are among those historically disadvantaged.

Economic Issues: The projected growth in population is likely to accentuate poverty and famine		
Population	Food	Poverty
 <p>According to UN projections, world population will peak at 9.22 billion in 2075 (1)</p>	 <p>In 2010, FAO estimated there were 925 million hungry people in the world, 62% concentrated in Asia and the Pacific and 25% in Africa (2)</p>	 <p>Women and girls disproportionately affected – 829 million (vs 522 million for males) living at below \$1.25 per day (4)</p>
<p>Six million children die of hunger every year - 17,000 every day (3)</p>		
<p>Source: (1) "World population to 2300" Economic and social affairs, United Nations 2004, (2) FAO, The State of Food Security 2010, (3) http://www.bbc.com/news/health-11111111, (4) http://www.bbc.com/news/health-11111111</p>		

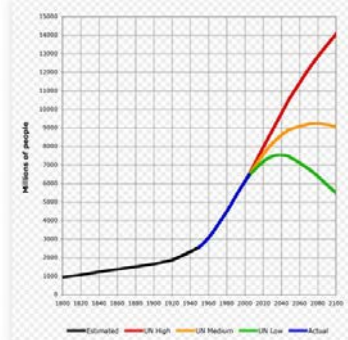


Slide 9: Population Growth Projections to 2100

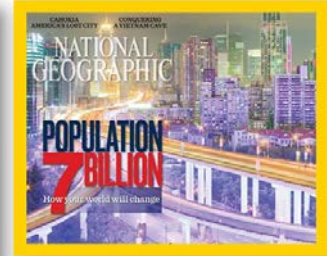
The world's population reached 7 billion on October 31, 2011 and is expected to exceed 9 billion by mid-Century. The environmental and social implications are multiple and complex.

The world's population is now 7 billion (in 2011)

Population Growth Projections to 2100



Source: UN 2004 projections



National Geographic Magazine Cover, May 2011 Edition

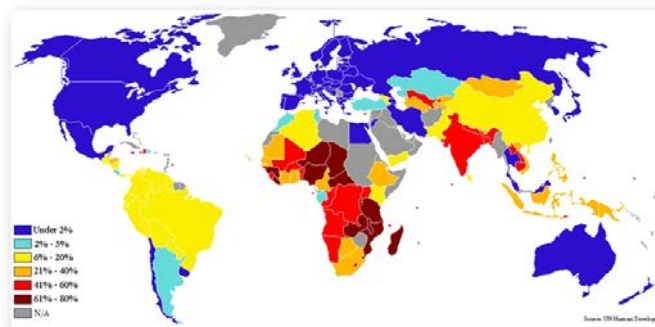
9

Slide 10: Population Living on Less than 1 Dollar per Day

The poorest 40 percent of the world's population accounts for 5 percent of global income, while the richest 20 percent accounts for 75 percent. Increasing disparities is the key message on this slide, yet on the positive side, the number of people living on 1 Dollar per Day declined.

The poorest 40 percent of the world's population accounts for 5 percent of global income, while the richest 20 percent accounts for 75 percent

Population Living on Less than 1 Dollar per Day

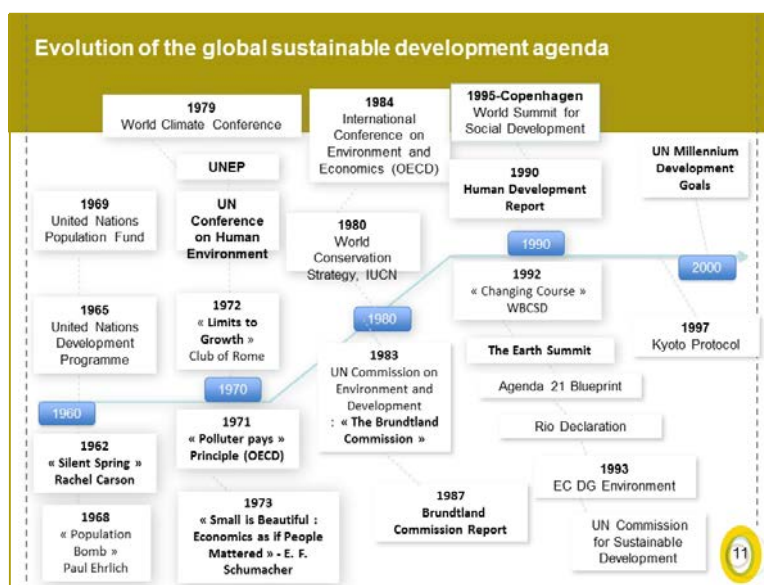


Source: 2008, UN Human Development Report

10

Slide 11: Evolution of the global sustainable development agenda

The concept idea of "sustainability" dates back some four decades. It was a key theme of the United Nations Conference on the Human Environment in Stockholm in 1972. The concept was coined explicitly to suggest that it was possible to achieve economic growth and industrialization without environmental damage. In the following decades, mainstream sustainable development thinking was progressively developed through the IUCN's World Conservation Strategy (1980), the Brundtland Report (1987), and the United Nations Conference on Environment and Development in Rio (1992), as well as in national government planning and wider engagement from business leaders and non-governmental organisations.



As this and the next slide present many events and milestones in the sustainability evolution, you may pick some key events to zoom in.

The current chart depicts some of the most important events in the evolution of sustainable development. You may explain them as:

1962 - Rachel Carson publishes "Silent Spring".

This book brought together research on toxicology, ecology and epidemiology to suggest that agricultural pesticides were building to catastrophic levels. It shattered the assumption that the environment had an infinite capacity to absorb pollutants.

1968 - The Club of Rome, is established by 36 European economists and scientists. Its goal is to pursue a holistic understanding of the 'world problematique'. It commissions a study on global proportions to model and analyse the dynamic interactions between industrial production, population, environmental damage, food consumption and natural resource usage.

1972 United Nations Conference on the Human Environment, Stockholm. 'Only one Earth' - led to the development of The United Nations Environment programme (UNEP)

1972 Club of Rome publishes "Limits to Growth" (Meadows et al) report, which analysed the implications of continuing exponential growth in five interconnected trends of global concern: industrialisation, population growth, widespread malnutrition, depletion of non-renewable resources and ecological damage.

- The report adopts a pessimistic view of development, warning of severe resource shortages if development were to maintain its current momentum.
- It was extremely controversial - Northern countries criticising it for not including technological solutions and Southern countries criticising it because it advocated abandonment of economic development.

1983 World Commission on Environment and Development formed. The commission works for 3 years to weave together a report on social, economic, cultural, and environmental issues.

1984: Worldwatch Institute publishes its first State of the World Report.

The report monitors changes in the global resource base, focusing particularly on how changes affect the economy, concluding that

"we are living beyond our means, largely by borrowing against the future."



1985 Antarctic ozone hole is discovered by British and American scientists.

1987 World Commission on Environment and Development publish – “*Our Common Future*” (The Brundtland Report) – in response to the request from the UN general assembly to propose long-term environmental strategies for achieving sustainable development by the year 2000.

1988 Inter-Governmental panel on Climate Change

- Resulted in the framework convention on climate change signed by 153 countries + the then EU, dealing with the threat of global warming
- Though lacked firm agreements on targets, did aim to stabilise 1990 levels of CO₂ and other greenhouse gases

1992 *United Nations Conference on Environment and Development* (UNCED) held in Rio de Janeiro, Brazil – The Earth Summit. 179 countries participated in this conference working towards reconciling the impact of human socio-economic activities on the environment. The main outcomes were:

- Convention on biological diversity
- Framework convention on climatic change
- Principles for forest management
- Agenda 21
- The Rio declaration on environment and development

1997 *Kyoto Protocol* – World Governments met in Japan to negotiate a treaty to start dealing seriously with climate change – to reduce emissions of serious greenhouse gases – CO₂, CH₄, NO, + 3 types of fluorinated gases.

1997 - Earth Summit+5 - A five-year review of Earth Summit progress was made by the United Nations General Assembly.

The final document was adopted by delegates from over 165 countries — while taking small steps forward on a number of issues, including preventing climate change, forest loss and freshwater scarcity - disappointed many in that it contained few new concrete commitments on action needed.

2000 - 189 members states of the United Nations Committ to 8 Millennium Development Goals (MDGs) to combat extreme poverty and its impact.

Slide 12: Evolution of the global sustainable development agenda (ct'd)

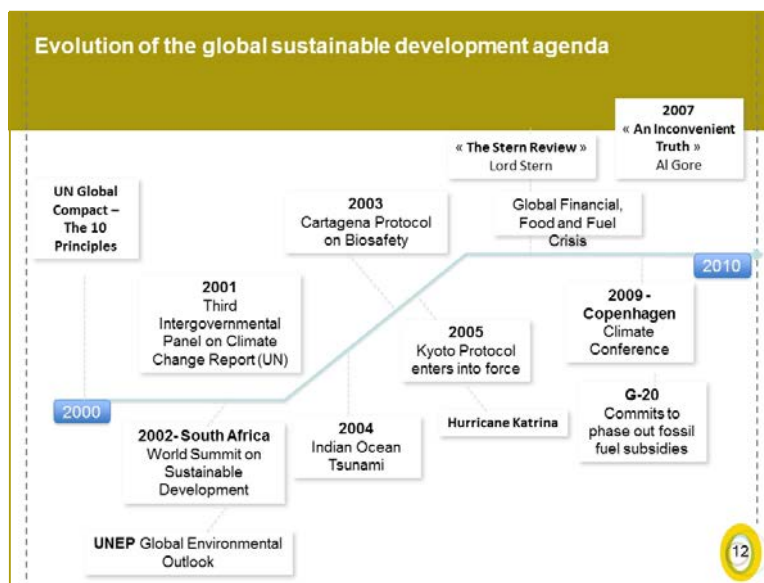
2002 - Earth Summit 2002, Johannesburg, South Africa. Rio+10 - *World Summit on Sustainable Development* –discusses ‘people, planet and prosperity’. Among frustration due to unufficient progress, the idea of “partnerships” as a non-negotiated approach to sustainability emerges.

2005: The Kyoto Protocol enters into force, legally binding developed countries to meet goals for greenhouse gas emission reductions.

2006: The Stern Report reveals that the cost of inaction on climate change will be up to 20 times greater than the measures needed at the time. The report was controversial but convincing.

2007: With the documentary “An Inconvenient Truth” winning an Academy Award and the International Panel on Climate Change, the issue gains strength and public attention, increasing the sense of urgency in governments.

2009: While the G-20 commit to phase out fossil fuels subsidies, Copenhagen Climate negotiations take place. While the outcomes of the negotiations are unclear, the Agreement itself has engaged developing countries in a collective effort.



Slide 13: Question to the audience

Make a pause here and ask participants to provide ideas as to how business is involved in the sustainable development agenda. Set the scene for introducing the Millennium Development Goals.

Encourage them to think about the linkages between both. Ask participants if they are familiar with them. Please take no more than 10' for this brainstorming, by taking 3-4 contributions from the audience maximum.

So, how is business involved in the sustainable development agenda?



Slide 14: Millennium Development Goals and the role of business in sustainable development

This sub-section seeks to raise awareness on how corporate supply chain activities could enhance the welfare of disadvantaged producers and workers, especially in developing countries by working towards the achievement of a universally accepted social vision and goals.

Please read the slide as it gives a brief background and states the commitments of world leaders to achieve stated objectives by 2015.

Besides raising awareness, it enriches students' understanding of the relationship between sustainable supply chain management strategies and development issues.

Millennium Development Goals MDGs and the role of business in sustainable development.

- In 2000, 189 nations made a promise to free people from extreme poverty and multiple deprivations. This pledge became the eight Millennium Development Goals to be achieved by 2015
- A social development vision that pledges to "spare no effort to free our fellow men, women and children from the abject and dehumanizing conditions of extreme poverty"
- A set of eight quantitative time-bound social targets to be achieved by 2015 (from 1990)
- A framework for business towards development cooperation

Source: UNDP.org

14

Slide 15: Eight Targets address primarily social needs and human rights (part 1/2)

The eight Millennium Development Goals build on agreements made by all countries at the United Nations in the 1990s to reduce poverty and hunger, to tackle ill-health, gender inequality, lack of education, lack of access to clean water and environmental degradation. The MDGs are a compact which recognizes the efforts that must be undertaken by developing countries, the contribution that developed countries can make, as well as the importance of all countries working in partnership, including with the private sector, for the development of all.

Eight Targets address primarily social needs and human rights

Target	Achievements (2010)
 1 Eradicate extreme poverty and hunger	<ul style="list-style-type: none"> Progress in many developing countries Extraordinary success in Asia, mostly East Asia Little progress in Sub-Sahara Africa
 2 Achieve universal primary education	<ul style="list-style-type: none"> Target unlikely to be met due to insufficient pace of progress High drop-out rates Lack of teachers
 3 Promote gender equality and empower women	<ul style="list-style-type: none"> Gender gaps in access to education have narrowed Access to university-level education remains highly unequal Low rates of women in paid employment Women are gaining political power
 4 Reduce child mortality	<ul style="list-style-type: none"> Child deaths are falling Little progress in sub-Saharan Africa

Source: UNDP.org

In February 2007, the Secretary-General of the United Nations began a two-year effort in the Commission for Social Development to actions which "promote full employment and decent work for all". In 2008, recognizing that decent and productive work for all is central to addressing poverty and hunger, a new target was added to MDG 1 (Eradicate extreme poverty and hunger) : MDG Target (1B) – Achieve full and productive employment and decent work for all, including women and young people.

Slide 16: Eight Targets address primarily social needs and human rights (part 2/2)

Read the various targets and end by drawing attention to the fact that the current module has been developed in response to goal eight – developing a global partnership for development (ILO and business schools).

Hence, there have been renewed calls from the United Nations for businesses to fully embrace this campaign by becoming more dedicated and committed to sustainable development.

Eight Targets address primarily social needs and human rights		
	Target	Achievements (2010)
	5 Improve maternal health	<ul style="list-style-type: none"> Significant improvement in maternal health Most large disparities in providing antenatal care and skilled assistance during delivery Official assistance for family planning declined sharply
	6 Combat HIV/ AIDS, malaria and other diseases	<ul style="list-style-type: none"> Tangible progress in global fight against AIDS Children in sub-Sahara affected most by loss of parents More access to antiretroviral therapy needed Funding has helped control malaria
	7 Ensure environmental sustainability	<ul style="list-style-type: none"> Improved access to drinking water Basic sanitation target hard to reach Species threatened by extinction growing Less loss of forest area Great strives to improve lives of slum dwellers
	8 Develop a global partnership for development.	<ul style="list-style-type: none"> Aid below expectations Lower tariffs help least developed countries Tangible debt relief Increased access to information technology

Source: UNDP.org

Slide 17: Millennium Development Goals Partners

Since 2000, governments, non-governmental organisations, businesses and other civil society organisations have adopted the MDGs as a framework for improving the lives of the present poor. In particular, the United Nations expanded its outreach to the private sector and began to encourage Public Private Partnerships (PPPs) to address the MDGs.





Slide 18: Need to accelerate progress towards the Millennium Development Goals

With less than five years to the deadline, the United Nations and its agencies are encouraging businesses and other stakeholders to do more towards the achievement of the MDGs.

It is important to present the key findings of the 2010 MDGs Report, which highlight the fact that despite significant progress made in East Asia and Africa, there are concerns that the stated goals may not be achieved in many countries.

Hence, there have been renewed calls from the United Nations for businesses to fully embrace this campaign by becoming more dedicated and committed to sustainable development.



By integrating sustainability into the supply chains in their organizations, course participants can contribute to achievement of MDGs.

In September 2010, results were deemed insufficient and the world recommitted itself to accelerate progress towards these goals

"...We are going to miss this historic opportunity to reach the MDGs ... We need more private sector engagement in this campaign"

"With only five years to go, we must mount a final push towards 2015"

UN Secretary General, 2008, 2009

- UN MDGs Advocacy Group includes business leaders (e.g. Bill Gates)
- UNDP's MDG Breakthrough Strategy (BTS) and MDG Acceleration Framework (MAF), as country roadmaps for Asia-Pacific (2011)
- Public-private initiatives: e.g. UN CEO water mandate (July 2007) to assist development of water sustainability policies and practices.

18





Slide 19: Business Initiatives

Example are provided of some companies that have introduced MDGs.

These initiatives go beyond philanthropic activities, but are rather integrated into business strategy. These sustainability initiatives have added real value to corporations' sourcing, distribution channels and revenues while contributing to alleviate poverty and improve human well-being. That is, identifying appropriate activities that provide economic and social benefits to supply chain partners.

Moreover, the corporate examples highlight the importance of building partnerships so as to benefit from the competencies of other businesses and development partners.

While important milestones had not been achieved, some shining business initiatives provide positive signs

- Coca-Cola, nonprofit TechnoServe, and the Bill & Melinda Gates Foundation launched a partnership to enable over 50,000 small fruit farmers in Uganda and Kenya to increase their productivity and double their incomes by 2014. (2010)
- Coca-Cola's Manual Distribution Centres in Africa: 12,000 jobs created and over \$500 million rise in revenues.
- Anglo American: Investing in local enterprise development in South Africa, providing financing for small business start-up funds targeting the most vulnerable segments of society, in addition to providing mentoring and access to supply chain opportunities.
- BASF Grameen Ltd: Joint social business venture promoting better nutrition and protecting against insect-borne diseases in Bangladesh, aiming at improving the health and business opportunities of low-income communities in Bangladesh.

Source: www.unmdg.org and www.coca-colabusiness.org

19

Unit 1.2. Review of Key Concepts in Sustainable Development

Slide 20: Session Outline

Session Outline	
Unit 1.1	State of Sustainable Development
Unit 1.2	A review of key concepts
Unit 1.3	Globalization and supply chain management: competition and global production systems
Unit 1.4	Drivers of sustainability in supply chains
Unit 1.5	Case Discussion: Michelin Green Gold Bahia Project

20

Slide 21: Definition sustainable development

Over time, the definition of sustainable development evolved. The lecturer may explain that the Brundtland Report defines sustainable development as **‘development which meets the needs of the present without compromising the ability of future generations to meet their own needs’**. Although vague, this definition captured two fundamental issues, the problem of the environmental degradation that accompanies economic growth, and yet the need for such growth to alleviate poverty.

This is the most universally accepted definition and remains as relevant today as in 1987.

A few years later, the International Union for Conservation of the Nature, WWF and UNEP proposed a definition focused on the environmental perspective of sustainable development and introduces the idea of **« carrying capacity »**, depending upon three main factors: 1) resources available in an ecosystem, 2) the size of the population, and 3) the resources each individual is consuming.

What is sustainable development?
<p>"Meeting the needs of the present generation without compromising the ability of future generations to meet their needs"</p> <p>The Brundtland Report: "Our Common Future", 1987</p>
<p>"Sustainability is improving the quality of human life while living within the carrying capacity of supporting ecosystems"</p> <p>Caring for the Earth, 1991 (IUCN, UNEP, WWF)</p>

21

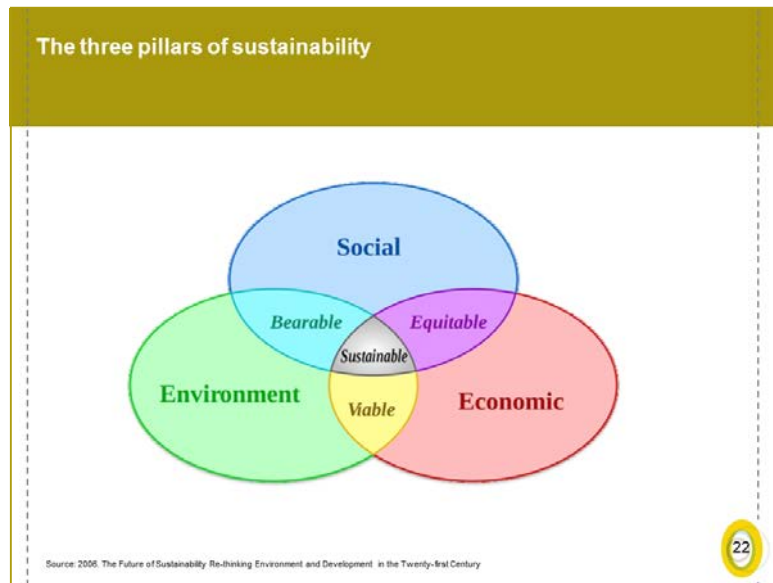


Slide 22: The Three Pillars of Sustainability

In this slide, we suggest the Lecturer takes the time to explain these concepts, as this is the sustainability “convention” with which we will be working throughout the module, so it is important sufficient time is allocated to ensuring participants’ understanding of the concept.

The Lecturer may start by explaining that the mainstream sustainability thinking has become the idea of **three dimensions, environmental, social and economic sustainability**.

These have been drawn in a variety of ways, as ‘pillars’, as concentric circles, or as interlocking circles as shown on the slide.



The origins of this view can be found in the United Nations 2005 World Summit Outcome Document, which refers to the “**interdependent and mutually reinforcing pillars**” of sustainable development as **economic development, social development, and environmental protection**.

This view implies that SD encompasses three dimensions:

- **economic:** the responsibility to develop, produce, and market those products that secure the long term economic performance of the corporation;
- **environmental:** the responsibility to conserve environmental resources for future generations;
- **social:** the responsibility to respect workers, communities and regions in which an organization conducts its activities.

The intersections of these three dimensions create three new areas defined as:

- **bearable:** the intersection between the environmental and social dimensions. It implies that development must be ecologically bearable;
- **equitable:** the intersection between the economic and social dimensions. It suggests that economic development must benefit all individuals;
- **viable:** the intersection between the economic and environmental dimensions. This view suggests that economic growth must be viable in terms of environmental impacts.

The concept of sustainability itself results from the intersection of these three dimensions.

If necessary, as a result of questions from the audience, the lecturer may also discuss the idea of Corporate Social Responsibility. The phrase “corporate social responsibility” (CSR) is used to describe why, when, and how businesses manage their social, environmental, and economic aims and performance. It is an expression of the belief that it is not enough for a company to solely benefit owners. Rather, CSR holds that a company also must ensure that it does little or no harm to, and preferably helps, its workers, the environment, and the communities in which it operates.

Unit 1.3. Globalization and supply chain management: competition and global production systems

Slide 23: Section on Globalization and Supply Chains

This section introduces sustainable supply chain management and focuses on the links between globalization and supply chains. Whereas traditional Supply Chain Management courses focus on “how to achieve sustainable competitive advantage” – this course emphasizes the expanded definition of “sustainable” to incorporate the full three dimensions (social, economic, and environmental) of sustainable development.

The material serves to supplement traditional supply chain management courses, while illustrating the importance of including the expanded definition into corporate strategy for competitive advantage, and highlighting the business risks of failing to take sustainable development considerations into account.

Session Outline

Unit 1.1	State of Sustainable Development
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23

Slide 24: Impact of Globalization in Supply Chain

Guide text participants through the slide by outlining how globalization has impacted the way we do business and led to the creation of global supply chains. Go one step further explaining how the extended and diverse chain of actors in a supply chain converges in a complex web of sustainability issues.

Globalization has resulted in increased competition and complexity in supply chains...

- Globalization has profoundly impacted the dynamics of production and flow of goods and services across countries.
- Lower production costs in developing and transitional economies has resulted into developed country businesses outsourcing manufacturing to these countries.
- As a result, China, with a large and low cost workforce, became the 'workshop of the world,' followed by others like Bangladesh or Cambodia.
- A similar shift took place in services, with companies in developed countries outsourcing a full suite of IT and customer service functions to India, Bangladesh and more recently Eastern Europe

24



Slide 25: Supply Chains and Supply Chain Management

This slide helps us introduce the concept of supply chain to then move on to sustainable supply chains. As Li (2007) helps define key concepts.

- The **role** of supply chain management is to manufacture goods in line with customer requirements
- The **objective** of supply chain management is to be efficient and cost-effective through collaborative efforts across the system
- The **scope** of supply chain management encompasses the firm's activities from the strategic level through the tactical and operational level as it takes into account the efficient integration of suppliers, manufacturers, retailers, wholesalers and consumers

Supply Chain and Supply Chain Management

Supply Chain

- "A system whose constituent parts include material suppliers, production facilities, distribution services and consumers linked together via the feed-forward flow of materials and the feedback flow of information" (Stevens, 1989)

Supply Chain Management

- "Supply Chain Management is a set of synchronized decisions and activities utilized to efficiently integrate suppliers, manufacturers, warehouses, transporters, retailers and customers so that the right product or service is distributed at the right quantities, to the right locations, and at the right time, in order to minimize system-wide costs while satisfying customer service level requirements. The objective of supply chain management is to achieve sustainable competitive advantage" (Li, 2007)

25

Slide 26: Sustainable supply chain management

Read the definition adopted within the United Nations Global Compact and its signatories.

It is important to highlight the reference to the three pillars, the notion of creation and protection of value for all stakeholders.

How do we understand supply chain sustainability in the context of this module?

"Supply chain sustainability is the **management of environmental, social and economic impacts**, and the encouragement of good governance practices, throughout the lifecycle of goods and services.

The objective of supply chain sustainability is to create, protect and grow **long-term environmental, social and economic value for all stakeholders** involved in bringing products and services to market."

26

Source: United Nations Global Compact and BSR Practical Guide: "Supply Chain Sustainability"

Slide 27: Common Sustainability Issues in International Supply Chains

This slide shows an example of some of the sustainability issues cited by businesses as arising from their global supply chains. It is important to stop at the first top 3 issues and convey these are serious concerns that businesses around the world are facing today. The chart is a good trigger to put issues in perspective. The relative importance of working conditions might be news to some participants, while air pollution might be important. We suggest you use the chart to stimulate their thinking on which of these issues might be most relevant in their companies and to the fact that business has a role to play in finding the responses to these issues.

A myriad of sustainability-related issues are emerging in global supply chains...

Common Sustainability Issues in International Supply Chains



Source: Managing Sustainable Global Supply Chains, Business Network for Sustainability, 2010. Study based on the number of references to issue across 194 sources consulted on sustainability.

27

Slide 28: Supply chains can (and must!) play a central role in sustainable development

Supply chain professionals are in a unique position to influence business and consumer practices through such diverse activities as:

- Improving working conditions
- Reducing packaging
- Ensuring recyclability of materials
- Using fuel-efficient transportation
- Ensuring a fair compensation for the supplier
- Reducing waste and emissions
- Encouraging suppliers to undertake environmental and social programmes

Supply chains can and must play a central role in sustainable development

- Supply chain professionals in an outstanding position to influence business and consumer practices through activities such as:
 - Improving working conditions
 - Reducing packaging
 - Ensuring recyclability of materials
 - Using fuel-efficient transportation
 - Ensuring a fair compensation for the supplier
 - Reducing waste and emissions
 - Encouraging suppliers to undertake environmental and social programmes

28



Slide 29: Multinational Companies response to key social and environmental issues

These examples give a quick preview of some of the issues cited in slide 27 and their consequences in practice

- Key social issues: respect of human and workers' rights – child labour, as the examples of Nike and Apple show.
- Environmental problems: pollution and health safety, as the Mattel example illustrates.

Businesses can no longer overlook these challenges and their implications on stakeholders and society

SLAVERY

Nike was publicly accused of using child labor in offshore factories in 1996. It took Nike two years to announce significant, long-term measures to improve working conditions at supplier factories.

Apple faced a 2010 lack of environmental and social caution and transparency in its supply chain. Apple had previously admitted that in 2008:

- 50% of its suppliers' factories for products including iPhones and iPads weren't paying valid overtime
- 25% weren't paying workers minimum wages
- 25% failed to meet environmental standards

Apple Reports Child Labor Was Used to Build iPhones, iPods

By MARK GUSTAFSON
PUBLISHED 10:40 AM CEST 2010 | Company News, Technology, Apple

Mattel was forced to recall US\$100 million worth of product when one supplier used lead-contaminated paint on the company's toys in 2007. The company watched its stock price fall 18% in the months that followed and has since been the target of litigation.

As you may know, we've voluntarily recalled some of our toys. Please visit Mattel.com to learn more. [CLICK HERE](#)

29

Slide 30: New issues arising from the building of global supply chains

Further to the issues mentioned in the previous slides, we suggest you push participants' reflection by pointing to potential future issues and extended complexity in managing global supply chains as they continue to expand.

The example chosen for this slide is an article appeared in the Financial Times in May 2011, which points out to new risks being identified by corporations, such as scarcity of supply following a natural disaster. This is particularly true to sectors dealing with rare minerals and single point suppliers. Responding to new risks and new issues that emerge in the supply chain will require innovative and more flexible models that encompass collaborative efforts.

Moreover, as businesses continue building global supply chains, an array of emerging issues and new challenges arise...

Look for the single point of failure

Supply chains under pressure from earthquakes and unrest have put pressure on suppliers, says Andrea Felsted

From the rising cost of raw materials to extensive disruption caused by the earthquake in Japan, companies face an increasing risk of supply. "The Japanese earthquake has underlined the difficulties companies face in ensuring that goods are delivered from various parts of the world reliably and on time," says Felsted.

Spillover: floods in Pakistan pushed up cotton prices

This is a major impact stuff. It is fundamentally going to change how the supply chain and supply chain risk are viewed.

Source: Financial Times, Risk Management/International Trade and Investment Insert, Print Edition from May 2, 2011

30

Slide 31: Major Sustainability Challenges in Supply Chains

This slide highlights some of the sustainability considerations in supply chains from an economic, environmental and social perspective. Guide participants through some of these issues while emphasizing that different industries are affected in different ways by these considerations, which might be more or less relevant depending on which business you are in. For example:

- Extractive and garment industries are strongly impacted by social considerations related to working conditions, given that the industry employs large numbers of workers to meet high volumes of demand.

Major sustainability challenges in supply chains				
	Sourcing / Procurement	Processing / Operations	Retail / Consumer	After-sales
Competitiveness Issues	<ul style="list-style-type: none"> • Quality • Supply security • Safety/Traceability • Inventory levels • "Origin" differentiation 	<ul style="list-style-type: none"> • Quality • Inventory levels • Research and development investment • Investors appeal 	<ul style="list-style-type: none"> • Differentiation • Customer/ Consumer relationship 	<ul style="list-style-type: none"> • Loyalty • Customer/ Consumer relationships • Guarantee
Environmental	<ul style="list-style-type: none"> • Use of chemicals • Use of natural resources • Waste and packaging • Local supply or overseas • Transportation 	<ul style="list-style-type: none"> • Emissions and waste • Water, energy usage • Hazardous materials • Product development 	<ul style="list-style-type: none"> • Transportation / Emissions • Water, energy usage • Waste and packaging • Use of recycled inputs 	<ul style="list-style-type: none"> • End-of-life management • "Reverse logistics" • Hazardous waste management
Social	<ul style="list-style-type: none"> • Labor standards • Fair compensation • Economic traceability • Local supply or overseas • Access to credit 	<ul style="list-style-type: none"> • Worker safety • Labor relations • Diversity/ Discrimination • Compensation/Benefits • Product development 	<ul style="list-style-type: none"> • Local community • Consumer / Customer information and education • "Ethical marketing" 	<ul style="list-style-type: none"> • Local community • Customer/ Consumer privacy

- The food industry is very much concerned with sustainability in sourcing and manufacturing of food, from sustainable agricultural practices to food miles.
- The healthcare industry is very much concerned with ethical issues arising from supply chains in the drug development phase and clinical research and trial, but also in the marketing of drugs to patients.
- The electronics industry is also another great example, as we see a complex net of issues ranging from the first links of the supply chain down to the consumer.

This last example should lead to the next slide, which illustrates the sustainability issues affecting a specific product: laptop computers.

Slide 32: Let's look at a laptop computer....

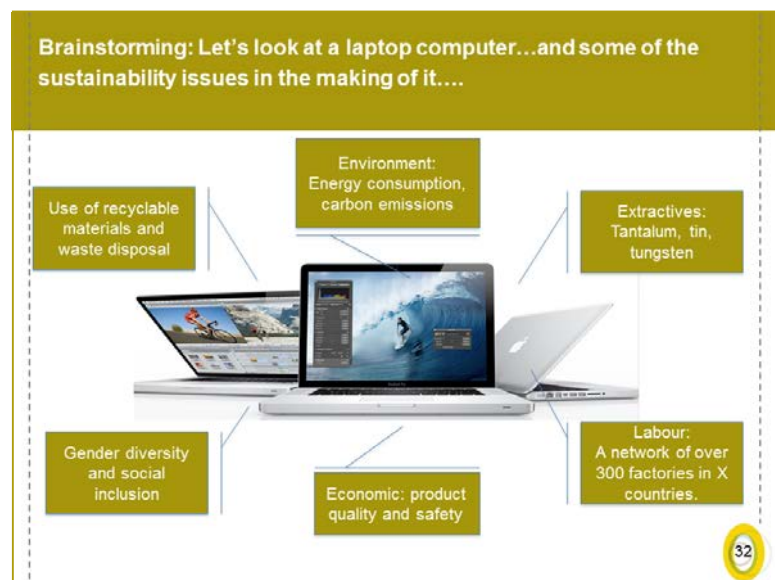
The objective of this slide is to describe the myriad of issues that arise in relation to sustainability in the supply chain.

Seeing it through such a familiar product as the PC makes it even more tangible.

This slide can be used to conduct a short class brainstorming exercise (to last about 5 minutes).

Key ideas raised by participants may be captured on a flipchart or board. Before showing the final build up on the slide.

Following the brainstorming exercise, the next slide shows an empty supply chain like the one shown before, where participants will be asked to brainstorm on sustainability issues across the supply chain for a laptop computer.



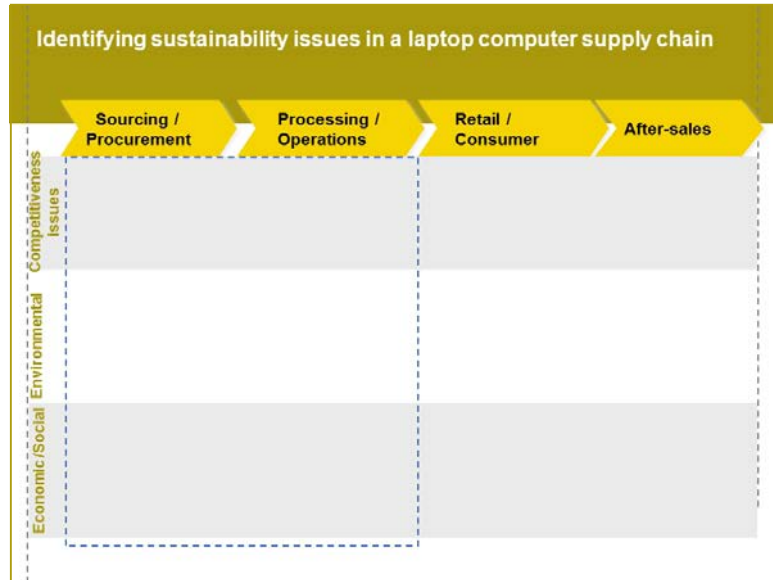


Slide 33: Identifying sustainability issues in the supply chain

Brainstorming Exercise and Plenary Discussion.

Using the empty slide as a template, participants are to consider the sustainability issues in PC manufacturers' supply chains. The exercise will be conducted through a class brainstorming of these issues at each stage of the supply chain. In order to ensure participants' understanding of these issues at each stage, we suggest faculty to prompt a set of diverse issues at each link, as well as the diversity of suppliers involved

In keeping with the example of the laptop computer, you may guide participants through each link and prompt contributions in terms of the economic, social and environmental considerations. 15' is foreseen for this brainstorming and class discussion. The wrap up then highlights the three dimensions across and within the different links in the value chain.



Unit 1.4. Drivers of Sustainability in Supply Chains

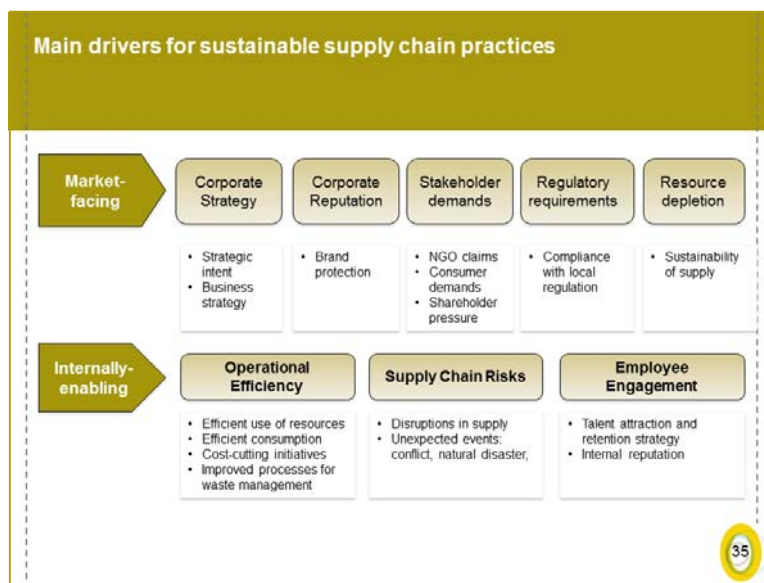
Slide 34: Drivers of Sustainability in Supply Chains

This section explores the triggers for building sustainable supply chains. It is enhanced by examples and a short video.

Session Outline	
Unit 1.1	State of Sustainable Development
Unit 1.2	A review of key concepts
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Slide 35: Main drivers for sustainable supply chain practices

Begin by drawing students' attention to the fact that the motives for integrating sustainability into the supply chain can be broadly classified under various categories, notably: market-facing and internally enabling. Walk participants through some of the sub-topics contained in each type of drivers and present examples contained in slide.



Slide 36: Market-facing drivers examples. Stakeholder demands

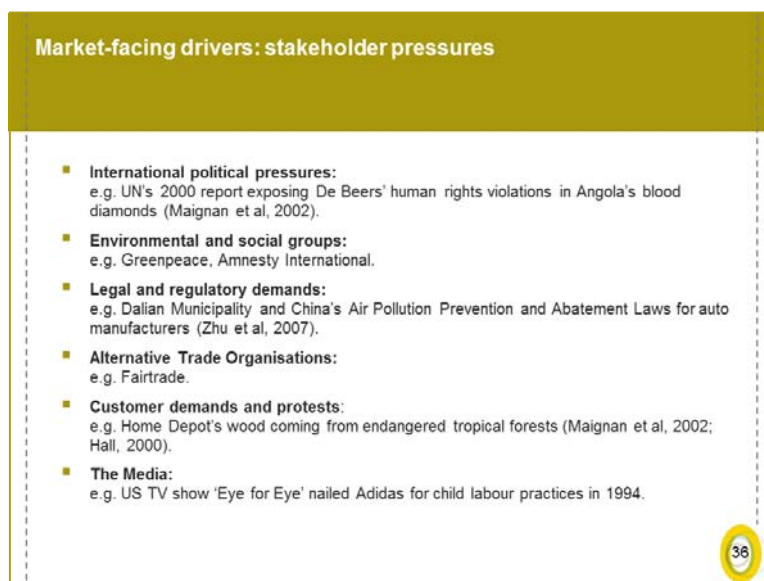
Regarding external stakeholder pressure, the key message to pass across is that if corporations overlook the needs and interests of other key stakeholders, they expose themselves to attacks and negative publicity.

Read the content of the slide and the examples provided which portray instances where various organisations have pushed corporations to adopt responsible behaviours by naming and shaming unethical, immoral and illegal supply chain practices.

Examples include, reputable international organisations (such as the UN), NGOs (such as Greenpeace and Amnesty International);

Alternative Trade Organisations (such as Fair Trade and the Ethical Trading Initiative that have developed parallel production and exchange mechanisms with developing country producers); and the media (which may bring to light issues that influence the perception of consumers, governments, and other stakeholders).

Stress the consequences of criticisms from international organisations, NGOs and the media; and emphasize that these cannot be underestimated as they influence consumer and government actions – as consumers may choose to boycott a particular company's products while governments may institute new regulations.





Slide 37: Possible implications of external stakeholders pressure

Play the Ethical Trading Initiative (Norway) video – “Better Business, Better Lives”.

The video lasts 6 minutes and is available on:

<http://www.etiskhandel.no/Artikler/4191.html>

Take note of stakeholders pressuring corporations to change their sourcing practices. Identify the issues raised.

At the end of the video ask students to highlight the root causes of irresponsible supplier practices as presented in the video and solicit students’ thoughts regarding the proposed solutions.

Possible implications of external stakeholders pressure...

Short Video Clip

Video Clip: Better Business, Better Lives

ETI Norway

<http://www.etiskhandel.no/Artikler/4191.html>

What are the sustainability issues raised in this video?

37

Emphasize the fact that there is an on-going shift in pressure over supply chain responsibility. That is, whereas corporations used to pressure suppliers to adopt responsible practices, stakeholders are now holding corporations responsible for the supply chain practices in their entire chains; and are pushing companies to fully understand the impacts of their buying practices on suppliers so as to effectively address negative consequences.

The video advocates for the need to adopt sustainable labour solutions in the supply chain and presents the benefits to both corporations and suppliers.

End by suggesting that the first step towards address these challenges is by providing the relevant training to managers and employees – and this module seeks to provide such know-how.

After the video, solicit thoughts from students regarding the actors and benefits of adopting responsible and ethical practices in the supply chain.

After these discussions, return to the slide and highlight the fact that the media, consumers, activists and other stakeholders are capable of causing severe damage to corporate reputation as a result of unethical supply chain practices – hence, some firms are motivated to integrate sustainability into their supply chains following criticisms from stakeholders or for fear of being attacked.

Slide 38: Market-facing drivers examples. Stakeholder incentives

After presenting the ‘push’ factors for integrating sustainability into the supply chain, it is worth stressing that there are equally ‘pull’ factors that attract firms to adopt sustainable supply chain strategies.

That is, opportunities that businesses stand to exploit for integrating sustainability into their supply chains.

Read the slide and examples provided and end by citing reputation and sales benefits as ethical, social, and environmentally responsible consumers seek to reward businesses that adopt sustainable supply chain practices.

Market-facing drivers: stakeholder incentives

- **United Nations:**
UN Global Compact principles, SSCM Initiative; Business Call to Action (MDGs)
- **Business-led initiatives:**
World Economic Forum, World Business Council for Sustainable Development, International Business Leaders Forum
- **Voluntary codes:**
ISO 26000, SAI, RSPO, FSC, etc
- **Socially Responsible Investors and Market indexes**
e.g. FTSE4Good, DJSI
- **Consumers**
Individuals and groups: going beyond end products to reward sustainable supply chains (Seuring et al, 2008).
- **Investor Groups**
Investors want to ensure that companies are aware of and are mitigating key risks affecting their supply chains

38

Slide 39: Market-facing drivers examples. Strategic moves

One of the most important motives behind the adoption of sustainable supply chain strategies is the quest for stable and long-term business growth. This is important, especially in the present era where the sources of competitive advantage are becoming rarer.

In explaining the slide, emphasize that stakeholders also ‘name and praise’ responsible and sustainable businesses. Hence, a sustainable supply chain strategy is a source of building good corporate reputation, enhancing brand image and providing first mover advantages.

Examples of companies that have deployed this strategy include:

McDonald’s, Patagonia, and The Cooperative Supermarket in the UK.

Moreover, by redesigning and repackaging products to suit the needs of poor developing country consumers, some corporations look to access a huge market of over two billion consumers.

Unilever is one company that has deployed this “Buse of the lyramio” strategy to access a vast market of poor consumers in Africa and India with varied consumer products.

Market-facing drivers: strategic moves

- **Competitive advantage**
Having a clear vision and objectives for a sustainable supply chain will provide direction for the strategy and help to define the company’s Commitment.
- **Quest for profits by serving the ‘bottom of the economic pyramid’**
(Prahalad and Hammond, 2002)
- **Values-driven strategy**
Minimize business disruption from environmental, social and economic impacts
e.g. Levi Strauss & Co actively contributing to community welfare from inception (Maignan et al, 2002)
- **Building good corporate reputation**
Protect company’s reputation and Brand value
(Seuring & Müller, 2008)

39



Slide 40: Internally-enabling drivers. Inner stakeholders demands and aspirations

Emphasize the fact that internal stakeholder pressures also constitute a non-negligible driver for integrating sustainability into the supply chain.

Such pressures usually have a direct impact on the activities of corporations as key investors may withdraw vital resources from the business while employee strikes directly affect company production and jeopardize the attainment of corporate objectives.

In order to substantiate the importance of internal stakeholder pressures, read the slide and examples provided.

Internally-enabling drivers

- **Ethical Investors**
e.g. Franklin Research withdrawing investments from firms whose purchasing policies violate human rights.
- **Employees**
e.g. Saipan employees' legal actions against large US apparel manufacturers over harmful working conditions (mid-1990s). (Maignan et al, 2002)

Unit 1.5 Case Discussion: Michelin Green Gold Bahia Project

Introduce the case of Michelin: **"Green Gold Bahia Project" (POVB)**, included at the end of this note.

Teaching Notes:

Participants will be asked to have a short discussion of the case in groups breaking into buzz groups of 6-7 people.

Participants will be given 30 minutes for the group discussion. After the discussion is over, the groups will present their conclusions. While presenting the exercise, please show slide 42 so participants can follow.

Session Outline

Unit 1.1	State of Sustainable Development
Unit 1.2	A review of key concepts
Unit 1.3	Globalization and supply chain management: competition and global production systems
Unit 1.4	Drivers of sustainability in supply chains
Unit 1.5	Case Discussion: Michelin Green Gold Bahia Project

Questions for discussion:

1. Please identify the main economic, social and environmental challenges in implementing the selected option
2. Which were the different stakeholders involved in implementing this option and which roles did they take?
3. What are the main outcomes of this project, seen from an environmental, social and economic perspective?
4. What were – in your opinion- the key success factors in the implementation process?

Once the groups have presented the conclusions of their work, please proceed to a quick wrap up summarizing the roll out of the plan, the challenges faced, and stakeholders involved.

Michelin case wrap-up: How Michelin did it

Slide 43 and 44 Michelin case wrap-up

Two main commitments:

- Supporting the new small holders
- Ensuring former employees remained employed and rights fully respected

Results:

- Suppliers or employees in the supply chain
- 4-year timeline

Strategy involved:

- Layout of plantation and production methods
- Management and ownership structure
- Human resources practices
- Rubber procurement practices

Challenges:

- Turning land commercially competitive: small land plots with higher concentration of rubber trees
- Ensuring decent income for small holders
- Providing financial support and guarantees to purchase production
- Technical assistance: management, agricultural practices (blight elimination)

Key Initiatives:

- Michelin Laboratory: research on epidemiology of fungus to create resistant species
- Michelin Pau Brazil Nursery: supplies rubber seedlings to farms at cost
- Ouro Verde Cooperative: Cooperative of independent farmers for joint-selling to Michelin. 100% of production is sold to Michelin

Support on running a business:

- Training and information on developing a business plan
- Support to prepare owners to be employers: technical training, research, etc
- Protection of rights of Michelin workers
- More employment generated by farms, employment of women employees increased with cacao cultivation
- Encouraged employees to maintain conditions enjoyed at Michelin
- Private-public partnerships to maximize impact on community
- Support to municipal primary school
- Support to health clinic: dentist and general consultations, discussion groups on preventive medicine
- Subsidising costs of low-income housing

Group Discussion

Please break into buzz groups of 4-5 people. Based on the Michelin case you read in preparation for this session, please discuss in your groups the following questions. You have 30 minutes for the group discussion. After the discussion, the groups will present the outcome of their discussions to the plenary.

Questions for discussion:

1. Identify the main economic, social and environmental challenges in implementing the selected option
2. Which were the different stakeholders involved in implementing this option and which roles did they take?
3. What are the main outcomes of this project, seen from an environmental, social and economic perspective?
4. What were – in your opinion – the key success factors in the implementation process?

43

Michelin case wrap-up: Key insights

- **2 main commitments:**
 - ✓ Supporting the new small holders
 - ✓ Ensuring former employees remained employed and rights fully respected
- **Strategy involved:**
 - ✓ 4-year timeline
 - ✓ Layout of plantation and production methods
 - ✓ Management and ownership structure
 - ✓ Human resources practices
 - ✓ Rubber procurement practices
- **Challenges**
 - ✓ Turning land commercially competitive: small land plots with higher concentration of rubber trees
 - ✓ Ensuring decent income for small holders
 - ✓ Providing financial support and guarantees to purchase production
 - ✓ Technical assistance: management, agricultural practices (blight elimination)

44



Slide 45: Key Outcomes of project

Economic Pillar:

- Ouro Verde Cooperative strong and growing
- New rubber tree varieties and cacao planted
- Farm owners retain majority capital invested in plantation

Social Pillar:

- New jobs created and others retained
- Respect of freedom of association and collective bargaining principles
- Social dialogue as a tool for bringing together unions, employer and other stakeholders

Environmental Pillar:

- Physical facilities to support research conducted on site
- Education on environmental awareness and sustainability

Michelin case wrap-up: Key insights

- Key Initiatives
 - Michelin Laboratory: research on epidemiology of fungus to create resistant species
 - Michelin Pau Brazil Nursery: supplies rubber seedlings to farms at cost
 - Cooperverde: Cooperative of independent farmers for joint-selling to Michelin. 100% of production is sold to Michelin
 - Support on running a business:
 - Training and information on developing a business plan
 - Support to prepare owners to be employers: technical training, research, etc
 - Protection of rights of Michelin workers
 - More employment generated by farms, employment of women employees increased with cocoa cultivation
 - Encouraged employees to maintain conditions enjoyed at Michelin
 - Private-public partnerships to maximize impact on community
 - Support to municipal primary school
 - Support to health clinic: dentist and general consultations, discussion groups on preventive medicine
 - Subsidising costs of low-income housing

45


Readings

A mandatory case study, and complementary readings are provided below to enhance understanding of the main aspects covered in the session. The aim of the case study is to use examples to illustrate the integration of economic, social and environmental issues in a real management situation and to expose participants to the challenges of decision making in that context.

Participants should be encouraged to read the case study and mandatory readings prior to attending the session in order to actively participate during the session. These readings will also assist students in the elaboration of coursework and evaluations as well as stimulate ideas in areas related to sustainable development and supply chain management.






Mandatory Reading

Case study:

-  “*Michelin: Green Gold Bahia Project (Projeto Ouro Verde Bahia)*”, adapted from: *Global reach–local relationships: Corporate social responsibility, workers’ rights and local development*, Emily Sims, Anne Posthuma, ILO Employment Working Paper No. 28, 2009. For Faculty only, the full paper is accessible here:
http://www.ilo.org/public/libdoc/ilo/2009/109B09_48_engl.pdf
Please note that the case version for participants has been abridged.

Complementary Readings

Suggested readings for Faculty willing to expand knowledge on these issues include:

-  Carter, C.R. and Rogers, D. S. (2008): “A Framework of Sustainable Supply Chain Management: Moving Towards New Theory”, *International Journal of Physical Distribution and Logistics Management*, Vol. 38, No. 5, pp. 360-387.
-  *Millennium Development Goals Progress Report 2010, United Nations, New York, 2010, accessible at:* <http://www.un.org/millenniumgoals/pdf/MDG%20Report%202010%20En%20r15%20-low%20res%2020100615%20-.pdf>
-  The Sustainable Development Timeline, available at: www.iisd.org
-  ILO, 2009: *Report VI: Gender Equality at the heart of decent work*
-  Li, Ling, 2007: *Supply Chain Management: Concepts, Techniques and Practices - Enhancing Value Through Collaboration*. Old Dominion University, USA.

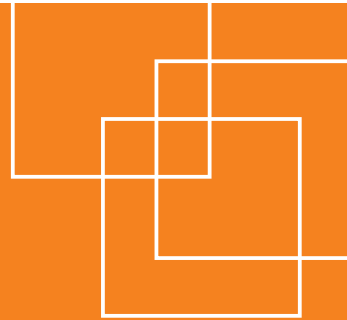
Session 2

Governance of Supply Chains I: From Compliance to Voluntary Standards

2



Introducing
Sustainability
into the Supply Chain





About the session

Trade liberalization over the past three decades has led to dramatic changes in industrial organization. In today's economy, globalized production systems have provided unprecedented access to new markets for developing and developed countries alike. Developing countries have enhanced their industrial capabilities, leading transnational corporations in many cases to vertically disintegrate and outsource many of their core manufacturing and service activities. With the proliferation of NGOs and business initiatives dealing with standard setting, certification and labelling activities, governance and collaborative arrangements for sector specific policy-making, and supply chain management interventions, questions are raised concerning which stakeholders are key for these initiatives and under what institutional arrangements and mechanisms. Therefore, the production and process control exercised by lead firms or transnational corporations over others in their chain is not only the focus of firms keen to build or retain competitiveness and brand value, but is a growing area of focus for policy makers, activists, academics and consumers, in the context of promoting social and environmental sustainability standards. This session intends to discuss the concept and models of the supply chain governance, and how the mechanisms are used by different actors from within the supply chain to influence and control the actions of other supply chain partners.



Session objectives

The overall goal of the session is to provide students with an understanding and appreciation of the changing institutional environment and governance mechanisms of global supply chains. As a result, participants should be able to:

- Understand the impact of globalisation on industrial organization;
- Explain common definitions, typologies and importance of “governance” in the context of global value/supply chains;
- Identify the variables that influence how supply chains are governed and the roles of internal and external actors in parameter setting and enforcement;
- Recognize emerging trends and implications for buyers, suppliers, and policy-makers.



Key Learning Outcomes

Through the mandatory reading, the use of video, examples and classroom discussion, participants should have an improved ability to:

- Build an appropriate and effective sustainable supply chain governance mechanism;
- Engage stakeholders, through a collaborative approach, towards addressing sustainability challenges;
- Anticipate the sources of change in global supply chain governance based on a better understanding of why supply chain governance patterns arise.



Reflection Questions

In order to attract participants' attention to the topics examined in the session and stimulate initial thoughts, students will be expected to read the mandatory reading and attempt answers to the following questions:

1. Why does governance matter in supply chain management?
2. How can lead firms in a supply chain more effectively guarantee the sustainability of their supply chains? What are the risks associated with failure to effectively implement effective governance mechanisms, including the appropriate implementation of standards?
3. Which stakeholders could be valuable in ensuring effective implementation of social and environmental sustainability standards across global supply chains?



Suggested Session Plan

Session title	Time allocation	Slide presentation/ sub-activity	Time allocation
Unit 2.1: Introduction	15 Minutes	Session outline	2 minutes
		Session objectives	2 minutes
		Key questions	5 minutes
		Introductory slides	6 minutes
Unit 2.2: Defining Supply Chain Governance	30 Minutes	Slide presentation	15 minutes
		Video ("The Outsourcing Report – Sweatshop Warrior") or group discussions on reflection questions.	15 minutes
Unit 2.3: Basis of Supply Chain Governance	20 Minutes	Slide presentation	20 minutes
Short/ Coffee break	5 Minutes		
Unit 2.4: SC Governance Actors and Instruments	45 Minutes	Slide presentation	15 minutes
		Individual reading, group discussion and presentation – "Manufacturing the Evidence".	30 minutes
Unit 2.5: Conclusion	5 Minutes	Concluding question and slide	5 minutes
Total	120 Minutes		

PowerPoint Presentation and Speaker notes

Slide 1: Session Title

Session 2: Governance of Supply Chains I: From Compliance to Voluntary Standards.

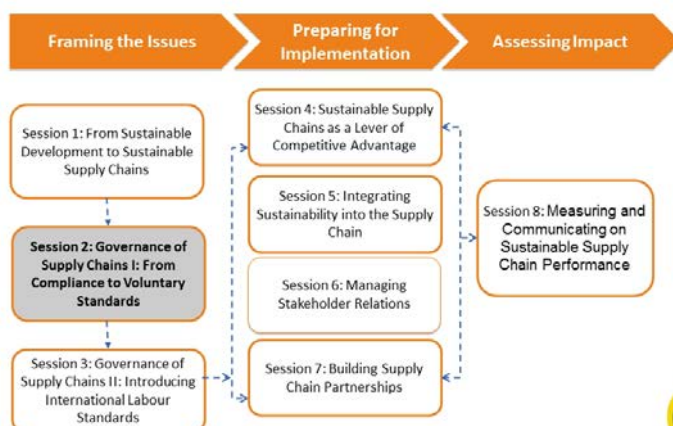
1

Slide 2: Approach to SSCM Lecture Map

Following from the introduction to the field of sustainability and sustainable supply chain management in Session 1, this session goes on to describe in greater depth conditions that have led to an increased focus on supply chain governance, as well as, key definitions, and emerging theories and practices in supply chain governance. The role of internal and external actors in supply chain governance is explored, and participants are introduced to the increased emergence of voluntary codes and initiatives aimed at addressing what are seen as governance gaps in an increasingly globalized economy.

(Note: It should be noted that in the literature “value chain” and “supply chain” are often used interchangeably, as not all activities within a globalized production system and their governance are limited to supply.)

Approach to Sustainable Supply Chain Management (SSCM): Overarching Framework



2



Slide 3: Session Objectives

In preparation for this session, students are encouraged to have completed the mandatory reading, as the articles, “The Governance of Global Value Chains” by Gereffi et al (2005) and “Governance in Global Value Chains” by Humphry and Schmitz (2001) provide essential background information for the concepts discussed.

In summary, Session 3 will address:

- The impact of globalisation on industrial organization.
- Common definitions, typologies and importance “governance” in the context of global value/supply chains.
- Variables that influence how supply chains are governed and the roles of internal and external actors in parameter setting and enforcement.
- Emerging trends and implications for buyers, suppliers, and policy-makers.

Session Objectives

- Consider the impact of globalisation on industrial organization
- Explore common definitions, typologies and importance “governance” in the context of global value/supply chains
- Highlight the variables that influence how supply chains are governed and the roles of internal and external actors in parameter setting and enforcement.
- Outline emerging trends and implications for buyers, suppliers, and policy-makers.

3

Slide 4: Session Outline

The session is structured into five units: The first (unit 2.1) presents major supply chain governance concerns in an era of globalisation while the second (unit 2.2) defines governance within the supply chain context. Unit 2.3 presents the various forces that shape particular forms of supply chain governance with 2.4 focusing on sustainable supply chain governance actors and instruments. The last unit (2.5) highlights the key messages of the session.

The session is designed to be student-centred and participative – meaning that participants should freely contribute to the discussions based on their previous knowledge and experiences.

Session Outline

Unit 2.1: Introduction: Globalization and Industrial Organization.

Unit 2.2: Defining Supply Chain Governance

Unit 2.3: Basis of SC Governance (market-based; regulatory-based and voluntary).

Unit 2.4: Parameter Setting and Enforcement: Actors and Instruments

Unit 2.5: Conclusion

4

Slide 5 – Unit 2.1: Introduction

In order to evaluate the attainment of lesson objectives, the lecturer may open the session with the question on slide 5 and note the number of students who think multinational corporations, governments, NGOs or suppliers or all of these institutions are responsible for the governance of supply chains.

At the end of the session, the lecturer can repeat the question and take note of the responses – providing feedback as to whether students' perceptions have changed during the session.

Unit 2.1: Introduction

Who is responsible for ensuring sustainability in global supply chains, and why?

5

Slide 6: Globalisation and SCs

During the past three decades two significant events have changed international trade – trade liberalisation and improvements in information and communication technologies. These have provided opportunities as well as challenges in the supply chain.

Major changes that have taken place in supply chains as a result of free trade and globalisation include: the quest to optimize supply chain performance (such as; reducing costs, increasing revenues, improving product quality and enhancing delivery speed) by sourcing inputs from and outsourcing non-core activities to other suppliers located in different parts of the world. These developments have had significant consequences on supply chain regulation and control.

Globalisation and SCs

- Trade liberalisation and improvements in information and communication technologies.
- An era of hyper-optimization of supply chains.
- Sourcing and outsourcing of non-core activities span across national and continental boundaries.
- Complex global networks of suppliers, plants and distribution channels (suppliers' suppliers and customers' customers).
- Quest for cost reduction and profit maximisation

6



Slide 7: Globalisation and Supply Chain Governance

Globalised production systems pose significant challenges for companies seeking to operate under a more uniform set of standards, with greater contributions to development and respect for rights. National legal requirements and enforcement bodies vary widely from country to country. Stakeholders (especially non-governmental organisations) put pressure on companies to ensure that their operations, including their supply chain management, is consistent with the expectations of the international community.

Globalisation and Supply Chain Governance

- Governance Gaps: Lack of government regulation or weak controls
- Limitations of National government regulation on complex, geographically fragmented supply chain transactions
- Global assessment of SCs by various stakeholders.
- Pressure for businesses to construct sustainable SCs.

7

Slide 8 – Unit 2.2: Defining SC Governance

The question aims at establishing participants' prior understanding of the concept of governance. It is hoped that by building on past knowledge, understanding will be enhanced.

The lecturer should encourage participants to speak out as there are no wrong answers. Note key words that emerge (such as; control, direct, relationship, responsibility) on a flipchart or board.

Unit 2.2: Defining SC Governance

**What does the term
'governance' mean?**

8

Slide 9: Defining “Governance”

There are many definitions proposed with respect to governance. In the sphere of business and sustainable development, some leading definitions include:

Governance (ISSD)

The formalization of the relationships among the members and their collective accountability to those outside of the network or partnership (defined by International Institute for Sustainable Development: IISD).

Multistakeholder Governance (UN Commission on Global Governance)

The sum of many ways individuals and institutions, public and private, manage their common affairs. It is a continuing process through which conflicting or diverse interests may be accommodated and co-operative action taken.

It includes formal institutions and regimes empowered to enforce compliance, as well as informal arrangements that people and institutions either have agreed to or perceive to be in their interest.

Corporate Governance (traditional)

The framework of rules and practices by which a board of directors ensures accountability, fairness, transparency in a company's relationship with all its stakeholders (financiers, customers, management, employees, government, and the community).

<http://www.businessdictionary.com/definition/corporate-governance.html#ixzz1qxtBayHK>

Defining Governance

Governance

The formalization of the relationships among the members and their collective accountability to those outside of the network or partnership (IISD).

Multistakeholder Governance (UN Commission on Global Governance)

The sum of many ways individuals and institutions, public and private, manage their common affairs. It is a continuing process through which conflicting or diverse interests may be accommodated and co-operative action taken. It includes formal institutions and regimes empowered to enforce compliance, as well as informal arrangements that people and institutions either have agreed to or perceive to be in their interest.

9

Slide 10: Defining “Supply Chain Governance”

There is no consensus on the definition of supply chain governance; the ones presented (Gereffi, 1999; and Humphrey and Schmitz, 2001) are widely used in the literature. Humphrey and Schmitz (2001), define supply chain governance as “the inter-firm relationships and institutional mechanisms through which non-market coordination of activities in the chain takes place”, but also include parameters external to the supply chain, such as compulsory government standards, voluntary standards imposed by one agent on another etc.

Supply Chain governance is about inter-institutional coordination with each point in the chain, or production process, defined by a set of parameters.

Governance arises when some firms in the chain work according to standards set by others (Humphrey and Schmitz, 2001).

Defining Supply Chain Governance

“Mechanisms used by different actors from within the supply chain to influence and control the actions of other supply chain partners” (Crisan, et al, 2011)

“The functional integration and coordination of internationally dispersed chains” (Gereffi, 1999)

“The inter-firm relationships & institutional mechanisms through which non-market coordination of activities in the chain takes place”. (Humphrey & Schmitz, 2001)

“Some kind of steering of activities take place” (Humphrey & Schmitz, 2000)

10



Slide 11: Key parameters of SC governance

The most basic description of *supply chain governance* can be summarized through looking at parameters set by a lead firm to its supplier in terms of what, how, when, how much, and in some cases, at what price, its product or service is to be provided.

Examples of the link between product specifications and processes include: airline or automobile manufacturers specifying product standards and production processes that component manufactures are expected to follow; organic food specifications determining the processes that producers follow in growing coffee and bananas.

Some industries define standard weights and sizes and other technical norms as is the case in the electrical equipment and computer manufacturing industries (Humphrey and Schmitz, 2000; and Kaplinsky, 2005).

On the one hand, the product parameters are important because they may take the form of setting design problems for producers to solve; or, providing particular design(s) or even providing detailed drawings for producers to follow. For example, in the apparel industry, a retailer may provide designs, samples and other specifications to manufacturers. In another example, in the computer industry, the manufacturer may provide proprietary designs to a key supplier of certain components.

On the other hand, process parameters are important as they specify the production processes; technology to be used; quality systems; labour and environmental standards to be used.

In presenting the supply chain governance parameters, it is worth emphasizing that product and process parameters are the governance parameters most often to include specifications from external agents (such as governmental agencies and non-governmental organisations). The objectives of external agents may vary. It may be to ensure consumer safety, social and environmental sustainability or also be aimed at creating transparent markets. Governments may set standards that are compulsory and have legal force. Standards may also be set by non-legal agreements, such as codes of conduct, industry principles etc., which may be set by unofficial agencies, such as non-governmental organizations or industry associations.

Key parameters of Traditional Supply Chain Governance

- What is to be produced? i.e. **product** definition.
- How is it to be produced? i.e. **process** definition.
- When is it to be produced?
- How much is to be produced? (Humphrey & Schmitz, 2001)

11

Slide 12: Importance of SC Governance

Discussion: Before displaying the slide, ask students why they think supply chain governance is important.

Draw from Humphrey and Schmitz for inspiration in guiding the discussion with participants as outlined on the slide.

Whereas parameter setting and enforcement are costly, they are essential in all but the most basic of market transactions:

- Buyer specification of a product design is most critical when the buyer has better knowledge of the market than the supplier. This may particularly be the case in fast moving industries where product specifications change quickly. Or, when suppliers in one country are delivering to another country where they may not be familiar with market needs.
 - Risk is considered the main driver for setting and enforcing parameters. Failure for a product or service to conform to the norms of a market may expose a buyer to significant liabilities. Again, in cross-border supplier-buyer transactions, there may be a significant risk if the norms or standards in the producing country are below those of the importing country.
- Parameter setting has a positive spin-off for suppliers, as:
- A supplier from a developing country may obtain access to a new market (or a producer of one product may gain access to a new market via a related product requested by a buyer).
 - Skills may be transferred and production capabilities enhanced (examples are provided in Gereffi et al (2005) on success of East Asia in apparel industry, pp 91-92).
 - Gains may transfer to supplier: Upgrading and enhanced capabilities acquired through higher parameters has led to significant growth of profitability of some suppliers. For example, contract manufacturer Solectron, which grew from one Silicon Valley site in 1988 and \$258 million in revenues, to \$20 Billion and 80,000 by 2000 (Gereffi et al, 2005).
 - Supply chains are increasingly identified by government technical assistance programs as a potential route to increasing technical assistance between developed and developing countries. Many leading development agencies now focus on linkages programmes which aim to connect producers from developing economies to developed economy buyers.
 - Policy-makers increasingly identify supply chains parameters as an opportunity to introduce policy measures related to sustainability standards.

Importance of SC Governance

- Buyer has better understanding of market demands.
 - Risk management: performance, conformance, reputation loss, social and environmental risks.
 - Market access for developing country producers.
 - Channel for technical assistance.
 - Distribution of gains.
 - Acquisition of production capabilities.
 - Leverage point for policy initiatives.
- (Humphrey & Schmitz, 2001)

12



Slide 13: Evolution of Supply Chain Governance

The slide highlights periods during which milestone changes took place in supply chain governance. Social criteria are increasingly evident in decisions to purchase goods and services. Major shifts began in the late 1970s with the emergence of the Dutch non-profit initiative Max Havelaar (which later developed to become Fair Trade) developing a charity-based arrangement to purchase goods from developing country producers and sell to European consumers. As time went on, major shifts took place towards the latter part of the 1980s and early 1990s with companies adopting new governance approaches as sustainability concerns gained prominence among consumers.

Retailers in developed countries began signalling the sustainability impacts of their products (e.g. Marine Stewardship Council, Rainforest Alliance), whether in anticipation of consumers valuing this information and behaviour, or, in response to activist campaigns to mobilize consumers against particular brands and products. These alternative governance arrangements were meant to complement existing regulations with new actors sharing supply chain responsibilities with corporations.

The concept of “joint governance” emerges in the 1980s, the Conservative Secretary of State for the Environment, Michael Heseltine, encouraged greater business social responsibility asking business leaders to address the issues of unemployment and urban decay in the early 1980s. This was also in a period when a number of countries began actively privatizing industry and services (particularly in Australia, New Zealand, and the UK), blurring the traditional balance between responsibilities of State and the private sector.

Governments, in part due to limitations imposed on them to curb regulations seen as possibly impeding national competitiveness (or imposed on them by WTO restrictions), have in a number of large developed countries encouraged more voluntary initiatives undertaken by corporations. Examples include international codes of conduct inspired by the US government under the Clinton Administration, which encouraged representatives of the apparel industry, labour unions, and NGOs to join the Apparel Industry Partnership (which later developed into the Fair Labour Association) in order to improve overseas working conditions. The UK governments encouragement of the Ethical Trade Initiative which brought together a coalition of companies, NGOs, and trade unions to promote labour standards for supply chains from developing countries. A number of European countries, including Denmark, Italy, and Germany sponsor corporate roundtables and similar initiatives promoting corporate codes of conduct. These initiatives are mirrored at a regional (European Union) and inter-governmental level, including the UN and its agencies, the World Bank, and the OECD – Session Three focuses more closely on these initiatives.

Whereas the role of business in society evokes a wide range of diverse opinion, there has been a change in the relationships between business, government and civil society: the trend has not been seen as a wholesale shift of responsibility from public sector to private sector, but rather a move towards partnerships (“shared responsibility”), and “soft law”, such as reporting initiatives, to complement government policies and regulation (“Moon & Vogel”, 2008).

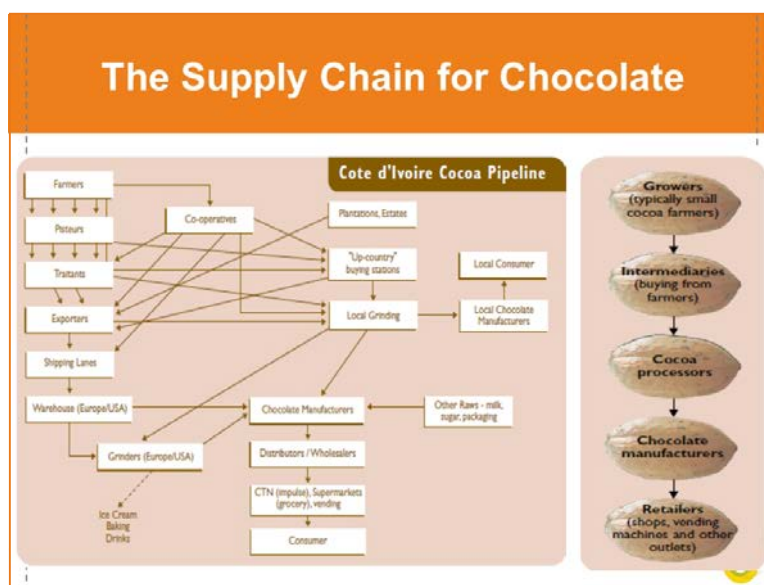
Evolution of Supply Chain Governance

- **Until mid 1970s:** Regulatory approaches common.
- **Late 1970s** – emergence of alternative SC governance models (e.g. “Fair Trade”, Max Havelaar)
- **Late 1980s:** shift towards joint governance.
- **1990s:** Voluntary standards completing/ complementing compliance approach.
- Emergence of non-traditional Supply Chain actors
- Corporations taking up more active role in Supply Chain: Notion of shared Responsibility
- Changing relationship between business, government & society. (Vermeulen & Seuring, 2009; Moon & Vogel, 2008; Moon, 2002)

13

Slide 15: Optional Exercise: Cote d'Ivoire Cocoa Pipeline

In order to encourage participants to apply their knowledge regarding the notion of governance to supply chains, present the cocoa pipeline and highlight the major stakeholders and processes involved – from farmers to consumers. It is important to relate the key words that participants used in defining the notion of governance when explaining. For example, it involves diverse relationships and responsibility over various activities at different stages.



Slide 15: Video and Class Discussion

"The Outsourcing Report – Sweatshop Warrior" sets the scene for the rest of the lecture as it highlights supply chain governance actors and process issues that emerge as a result of globalisation and outsourcing and provides an opportunity for participants to identify key stakeholders and supply chain process issues.

Free trade and globalisation promised better living and labour standards for developing countries (as a result of increased cross-border supply chain activities). But instead pressure to reduce production costs often perpetuated or aggravated violations of basic human and workers' rights, and contributed to poor wages and working conditions, including inadequate health and safety standards. The video equally highlights the effects of a weak regulatory framework.

The video also raises awareness for the pressures non-traditional SC stakeholders (such as NGOs and the media) bring to bear on multinational corporations. Given the potential reputational risk involved for companies, these campaigns are increasingly influential on organization's decisions to embed social and environmental goals in their supply chain strategies.

Video and Class Discussion

"The Outsourcing Report – Sweatshop Warrior" from LinkTV, USA available on youtube:
<http://www.youtube.com/watch?v=ZPmXiQKjRpw&feature=related>

Pay attention to the key actors and process definition issues raised.



Slide 16: Unit 2.3: SC Governance Modes

Here, the focus is on describing various arrangements or forces that determine what is to be produced (product definition) and how it is to be produced (process definition). This is important as it leads to particular forms of supply chain governance.

This unit is aimed at enabling students to understand the origin and changing nature of supply chain governance in various industries. Supply chain governance mechanisms can originate from three main sources: market interactions; government regulations; and voluntary initiatives.

Unit 2.3: Modes of SC Governance

- **Market-based interactions.**
- **Government regulations.**
- **Voluntary initiatives.**

16

Slide 17: Rationales for Market-based SC Governance

In supply chain governance arrangements that are driven by market forces, corporate decisions to source specific inputs from a variety of suppliers, selected suppliers or produce in-house depends on three important factors, namely the:

- complexity of transactions;
- ability to codify transactions; and
- capabilities of supply chain partners.

Complex transactions require higher levels of supply chain management oversight.

Transactions are considered complex if the production process cannot be specified (maybe because of the need to control intellectual property (IP) and manage complex webs of inputs and outputs) and/ or competent suppliers cannot be found. Examples could be the production of aeroplane engines, nuclear energy and arms.

Note that lead firms increase complexity when they place new demands on the value chain – for example, requiring suppliers to hold stock and delivery just-in-time as needed – and when they increase product differentiation (as is the case in the computer and electronics industries).

Second, market-based supply chain governance is determined by **the extent to which information and knowledge can be codified** and transmitted efficiently to suppliers. Lead firms and industries decrease complexity through the development of technical and process standards, definition of grades and certification of processes for quality assurance as well as responsible labour and environmental practices. Examples of industries where standard technical specifications and processes are common are: the electrical industry, mobile phones, television manufacturing, etc.

Lastly, where **supplier capability** is high, lead firms will prefer to outsource the production of component parts and vice versa. This explains the relatively high level of outsourcing in the computer manufacturing and garment industries as suppliers have a greater capacity to innovate.

Rationales for Market-based SC Governance:

Produce in-house or source from suppliers:

- 1. Complexity of transactions** e.g. concerns about IP and competent suppliers (e.g. airline, nuclear energy)
- 2. Ability to codify information** – lead firms decrease complexity through the development of technical and process standards; certify product quality; labour and environmental processes, etc.
- 3. Capability of suppliers:** where supplier competence is high, lead firm will outsource (e.g. in garment, computing)

(Gereffi et al, 2005)

17

Slide 18: Market-based SC governance

The five different types of market-based supply chain governance linkages include:

- market linkages;
- modular chain arrangements;
- relational chains;
- captive networks;
- and hierarchy arrangements.

In each case, one can consider the implications for a lead firm seeking to ensure that the products or services from its suppliers are meeting the social and environmental standards it has set out in its parameters.

Market linkages: Here, there is low complexity of information exchanged and the cost of switching to new partners is low for both parties.

In such arrangements, corporations buy from diverse suppliers while suppliers sell to multiple buyers. This is common in agricultural supply chains such as coffee and cocoa.

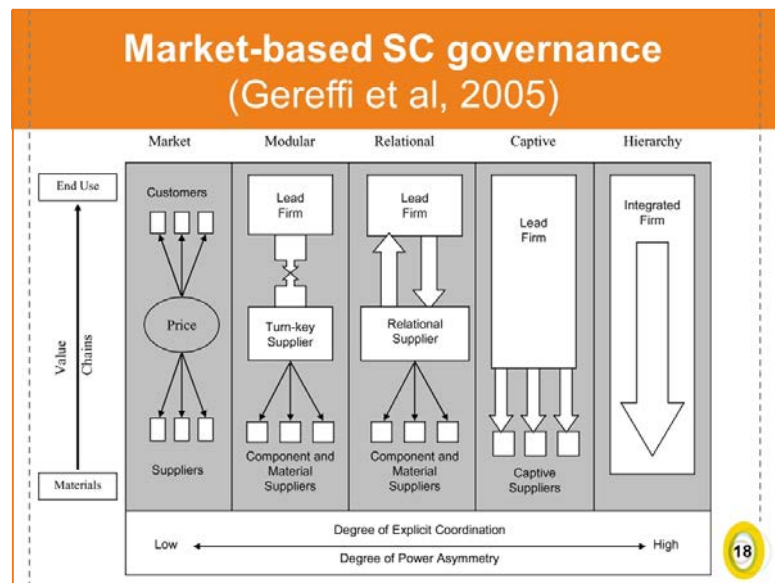
Direct influence of the buyer on the supplier will be limited, though in the example provided, firms are increasingly engaging in partnerships with international agencies, NGOs, or private audit firms to try and obtain better information and influence practice.

Modular arrangements: In such networks, lead firms buy from turn-key suppliers who primarily source components and materials from diverse suppliers. Here, the ability to codify specifications is high and suppliers make products to suit a customer's terms and conditions. Hence, producers use flexible machinery to customise products, take full responsibility for competences surrounding process technology and make capital outlays for components and materials on behalf of customers. Arrangements within the apparel industry is a good example as suppliers source cotton from diverse sources and transform into finished products based on specificities from the buyer.

Again, in this case, there is arms-length distance between the final buyer and the suppliers within the network. Ensuring that the turn-key supplier is prepared to follow-through with each of its suppliers is therefore critical. At the same time, the challenge in negotiating multi-tier pricing creates pressure which is likely to be exercised on the last tier. If the turn-key supplier has many customers, the buyers influence will be even more limited.

Relational interactions: Relationships in such circumstances often create mutual dependence and high levels of asset specificity. Suppliers usually have high capabilities and there is a certain degree of power balance. A good example is the relationship between auto-manufacturers and component suppliers. Examples include production disruptions in General Motors (US) and Toyota (UK) following the March 2011 earthquake in Japan that destroyed the facilities of some component manufacturers.

In this scenario, lead firms or buyers will have a high level of interaction with their intermediary supplier. The opportunity to embed sustainable processes or product design into this scenario should be high.





Captive Networks: In these networks, small suppliers are dependent on large buyers as they make non-standard products using machinery dedicated to the buyer's needs. Power is exerted by the lead firm and suppliers face significant switching costs and are therefore, 'captive'. In addition, such arrangements are characterised by a high ability to codify (in form of detailed instructions); high complexity of product specifications; and low supplier capabilities. Hence, the steering and control is directed by the lead firm as suppliers depend on them for complementary activities such as design, logistics, process technology upgrading and component purchasing. Airline engine manufacturing supply chains is a typical example of a captive supply chain as lead firms develop and maintain selected suppliers.

In a captive scenario, a buyer has complete influence on the sustainability practices of its supplier.

Integrated firm: In such chains, the dominant form of governance is managerial control – flowing from managers to subordinates or headquarters to subsidiaries and affiliates. Such is the case in the pharmaceutical industry where the need to protect IP is high.

Market-based Supply Chain Governance: Dynamic Systems

As can be learned from the bicycle industry which has moved from vertically integrated companies to outsourcing to specialised component manufacturers, supply chain governance is dynamic. Hence, corporations have to constantly adapt their supply chain governance mechanisms. Another example to illustrate the dynamism of supply chain governance pattern is the shift in vegetable sourcing by UK supermarkets (in the mid-1980s) – from market-based arrangements to coordination – due to the need to control quality and product variety.

Since many businesses operate multiple supply chains, it is common for a company to operate within all the five different market-based arrangements based on the relative importance of the input. For example, Toyota prefers to capitalise on its core competence in engine manufacturing and produce car engines in-house while sourcing other car manufacturing inputs from a variety of sources.

A market-based approach is only one of three supply chain management approaches. Additional SC governance arrangements arise as a result of government regulation and voluntary initiatives as outlined in subsequent slides.

Slide 19: Government regulation

By government regulation, we mean laws that originate from: regional governments (such as the European Union); national governments; local/ municipal governments; and government agencies that may be charged with regulating particular industries.

In explaining how government regulation impacts supply chain governance, the lecturer can use the link between the UK Food Safety Act and supply chain governance. The food safety regulation places a requirement for 'due diligence' upon food retailers with respect to the manufacturing, transportation, storage and preparation of food – thereby having far-reaching implications on product and process governance parameters in source countries.

This is important as food retailers can be held liable for not serving food that is fit for consumption. In order to comply with the food safety laws, UK supermarkets have developed systems of traceability and monitoring to meet due diligence requirements, and in some cases have gone further to directly partner with or acquire producers (Humphrey and Schmitz, 2001).

Government Regulation

- Government standards are compulsory e.g. UK Food Safety Act.
- Product bans e.g. EECA ban on ozone depleting refrigerators.
- Compulsory information instruments e.g. EU energy rating labels and CO2 emissions for new cars.
- Economic incentives (taxes, subsidies, and public procurement) to drive change e.g. renewable energies.
- National Eco-label schemes e.g. Blue Angel in Germany.
- Government backing voluntary standards e.g. Fairtrade, Sustainable Forest Management Standards.

19

Slide 20: Voluntary Initiatives

A new “Sustainable” supply chain governance has emerged where corporations exceed regulatory and market requirements and integrate social and environmental concerns into their supply chain management strategies.

It emphasizes a more collaborative form of governance that attempts to fill the regulatory vacuum earlier described and brings together both traditional (raw material suppliers, logistics agents, etc) and non-traditional supply chain actors (such as non-governmental organisations, competitors, government agencies, etc).

Three forms of voluntary governance approaches are distinguishable, namely: single firm; joint product/ sector; and cross sectorial approaches.

These initiatives usually make reference to international intergovernmental standards such as ILO conventions, ILO MNE Declaration, OECD Guidelines and the UN Global Compact, and private standards such as ISO14000, and ISO26000.

Single firm approaches: In explaining the single firm governance approaches (for example, as used by Boots UK, and Marks and Spencer) it is important to stress that they are in-house sustainable supply chain governance systems. Single firm governance approaches are usually commercially driven and have resulted in changes in areas such as product packaging – where biodegradable material has been preferred. Here, the design and administration of questionnaires to suppliers, training, and compliance audits are commonplace. For example, Marks and Spencer aims to help suppliers help themselves by setting up local benchmarking groups (in Morocco, Indonesia, India and Turkey) to facilitate supplier improvement initiatives (Hoskins, 2008).

In concluding discussions on single firm approaches, ask participants to mention key disadvantages of such an approach. These disadvantages include: substantial extra transaction and control costs; difficulty to secure buy-in of suppliers; and questionable claims given the self-control nature of the system. These disadvantages are at the origin of joint product/sector and cross-sector supply chain governance approaches.

Joint product/ sector approaches: Explain that such initiatives are usually initiated by industry associations or industry leaders in collaboration with NGOs that specialise in specific areas. For example, McDonald’s working with Greenpeace to fight Amazon Rainforest deforestation. Firms freely choose to join and/or exit from such initiatives which focus on the concerns of customers, regulators, corporations and other stakeholder.

Cross-Sector approaches: These usually go beyond industry boundaries and comprise of diverse stakeholders with various sustainability interests. Mention the example of the GlobalGAP – which is a body that brings together producers, suppliers, retailers and non-governmental organisations and sets voluntary standards for the certification of production processes of agricultural (and aquacultural) products around the globe. It is primarily designed to reassure consumers and other stakeholders about how food is produced on the farm; especially the minimisation of detrimental environmental impacts of farming operations, reducing the use of chemical inputs and ensuring a responsible approach to workers’ health and safety as well as animal welfare. ISO and Social Accountability standards and guidelines are also examples of cross-sector governance initiatives.

Voluntary Initiatives

Collaborative and fills ‘regulation vacuum’

- 1) Single firm approaches: 1st generation (e.g. Marks & Spencer; Boots UK, Patagonia)
- 2) Joint product/ sector approaches: 2nd generation (e.g. the Forest Stewardship Council (FSC); Marine Stewardship Council (MSC); Roundtable on Sustainable Palm Oil (RSPO)).
- 3) Cross sectorial approaches: 3rd generation (e.g. GlobalGAP)

(Vermeulen and Seuring, 2009; Hoskins, 2008)

20



Slide 21: Forms of Voluntary Standards

There are two principle forms of voluntary standards – guidelines and certifications. The lecturer may ask participants if they have taken note of any certification labels on specific products; such as the Fair Trade label on coffee, tea, banana, products, etc. To enhance understanding, the lecturer may present a product that contains a certification label. Note that FSC labels are usually found on forestry products such as paper and pulp.

Forms of Voluntary Standards:

Guidelines (e.g. UNGC, ILO MNE Declaration, OECD Guidelines, ISO26000)
Certifications (e.g. ISO14000, SA8000, etc).




21

Slide 22: Guidelines versus Certifications

This slide provides an opportunity to distinguish between the various voluntary initiatives and guidelines introduced earlier and certification schemes. Whereas there are benefits to the application of voluntary standards and certification schemes, there are also drawbacks:

Among the benefits:

- Possible Risk mitigation & source of first-mover advantage for early adopters.
- Opportunities to improve relationships and develop trust over time.
- May lead to improved product/ process parameters.
- May facilitate training and knowledge transfer across the supply chain.

Guidelines versus Certifications

- Guidelines are sets of best practices (e.g. OECD Guidelines, ISO 26000).
- Certifications accredit and monitor suppliers, evaluate respect of standards, audit, report and sanction violations (e.g. Fairtrade, FSC, ISO14000, SA8000)
- **Pros and Cons** of Private Voluntary Initiatives, Codes, and Certification Schemes

22

Among the concerns arising with respect to Voluntary Initiatives and Certification Schemes: Proliferation of initiatives, codes and certifications, leads to confusion among those expected to implement the schemes and consumers alike. (Note: As voluntary schemes are themselves unregulated, there are few barriers to entry of new codes) Increased costs associated with compliance; there is an increasing cost burden on small suppliers, individual producers and others, particularly in developing countries to meet the increasingly diverse range of governance standards imposed by buyers. Increased concern that as cost of compliance on voluntary initiatives rises, available public budgets to strengthen capacity public inspectors to enforce national regulations are declining.

Slide 23 – Unit 2.4: SC Governance Actors and Instruments

A suitable introduction to this slide is that it is not practical for a company to adopt all existing voluntary standards as they range from global to local as well as industry-specific guidelines. It should be observed that non-traditional supply chain actors (such as the UN and its agencies, governmental agencies, and NGOs) have been instrumental in designing and shaping sustainable supply chain governance models. Intergovernmental organizations instruments benefit from having been negotiated with and therefore have the backing of governments (and in the case of the ILO, employer and worker organizations) and are therefore the most credible reference sources.

NGOs play the role of watchdogs as well as full partners in resolving the product and process issues facing corporations. A suitable example of parameters set from outside the supply chain is the case of Nike in the US (1990s) that was held responsible for poor labour conditions in suppliers' factories in Asia. NGOs were keen to change the social process parameters in Nike's supply chain and the company later engaged them to seek lasting solutions. It is important to emphasize that the business-NGO relationships have evolved. NGOs today play a variety of roles. Whereas a number of NGOs use a confrontational approach to create awareness for potential corporate violations or abuses, others are increasingly working on a collaborative approach. Still other NGOs, may use both confrontational, as well as, collaborative approaches. Importantly, there has been a realization on all sides that collaboration can be the best approach to addressing complex problems. Some NGOs have specific competencies that could be vital in managing sustainability challenges in the supply chain, particularly where they have specialized or local knowledge. The manner in which corporations can establish beneficial relationships with various stakeholders will be discussed in sessions six and seven. The table presented on the slide should serve as an example to managers of the various types of voluntary instruments. A selection of the most relevant instruments should consider external and internal factors such as; the industry, company vision and values, and geographic region in which the company and its suppliers operate. The lecturer should emphasize that it is important to consider the concerns of different stakeholders when selecting voluntary standards.

Governance Actors and Instruments		
Level	Major Actors	Examples of Instruments
Global	UN and its agencies, OECD, Multinationals	UN Global Compact, ILO Core Labour Principles, ILO MNE Declaration, OECD Guidelines, ..
Regional	European Union	Sustainable Forest Management Guidelines; Extractive Industries Transparency Initiative
Cross-sector	ISO, GlobalGAP, NGOs (Fair Trade, ETI, etc)	ISO14000, ISO26000, SA8000, Fair Trade; Ethical Trading Initiative
Sector	Industry associations, corporations, NGOs, etc	Guidelines in Forestry, Fishing, Agriculture, Mining and Metals, etc.
National	Governments, NGOs, corporations, Trade unions, etc	Government and expert guidelines, NGO concerns, etc.
Local	NGOs, consumer groups, government, etc	Standards based on local concerns and priorities.



Slide 24: Reading and Brainstorming

Give participants 10 minutes to read Clarke's (2005) article – **"Manufacturing the Evidence"** and use 10 minutes to brainstorm on the questions presented on the slide. The lecturer may provide flip chart papers for students to write down their thoughts and present later. Based on the class size and availability of time, a particular group(s) may be asked to focus on question one while the other(s) brainstorm on question 2. They will be given five minutes to share their thoughts on these questions with the entire class.

The aim of asking students to read the article is to draw on information contained in the paper to describe the challenges of implementing voluntary standards and the dangers of relying heavily on these standards and compliance audits.

Reading and Brainstorming

Read Clarke's (2005) "Manufacturing the Evidence" and answer the following questions

1. Should developed country consumers be concerned about labour standards in developing countries? Justify your answer.
2. In addition to proposed solutions in Clarke (2005), what other measures could improve labour standards in supply chains?

24

The paper highlights an important source of the fraudulent record keeping culture – contradictory pressures from corporate purchasing and ethical/ sustainability teams (whereby the former is pushing for price reductions and shorter lead times; and the latter is insisting on improving labour standards). Lead firms/buyers are, therefore, part of the problem and could be instrumental in developing lasting solutions. Hence, corporations are encouraged to go beyond new governance measures of creating ethical/ sustainability teams; adopting voluntary or 'soft' codes; sending out auditors; and monitoring compliance – and actively engage international, national and local stakeholders to improve labour standards across their supply chains. At the same time, for companies committed to sustainable practices, working with public institutions to strengthen capacity of inspectors to enforce compliance of national legislation can prove to be a more sustainable strategy in the long run as it can lead to reduced compliance costs and more transparent playing field. (The ILO Betterwork Programme is an initiative based on this approach and is supported by garment industry leaders). This proactive approach will not only enhance overall supply chain performance but will equally contribute to the realisation of the promised benefits of globalisation to the developing world.

Summary and Discussion Guide for Clarke (2005) “Manufacturing the Evidence”

This brief is in line with the last objective of the session – to examine the effectiveness of voluntary standards and highlight key sustainable supply chain governance challenges.

Key messages

- Adopting voluntary standards is important but inadequate. Implementation is more important and challenging.
- Ensuring that the standards of one country are observed in another is difficult.
- Adoption of voluntary standards, creation of ethical/ sustainability teams, and relying on compliance audits are insufficient.
- Corporations are outsourcing certain aspects of supply chain governance to other organisations. (For example supply chain consultancies visiting factories on behalf of major clothing retailers, supermarkets and home furnishing stores).
- There is a lack of evidence that reliance on audits and strict compliance results in embedded sustainability into corporate supply chains.
- It takes time to effectively implement voluntary standards. Rather than relying on strict compliance, a continuous improvement approach is most desirable.

The Problem

The explanation for why suppliers produced fraudulent documentation: Tensions between purchasing and ethical/ sustainability teams in large corporations – where the former demands shorter lead times and reduced prices, and the latter require strict adherence to labour standards. In this case, local labour laws were stricter than standards in the buyer’s country.

Suppliers respond to these challenges by putting workers under pressure to prioritise purchasing demands over ethical requirements – hence, an incentive to lie and produce fake compliance records to meet SC governance demands.

Proposed solutions

Multinational Enterprises have a role to play in developing long-term solutions:

- Buyers need to be aware of the effects of their demands on the supply chain – purchasing and ethical/ sustainability teams should align their demands and practices.
- Companies should not place too much emphasis on monitoring and neglect other practices that could have more long-term benefits.
- The way forward is to adopt a continuous improvement approach; provide suppliers with constructive assistance towards improvements; establish long-term relationships with suppliers; and reward supplier honesty.
- It is important to engage developed and developing country stakeholders (workers’ unions, suppliers, NGOs, etc) so as to better prioritise and seek lasting solutions to the concerns of workers and suppliers.

Other recommended solutions are found on the top right hand corner of page 29 of Clarke’s (2005) article.



Slide 25 – Unit 2.5: Conclusion

In order to appraise the attainment of session objectives, the question posed at the start of the session could be repeated at this juncture and the responses compared with those obtained at the start of the session.

An appropriate answer to this question is that all stakeholders (business, governments, consumers and NGOs) have responsibility for ensuring effective governance in global supply chains as they have distinct roles and contributions.

Unit 2.5: Conclusion

What do you think?

Who is responsible for ensuring sustainability in global supply chains and why?

25

Slide 26: Conclusion

The lecturer may wrap up with a summary of the key discussion topics covered:

- Globalization and new modes of industrial organization, coupled with the proliferation of NGOs and business initiatives, call for new collaborative arrangements and governance.
- Supply chain governance is the mechanism used by different actors from within the supply chain to influence and control the actions of other supply chain partners.
- In SSC governance, collaborative approach is critical to successfully introducing sustainability.
- Transparency, responsibility and accountability are key for effective governance.
- Effective SC governance is the responsibility of all stakeholders.

Conclusion

- Globalization and new modes of industrial organization, coupled with the proliferation of NGOs and business initiatives, call for new collaborative arrangements and governance
- Supply chain governance is the mechanism used by different actors from within the supply chain to influence and control the actions of other supply chain partners.
- In SSC governance, collaborative approach is critical to successfully introducing sustainability
- Transparency, responsibility and accountability are key for effective governance.
- Effective SC governance is the responsibility of all stakeholders.

26



Readings

Selected mandatory and complementary readings are provided below to enhance understanding of the main ideas raised in the session. These readings will also assist students in the elaboration of coursework and evaluations as well as stimulate research ideas in various areas related to sustainable supply chain governance. Students should be encouraged to read the mandatory readings prior to attending the session so as to actively participate and ask questions as need be.

Mandatory Readings

- 📖 Gereffi, G.; Humphrey, J. and Sturgeon, T. (2005); “The Governance of Global Value Chains”, Review of International Political Economy, 12:1, pp. 78-104.
- 📖 Humphrey, J. and Schmitz, H. (2001), “Governance in Global Value Chains”, Institute of Development Studies Bulletin, 32, pp. 19-29. Available at: <http://www.ids.ac.uk/index.cfm?objectid=FA0B9173-5056-8171-7BB32B3E86AD3BC7>.
- 📖 Clarke, E. (2005), “Manufacturing the Evidence”, Supply Management, Vol. 10, Iss. 11, pp. 28-29.

Complementary Readings

- 📖 Albareda, L. (2008), “Corporate Responsibility, Governance and Accountability: From Self-Regulation to Co-Regulation”, Corporate Governance, Vol. 8, No. 4, pp. 430-439.
- 📖 Castka, P. and Balzarova, M. (2008); “ISO 26000 and Supply Chains – On the Diffusion of the Social Responsibility Standard”, International Journal of Production Economics, 111, pp. 274-286.
- 📖 Dolan, C.; and Blowfield, M. (2010); “Outsourcing Governance: Fairtrade’s Message for C21 Global Governance”, in “Climates of Change: Sustainability Challenges for Enterprise”; Smith School Working Paper Series, University of Oxford, April. Available at: <http://www.smithschool.ox.ac.uk/wp-content/uploads/2010/02/Blowfield-online2.pdf>
- 📖 Robinson, P. K. (2010), “Do Voluntary Labour Initiatives Make a Difference for the Conditions of Workers in Global Supply Chains?”, Journal of Industrial Relations, Vol. 52, Iss. 5, pp. 561-573.
- 📖 Vermeulen, W. J. V. and Seuring, S. (2009), “Sustainability Through the Market – The Impacts of Sustainable Supply Chain Management: Introduction”, Sustainable Development, Vol. 17, Iss. 5, pp. 269-273.
- 📖 International Voluntary Standards such as: United Nations Global Compact Principles; ILO Declaration on Fundamental Principles and Rights at Work; Multinational Enterprise Declaration; OECD Guidelines for Multinational Enterprises; ISO14000 and ISO26000 Guidelines.

Teaching Resources

This session uses voluntary standards, a short video, reading and brainstorming sessions, and lecture methods to highlight the dynamic and changing nature of supply chain governance arrangements. Where possible, the room set-up should enable participants to sit in small groups (of four or five) taking into consideration their current or future roles in corporate or non-corporate organisations. A mix of backgrounds in each group is ideal.

Multimedia facilities will be required to deliver the session, notably: a computer with appropriate speakers for screening the proposed video (“The Outsourcing Report – Sweatshop Warrior”), a projector/ projection screen, and a writing board (white or black). Ideally, the computer should be connected to the internet as the recommended video is on youtube. In the absence of internet connection, the lecturer should upload the video unto the computer prior to the session. Flip chart papers and bold markers will be required as respective groups will be expected to write down key points that emerge from the brainstorming session (on Clarke’s (2005) paper titled: “Manufacturing the Evidence”) and later present their thoughts to the entire class. Based on the class size and time constraints, a specific group(s) might focus on a single question; but the lecturer should ensure that the questions are evenly distributed among the various groups. It is recommended that the lecturer should go round the respective groups and listen to the quality of discussions and debates as well as provide further guidance.

Video for the Session

“The Outsourcing Report – Sweatshop Warrior”: <http://www.youtube.com/watch?v=ZPmXiQKjRpw>









Alternatively:

“Hidden Face of Globalisation”: <http://www.youtube.com/watch?v=8Bhodyt4fmU&NR=1>

Note: In the event of a disappointment in playing the recommended video during the session, the lecturer can use the 25 minutes allocated for the video and class discussions to organise and lead group/ class discussions to attempt answers to the reflection questions provided.



Other Teaching and Learning Resources

-  Best, S. and Mamic, I. (2008), “Voluntary social initiatives in fresh fruit and vegetable value chains”, ILO, Employment Sector Working Paper No. 23, Job Creation and Enterprise Development Department, Geneva,
http://www.ilo.org/wcmsp5/groups/public/—ed_emp/documents/publication/wcms_120424.pdf
-  Herr, M. L. and Muzira, T. J. (2009), “Value chain development for decent work: a guide for development practitioners, government and private sector initiatives”, ILO
http://www.ilo.org/wcmsp5/groups/public/—ed_emp/—emp_ent/documents/instructionalmaterial/wcms_115490.pdf
-  Mamic, I. (2004); “Implementing Codes of Conduct: How Businesses Manage Social Performance in Global Supply Chains”, Greenleaf Publishing and International Labour Office, Sheffield, UK.
http://www.ilo.org/public/libdoc/ilo/2004/104B09_385_engl.pdf
-  Lecturers can equally choose to use other short videos that focus on supply chain governance concerns that require coordinated arrangements. Some of the videos available on youtube that portray environmental sustainability governance issues include:
 -  “Greenpeace: Stopping Amazon Deforestation for Soybeans”,
<http://www.youtube.com/watch?v=Fo4WXly4QYk>
 -  “Wal-Mart’s Eco-Friendly Sustainable Supply Chain”, <http://www.youtube.com/watch?v=LgldATOLWJg>
-  Youtube videos that depict social sustainability issues related to supply chain governance include:
 -  “Hidden Face of Globalisation”: <http://www.youtube.com/watch?v=8Bhodyt4fmU&NR=1>;

“Hidden Face of Globalisation Part II”: http://www.youtube.com/watch?v=a0IBM7_BvTw;

“Hidden Face of Globalisation Part III”: <http://www.youtube.com/watch?v=dx8VPjRKOkY&NR=1>;

and “Hidden Face of Globalisation Conclusion”,
<http://www.youtube.com/watch?v=2wqBRWaOfno&feature=related>.

Session 3

Governance of Supply Chains II: Introducing International Labour Standards



Introducing
Sustainability
into the Supply Chain

3





About the session

This session supplements Session 2: Governance of Supply Chains I in providing participants an additional overview of the leading international standards and key instruments pertaining to the social dimension of sustainable development. The session is divided into two distinct thematic areas: (1) An overview of the diverse categories of standards, and a description of the leading standards, and (2) An introduction to core labour standards based on ILO conventions and integrated into all leading instruments. As many supply chains feed into global production systems and trade, participants should gain a deeper understanding of how public policy and private codes as well as the underlying principles and norms are increasingly addressed to supply chain operations.

Building on learning in Session 2 and this session, participants are introduced to the role of social dialogue through the introduction of the International Framework Agreement case study.



Session objectives

- Build awareness for the main standards and key instruments as well as the role of international organizations pertaining to the social dimension of sustainable development
- Understand the role of labour principles and standards in supply chains
- Discuss how principles can be implemented in supply chains



Key Learning Outcomes

The suggested session materials and techniques intend to bring together the main theoretical concepts and practitioner views on international standards and codes of conduct in supply chains. Through the combination of lecture contents, reflection questions and brainstorming exercises, participants will be able to:

- Identify the key international standards and instruments within diverse categories, differentiating those which are authoritative and rights-based from other initiatives;
- Identify core international labour standards and important underlying principles of good practice;
- Consider the link between the application of standards, productivity, and competitiveness.



Suggested Session Outline

In order to better manage the session and deliver within the allocated time, the following breakdown is recommended.

Session title	Time allocation	Slide presentation/ sub-activity	Time allocation
Unit 3: Overview of Diverse Categories of Standards and Codes	35 Minutes	Session outline	2 minutes
		Session objectives	3 minutes
		Slide presentation	30 minutes
Unit 3.1: A review of key concepts	15 Minutes	Discussion	15 minutes
Short Break	10 Minutes	Optional	10 minutes
Unit 3.2: Introduction to Core Labour Standards		Slide presentation and lecture	40 minutes
Unit 3.3: Case Discussion and Wrap Up	40 Minutes	In-class reading followed by buzz groups discussion in class	30 minutes
		Wrap up in Plenary	10
Total	140 Minutes		



Methodology

This session introduces participants to the various international standards, initiatives, and codes of conduct and as it may require significant contextualization relies on the lecturer to modify the level of detail for the audience. The lecture is supported by a PowerPoint presentation (or slides using an overhead projector). Many source documents and additional information can be obtained via internet and web link addresses provided.

We encourage you to be creative as to ways to generate interest and engage the audience. You may want to ask questions that allow them to refer to their own activities and challenges and link that to the content you're rolling out at different sections of the presentation. Many of the topics evoke spontaneous discussion – times above are therefore only indicative.



Faculty script

We suggest you to:

1. Start with the presentation using the PowerPoint slides or making transparencies for an overhead projector. You may wish to ask participants how familiar they are with base concepts of human rights, labour rights, or the application of codes within their own workplaces. There are questions posed to participants throughout, so we suggest balancing intensity and length of discussions generated across the session to ensure sufficient time for case discussion.
2. Introduce and conduct Case Discussion using the class reading: ITGLWF and Inditex International Framework Agreement between Inditex and the International Textile, Garment and Leather Workers Federation (ITGLWF). Allow 10 minutes to read the agreement
3. We suggest you split the class in buzz groups of 3 and allow participants to take 15' to discuss the terms and provisions of the agreement and Annex with regards to the labour principles addressed in the presentation.
4. Call one group to the front of the plenary

In organizing the training keep in mind the following points:

- a) Encourage participation as well as group discussions and small group work. Training always has a greater chance to succeed and a greater effect when each participant is actively involved.
- b) Build on local experience. Discussions should include participants' own experiences and should take into account local realities and culture.



Special remarks - International Framework Agreement

A new development towards implementing improved working conditions in global supply chains, International Framework Agreements (IFAs) or Global Framework Agreements (GFAs) are agreements negotiated between a multinational company and a global union federation concerning the international activities of that company. Their main purpose is to establish a formal ongoing relationship between the multinational company and the global union federation which can solve problems and work in the interests of both parties.

Students will read through the International Framework Agreement signed between Inditex SA., the world's second largest clothing retailer and the global trade union, International Textile, Garment and Leather Workers' Federation.



General remarks

Reference to names of firms, commercial products and processes, and initiatives does not imply their endorsement by the International Labour Office, and any failure to mention a particular firm, commercial product or process, or initiative is not a sign of disapproval.

PowerPoint Presentation and Speaker notes

Slide 1: Welcome

This session supplements Chapter 2: Governance of Supply Chains I in providing participants an additional overview of the leading international standards and key instruments pertaining to the social dimension of sustainable development. The session is divided into two distinct thematic areas: (1) An overview of the diverse categories of standards, and a description of the leading standards, and (2) An introduction to core labour standards based on ILO conventions and integrated into all leading instruments. As many supply chains feed into global production systems and trade, participants should gain a deeper understanding of how public policy and private codes as well as the underlying principles and norms are increasingly addressed to supply chain operations.

Building on learning in Session 2 and this session, participants are introduced to the role of social dialogue through the introduction of the International Framework Agreement case study.

Session 3: Governance of Supply Chains: Introducing International labour standards

Objectives of the session

- Build awareness for the main standards and key instruments as well as the role of international organizations pertaining to the social dimension of sustainable development
- Understand the role of labour principles in supply chains
- Discuss how principles can be adopted in supply chains





Slide 2: Governance: Diverse Categories of Standards

Governance of Supply Chains: Introducing International Standards

Governance of supply chains has become increasingly complex – not only based on the different forms of contractual relationships across globalized production systems, but also in terms of the number of corporate social responsibility standards to which an enterprise may either elect to adhere to or to be expected to comply with. These standards have expanded in both number and form.

A useful way to categorize these diverse standards is by referring to the classification scheme of the ISO 26000 standard “Guidance on Social Responsibility” which identifies CSR instruments and tools by the organization that created them: i) intergovernmental organization (IO) standards derived from universal principles as recognized in international declarations and agreements; ii) multi-stakeholder initiative (MSI) standards; iii) industry association codes; and iv) individual company codes.

Governance: Diverse Categories of Standards

1. Intergovernmental organization (IO) standards derived from universal principles
2. Multi-stakeholder initiative (MSI) Standards
3. Industry Association Codes
4. Individual Company Codes

Sources: ISO 26000 Classifications, UNCTAD

2

Reference Sources:

- World Investment Report 2011, UNCTAD, 2011, pp 111-119
- Annual Report on the OECD Guidelines for Multinational Enterprises, 2008, chapter 6, “Overview of Selected Initiatives and Instruments Relevant to Corporate Social Responsibility”.
- See ISO 26000 Annex A, Table A.1, which organizes CSR instruments and tools by the organization that created them, identifying three categories: “intergovernmental organizations”, “multi-stakeholder initiatives”, and “single stakeholder initiatives” which are primarily (though not exclusively) industry associations.

Slide 3: Intergovernmental Organization Standards – Universal Principles

Intergovernmental Organization Standards – Guiding Principles

International Organization Standards are considered authoritative in that they are based on international declarations and agreements. Human rights and labour rights are principles at the heart of leading intergovernmental organization standards, as these are rights considered to apply to all people, everywhere.

Human Rights are defined in the International Bill of Human Rights which is composed of several instruments, including:

- Universal Declaration of Human Rights
- International Covenant on Economic, Social and Cultural Rights

Labour Rights

Pre-dating the Universal Declaration on Human Rights, the International Labour Organization, established in 1919, recognized that labour rights are a pre-requisite for peace and global stability. In its founding charter it recognized that « conditions of labour exist involving such injustice, hardship and privation to large numbers of people as to produce unrest so great that the peace and harmony of the world are imperilled ». Comprised of 183 member states, the organization includes balanced representation of governments, employer organization, and worker organizations (Trade Unions). On the basis of tripartite (government, employer, worker) negotiations, legal instruments are drawn up in the form of international conventions.

Of some 188 conventions adopted by the ILO, eight have been identified as core labour rights, and are considered fundamental rights, applicable whether or not the conventions referred to are adopted into national law (almost 90% of member states have ratified the conventions into law). The second half of this session will cover these in greater detail, as they form the basis for the majority of standards and codes of conduct.

- **Question:** Ask the participants whether any of them know which were the first labour convention adopted in 1919 – Answer: C1, Hours of Work, introduced the 8 hour work day.

Intergovernmental Organization Standards – Universal Principles

- **Human Rights:** *“All human beings are born free and equal in dignity and rights. They are endowed with reason and conscience and should act towards one another in a spirit of brotherhood.”* – Article 1, Universal Declaration on Human Rights, 1948
- **Labour Rights:** *“Labour is not a commodity”* – ILO’s Declaration of Philadelphia, 1944
- **Core Labour Rights** and Conventions: Declaration of Fundamental Principles and Rights at Work, 1998, based on core rights and conventions





Slide 4: Inter-governmental (IO) Instruments and Initiatives

The following three instruments are intergovernmental organization (IO) standards derived from universal principles as recognized in international declarations and agreements; The ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy ("MNE Declaration – first adopted in 1977, last updated in 2006), the OECD Guidelines for Multinational Enterprises (first adopted in 1976, last updated in 2011), and the UN Global Compact, an Initiative of the Secretary General of the United Nations in 2000.

Inter-governmental (IO) Instruments and Initiatives

- ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (« MNE Declaration »)
- OECD Guidelines for Multinational Enterprises
- UN Global Compact

4

Slide 5: ILO MNE Declaration

ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy – “MNE Declaration”

In the 1960s and 1970s, the activities of multinational enterprises (MNEs) provoked intense discussions that resulted in efforts to draw up international instruments for regulating their conduct and defining the terms of their relations with host countries, mostly in the developing world.

Labour-related and social policy issues were among those concerns to which the activities of MNEs gave rise. The ILO's search for international guidelines in its sphere of competence resulted, in 1977, in the adoption by the ILO Governing Body, of the Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (MNE Declaration).

ILO MNE Declaration

Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy, 1977:

- maximize the positive contribution of MNEs to economic and social progress
- minimize and resolve difficulties arising from operations



5

The principles laid down in this universal instrument offer guidelines to MNEs, governments, and employers' and workers' organizations in such areas as employment, training, conditions of work and life, and industrial relations. Its provisions are reinforced by certain international labour Conventions and Recommendations which the social partners are urged to bear in mind and apply, to the greatest extent possible. The adoption of the ILO Declaration on Fundamental Principles and Rights at Work and its Follow-up in 1998 highlighted the importance of the fundamental Conventions in realizing the objectives of the ILO, and consequently, the MNE Declaration takes into account the objectives of the 1998 Declaration. Today, the prominent role of MNEs in the process of social and economic globalization renders the application of the principles of the MNE Declaration as timely and necessary as they were at the time of adoption. As efforts to attract and boost foreign direct investment gather momentum within and across many parts of the world, the parties concerned have a new opportunity to use the principles of the Declaration as guidelines for enhancing the positive social and labour effects of the operations of MNEs.

 **References:** Refer to the complete document at http://www.ilo.org/empent/Publications/WCMS_094386/lang--en/index.htm

Slide 6: MNE Declaration: Areas Covered

The MNE Declaration: General Policies

General Policies - Key Messages

Promote dialogue between multinational enterprises, local business, trade unions and governments to encourage company:

- Compliance with national laws
- Respect for international standards
- Support for national development priorities

This Chapter outlines ways in which governments and enterprises can cooperate to better ensure through their efforts, business investment can positively contribute to national development priorities.

MNE Declaration: Areas Covered

- **General policies:** national law and international labour standards
- **Employment:** promotion, equality, security
- **Training:** vocational training and skills development
- **Conditions of work and life:** wages and benefits, child labour, safety & health
- **Industrial relations:** freedom of association and right to collective bargaining, consultations



The responsibilities of government and enterprises are clearly defined: The MNE Declaration encourages governments to provide the appropriate enabling environment. Government should ratify Core International Labour Standards and ensure policy coherence (FDI, tax, etc.) In addition, governments should ensure equal treatment between foreign investors and nationals. Home country governments should promote good practices among their MNEs; and Home and host countries should consult each other on issues of mutual concern.

Companies should comply with national laws; respect international standards and support national development priorities.

Employment Chapter – Key Messages

- Contribute to employment, directly and through backward and forward linkages
- Equality of opportunity and treatment
- Employment security in set-up and changes of MNE operations

Governments should commit to the goal of promoting full employment, and put in place appropriate policies to achieve this goal, in particular in countries where unemployment and underemployment are a serious concern.

MNEs and other large companies should contribute to employment through developing forward and backward linkages, where possible.

Enterprises should ensure equality of opportunity and treatment. For MNEs investing in developing countries, there is particular emphasis on employing and developing host country nationals.

In addition, Enterprises should provide advanced notice, and the opportunity for prior consultation, in case of significant changes in operations. Governments in cooperation with multinationals and national enterprises should provide some form of income protection for workers whose employment may be terminated.

Training Chapter – Key Messages

- Governments should develop effective national policies for vocational training and guidance
- Enterprises should contribute to skills development for employability

Governments should adopt policies and put in place structures for promoting skills development, with the aim of attracting more and better investments. Businesses should provide on-going training (what is now often referred to as life-long training) and promote broader skills development. For MNEs investing in developing countries, this includes opportunities for local staff to obtain higher level management skills and experience.



Conditions of Work and Life – Key Messages

MNEs are expected to provide:

- wages, benefits and conditions of work in MNEs as favourable as those of comparable employers, or best possible conditions
- basic amenities of a good standard for workers
- highest standards of safety and health at work

The MNE Declaration encourages governments to adopt policies to ensure that lower income groups benefit as much as possible from MNE activities. MNEs and other large companies should aim to provide wages and conditions as favourable as comparable employers, or the best possible conditions. Basic amenities, such as housing, medical care and food, should be of a good standard.

This chapter has served as a useful to other instruments, in particular to the OECD when updating the guidelines in 2011.

Industrial Relations – Key Messages

- Respect freedom of association and the right to organize
- Recognize and facilitate collective bargaining
- Develop systems for consultations
- Establish processes to examine individual and joint grievances
- Establish voluntary conciliation machinery to prevent and settle disputes

Governments should ensure that workers and employers are free to join organizations of their own choosing, without interference; and should encourage and promote the full development and utilization of machinery for collective bargaining.

MNEs and other large companies should:

- recognize the chosen workers' representatives for purposes of collective bargaining
- provide workers with such facilities as may be necessary to assist in developing collective agreements
- bargain in good faith
- not utilize the threat of transfer in order to influence unfairly the negotiations
- include provisions for settlement of disputes
- provide workers with information needed for meaningful negotiations.

Freedom of Association and the Right to Organize and Collective Bargain are considered among the four core labour principles to be in detail in the section on labour standards.

Importantly, the MNE Declaration calls on all parties concerned by the Declaration to respect the sovereign rights of States, and contribute to the realization of the Declaration on Fundamental Principles and Rights and Work, and do so without prejudice as to whether a State has ratified the relevant conventions.

Slide 7: OECD Guidelines: 2011

About the OECD:

The mission of the Organisation for Economic Co-operation and Development (OECD) is “to promote policies that will improve the economic and social well-being of people around the world”. Originally it was established as the Organisation for European Economic Cooperation (OEEC) in 1947 to run the US-financed Marshall Plan for reconstruction of a continent ravaged by war. By making individual governments recognise the interdependence of their economies, it paved the way for a new era of cooperation that was to change the face of Europe. Encouraged by its success and the prospect of carrying its work forward on a global stage, Canada and the US joined OEEC members in signing the new OECD Convention on 14 December 1960.

The Organisation for Economic Co-operation and Development (OECD) was officially born on 30 September 1961, when the Convention entered into force.

About the OECD Guidelines for Multinational Enterprises

The OECD Guidelines are subscribed to by 42 countries -- the 34 members of the OECD and 8 non-members (Argentina, Brazil, Egypt, Latvia, Lithuania, Morocco, Peru and Romania). Six additional countries (the Russian Federation, Colombia, Costa Rica, Jordan, Serbia and Tunisia) are currently in the process of adhering. Adherence to the Guidelines is not closed nor is OECD membership a condition. Any country that meets the prescribed standards can apply to adhere, subject to the specific rules that have been established to this effect. Furthermore, the Guidelines apply to the global operations of firms operating in and from any adhering country (irrespective of the nationality of the parent).

The OECD Guidelines comprise a set of voluntary recommendations in all the major areas of corporate citizenship, including employment and industrial relations, human rights, environment, information disclosure, combating bribery, consumer interests, science and technology, competition, and taxation. Following the completion of a major update in 2011, the Guidelines include new recommendations on human rights (developed in close consultation with the UN Secretary-General's Special Representative for Business and Human Rights) and company responsibility for their supply chains, making them the first inter-governmental agreement in this area. During the 2011 update, the Chapter on Employment and Industrial Relations was further updated and amended to provide greater coherence with the ILO MNE Declaration. Implementation involves a unique combination of binding and voluntary elements. The National Contact Points are government offices that every adherent must establish to handle the instrument's mediation and conciliation procedures (“specific instances”). In other words, the Guidelines would apply, for example, to the subsidiary of a Chinese firm (and any foreign operations of the subsidiary) based in any adherent to the Guidelines.

References: Please find the OECD Guidelines for Multinational Enterprises (2011) at Permanent URL: www.oecd.org/daf/investment/guidelines

OECD Guidelines: 2011



1. Concepts and Principles – Government to Business
2. General Policies – corporate citizenship
3. Disclosure – timely, regular, reliable and relevant
4. Human Rights
5. Employment and Industrial Relations – ILO core Labour Standards, MNE Declaration
6. Environment – includes health and safety disclosure
7. Combating Bribery
8. Consumer Interests – safety, quality, disclosure, privacy
9. Science and Technology – promote tech and knowledge transfer
10. Competition
11. Taxation – local compliance and timely payment





Slide 8: UN Global Compact

United Nations Global Compact Initiative

The Global Compact was launched in an address to the World Economic Forum on 31 January 1999. On that occasion the United Nations' Secretary-General, Kofi Annan, challenged business leaders to support universal social and environmental principles. Based on the positive reaction to that speech, the Global Compact's operational phase was then launched in July 2000.

The UN Global Compact is a strategic policy initiative for businesses that are committed to aligning their operations and strategies with ten universally accepted in the areas of human rights, labour, environment and anti-corruption.

UN Global Compact

International framework for CSR

Based on internationally agreed principles:

- Universal Declaration of Human Rights
- ILO Declaration on Fundamental Principles and Rights at Work
- Rio Declaration on Environment and Development
- UN Convention against corruption

Multi-stakeholder network of business, labour, governments, UN agencies, NGOs and others

www.itcilo.org





By doing so, business, as a primary driver of globalization, can help ensure that markets, commerce, technology and finance advance in ways that benefit economies and societies everywhere. As social, political and economic challenges (and opportunities) — whether occurring at home or in other regions — affect business more than ever before, many companies recognize the need to collaborate and partner with governments, civil society, labour and the United Nations. Some 8700 corporate participants and other stakeholders from over 130 countries have joined the voluntary initiative making it the largest voluntary corporate responsibility initiative in the world.

Endorsed by chief executives, the Global Compact is a practical framework for the development, implementation, and disclosure of sustainability policies and practices, offering participants a wide spectrum of workstreams, management tools and resources — all designed to help advance sustainable business models and markets. In addition to promoting the mainstreaming of the principles, the initiative seeks to “catalyze actions in support of broader UN goals, including the Millennium Development Goals (MDGs)”

Follow-up measures: The initiative requires members to follow-up through the regular submission of a Communication on Progress (COP) and failure to do so can result in de-listing.

Slide 9: 10 Global Compact Principles: Business should...

The UN Global Compact initiative promotes ten principles: two on human rights, four based on ILO core labour standards, three based on environmental principles, and the final addressing bribery and corruption.

10 Global Compact Principles: Business should...

1. support and respect the protection of internationally proclaimed human rights
2. ensure that their own operations are not complicit in human rights abuses
3. uphold the freedom of association and the effective recognition of the right to collective bargaining
4. uphold the elimination of forced or compulsory labour
5. uphold the effective abolition of child labour
6. uphold the elimination of discrimination in respect of employment and occupation
7. support a precautionary approach to environmental challenges
8. undertake initiatives to promote greater environmental responsibility
9. encourage the development and diffusion of environmentally friendly technologies
10. work against all forms of corruption, including extortion and bribery





Slide 10: UN Business and Human Rights Framework & Guiding Principles

United Nations « Protect, Respect, and Remedy » Framework and Guiding Principles

While not introduced as a stand-alone social responsibility standard, the Report of the Special Representative of the Secretary General on the issue of human rights and transnational corporations and other business enterprises, by Professor John Ruggie, represents a major development in the area social responsibility. The work concludes a three-phase mandate beginning in 2005 to identify an approach to addressing the growing impacts of transnational economic activity on human rights.

An early initiative of the UN called the Norms on Transnational Corporations and Other Business Enterprises failed as it sought to impose the same legal requirements on business as on States, triggering a divisive debate between the business community and human rights advocacy groups while evoking little support from Government.

The final 2011 report, adopted in June 2011 by the Human Rights Council, is referred to as the « Guiding Principles on Business and Human Rights: Implementing the United Nations « Protect, respect, and remedy » Framework. The original « Protect, Respect and Remedy » Framework emerged in 2008, but the 2011 GUIDING PRINCIPLES, gave formal guidance and placed the Universal Declaration of Human Rights and the ILO core labour principles at the heart of it. As highlighted by its authors, « The Guiding Principles' normative contribution lies not in the creation of new international obligations but in elaborating the implications of existing standards and practices for States and businesses ».

The « Protect, Respect, and Remedy » Framework gives clear guidance to States (their obligation to protect citizens from Human Rights abuses), Business (their obligation to respect the law, and not to infringe on the human rights of others, and to carry out due-diligence that this also does not occur in their supply chains) and the principle that both States and Business need to provide a mechanism to REMEDY (address the grievances of any one who should experience an abuse). This instrument was widely endorsed by business, workers, and States (via the Human Rights council). It is a real game changer and will have significant impact on how all parties understand their respective responsibilities.

The importance of due diligence is taken up in this Framework and Guidance on the application of the Framework and Principles is provided.

UN Business and Human Rights Framework & Guiding Principles

- Professor Ruggie (UNSRSG) « Protect, Respect, Remedy » Framework
- Unanimously endorsed by the Human Rights Council in 2008, Guiding Principles adopted by Human Rights Council in June 2011
- Human rights:
 - Universal Declaration of Human Rights and two Covenants
 - Labour rights component: ILO 1998 Declaration of Fundamental Principles and Rights at Work

10



Further reading/viewing:

Please refer to original documents provided on <http://www.business-humanrights.org/SpecialRepPortal/Home> and

<http://www.business-humanrights.org/media/documents/ruggie/ruggie-guiding-principles-21-mar-2011.pdf>

Key concepts are explained by Professor John Ruggie during his presentation at the International Labour Conference in Geneva in June 2010: <http://www.youtube.com/watch?v=55PJw077eQE>



Slide 11: UN Business & Human Rights Framework

In terms of protecting, the guiding principles set a pro-active agenda for States to clearly set expectations for enterprises operating in their territories, including:

1. Enforcing laws aimed at requiring business enterprises to respect human rights, assess the adequacy of the laws and address gaps. Laws should be enabling to human rights, providing guidance and encouragement.
2. States need to ensure that they protect in cases where states own the business or provide direct support, including via credit agencies, investment insurance, and due diligence. And protect in their own purchasing etc.

UN Business & Human Rights Framework

- State duty to « Protect » against HR abuses by 3rd parties, including business, through policies, regulation, and adjudication
- Corporate responsibility to « Respect » HR, act with due diligence to avoid infringing on rights
- Greater access by victims to effective « Remedy », both judicial and non-judicial

11

As pertains to business enterprises of all types and sizes – « appropriate to their size and circumstances ». In order to meet their obligations enterprises should:

1. Make a policy commitment
2. Have a human rights due-diligence process to identify, mitigate and account for.
3. Put in place processes to enable remediation.

Slide 12: Multi-stakeholder Initiatives: ISO 26000 Guidance on social responsibility

MULTI-STAKEHOLDER INITIATIVES: ISO 26000

There are more than two dozen major international multi-stakeholder initiatives providing standards for the social and environmental practices of firms at home and abroad. Multi-stakeholder groups comprise a mix of members from civil society, business, labour, consumers and other stakeholders. These initiatives have been defined as “cross-sectoral partnerships created with a rule-setting purpose, to design and steward standards for the regulation of market and non-market actors.”

Multi-stakeholder Initiatives: ISO 26000 Guidance on social responsibility

- New (2010) voluntary international standard on CSR
- Providing guidance, not for certification
- Covering 7 core subjects of social responsibility:
 - Organizational Governance
 - Human Rights
 - Labour Practices
 - The Environment
 - Fair Operating Practices
 - Consumer Issues
 - Community Involvement and Development

12

The standards most often address non-product-related process and production methods, i.e. issues related to how a product is produced, such as the environmental or social aspects of certain production methods (e.g. whether a product is produced using forced labour).

Although MSI standards are mostly developed by private civil society actors, they are often built on the normative frameworks of international and national soft-law. As shown in the following slides, most MSIs make reference to internationally recognized IO standards. Although most MSI standards cross-reference IO standards, in some cases, IO standards also refer to MSI standards. One prominent example is the OECD Guidelines which make reference to the Global Reporting Initiative (GRI) standard (OECD Guidelines, 2008. p. 42)

A unique MSI is the International Organization for Standardization (ISO) which is a non-governmental organization whose members are the national standard setting bodies in countries around the world. Its standards are widely recognized and endorsed by international bodies (e.g. the WTO) and national governments. In 2010, ISO launched the ISO 26000 standard on Social Responsibility, which has attracted significant attention, as it was developed during a five year period by over 400 participants from around the world, including representatives of industry, labour, consumers, NGOs, government, and researchers.

ISO 26000:2010

ISO 26000:2010 provides guidance to all types of organizations, regardless of their size or location, on:

- concepts, terms and definitions related to social responsibility;
- the background, trends and characteristics of social responsibility;
- principles and practices relating to social responsibility;
- the core subjects and issues of social responsibility;
- integrating, implementing and promoting socially responsible behaviour throughout the organization and, through its policies and practices, within its sphere of influence;
- identifying and engaging with stakeholders; and
- communicating commitments, performance and other information related to social responsibility.

ISO 26000:2010 is intended to assist organizations in contributing to sustainable development. It is intended to encourage them to go beyond legal compliance, recognizing that compliance with law is a fundamental duty of any organization and an essential part of their social responsibility. It is intended to promote common understanding in the field of social responsibility, and to complement other instruments and initiatives for social responsibility, not to replace them.

In applying ISO 26000:2010, it is advisable that an organization take into consideration societal, environmental, legal, cultural, political and organizational diversity, as well as differences in economic conditions, while being consistent with international norms of behaviour.

ISO 26000:2010 is not a management system standard. It is not intended or appropriate for certification purposes or regulatory or contractual use. Any offer to certify, or claims to be certified, to ISO 26000 would be a misrepresentation of the intent and purpose and a misuse of ISO 26000:2010. As ISO 26000:2010 does not contain requirements, any such certification would not be a demonstration of conformity with ISO 26000:2010.

ISO 26000:2010 is intended to provide organizations with guidance concerning social responsibility and can be used as part of public policy activities. However, for the purposes of the Marrakech Agreement establishing the World Trade Organization (WTO), it is not intended to be interpreted as an “international standard”, “guideline” or “recommendation”, nor is it intended to provide a basis for any presumption or finding that a measure is consistent with WTO obligations. Further, it is not intended to provide a basis for legal actions, complaints, defences or other claims in any international, domestic or other proceeding, nor is it intended to be cited as evidence of the evolution of customary international law.

Source: Abstract: http://www.iso.org/iso/catalogue_detail?csnumber=42546



Slide 13:

Annex I. Selected MSI standards (Standards referenced and subjects covered in code)			
Multi-stakeholder Initiatives	Standard	Universal Principles referenced in the standards (1)	Topics addressed
4 C Association	4C code of conduct	<ul style="list-style-type: none"> UN Universal Declaration of Human Rights ILO Fundamental Labour Standards OECD Guidelines 	Labour Practices Environment
Bonsucro	Bonsucro Standard	<ul style="list-style-type: none"> UN Declaration on Rights of Indigenous People ILO Fundamental Labour Standards Other ILO Conventions (2) 	Human Rights Labour Practices Environment
CERES	CERES Principles	<ul style="list-style-type: none"> None specifically 	Environment
Clean Clothes Campaign	Code of Labour Practices for the Apparel Industry Including Sportswear	<ul style="list-style-type: none"> ILO Fundamental Labour Standards 	Human Rights Labour Practices
Ethical Trading Initiative (ETI)	ETI Base Code	<ul style="list-style-type: none"> ILO Fundamental Labour Standards 	Human Rights Labour Practices
Fair Labour Association	Fair Labor Association Workplace Code of Conduct	<ul style="list-style-type: none"> ILO Fundamental Labour Standards 	Human Rights Labour Practices
Fair Wear Foundation	Fair Wear Code of Conduct	<ul style="list-style-type: none"> ILO Fundamental Labour Standards Universal Declaration of Human Rights 	Human Rights Labour Practices

(1) The list gives an overview over the main universal principles referenced in the standards, it is not an exhaustive inventory of all principles referenced
 (2) Health and Safety in Agriculture Convention (No 84), ILO Minimum Wage Fixing Convention (No 131), ILO Protection of Wages Convention (No 95) and ILO Plantations Convention (No 110)

Slide 14:

Multi-stakeholder Initiatives	Standard	Universal Principles referenced in the standards (1)	Topics addressed
Forest Stewardship Council (FSC)	FSC Principles and Criteria	<ul style="list-style-type: none"> ILO Fundamental Labour Standards 	Labour Practices Environment
GoodWeave	GoodWeave code of conduct	<ul style="list-style-type: none"> ILO Fundamental Labour Standards 	Human Rights Labour Practices
Global Reporting Initiative (GRI)	Global Reporting Initiative Sustainability Reporting Guidelines	<ul style="list-style-type: none"> UN Universal Declaration of Human Rights UN Framework Convention on Climate Change UN Convention on the Elimination of All Forms of Discrimination against Women ILO Fundamental Labour Standards 	Human Rights Labour Practices Environment Bribery
Green-e Energy	Green-e Climate Standard	<ul style="list-style-type: none"> UN Framework Convention on Climate Change 	Environment
International Federation of Organic Agriculture Movements (IFOAM)	IFOAM Standard (Currently under development)	<ul style="list-style-type: none"> UN Charter of Rights for Children ILO Conventions relating to Labour Welfare 	Human Rights Labour Standards Environment
ISO	ISO14000	<ul style="list-style-type: none"> None specifically 	Environment
	ISO 26000	<ul style="list-style-type: none"> All major international standards relevant for CSR are referenced in the ISO 26000 (3) 	Human Rights Labour Practices Environment Bribery
Marine Stewardship Council (MSC)	MSC environmental standard for sustainable fishing	<ul style="list-style-type: none"> The Code of Conduct for Responsible Fishing (UN FAO) 	Environment
Roundtable on Sustainable Biofuels (RSB)	RSB Principles & Criteria	<ul style="list-style-type: none"> None specifically 	Human Rights Labour Practices Environment

(3) The ISO 26000 Guidance on Social Responsibility makes references to 134 different universal principles from organizations such as the United Nations, International Labour Organization, and the Organization for Economic Co-operation and Development

Slide 15:

Multi-stakeholder Initiatives	Standard	Universal Principles referenced in the standards (1)	Topics addressed
Roundtable on Sustainable Palm Oil (RSPO)	RSPO Principles and Criteria for Sustainable Palm Oil Production (RSPO P & C)	<ul style="list-style-type: none"> UN Declaration on the Rights of Indigenous Peoples UN Convention on Biological Diversity ILO Fundamental Labour Standards ILO Convention on Indigenous and Tribal Peoples 	Human Rights Labour Practices Environmental
Social Accountability International	SA8000	<ul style="list-style-type: none"> Universal Declaration of Human Rights ILO Fundamental Labour Standards 	Human Rights Labour Practices
Sustainable Agriculture Network (SAN) /Rainforest Alliance	SAN Standards	<ul style="list-style-type: none"> UN Universal Declaration of Human Rights UN Children's Rights Convention ILO Fundamental Labour Standards 	Human Rights Labour Practices Environment
Transparency International	Transparency International Business Principles for Countering Bribery	<ul style="list-style-type: none"> None specifically 	Bribery
UTZ CERTIFIED	UTZ CERTIFIED Code of Conduct	<ul style="list-style-type: none"> ILO Fundamental Labour Standards 	Human Rights Labour Practices Environment
Voluntary Principles on Security and Human Rights	Voluntary Principles on Security and Human Rights	<ul style="list-style-type: none"> Universal Declaration of Human Rights UN Code of Conduct for Law Enforcement Officials UN Basic Principles on the Use of Force and Firearms by Law enforcement Officials 	Human Rights
Workers Rights Consortium	Workers Rights Consortium Code of Conduct	<ul style="list-style-type: none"> ILO Fundamental Labour Standards Other ILO Conventions 	Human Rights Labour Practices
Worldwide Responsible Accredited Production (WRAP)	WRAP Code of conduct	<ul style="list-style-type: none"> ILO Fundamental Labour Standards 	Human Rights Labour Practices

Source: UNCTAD.

Slide 16: Individual Company Codes of Conduct

Individual Company Codes of Conduct

BEING A RESPONSIBLE COMPANY
What it means to us

THE IKEA WAY ON PURCHASING HOME FURNISHING PRODUCTS (IWAY)

1. **The IKEA Code of Conduct - IWAY**

"The IKEA Way on Purchasing Home Furnishing Products" is our code of conduct. It describes minimum requirements on social and working conditions, together with environmental demands, of suppliers of the IKEA range. It has been established in order to make the IKEA position clear to suppliers and their co-workers, as well as any other.

eni

mobile contacts

COMPANY PRODUCTS & SERVICES INNOVATION & TECHNOLOGY

Company Profile
Corporate Governance
Governance Model
The Rules of Corporate Governance
Eni adopts the adopted Code of Conduct
Most important awards
Board of Directors
Committees
Board of Statutory Auditors

Home > Company > Corporate Governance > Governance of Corporate Governance

The rules
According to these rules:

- Eni Directors and Statutory Auditors are elected
- the Board of Directors plays a prominent role
- the Board members are mainly independent of experience;
- the Managing Director's tasks are distinct from
- the Board of Directors has formed an *Interim Oil - Gas Energy Committee*, members of the

16



Slide 17: Codes of Conduct and Social Audits are the most common tools adopted by business to address labour issues

Codes of conduct, also known as codes of labour practice are voluntary initiatives taken by companies with their suppliers. They have appeared in response to allegations of labour abuses, to gaps in national regulation or to inadequate enforcement of law, particularly in developing countries. This has pushed brands and manufacturers to take responsibility for communicating and improving respect of standards amongst suppliers.

Codes of Conduct and Social Audits are the most common tools adopted by business to address labour issues

- Codes of Conduct adopted between manufacturer and suppliers
- Social Audits serve as a monitoring and compliance mechanism for the application of Code of Practice
 - Identify non-compliance with labour rights
 - Establish time-bound remediation plans
 - Improve conditions for workers

Examples of collective Codes of Practice and monitoring mechanisms

- Multi-stakeholder initiatives: i.e. Ethical Trading Initiative (ETI), Social Accountability International (SAI)
- Industry-led platforms: i.e. Business Social Compliance Initiative (BSCI), Global Social Compliance Programme (GSCP)

17

SA8000 – Social Accountability Auditing Standards

One of the most recognized independent monitoring mechanism is SA8000 which was developed in the 1990s as result of consumer concerns about working conditions in the garment industry, which led to a proliferation of individual codes of conduct. Many producers were presented with an inconsistent array of requirements from different customers. Producers, customers, consumers, and investors alike were confused. Early studies showed that many codes did not include key International Labour Organization (ILO) or UN human rights conventions nor a management system to provide the basis for an industrial relations or human resources system and the documents needed to enable reliable auditing. Very few were verified. A group of concerned stakeholders was determined to address this situation - to seek to implement internationally and embed organizationally credible human rights standards. Together with the Council on Economic Priorities (CEP), they established SAI to define and verify implementation of ethical workplaces. The group had learned that business codes of conduct need to be carefully based on international norms and linked with independent verification of compliance. In 1996 the SAI Advisory Board came together to work on this issue and develop SA8000 - a standard based on international norms, not on the regulations or system of a single country, NGO or corporation, combined with the labor law of the country where a workplace is located; simultaneously a verification system based on the widely used international methodology of the International Organization for Standardization (ISO). From the start, there was determination to not reinvent wheels but instead to build on the knowledge and communality of the international human rights, labor rights and verification communities. This organization was founded by the Council on Economic Priorities (CEP), the 30-year-old corporate social responsibility research organization best known for its best-seller book "Shopping for a Better World". CEP's highly respected comparative studies of corporate social responsibility in the United States triggered the initiative. SAI published SA8000 in 1997 after field testing it and its verifiability in three countries. During 1997, SAI also developed procedures for accrediting certification organizations-based on existing systems for certifying compliance to international standards ISO 9000, ISO14000, Forest Stewardship Council (FSC), and organic standards. Such an accreditation program is designed to address the need for consistency in audits from site to site and country to country, and to define criteria for adequate investigation and corrective action -remediation-processes. In 2007, the accreditation agency was spun off to become Social Accountability Accreditation Services (SAAS). SAAS provides accreditation services for SAI, InterAction, and the Business for Social Compliance Initiative (BSCI).

References: Visit the organizations website <http://www.sa-intl.org/>

Slide 18: A look at the Core Labour Standards

What are international labour standards and how are they created?

International labour standards are first and foremost about the development of people as human beings. In the ILO's Declaration of Philadelphia of 1944, the international community recognized that « labour is not a commodity ». International labour standards evolve from a growing international concern that action needs to be taken on a particular issue. Developing international labour standards is a unique legislative process involving representatives of governments, workers and employers from around the world.

A look at the Core Labour Standards

What are international labour standards and how are they created?

- International Labour standards are either *conventions* or *recommendations* issued by the ILO
- Labour standards are rules that govern working conditions in organizations: May be national (laws, regulations) or international norms
- The ILO Core Labour Standards are considered the very minimum required for the decent and fair treatment of workers and have the status of internationally recognized human rights

18

Slide 19: Where International Labour Standards Come From

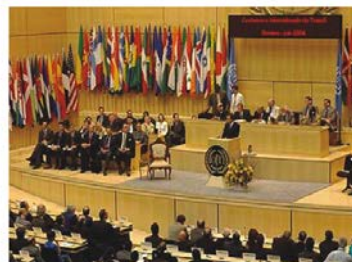
Founded in 1919, the International Labour Organization has four strategic objectives:

- Develop, promote & realize international labour standards
- Create greater opportunities to secure decent employment
- Enhance coverage & effectiveness of social protection
- Strengthen tripartism & social dialogue

Where International Labour Standards Come From

The International Labour Organization:

- Standard-setting organization: Conventions and Recommendations (ILS) in the world of work
- Mandate "Decent Work for all women and men in conditions of freedom, equity, security and human dignity"
- Unique tripartite structure



19

Developing international labour standards at the ILO is a unique legislative process involving representatives of governments, workers and employers from around the world. « Tripartism » refers to the principle of dialogue and cooperation between governments, employers, and workers. International labour standards are created and supervised through a tripartite structure - the unique composition of the International Labour Organization, whereby each national delegation to the International Labour Conference comprises: 2 government delegates, 1 employer delegate, and 1 worker delegate. Tripartitism with regard to ILO standards is also important at the national level and the Tripartite Consultation Convention (144 – 1976) defines the meaning of « representative organization » for purposes of defining who represents employers and workers.

[At this point, Lecturers may want to take this opportunity to discuss with participants the relevant local employer organizations and worker organizations and their role at a national level.]



Slide 20: How do standards work in practice?

The main function of the ILO is to formulate international labour standards in the form of Conventions and Recommendations, and to supervise their application in member States. Conventions are international treaties subject to ratification by ILO member States. Through ratification, a member State formally accepts the Convention as a legally binding instrument, which implies that it cannot adopt national legislation setting standards below those established by the Convention. In contrast, Recommendations are non-binding instruments. They often deal with the same subjects as Conventions and set out additional guidelines for national policy and action.



ILO Conventions and Recommendations are characterized by their tripartite and universal character. They are the outcome of social dialogue, which involves governments, trade unions and employers in the formulation, adoption, and supervision of the implementation of international standards at the national level. They are universally applicable they apply to all people in all States regardless of the level of social and economic development.

In addition to Conventions and Recommendations the ILO also adopts other kinds of instruments such as Declarations, codes of practices and guidelines, which are not legally binding but are aimed at promoting labour principles and at providing further guidance on how to implement them. The MNE Declaration is an example of this type of instrument and is the only ILO instrument also directed towards business. As a voluntary instrument, the MNE Declaration is the key reference instrument at the ILO referred to in the discourse of Corporate Social Responsibility (CSR).

The ILO defines corporate social responsibility (CSR) as “a way in which enterprises give consideration to the impact of their operations on society and affirm their principles and values both in their own internal methods and processes and in their interaction with other actors. CSR is a voluntary, enterprise-driven initiative and refers to activities that are considered to exceed compliance with the law”.(ILO, GB.295/MNE//2/1 para. 1)

International Labour Conventions (and recommendations) are addressed to States. However, Conventions need to be ratified in order to become binding for States. Depending on the system of each State, ratified Conventions might be considered to be directly part of national legislation or might need to be translated into specific laws. On the other hand, the principles derived from the ILO Conventions, whether they are ratified or not, can guide enterprises behaviour.

The specificity about the labour aspects of CSR is that most labour principles are included in national legislation. It might therefore sound contradictory to speak about a “voluntary” application of such principles, in particular concerning the respect of fundamental rights at work. In countries with weak law enforcement, promoting a voluntary implementation of internationally-recognized principles can actually help improve the level of law enforcement.

The ILO can play an important role in CSR because labour standards and social dialogue are key aspects of CSR and this is the core business of the ILO: Most CSR initiatives, including codes of conduct, refer to the principles derived from ILS, developed by the ILO.

ILO Conventions, when ratified at the national level become binding on governments and those governments must adopt legislations to implement them. Whilst not binding on enterprises, the principles derived from ILO Conventions can acts as a guide for enterprises' behaviour. The ILO plays a role by helping to promote dialogue between governments, workers' and employers' organizations and by providing assistance and tolls to better understand the labour dimension of CSR.

Slide 21: Main instruments available on the integration of labour principles into business

Main Instruments on the integration of labour principles into Business

ILO Declaration on Fundamental Principles and Rights at Work: 1998 Declaration

Adopted in 1998, the Declaration commits Member States to respect and promote principles and rights in four categories, whether or not they have ratified the relevant Conventions.

These categories are: freedom of association and the effective recognition of the right to collective bargaining, the elimination of forced or compulsory labour, the abolition of child labour and the elimination of discrimination in respect of employment and occupation.

The Declaration makes it clear that these rights are universal, and that they apply to all people in all States - regardless of the level of economic development. It particularly mentions groups with special needs, including the unemployed and migrant workers. It recognizes that economic growth alone is not enough to ensure equity, social progress and to eradicate poverty.

This commitment is supported by a Follow-up procedure. Member States that have not ratified one or more of the core Conventions are asked each year to report on the status of the relevant rights and principles within their borders, noting impediments to ratification, and areas where assistance may be required. These reports are reviewed by the Committee of Independent Expert Advisers. In turn, their observations are considered by the ILO's Governing Body.

ILO Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy (MNE Declaration)

The principles laid down in this universal instrument offer guidelines to MNEs, governments, and employers' and workers' organizations in such areas as employment, training, conditions of work and life, and industrial relations. Its provisions are reinforced by certain international labour Conventions and Recommendations which the social partners are urged to bear in mind and apply, to the greatest extent possible. The adoption of the ILO Declaration on Fundamental Principles and Rights at Work and its Follow-up in 1998 highlighted the importance of the fundamental Conventions in realizing the objectives of the ILO, and consequently, the MNE Declaration takes into account the objectives of the 1998 Declaration. Today, the prominent role of MNEs in the process of social and economic globalization renders the application of the principles of the MNE Declaration as timely and necessary as they were at the time of adoption. As efforts to attract and boost foreign direct investment gather momentum within and across many parts of the world, the parties concerned have a new opportunity to use the principles of the Declaration as guidelines for enhancing the positive social and labour effects of the operations of MNEs.

Main instruments available on the integration of labour principles into business





- ILO Declaration on Fundamental Principles and Rights at Work
- ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (MNE Declaration)

21



Slide 22: The core labour standards: an overview

Introduction to the Four Core Labour Standards

The Fundamental Declaration represents an expression of the commitment by governments and employers' and workers' organizations to recognize that such fundamental principles and rights are universal, as they are a prerequisite for social justice, which is the main objective of the ILO. Thanks to the Fundamental Declaration, all ILO Member States, even if they have not ratified the relevant Conventions, have an obligation arising from the very fact of membership in the Organization to respect, to promote and to realize the principles concerning the fundamental rights which are the subject of those Conventions.

This creates a requirements for governments to implements the principles of the ILO's core labour standards and thus emphasizes their importance. These core labour standards of the 1998 Declaration are now universally cited in codes and initiatives concerning CSR.

Within the international debate on CSR, these principles are considered essential as far as labour issues are concerned. This means that for an enterprise that wants to be socially responsible, it should, as a minimum, respects these principles and where possible contribute to their promotion. For this reason, this Declaration is the ILO instrument that is most cited in CSR initiatives, in particular, the UN Global Compact where they represent four of the ten principles. Because the Declaration itself is written in a language that is general and broadly understood, it has served as a reference for many instruments, initiatives, and private codes.



Slide 23: Exercise: What are the key drivers for business to integrate Labour standards into their supply chains?

Pause to ask participants to reflect on both “push” and “pull” factors that drive enterprises to implement core labour standards in their own businesses and into their supply chains.

Consider earlier sessions on the principles behind the leading instruments, including the UN Framework on Business and Human Rights.

Example of possible responses may include:

Push factors

- Tangible immediate risks: reputational and legal (including increased due diligence requirements)
- Mid-to-long term risks: security of supply (disruption due to unrest, strikes, and other disturbances)

Pull factors

- Improve productivity: “better managed people work better”
- Achieve operational efficiencies
- Increase overall company competitiveness
- Talent retention influenced by companies practices
- Access to markets and capital

The slide features a yellow header bar. Below it, the word "Exercise:" is written in yellow. The main text, "What are the key drivers for business to integrate Labour standards into their supply chains?", is in black. A small yellow circle with the number "23" is in the bottom right corner.

Exercise:

What are the key drivers for business to integrate Labour standards into their supply chains?

23



Slide 24: Freedom of Association and Collective Bargaining

The right of workers and employers to form and join organizations of their own choosing is an integral part of a free and open society. In many cases, these organizations have played a significant role in their countries' democratic transformation. From advising governments on labour legislation to providing education and training for trade unions and employer groups, the ILO is regularly engaged in promoting freedom of association. The ILO's Committee on Freedom of Association was set up in 1951 to examine violations of workers' and employers' organizing rights. The committee is tripartite and handles complaints in ILO Member States whether or not they have ratified freedom of association conventions.

Through the Committee on Freedom of Association and other supervisory mechanisms, the ILO has frequently defended rights of trade unions and employers' organizations.

The underlying principles are described in the Conventions:

Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87)

The right of all employers and all workers to freely and voluntarily establish and join organizations of their own choosing without previous authorization.

Workers' and employers' organizations shall organize freely and not be liable to be dissolved or suspended by administrative authority

They shall have the right to establish and join federations and confederations, which may in turn affiliate with international organizations of workers and employers.

Right to Organise and Collective Bargaining Convention, 1949 (No. 98)

Workers shall enjoy adequate protection against acts of anti-union discrimination or dismissal of a worker because of union membership or participation in union activities.

Workers' and employers' organizations shall enjoy adequate protection against any acts of interference by each other

Measures appropriate to national conditions shall be taken, when necessary, to encourage and promote the full development and utilization of machinery for voluntary negotiation between employers' organizations and workers' organizations, with a view to the regulation of terms and conditions of employment by means of collective agreements

Freedom of Association and Collective Bargaining

- **Freedom of association** is a principle with great impact on the development and strengthening of **democracy**.
- **Governments** have the responsibility for ensuring that legal and institutional framework exist to guarantee and foster these rights.
- **Management** should not interfere with workers' efforts to exercise their right to organize, and should recognize legitimate workers' organizations.





Slide 25: Freedom of Association

Freedom of Association implies a respect for the right of all employers and all workers to freely and voluntarily establish and join groups for the promotion and defence of their occupational interests.

Workers and employers have the right to set up, join and run their own organizations without interference from the State or any other entity

Employers should not interfere in workers decision to associate, try to influence their decision in any way, or discriminate against either those workers who choose to associate or those who act as their representatives.

Freedom of Association

Management Principles

- Respect right of workers to organize
- Organisations should be of the workers of own choosing
- Non-interference



Key point:

- Industrial relations is a sign of maturity of a management structure, not failure

25

Slide 26: Collective Bargaining

The right of workers to bargain freely with employers is an essential element in freedom of association. Collective bargaining is a voluntary process through which employers and workers discuss and negotiate their relations, in particular terms and conditions of work. Participants include employers themselves or their organizations, trade unions or, in their absence, representatives freely designated by the workers.

Collective bargaining can only function effectively if it is conducted freely and in good faith by all parties, including:

- Making efforts to reach an agreement
- Carrying out genuine and constructive arguments
- Avoiding unjustified delays
- Respecting the agreements concluded and applying them in good faith, and
- Giving sufficient time for the parties to discuss and settle collective disputes

Collective Bargaining

Management Principle

- Voluntary
- Good faith
- Enterprise, sector or national level

Key points:

- Key means of establishing conditions of work and internal regulation of labour relations
- Pro-actively anticipating problems and establishing a system to deal with them



26



Actions in the Workplace

- Respect the right of all workers to form and join a trade union of their choice without fear of intimidation or reprisal, in accordance with national law
- Put in place non-discriminatory policies and procedures with respect to trade union organizations, union membership and activity in such areas as applications for employment and decisions on advancement, dismissal or transfer.
- Provide worker representatives with appropriate facilities to assist in the development of effective collective bargaining.
- Provide trade union representatives with access to real decision makers for collective bargaining.
- Address any problem-solving or other needs of interest to workers and management, including restructuring and training, redundancy procedures, safety and health issues, grievance and dispute settlement procedures and disciplinary rules.

Key Resources and Tools

Institutions

- National employers' and workers' organizations

Publications

- ILO Global Report (2008): Freedom of association in practice: Lessons learned
- LibSynd database (cases brought before the Committee on Freedom of Association and reports of the Committee)
- ILO, UNGC Publication (2008): The Labour Principles of the United Nations Global Compact: A Guide for Business

Online Resources

- ILO Helpdesk for Business Freedom of Association theme
- ILO Helpdesk for Business Collective Bargaining theme

Slide 27: Forced Labour

Forced or compulsory labour is any work or service that is extracted from any person under the menace of any penalty, and for which that person has not offered himself or herself voluntarily. Forced labour is a fundamental violation of human rights. At least 12.3 million people are victims of forced labour worldwide, 80% of whom are exploited by private agents; 2.4 million have been trafficked into forced labour; Forced labour takes different forms, including debt bondage, trafficking and other forms of modern slavery; Women and men can be victims; at least 40 per cent of all victims are children.

Effective elimination of forced or compulsory labour



- At least **12.3 million** people are victims of forced labour worldwide, **80% of whom are exploited by private agents**
- **2.4 million** have been **trafficked** into forced labour
- Forced labour takes different forms, including debt bondage, trafficking and other forms of modern slavery
- **Women and men** can be victims; at least 40 per cent of all victims are **children**.

27

Labour exploitation can occur in many forms, but forced labour is something quite distinct. It occurs where work or service is exacted by the State or individuals who have the will and power to threaten workers with severe deprivations, such as withholding food, land or wages, physical violence or sexual abuse, restricting peoples movements or locking them up.

While companies operating legally do not normally employ such practices, forced labour can become associated with enterprises through their business links with others, including contractors and suppliers.

Slide 28: Forced Labour

Forced Labour Convention, 1930 (No. 29)

Defines forced labour as “all work or service extracted from any person under the menace of any penalty and for which the said person has not offered himself voluntarily”

Requires from states that the illegal extraction of forced or compulsory labour be punishable as a penal offence and that states ensure that the relevant penalties imposed by law are adequate and strictly enforced.

Abolition of Forced Labour Convention, 1957 (no. 105)

Prohibits forced or compulsory labour as a:

- means of political coercion or education or as a punishment for holding or expressing political views or views ideologically opposed to the established political, social or economic system;
- method of mobilizing and using labour for the purposes of economic development
- means of labour discipline
- punishment for having participated in strikes
- means of racial, social, national and religious discrimination

How to identify forced labour:

Lack of consent to work (the route into forced labour), some examples:

- Sale of person, physical abduction, physical confinement, induced indebtedness, deception or false promises about types and terms of work, withholding or non-payment of wages, retention of identity papers or other valuable personal possessions, etc.

Menace of a penalty (means of keeping someone in forced labour), some examples:

- Physical violence against worker or family, sexual violence, imprisonment, financial penalties, denunciation to authorities and deportation, exclusion from future employment, exclusion from community and social life, deprivation of food, shelter or other necessities, loss of social status, shift to worst working conditions, etc

Forced Labour: Key concepts

- **All work or service :**
 - all types of work, service and employment, regardless of the industry, sector or occupation
 - encompasses legal and formal employment as well as illegal and informal employment
- **Any person:**
 - men, women, children, regardless of their nationality.
- **Menace of any penalty:**
 - criminal sanctions as well as various forms of coercion
- **Voluntary:**
 - worker's consent to enter into employment and
 - worker's freedom to leave employment

28



Slide 29: Forced Labour

Management Principles

- Work should not be performed under threat of a penalty
- Work should not be undertaken involuntarily

Key messages for supplier

- Huge reputation risk anywhere in production chain, especially for sourcing for brands
- Anti-thetical to good management

Actions at the Workplace

- Adhere to provisions of national laws and regulations concerning forced labour, and where national law is insufficient, take account of international labour standards

Forced labour



Management Principles

- Work should not be performed under threat of a penalty
- Work should not be undertaken involuntarily

Key messages for supplier

- Huge reputation risk anywhere in production chain, especially for sourcing for brands
- Anti-thetical to good management



- Within company operations and dealings with other businesses, ensure that employment contracts are provided to all employees stating the terms and conditions of service, the voluntary nature of employment, the freedom to leave (including the appropriate procedures) and any penalties that may be associated with a departure or cessation of work.
- Institute policies and procedures to prohibit the requirement that workers lodge financial deposits with the company.
- Encourage managers to look for « red flags » and take action where appropriate.
- If forced labour is found within the company's sphere of influence provide for the removal of such workers from the workplace with adequate services. To the extent possible, assist with workers' access to viable alternatives.
- Exercise due diligence in dealings with other businesses.

Red Flags:

- Retention of documents for migrant workers
- Withholding or non-payment of wages
- Vulnerable groups (indigenous, tribal, religious minorities, descendants of slaves)
- Bonded labour
- Prison labour
- Signs workers are confined
- Armed guards
- Potential for induced indebtedness

Key Resources and Tools

Understanding the causes of forced labour is the first step towards taking action against it. It is, for the most part, rooted in poverty, inequality, and discrimination. In some parts of the world it derives from political factors. Taking action to eradicate forced labour requires a comprehensive set of interventions. The ILO has a series of guides to assist enterprises to take action against forced labour.

ILO Publications:

- Combating forced labour: A handbook for employers and business
- Strengthening Employers' Activities against Forced Labour
- ITUC Guide - How to Combat Forced Labour and Trafficking
- ILO Global Report (2009) The cost of coercion

Online Resources: ILO Helpdesk for Business Forced Labour theme

Slide 30: Child Labour

Today, throughout the world, there are an estimated 323 million economically active children (under 18) of which around 215 million children work, many of them full time, in what is considered child labour. They do not go to school and have little or no time to play. Many do not receive proper nutrition or care. They are denied the chance to be children. More than half of them are exposed to the worst forms of child labour such as work in hazardous environments, slavery, or other forms of forced labour, illicit activities including drug trafficking and prostitution, as well as involvement in armed conflict.

Effective abolition of Child Labour

- **323 million** economically active children (under age 18) in the world
- Of these, **215 million** engaged in what is considered child labour
- Of the 215 million child labourers, **115 million** are engaged in **hazardous work of children**



30

Child labour damages a child's physical, mental, psychological and spiritual development, depriving them of their childhood and dignity. They may be deprived of an education and separated from their families. Children who do not complete their basic education are likely to remain illiterate and never acquire the skills needed to get a job and contribute the development of a modern economy. Consequently, child labour results in under-skilled, unqualified workers and jeopardizes the future improvement of skills in the work force. Children also have distinct rights as children to be protected from exploitation and be protected from work that may be dangerous to their health, safety or morals.

Child labour is a complex issue that needs to be handled with sensitivity. For any company, association with child labour is likely to damage a company's reputation, particularly those engaged in global supply chains.



Slide 31: Key Concepts

Minimum Age Convention, 1973 (No. 138)

- Requires member States to specify a minimum age for work not less than the age of finishing compulsory education
- Usually not be less than 15 years; for developing countries, possibly 14 years
- National laws may permit 13-15 year olds in light work which does not disturb school attendance, or is not harmful to a child's health or development
- Minimum age of at least 18 for hazardous work: Or which exposes a child to hazardous working conditions that are likely to harm their health, physical, mental, moral or social development; is otherwise forbidden under international law; or which interferes with their education

Key Concepts

- **What is a Child?** All persons under 18 are children and have the right to special protection
- **What is Child Labour?** Any work for which a child is too young:
 - Below age 15 for ordinary work
 - Below age 13 for light work
 - Below age 18 for hazardous work
- **What is hazardous work?** Any work which, by its nature or the circumstances in which it is carried out, is likely to harm the health, safety or morals of children
 - Hazardous work accounts for 95% of the worst forms of child labour,
 - targeted for elimination by 2016

31

Worst Forms of Child Labour Convention, 1999 (No. 182)

- Prohibition of the worst forms of child labour as a matter of urgency
- Slavery-like practices, sale and trafficking of children, debt bondage, serfdom, forced and compulsory labour
- Prostitution or pornography
- Use of child for illicit activities
- Work likely to harm health, safety, and morals of children (hazardous work)

Slide 32: Basic Distinctions

Basic Distinctions

Figure 1: Basic distinctions in ILO child labour standards

Years of age	Shaded area = child labour for elimination Non-shaded area = acceptable child work				
18					
15*					
12**					
	Work excluded from minimum age legislation***	Light work	Regular work	Hazardous work	Unconditional worst forms of child labour

* The minimum age for admission to employment or work is determined by national legislation and can be set at 14, 15 or 16 years.

** The minimum age at which light work is permissible can be set at 12 or 13 years.

*** For example, household chores, work in family undertakings and work undertaken as part of education.

32

Slide 33: Child Labour

Actions in the Workplace:

- Adhere to minimum age provisions of national labour laws and regulations and where national law is insufficient, take account of international labour standards
- Use adequate and verifiable mechanisms for age verification
- When children below the legal working age are found in the workplace, take measures to remove them from work
- To the extent possible, help the child removed from the workplace and his or her family to access adequate services and viable alternatives
- Exercise influence on subcontractors, suppliers and other business affiliates to combat child labour
- Key point to stress to suppliers: Child labour is bad for the child, bad for business

Note on Agricultural work

In countries where agricultural activities are central to the economy, questions can arise in the class discussion on the role of farm work. The ILO can offer explicit guidance. It can be noted that participation in some agricultural activities is not always child labour. Age-appropriate tasks that are of lower risk and do not interfere with a child's schooling and leisure time can be a normal part of growing up in a rural environment. Especially in the context of family farming, small-scale fisheries and livestock husbandry, some participation of children in non-hazardous activities can be positive as it contributes to the inter-generational transfer of technical and social skills and children's food security. Improved self-confidence, self-esteem and work skills are attributes often detected in young people engaged in some aspects of farm work. Therefore it is important to distinguish between light duties that do no harm to the child and child labour, which is work that interferes with compulsory schooling and damages health and personal development, based on hours and conditions of work, child's age, activities performed and hazards involved. Refer participants to the tools, resources, and website for more detailed information.

Red Flags

- Community in turmoil
- Bonded labour
- Vulnerable groups
- Very low wages
- Piece rate payment system
- Homework in production chain
- Agriculture, mining and quarrying

Child labour



Management Principles

- Know the legal minimum age
- Check what system supplier has to verify age of workers
- Ensure child's best interest in any remedy

Key point to stress

- Child labour is bad for the child, bad for business





Key Resources and Tools

Publications:

- Eliminating Child Labour. Guide for Employers
- Training manual to fight trafficking in children for labour, sexual and other forms of exploitation
- Child Labour Monitoring Resource Kit
- Safe work for youth toolkit, employers pack
- Tackling child labour in agriculture
- Case studies of private sector contribution to combating child labour
- ILO Global Report (2010) Accelerating action against child labour

Online resources:

- ILO Helpdesk for Business Child Labour theme
- ILO-UNGC webinar “Children in hazardous work” – 24 May 2011

Slide 34: Elimination of Discrimination

Hundreds of millions of people suffer from discrimination in the world of work. This not only violates a most basic human right, but has wider social and economic consequences. Discrimination stifles opportunities, wasting the human talent needed for economic progress, and accentuates social tensions and inequalities.

- More and more anti-discrimination laws and policies, covering an increasingly broad set of grounds for discrimination and stipulating more comprehensive protection.
- However, 829 million women live in poverty worldwide vs. 522 million men and women's wages are on average 70–90 per cent of men's.
- New forms of discrimination such as sexual harassment, racism, migrant workers, age discrimination, workers with disabilities, sexual orientation, lifestyle...

Elimination of discrimination in respect of employment and occupation

- More and more anti-discrimination laws and policies, yet
- Widespread discrimination against women persists: 829 million women live vs. 522 million men live in poverty: women's wages remain average 70–90 per cent of men's.
- New forms of discrimination





Slide 35: Key concepts

Discrimination (in Employment and Occupation) Convention, 1958 (No. 111)

Defines discrimination as “any distinction, exclusion or preference made on the basis of race, colour, sex, religion, political opinion, national extraction or social origin which has the effect of nullifying or impairing equality of opportunity or treatment in employment or occupation”.

Requires states to declare and pursue a national policy designed to promote, by methods appropriate to national conditions and practice, equality of opportunity and treatment in respect of employment and occupation, with a view to eliminating any discrimination in these fields.

Includes discrimination in relation to access to vocational training, access to employment and to particular occupations, and terms and conditions of employment.

Red Flags

- Disproportionate workforce
- “We don’t have any problems”
- Vulnerable groups in community
- Risk of violations of workers’ rights
- High in all sectors
- High in all regions

Slide 36: Non-Discrimination

Elimination of Discrimination

Non-discrimination simply means that employees are selected on the basis of their suitability to do the job and that there is no distinction, exclusion or preference made on other grounds.

Actions that can be taken in the workplace

- Institute company policies and procedures which make qualifications, skills and experience the basis for recruitment, placement, training and advancement of staff at all levels.
- Assign responsibility for equal employment issues at a high level, issue clear company-wide policies and procedures to guide equal employment practices, and link advancement to desired performance in this area.

Key concepts

- Discrimination occurs when a person is treated less favourably than others because of characteristics that are not related to the person’s competencies or the inherent requirements of the job.
- It can be direct (through laws or rules) but mostly indirect (through attitudes and behaviour).
- Discrimination may occur:
 - before hiring (recruitment)
 - on the job (remuneration, hours of work, maternity protection, job assignments, security of tenure, training opportunities, promotion prospects, OSH)
 - upon leaving (termination of employment)

35

Non-Discrimination



Management Principle

- Recruitment, compensation, etc. should be based only on capabilities of workers

Key message

- No workplace is completely free of discrimination
- Both human rights and business case for having a system to tackle discrimination

36



- Provide staff training on non-discrimination policies and practices, including disability awareness. Reasonably adjust the physical environment to ensure health and safety for employees, customers and other visitors with disabilities.
- Work on a case by case basis to evaluate whether a distinction is an inherent requirement for a job, and avoid applications of job requirements in a way that would systematically disadvantage a certain group.
- Keep up-to-date records on recruitment, training and promotion that provide a transparent view of opportunities for employees.
- Where discrimination is identified, develop grievance to address complaints, handle appeals and provide recourse for employees.
- Be aware of formal structures and informal cultural issues that can prevent employees from raising concerns and grievances.
- Establish programs to promote access to skills development training and to particular occupations.

[Optional exercise: engage participants in a discussion on how to tackle discrimination in the workplace using the above as a key]

Key Resources and Tools

Gender – Work/Family

- Promoting Equity: gender-neutral job evaluation for equal pay. A step-by-step guide
- A Training Package on Work and Family

Age

- Youth employment: Making it happen, an electronic resource tool for employers
- A Training Package on Ageing

Hiv/Aids

- Code of practice: HIV/AIDS in the workplace
- A Training Manual for Enterprises on HIV/AIDS Workplace Policy and Programmes & Public Private Partnerships
- Prevention of HIV/AIDS in the World of Work: A Tripartite Response. A documentation of Good Practices
- Helping micro and small enterprises cope with HIV/AIDS - A handbook for small business associations and service providers

Workers with disability

- ILO Code of practice on managing disability in the workplace, 2002
- Disability in the Workplace: Company Practices, 2010

Migrant workers

- Database on Anti-discrimination Actions Profiles against migrant workers
- Good practices database - Labour migration policies and programmes
- ILO Helpdesk for Business Discrimination and Equality theme
- ILO-UNGC webinar “Equal Pay for work of equal value” – March 2011
- ILO-UNGC webinar “ILO Global Business and Disability Network” – June 2011
- ILO Global Report (2011): Equality at work: The continuing challenge

Slide 37: Introduction to International Framework Agreements (IFAs) or Global Framework Agreements (GFAs)

One innovation in advancing industrial relations towards improved working conditions in global supply chains, has been the introduction of International Framework Agreements. An international (or global) framework agreement (IFA/GFA) is an instrument negotiated between a multinational enterprise and a Global Union Federation (GUF) in order to establish an ongoing relationship between the parties and ensure that the company respects the same standards in all the countries where it operates. Sectoral trade unions from the home country of the multinational also participate in the negotiation of the agreement.

Although framework agreements are not corporate social responsibility (CSR) initiatives, they are often referred to in the CSR debate because they are one of the ways in which companies can express their commitment towards the respect of certain principles. However, the specific aspect that distinguishes frameworks agreements from CSR initiatives is that they result from negotiation with international workers' representatives.

The content of these agreements vary according to the different requirements and characteristics of the companies and trades unions involved, as well as depending on the industrial relations' traditions between the parties. They all include the four fundamental principles and rights at work and specifically reference ILO Core Conventions. The other provisions that differ from one agreement to the other refer to various issues covered by ILO standards such as the protection of workers' representatives, wages, occupational safety and health, and skills training.

In terms of global reach, they do not substitute for direct negotiations between companies and workers at the national or workplace level, they just provide a framework for those negotiations to take place in a constructive way and with a minimum floor.

Most framework agreements make reference to the entire supply chain, even if supplier companies are not parties to them. Companies usually commit to inform all their subsidiaries, suppliers, contractors and subcontractors about the agreement. If a subsidiary or associated enterprise is found not to be respecting the global agreement, the case can be taken up with the multinational headquarters that will look for solutions through dialogue.

Most framework agreements also include follow-up mechanisms involving trade union participation. These mechanisms include specific actions on the part of management and workers' representatives, such as company-wide dissemination (and translation, where necessary) of the agreement or the development of joint training programs. Some agreements provide for joint missions by the relevant national trade union and global union federation in order to carry out on-site monitoring of the implementation of the agreement. Most of them also include mechanisms for the global union federation to raise a case if the company violates the terms of the agreement.

International Framework Agreements (IFAs)

- Bilateral and global agreements between an MNE and a global union federations (GUFs) and/or European Industry Federations of TU (EIFs) or/and national TU and/or EWCs
- Industrial relations/ Corporate Social Responsibility
- Reference to ILO core Labour Standards
- Include sub-contractors and suppliers
- Trade Union involvement in implementation
- Follow up and monitoring provisions
- Dispute settlement and complaints

37




Slide 38: Classroom Discussion:

International Framework Agreement between Inditex and the International Textile, Garment and Leather Workers Federation (ITGLWF)

Classroom Discussion:

International Framework Agreement between Inditex and the International Textile, Garment and Leather Workers Federation (ITGLWF)




Slide 39: Basic Distinctions

Please guide participants through the case discussion. Students will read through the International Framework Agreement signed between Inditex SA., the world's second largest clothing retailer and the global trade union, International Textile, Garment and Leather Workers' Federation. Under the agreement (in-class reading assignment), Inditex SA recognizes the ITGLWF as its global trade union counterpart for workers employed in the production of textiles, garments and footwear. And both undertake to collaborate to ensure the sustainable and long-term observance of all international labour standards throughout the Inditex supply chain.

Your assignment

- If you have not read it, please take 10' to read the International Framework Agreement between Inditex and ITGLWF
- In buzz groups of 3, please take 20' to discuss the terms and provisions of the agreement and Annex with regards to the labour principles addressed in the presentation.
- Please use the following questions as guidance:
 - What are the main issues the agreement focuses on?
 - Who are the key actors and how are they set to work together as stated in the agreement?
 - What are the main provisions for implementation?
 - What are the expectations set out in the Code of Practice for External Manufacturers and Suppliers (Annex I) with regards to the core labour principles?



Please explain the exercise and assign the groups. Once the groups discussion has concluded, bring one or two groups to the front to explain their discussions. Alternatively, you may choose four (4) different groups that report each on one question.

As a wrap up, you may explain that the agreement was the first of its kind to cover a retail supply chain and because it provides workers with the mechanisms to monitor and enforce their rights at work, the agreement places the right of workers to unionise and to bargain collectively with their employer at the heart of efforts to secure sustainable compliance to key labour standards by suppliers to Inditex.

Inditex's Code of Conduct for External Manufacturers and Suppliers underpins the agreement which outlaws forced labour, child labour, discrimination and harsh and inhumane treatment throughout the Inditex supply chain. It provides for the payment of a living wage for a standard workweek, limitations on working hours, healthy and safe workplaces, regular employment and environmental awareness. The terms of the agreement will apply equally to direct suppliers, contractors and sub-contractors including homeworkers. No subcontracting will be allowed without the prior written consent of Inditex and suppliers allowed to subcontract will be responsible for subcontractor compliance.

Recognising the role of organized labour and collective bargaining, Inditex and the ITGLWF will keep constantly under review developments in this area in the Inditex supply chain and will co-operate in finding solutions where problems are detected, including collaborating on training programmes for the managements and workers concerned.

To facilitate this ongoing review Inditex provides the ITGLWF with relevant information on its supply chain and both Inditex and the ITGLWF jointly develop training policies and programmes to drive compliance.



Readings

A preparatory case study, mandatory and complementary readings are provided below to enhance understanding of the main aspects covered in the session. The aim of the case study is to use a real-world example to illustrate the integration of economic, social and environmental issues in a real management situation and to expose participants to the challenges of decision making in that context. In order to better deliver the session and lead discussions, the teacher is expected to read the mandatory readings and preparatory case study before teaching the session.

Participants should be encouraged to read the case study and mandatory readings prior to attending the session in order to actively participate during the session. These readings will also assist students in the elaboration of coursework and evaluations as well as stimulate ideas in areas related to sustainable development and supply chain management.

Mandatory Reading

- 📖 *International Framework Agreement* between Inditex and The International Textile, Garment and Leather Workers Federation (ITGLWF) on the implementation of International Labour Standards throughout the Inditex Supply Chain, from October 4, 2007. Downloadable at: <http://www.itglwf.org/lang/en/global-framework-agreements.html>

Complementary Readings

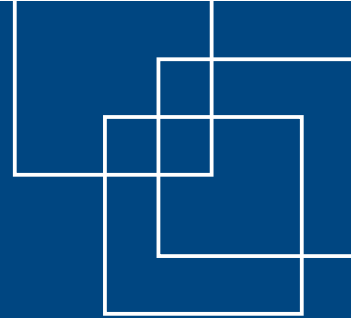
- 📖 Human Rights Council (March 21, 2011): Report of the Representative of the Secretary-General on the issue of human rights and transnational corporations and other business enterprises, John Ruggie: Guiding Principles on Business and Human Rights: Implementing the United Nations “Protect, Respect and Remedy” Framework [on <http://www.business-humanrights.org/SpecialRepPortal/Home> and <http://www.business-humanrights.org/media/documents/ruggie/ruggie-guiding-principles-21-mar-2011.pdf>]
- 📖 International Labour Organization (2006) Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy, Geneva: http://www.ilo.org/empent/Publications/WCMS_094386/lang—en/index.htm
- 📖 International Labour Organization (1998), **Declaration on Fundamental Principles and Rights at Work**, Geneva
- 📖 International Labour Office (2009), **Rules of the Game: A brief introduction to International Labour Standards**
- 📖 International Labour Office (2008), **The Labour Principles of the United Nations Global Compact: A Guide for Business**
- 📖 ISO 26000 (2010), *Guidance on social responsibility*
- 📖 ITGLWF (2010), *The ITGLWF - Inditex GFA: Trail Blazing Agreement to Promote Decent Work in Inditex Supply Chain* - [https:// www.itglwf.org/.../global-framework-agreement](https://www.itglwf.org/.../global-framework-agreement) [accessed December 15, 2011]
- 📖 Litovsky, A., Rochlin, S. Zadek, S. and Levy, B. (2007) *Investing in Standards for Sustainable Development: The Role of International Development Agencies in Supporting Collaborative Standards Initiatives*. AccountAbility, London, United Kingdom.
- 📖 Ruggie, John, Speaking at the International Labour Conference in Geneva in June 2010: <http://www.youtube.com/watch?v=55PJw077eQE>
- 📖 OECD (2001), OECD Guidelines for Multinational Enterprises, OECD Publishing. <http://dx.doi.org/10.1787/9789264115415-en>
- 📖 OECD, ILO (2008) *Instruments Relevant to Corporate Social Responsibility*
- 📖 United Nations Conference on Trade and Development (2011): World Investment Report 2011, *Corporate Social Responsibility pp 111-122*

Session 4

Sustainable Supply Chains as a Lever of Competitive Advantage



Introducing
Sustainability
into the Supply Chain





About the session

As more and more companies begin to recognize the importance of including sustainable development goals in their strategic planning, the focus on implementation is rapidly shifting towards the role of the supply chain – as more often today “supply chains compete, not companies” (Christopher, 1992). Considering the complex nature of Supply Chains and the fact that sustainability issues stretch beyond single companies and industries, Sustainable Supply Chain Management (SSCM) is increasingly being considered a potential source of sustainable competitive advantage. Moreover, in the wake of the recent global economic and financial crises (2008 – 2010), there is additional pressure for business leaders and schools to embrace principles of sustainable management. It is within this context that this session explores approaches to SSCM that could result in competitive advantage.



Session objectives

The principal goal of the session is to understand how competitive advantage can be achieved by integrating sustainability challenges into the supply chain. Specific objectives are to:

- Identify the link between strategy, competitive advantage and Sustainable Supply Chains (SSCs);
- Understand the complex nature of Supply Chains;
- Explore the possibility of gaining Competitive Advantage (CA) through SSCM.



Key Learning Outcomes

The suggested session materials aim at enabling participants to understand the competitive benefits that are likely to accrue from pursuing a SSCM strategy – so as to enable participants to:

- Identify and prioritise sustainability challenges that ought to be considered within specific supply chain management contexts; and
- Be able to develop appropriate sustainable supply chain vision, mission and strategies capable of creating competitive advantage.

By the end of the session, participants should be able to:

- Build a convincing case for pursuing a SSCM strategy; and
- Lead or champion the process of integrating sustainability into the supply chain.



Assignment: To be submitted at the start of the session

Select any product or service and establish a table identifying the different economic, social and environmental sustainability challenges that should be consider at every stage in the chain.

Stage	Economic Challenges	Social Challenges	Environmental Challenges
Raw material sourcing			
Manufacturing			
Packaging			
Warehousing			
Logistics			
Retail			
Consumption			



Suggested Session Plan

In order to better manage the session and deliver within the allocated time, the following breakdown is recommended.

Session title	Time allocation	Slide presentation/ sub-activity	Time allocation
Unit 4.1: Introduction	20 Minutes	Session objectives	2 minutes
		Session outline	2 minutes
		Introductory slides	6 minutes
		Video and class discussion	10 minutes
Unit 4.2: Situating SC strategy within corporate strategy.	25 Minutes	Slide presentation	10 minutes
		Group and class discussion	15 minutes
Unit 4.3: Strategic and complex nature of SCs	15 Minutes	Slide presentation	15 minutes
Unit 4.4: SSCs as a lever of Competitive Advantage	25 Minutes	Slide presentation	25 minutes
Unit 4.5: Conclusion	5 Minutes	Concluding question and slide	5 minutes
Total	90 Minutes		



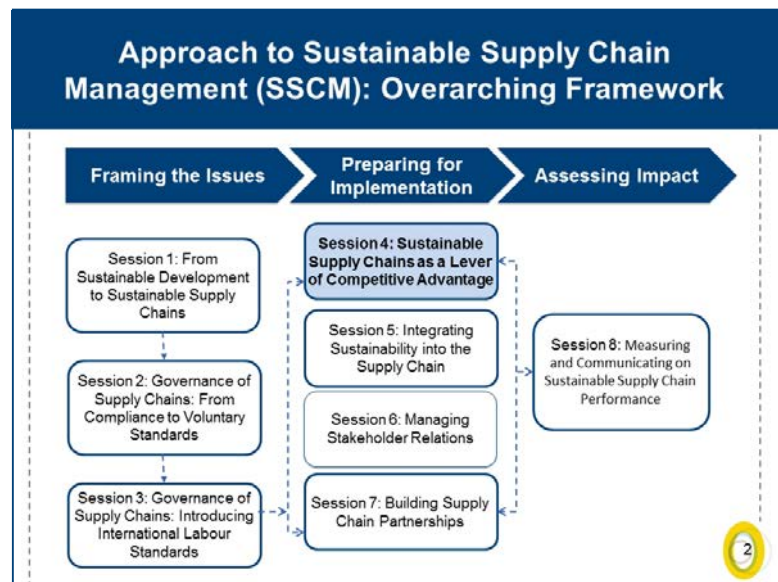
PowerPoint Presentation and Speaker notes

Slide 1: Session title



Slide 2: Approach to SSCM


Indicate the current session on the lecture map and inform participants that the session sets the base for the subsequent session that will provide practical tools for integrating sustainability into the supply chain –towards creating competitive advantage.



Slide 3: Session Objectives

Session Objectives

- Identify the links between strategy, competitive advantage and Sustainable Supply Chain Management.
- Understand the strategic and complex nature of Supply Chains.
- Explore the possibility of gaining Competitive Advantage (CA) through SSCM.



Slide 4: Session Outline

Session Outline


Unit 4.1: Introduction

Unit 4.2: Situating SC strategy within corporate strategy.

Unit 4.3: Strategic and complex nature of SCs

Unit 4.4: SSCs as a lever of Competitive Advantage

Unit 4.5: Conclusion





Slide 5 – Unit 4.1: Introduction

Begin the session by drawing participants' attention to the fact that businesses are increasingly embedding sustainability considerations into their core activities – unlike the traditional view that sustainability issues are rather to be addressed by development organisations, governments and civil society institutions. The quotes from the CEOs of Hilton Hotels and Unilever strongly support this shift in business thinking. Moreover, as the sources of competitive advantage become rarer, one way in which businesses seek to gain competitive advantage is by integrating sustainability into their supply chains.

Unit 4.1: Introduction

- Convergence of mainstream business practices and sustainability.
- "Not only is it (sustainability) the right thing to do as responsible global citizens, but it's the right thing for our business." (Christopher J. Nassetta, President & CEO, Hilton Hotels Corporation)
- "We cannot choose between [economic] growth and sustainability – we must have both" (Paul Polman, CEO, Unilever)
- Businesses exploring new sources of competitive advantage through SSCs (Markley and Davis, 2007)

5

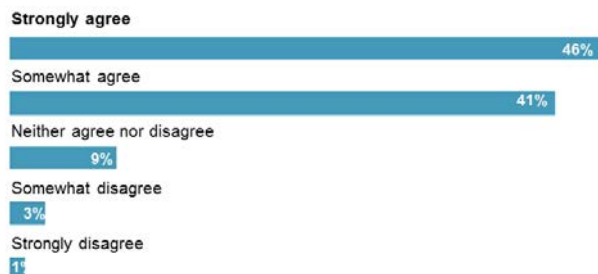
Slide 6: Mainstreaming Sustainability

The key point to note from the Economist Intelligence survey is that over 85% of companies agree that sustainability will become considerably more important over the next three years.

In order to measure the relevance of sustainability in the businesses/ industries of various participants, the lecturer might ask participants to give their views regarding the statement – ***"Sustainability will become considerably more important to my company over the next three years"...***

Mainstreaming Sustainability

"Sustainability will become considerably more important to my company over the next three years".



Source: The Economist Intelligence Unit Report: "Managing for Sustainability", February 2010

Slide 7: Video and class discussion

The aim of the video and class discussion is to further reinforce that sustainability is becoming part of mainstream business. Using the restaurant, catering and event logistics company, Sodexo, the video highlights the sustainability concerns that the company seeks to address through their Supply Chain, notably: carbon dioxide emissions, water usage, animal welfare concerns, food safety and hygiene, packaging, the use of pesticides and fertilizers, among others.

After the video, ask participants to identify the sustainability challenges mentioned in the video.

End this unit by emphasizing that such social and environmental issues can no longer be ignored as proactive management of the issues can result in added value to a company (or decreasing company value if overlooked). It is, therefore, recommended that participants examine their entire supply chains to identify relevant sustainability challenges for consideration in their Supply Chain Management.

Slide 8 – Unit 4.2: Situating SC strategy within corporate strategy

This unit aims to situate SC strategy within corporate strategy in order to clearly identify the functional area of business that is being considered as a lever of competitive advantage. There is no agreed definition of “strategy”, but some common definitions include:

Video and Class Discussion

Sodexo: Mainstreaming Sustainability into the SC

http://www.youtube.com/watch?v=nZ-M_rFOVM&feature=related

Identify the sustainability challenges that Sodexo is addressing in its supply chain.



Unit 4.2: Situating SC Strategy within Corporate Strategy

Many definitions of strategy:

“Strategy is the means by which... organisations achieve their objectives” (Grant, 2010, pp. 16)

“Strategy is the pattern of objectives, purposes, or goals and the major policies and plans for achieving these goals, stated in such a way as to define what business the company is in or is to be in and the kind of company it is or is to be” (Andrew (1971), cited by Grant, 2010, pp. 18).





Slide 9: Another definition and commonalities

After presenting several common definitions of strategy, end by identifying the common elements in the definitions, namely that: strategy is focused on achieving certain goals; the critical actions that make up a strategy involve allocation of resources; and strategy implies some consistency, integration, or cohesiveness of decisions and actions.

Defining Strategy

“The determination of the long-term goals and objectives of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out these goals”

(Chandler (1962), cited by Grant, 2010, pp. 18).

1. Strategy is focused on achieving certain goals.
2. Critical actions involve allocation of resources.
3. Strategy implies some consistency, integration, or cohesiveness of decisions and actions. (Grant, 2010)

9

Slide 10: Corporate and functional strategies

To further explain the notion of strategy, the lecturer may point out that it addresses two broad questions – (1) where to compete and (2) how to compete. In order to answer these two questions, companies usually break the overall strategy into functional or divisional strategies that cover specific areas, such as; marketing, human resources, finance and operations.

Corporate and functional strategies

- Corporate strategy is creating a fit among a company's activities.
- Its success depends on doing many things well... and integrating them. (Porter, 1996)
- **Basic Strategy Questions:**
 - 1) Where to compete?
 - 2) How to compete? (Grant, 2010)
- Functional/ divisional strategies inform and support overall strategy (Marketing, HR, Finance, Operations, etc).

10

Slide 11: Operations strategy

In most companies that produce goods (such as cars and televisions) or deliver services (such as airline companies and hospitality businesses), the supply chain strategy is part of the operations strategy. For example, to actually produce cell phones and get them to customers, an original equipment manufacturer (such as Nokia) is required to actually produce the phones. Many transformations take place – e.g. diverse suppliers purchase raw materials and produce the parts of the phone; the Nokia manufacturing plant takes these parts and assembles the various cell phone models. Orders for the phones are taken over the internet from all the distributors, dealers and warehouse sites around the world.

Local retailers work directly with customers in setting up and managing the cell phone accounts. Operations management is concerned with managing all of these individual processes as effectively as possible. Strategic issues are usually broad, addressing questions such as: how will we make the product? Where do we locate the factories/ facilities? When should we add more capacity? How much capacity do we need? Where do we source required inputs? (Chase et al, 2007).

Operations Strategy

Operations Strategy is concerned with setting broad policies and plans for using the resources of a firm to best support its long-term strategy. It involves decisions that relate to process designs and the infrastructure required.

Operations strategy includes supply chain strategy, manufacturing strategy, delivery strategy, etc.
(Chase et al, 2007)

11

Slide 12: SC strategy

Introduce the central idea of a SC strategy as a total systems approach. It should be stressed that the focus of the module is on introducing sustainability into this area of corporate activity – which comprise of the sourcing of raw materials through manufacturing, warehousing, and logistics, to serving consumers.

Supply Chain strategy

Central idea is to apply a total system approach to managing the flow of information, materials, and services from raw material suppliers through factories and warehouses to the end customer.

(Chase et al, 2007)

12



Slide 13: Group and class discussion

The group and class discussion seeks to further consolidate participants' understanding of the location of the supply chain within the operations function and its relationship with other functional units. In some organisations (especially in service industries), the supply chain activities may span across different functional units. Note that organisational charts widely differ based on the company, sector of activity, nature of the company (multinational or national), etc. The main objective is to enable participants to understand where the supply chain fits within an organisation.

Group and Class Discussion

Sketch the organisational chart of your company or of a selected company or industry and locate the supply chain function/ department.

13

Slide 14 – Unit 4.3: Strategic and complex nature of SCs

Begin by highlighting the crucial role of the supply chain to the overall success of a corporation by reading Christopher's (1992) suggestion that "supply chains compete, not companies".

In order to substantiate this view, quote from the CEO of Unilever who upon taking office in 2009, identified the need to strengthen their supply chain capabilities vis-à-vis those of their competitors.

Reinforce the message that in order to remain competitive and succeed, businesses must effectively manage the complexities in their SCs. The remaining slides in this unit portray the different supply chain complexities.

Unit 4.3: Strategic and Complex Nature of SCs

- It is advocated that "supply chains compete, not companies" (Christopher, 1992).
- "It is absolutely crucial that we strengthen our supply chain capabilities to win in the market...we are currently not at par with competition" (new Unilever CEO - Paul Polman, Feb. 2009)

Effective management of complexities in the SC is key.

14

Slide 15: Often multiple SCs

Most organisations are simultaneously members of multiple SCs. Organisations typically offer a number of products and services, purchase materials from a wide range of suppliers, and sell to multiple customers. Each of these supply chains has different linkages. For example, a coffee shop that serves breakfast to customers has to manage coffee, sugar, milk, and bakery SCs, among others. Similarly, auto manufacturers manage diverse SCs that provide inputs such as: iron ore, tyres, radio and musical equipment, electrical components, car seats, windscreens, etc

Often Multiple SCs (Handfield and Nichols Jr., 2002)

From the basics



To the intricate



15

Slide 16: Internal and external linkages

The creation of a sustainable product chain does not rely only on the technical feasibility of ecological and social improvements, including the management of related material and information flows. A major challenge also lies in the management and co-ordination of the relationships between the partners in the chain (both internal and external chains). Given the multidivisional and international organizational structures in many businesses, it is common for the internal part of a SC to have multiple links that span the globe.

Internal and external linkages

- Internal Chain: portion of SC within an individual organisation – Order transmittal (sales), order entry (material planning), order preparation (purchasing, manufacturing, warehousing), order shipment (distribution and transportation), etc. Requires cross-functional teams.
- External Chain: portion of SC outside an organisation – collaboration is important and inter-organisational teams required.

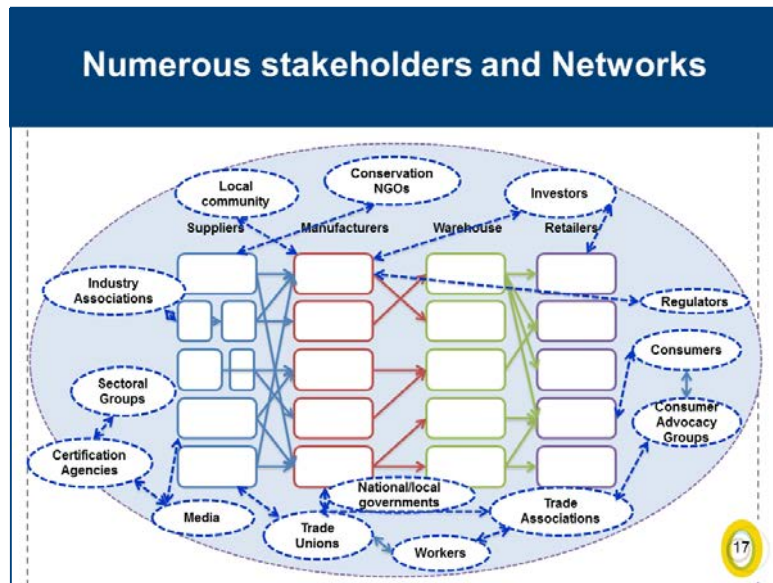
(Handfield and Nichols Jr., 2002)

16



Slide 17: Numerous stakeholders and networks

This slide illustrates the need to manage numerous stakeholders and networks in order to deliver value to clients. The complexity of global supply chains have expanded these relations to integrate a myriad of stakeholders that are impacted and concerned by corporate practices. It is important to highlight that maintaining the balance amongst these relationships as well as a participatory approach (as elaborated in subsequent sessions on managing stakeholder relations) are fundamental to addressing emerging challenges in an effective and sustainable way. Collaborating and aligning the interests of these stakeholders is challenging.



Slide 18: Diverse and unique risks

The key message in this slide is that companies and their suppliers may have little or no control over events in the SC. This is because man-made as well as natural disasters may hinder the realisation of SC objectives. A good example is the disruptions witnessed in the manufacturing industry in Europe and the US as a result of the March 2011 earthquake and tsunami disasters that hit Japan – as it destroyed the facilities of some component manufacturers.

Diverse and unique risks

- Actions and events inside the company (policy, operational, organisational, system, forecasting, capacity, resources, supply, security, delays, etc).
- Events outside the company (demand, inter-organisational, technology, disruptions, natural disasters, resources, social, etc).



Little or no control over events in the SC.
(Simchi-Levi et al, 2003)



18

Slide 19: Conflicting objectives in the SC

Another challenge in the management of SCs is the difficulty to balance the interests of respective stakeholders. Read the different objectives of various stakeholders and identify the conflicting expectations. For example, suppliers want better prices while customers want low prices; warehouse managers prefer to hold low inventories while customers want constant product availability; etc.

Conflicting Objectives in the SC (amended from Simchi-Levi et al, 2003)

SC Process/ Stakeholder	Objective
Suppliers	High prices, long lead times, steady demand, low variability.
Purchasing	Large volumes, low costs, flexible delivery time.
Manufacturers	Stable production runs, high productivity and quality, low cost of production, flexible in-bound supply.
Distribution and warehousing	Low inventory, low transport costs, quick replenishment capability
Customers	Low prices, high quality, wide variety, constant availability or short lead time.

19

Slide 20: Another layer of complexity - Sustainability

Finally, changing customer demands and regulations, rising social and environmental awareness and increased scrutiny from diverse stakeholders has added the complexity of SCM – as sustainability issues must be addressed.

The lecturer should end this unit by stressing that given the strategic importance of SCs, companies that effectively manage the complexities and challenges inherent in their SCs are better placed to gain competitive advantage – as opposed to those that constantly apply damage control strategies. Adopting a proactive SSC strategy is likely to yield desirable benefits.

Another layer of Complexity - Sustainability

SCs more vulnerable today due to:

- Scrutiny from non-traditional SC stakeholders.
- Changing customer demands.
- Changing regulations.
- Rising social and environmental awareness.

Businesses that effectively manage these complexities are likely to gain competitive advantage

20



Slide 21 – Unit 4.4: SSCs as a lever of competitive advantage

A business operating in today's competitive and rapidly changing business environment, must choose among three strategic options (Waller, 2003):

- 1) To ignore the business environment and fail (as was the case with the US typewriter maker, Smith Corona, that experienced massive sales declines in the 1980s due to the introduction of personal computer-based word processing);
- 2) Adapt enough to survive and be bought over (such as UK automobile makers; Jaguar, Bentley, and Rolls-Royce, that are now owned by foreign firms); or
- 3) Innovate and change so as to exploit new opportunities (such as Apple, General Electric, Microsoft and Sony).

Successful businesses are constantly seeking to achieve competitive advantage. Read the definition of competitive advantage as contained in the slide.

SSCs as a lever of Competitive Advantage

- Businesses constantly exploring new sources of competitive advantage.
- Competitive strategy is about deliberately choosing a different set of activities to deliver a unique mix of value. (Porter 1996)
- Competitive advantage is the extent to which a firm is able to create a defensible position over its competitors (McGinnis and Vallopra, 1999)

21

Slide 22: Sources of competitive advantage

Identify the common sources of competitive advantage as presented on the slide and state that seeking to achieve competitive advantage through SSCM is more of a differentiation strategy – even though cost benefits (such as reduced packaging costs) may accrue. Stress that by choosing a different set of activities to deliver a unique mix of value, companies seek to gain competitive advantages over their peers.

Sources of Competitive Advantage

Customers attracted by different product/ service attributes (low prices, quality, innovativeness, etc). Companies seek to offer desired attributes.

- 1) Cost Leadership (e.g. Southwest Airlines and Easyjet);
- 2) Differentiation (e.g. Apple, Sony, etc).

CA through SSCM is more of a differentiation strategy.

22

Slide 23: SCs and competitive advantage

Emphasis here is on establishing the link between SSCs and competitive advantage. That is, explaining the notion of competitive advantage and portraying the relationship with SSCs. The aim is to demonstrate how SSCM adds value to a business through the resulting resources and capabilities.

In order to compete, businesses need to manage their resources and capabilities. This is because resources and capabilities underlie successful competitive strategies. This requires three kinds of efforts by a business:

- 1) Protect current resources;
- 2) Continually improve its resources; and
- 3) Build new resources.

This is important because the changing business environment may make resources less significant or irrelevant over time (Jenkins et al, 2007). The notion of resources and capabilities are further explained in the following slide.

Slide 24: Resources and Capabilities

Highlight the fact that by integrating sustainability into the supply chain, corporations and their supply chain partners enhance their existing resources and capabilities – as well as generate new ones. In order to enhance students' understanding, define resources and capabilities and cite suitable examples as presented below.

Stress that in general, firm resources are all assets, capabilities, competencies, organizational processes, firm attributes, information, knowledge, and so forth, that are controlled by a firm and that enable the firm to conceive of and implement strategies designed to improve its efficiency and effectiveness (Barney, 2007).

SCs and Competitive Advantage

"Differences among competitors' value chains are a key source of competitive advantage"

(Porter, 1985: 36) as valuable SC activities enhance existing resources & capabilities and/ or produce new ones.

Resources and capabilities underlie successful competitive strategies (Dobson et al, 2004).

23

Resources and Capabilities

- **Financial:** equity, bonds, bank loans, etc.
- **Physical:** technology, computers, equipment, etc.
- **Human:** experience, intelligence, training, skills, etc.
 - **Organisational:** culture, reputation, coordinating systems, formal and informal planning, etc.
- **Capability:** the capacity for a team of resources to perform some task or activity.

Resources are the source of capabilities. Capabilities are the main source of competitive advantage.

(Barney, 2007; Porter, 1985)

24



Note that **financial capital** includes all the different money resources that firms can use to conceive of and implement strategies, such as capital from entrepreneurs, equity holders, bondholders and banks as well as retained earnings. Within the context of sustainable supply chains, by integrating sustainability into their supply chains, corporations and their suppliers are able to minimise stakeholder risks and attract investments and funding especially from ethical and socially responsible investors and financial institutions.

Physical capital includes the physical technology used in a firm, a firm's plant and equipment, its geographic location, and its access to raw materials. Specific examples include: sharing a firm's computer hardware and software technology with suppliers and partners, the use of robots in manufacturing, and automated warehouses to control inventory costs. Furthermore, geographic location, as a type of physical capital, is an important resource for multinational firms. (An example such as global retailer, Wal-Mart (or other) may be considered with its operations in rural markets generating, on average, higher returns than operations in more competitive urban markets). Geographic location is a crucial resource in the extractive industries.

Lecturers should emphasize that human and organisational capitals are the most important resources capable of providing sustained competitive advantages. This is because financial savings (such as cost benefits from reduced packaging and energy efficiency gains) and physical capital (such as technology and equipment sharing with suppliers) that usually result from the integration of sustainability into the supply chain can be easily copied and implemented by competitors.

The lecturer should continue by defining and providing examples of human capital. **Human capital** includes training, experience, judgement, intelligence, relationships and insights of individual managers and workers in a firm. The importance of the human capital of well-known entrepreneurs to the success of their supply chains and firms is broadly understood - such as Bill Gates (Microsoft), Steve Jobs (Apple) and Jack Welch (General Electric). However, valuable human capital resources are not limited to just entrepreneurs or senior managers and can include managers and employees at all levels of the organisation as well as the human capital of partners and suppliers.

The lecturer should explain that whereas human capital is an attribute of single individuals, organizational capital is an attribute of collections of individuals. **Organizational capital** includes a firm's formal reporting structure; its formal and informal planning, controlling, and coordinating systems; and its culture and reputation; as well as informal relations among groups within a firm and between a firm and those in its environment. This is important to gain access to labour markets, sourcing and distribution networks and customer groups. Hence, a company's supply chain structure, planning, control, sustainability culture (including that of suppliers), reputation, coordinating systems, intra-organisational and inter-organisational relationships are critical to its success.

Emphasize that having resources is not enough. These resources are only valuable to a firm if they are effectively combined to perform specific tasks that add value and provide a competitive edge in the market.

"Capabilities" include those internal firm attributes that enable a firm to coordinate and exploit its resources. That is, competencies which are restricted to firm attributes that enable managers to conceive and implement specific strategies – such as coordinating their resources and those of their partners (financial, physical and human) to produce and deliver products and services that meet the needs of ethical and environmentally conscious consumers. To better illustrate how firm resources and capabilities may vary despite their involvement in the same industry, consider the following example: Two firms may both sell refined oil products to final customers – one firm may make a strategic decision to sell only through retail outlets that it owns, whereas the second may sell only through retail outlets that it does not own. Hence, the first firm's resources and capabilities are likely to be very different from those of the second firm as well as the manner in which they relate with and coordinate the retail outlets.

In concluding the discussion: Although the distinction between resources and capabilities seem evident in theory, it is blurred in practice.

Note: The case study and group discussions in session 5 will require the application of the notions of resources and capabilities.

Slide 25: SSCs can improve competitiveness by

This slide highlights the ways in which SSCs may contribute to competitive advantage.

Enhancing SSC competitiveness:

- Improving operational efficiencies.
- Enabling better working environments that increase productivity.
- Engaging consumers and increasing loyalty.
- Developing partnerships that open new markets.
- Benefiting from the competencies of diverse stakeholders (NGOs, research institutions, civil society, regulatory agencies, competitors, etc)

25

Slide 26: Significant shifts required to gain competitive advantage through SSCM

Use this slide to discuss the different dimensions of change that are required to gain competitive advantage.

Significant shifts required to gain competitive advantage through SSCM

Nature	Opportunistic	----->	Strategic
Timeframe	Short-term	----->	Long-term
Focus	Maximizing profit	----->	Fair share
Accountability	Unclear	----->	Shared
Transparency	Limited	----->	Full
Engagement	Low-level	----->	High-level

26



Slide 27: Competitiveness entails new SC models

This slide illustrates how SSC models move away from traditional SC arrangements by seeking long-term collaboration with SC partners and creating shared value..



Slide 28: Way forward is to:



This slide outlines successive steps that can be taken towards implementing sustainability into a supply chain. More detailed insights on how to effectively integrate sustainability into the SC will be introduced in the subsequent session (session 5). Top management commitment to sustainability and effective leadership are found to be key contributors to successfully embed sustainability into everyday business activities. As the decision to integrate sustainability into the supply chain is a deliberate strategy, it should be spearheaded by senior executives. This is because, it requires prioritising various economic, social and environmental issues and stakeholders, and effectively coordinating them to realise outcomes that meet company and stakeholder interests and expectations.



Slide 29: Sample sustainability visions

Management commitment is further emphasized through in a strong vision statement. Examples are provided (Caterpillar, McDonalds) or insert local company examples.

Sample sustainability visions

“Our vision is a world in which all people's basic requirements - such as shelter, clean water, sanitation and reliable power - are fulfilled in a way that sustains our environment”.

<http://www.caterpillar.com/sustainability/vision-mission-strategy>

“We envision a supply chain that profitably yields high-quality, safe products without supply interruption while leveraging our leadership position to create a net benefit by improving ethical, environmental and economic outcomes”.

http://www.aboutmcdonalds.com/mcd/sustainability/our_focus_areas/sustainable_supply_chain.html

29

Slide 30: Sample SSC mission statement

The SSC mission is a statement that addresses the purpose and core SC sustainability values. It is important to direct and stimulate SSC activities, and mitigates the risk of mission drift.

Read the mission and underscore that it covers critical sustainability issues that, in this example, are relevant to Nokia's SCM. The aim is to serve as a possible source of inspiration and ideas for participants in their efforts to develop SSC missions for their respective companies.

Sample SSC Mission Statement

Nokia

“At Nokia, we work hard to anticipate risk, demonstrate company values, enhance our governance practices, increase employee satisfaction, and look after the environment and communities where we do business. We expect the companies in our supplier network to take a similar ethical business approach and to demonstrate progress and achievements in these areas as well as in educating and overseeing the practices of their own suppliers. Our aim is to ensure that environmental, ethical and health and safety issues, as well as labour practices, are not separate add-on features, but are embedded within all our sourcing processes, including supplier selection and relationship development.”

30



Slide 31: Sample SSC mission statement

Example: The mission statement of the cosmetics and beauty giant L'Oréal highlights the company's aim to build long-term relationships and work with suppliers who share their values.

Sample SSC Mission Statement

L'Oréal

"We are committed to building strong and lasting relationships with our customers and our suppliers, founded on trust and mutual benefit. We do business with integrity: we respect the laws of the countries in which we operate and adhere to good corporate governance practices....We are mindful of our impact on the natural environment...We are committed to the respect of human rights. We want to end the exploitation of children in the workplace and the use of forced labour...We actively seek out and favour business partners who share our values and our ethical commitments."

31

Slide 32 – Unit 4.5: Conclusion

4.5: Conclusion

- Sources of Competitive Advantage becoming rarer.
- SC sustainability can be a lever of Competitive Advantage.
- Proactive SSC policies and strategies: adopt a clear vision/ mission statement
- Senior management commitment is essential.

32

Readings

Mandatory Reading

- 📖 Markey, M. J. and Davis, L. (2007), “Exploring Future Competitive Advantage Through Sustainable Supply Chains”, *International Journal of Physical Distribution and Logistics Management*, Vol. 37, No. 9, pp. 763-774.

Complementary Readings

- 📖 Davis, E. W. and Spekman, R. E. (2004), “The Extended Enterprise: Gaining Competitive Advantage Through Collaborative Supply Chains” (Chapter 4), New Jersey, Financial Times Prentice-Hall.
- 📖 Porter, M. and Kramer, M. (2011), “*Creating Shared Value: How to Reinvent Capitalism – and Unleash a Wave of Innovation and Growth*”, *Harvard Business Review*, January- February.
- 📖 Porter, M. and Kramer, M. (2006), “Strategy and Society: The Link Between Competitive Advantage and Corporate Social Responsibility”, *Harvard Business Review*, December.
- 📖 Lee, H. L. (2010), “Don’t Tweak your Supply Chain – Rethink it End to End”, *Harvard Business Review*, October.
- 📖 Waller, D. L. (2003); “Operations Management: A Supply Chain Approach”, 2nd Edition, London, Thomson.
- 📖 Jenkins, M., Ambrosini, V. and Collier, N (2007), “Advanced Strategic Management: A Multi-Perspective Approach”, 2nd Edition, New York, Palgrave Macmillan (Chapter 9).

Teaching Resources

This session uses a short video, brainstorming sessions, and lecture methods to highlight the strategic nature of supply chains and how SSCs can lead to competitive advantage. Where possible, the room set-up should enable participants to sit in small groups (of four or five) so as to facilitate group brainstorming.





Multimedia facilities will be required to deliver the session, notably: a computer with appropriate speakers for screening the proposed video, a projector/ projection screen, and a writing board (white or black). Ideally, the computer should be connected to the internet as the recommended video is on youtube. In the absence of internet connection, the lecturer should upload the video unto the computer prior to the session. Flip chart papers and bold markers will be required as respective groups will be expected to write down key points that emerge from the brainstorming sessions and later present their thoughts to the entire class. It is recommended that the lecturer should go round the respective groups and listen to the quality of discussions and debates as well as provide further guidance.



Video for the Session

Sodexo – Sustainable SC: http://www.youtube.com/watch?v=nZ-_M_rFOVM&feature=related

Other Teaching and Learning Resources

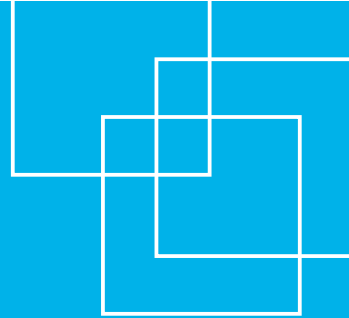
-  *How Companies Manage Sustainability*, McKinsey Global Survey 2010, accessible at: <http://www.mckinseyquarterly.com>
-  *Managing for Sustainability 2010*, a Global Report by The Economist Intelligence Unit, accessible at no cost at: http://graphics.eiu.com/upload/eb/Enel_Managing_for_sustainability_WEB.pdf
-  *“Supply Chain Sustainability, A Practical Guide for Continuous Improvement”*, United Nations Global Compact and Business for Social Responsibility. This and other reports are available on the Business for Social Responsibility Publications page at: www.bsr.org
-  *“Responsible Supply Chain Management Report”*, commissioned by the European Commission to support the High Level Group on Corporate Social Responsibility, accessible at: <http://ec.europa.eu/social/main.jsp?langId=en&catId=89&newsId=1014&furtherNews=yes>

Session 5

Integrating Sustainability into the Supply Chain



Introducing
Sustainability
into the Supply Chain





About the session

As the sources of competitive advantage become rarer, the integration of sustainability practices into supply chain management is increasingly a viable source of competitive advantage. Leading businesses are going beyond conventional supply chain management practices and are adopting new behaviours – by collaborating with non-traditional supply chain partners and introducing new performance measurement metric. This session seeks to provide knowledge and tools to address the complexities associated with rising social and environmental concerns in order to effectively integrate sustainability into the supply chains. Supply chain professionals are well positioned to simultaneously contribute to business growth and societal wellbeing.



Session objectives

The goal of this session is to provide participants with the knowledge base and framework required to effectively integrate sustainability into the supply chain. After providing participants with key concepts related to sustainable supply chain management (SSCM) and its strategic importance to company and societal growth, the lecture moves on to address implementation, “how-to”, approaches. The session is designed to achieve a number of specific objectives as participants are expected to:

- Understand best practices for integrating sustainability into the supply chain;
- Discuss and analyse the steps required to effectively build a sustainable supply chain; and
- Understand the benefits and challenges associated with integrating sustainability into the supply chain.



Key Learning Outcomes

Participants are expected to internalize at least three main messages from the session, notably:

- A proactive approach to sustainable supply chain management is key, even if it stems from criticisms and concerns of various stakeholder groups;
- Despite real-life complexities involved in establishing sustainable supply chains, researchers have developed useful guides and steps that can facilitate the integration of social and environmental sustainability issues into supply chains; and
- Integrating sustainability into the supply chain is crucial for the long-term growth and survival of a business.

Hence, at the end of the session, students should be able to:

- Build a solid case for proactively integrating sustainability into the supply chain; and
- Use the tools provided to effectively integrate sustainability into the supply chain of any company, regardless of the industry and company size.



Methodology

This session uses academic frameworks, a practical case study and numerous examples, short videos, brainstorming and presentation methods to demonstrate how to effectively integrate sustainability into the supply chain. Where possible, the room set-up should enable students to sit in small groups (of four or five) taking into consideration their current or future roles in corporate or non-corporate organisations. A mix of various backgrounds in each group is ideal.

Multimedia facilities will be required to deliver the session, notably: a computer with appropriate speakers for screening the proposed video ("Future Supply Chain 2016"), a projector/ projection screen, and writing board (white or black). Ideally, the computer should be connected to the internet as the recommended video is on youtube. In the absence of internet connection, the teacher should upload the video onto the computer prior to the session. Flip chart papers and bold markers will be required as respective groups will be expected to write down key points that emerge during brainstorming sessions and later present their thoughts to the entire class. It is recommended that the teacher should go round the respective groups and listen to the quality of discussions and debates and provide further guidance where need be.



Reflection Questions

In order to attract students' attention on the issues that will be examined in the session and stimulate initial thoughts, students will be expected to read the case study ("McDonald's Corporation: Managing a Sustainable Supply Chain") and attempt to answer the following questions:

- 1) Assume that you are appointed supply chain manager in a corporation of your choice, what will be your three most important sustainability priorities and why?
- 2) What incentives will you use to induce buy-in from senior management, employees and suppliers?
- 3) To what extent can it be said that "McDonald's sustainable supply chain initiative is a proactive strategy?"
- 4) How can McDonald's use its SSCM strategy to foster the attainment of the Millennium Development Goals in developing countries?

The aim of the reflection questions is to use a real-world sustainable supply chain journey to illustrate the challenges and the complexity of the issues that managers face when addressing sustainability concerns.



Suggested Session Plan

Units	Time allocation	Slide presentation/ sub-activity	Time allocation
Unit 5.1: Introduction	35 Minutes	Session outline	2 minutes
		Session objectives	2 minutes
		Key questions	5 minutes
		Introductory slides	6 minutes
		Future Supply Chain Video/ Comments	20 minutes
Unit 5.2: Analysing SSCM and Competitive Advantage	40 Minutes	Slide presentation	10 minutes
		Group discussion	20 minutes
		Class presentation/ discussion	10 minutes
Short/ Coffee break	10 Minutes		
Unit 5.3: Integrating Sustainability into the Supply chain	80 Minutes	Slide presentation	20 minutes
		Group Discussion	30 minutes
		Group presentation/ Discussions	20 minutes
		Slide presentation and class discussion	10 minutes
Unit 5.4: Benefits and Challenges for integrating sustainability into SCs	10 Minutes	Slide presentation	10 minutes
Unit 5.5: Conclusion	5 Minutes	Concluding question	2 minutes
		Slide presentation	3 minutes
Total	180 Minutes		

Note: In the absence of multimedia resources or in the event of difficulties in playing the recommended video clip, the lecturer can use the allocated 20 minutes to lead a class discussion to answer the key questions provided.



Powerpoint Presentation and Teaching Notes

Slide 1: Session Title

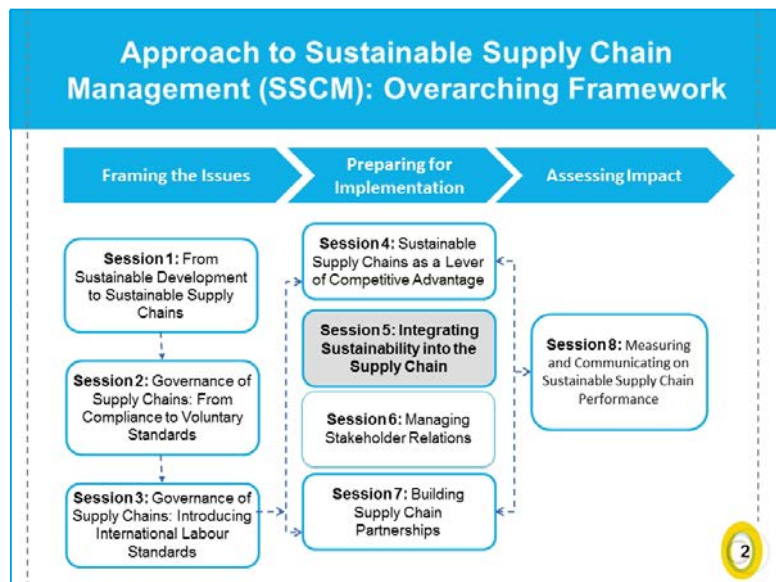
Welcome participants, introduce yourself (and any co-trainers or staff) and read the session topic as presented on the slide.

Session 5:

Integrating Sustainability into the Supply Chain

Slide 2: Approach to SSCM lecture map

Locate the session on the lecture map and inform participants that they will acquire useful tools to assist them to effectively integrate sustainability into the supply chain.



Slide 3: Session Objectives

Read the session objectives as presented on the slide and remind participants that readings as well as reflection questions are contained in the student handbook.

Session Objectives

- Analyse the relationship between SSCM and competitive strategy;
- Discuss steps for integrating sustainability into the SC; and
- Highlight key benefits and challenges.



Slide 4: Session Outline

Inform participants that the session is structured into five units and read the session outline as presented on the slide. Stress that the session is designed to be student-centred and participative – meaning that participants should freely contribute to the discussions based on their previous knowledge and experiences.

Session Outline


Unit 5.1: Introduction.

Unit 5.2: Analysing SSCM and Competitive Advantage.

Unit 5.3: Integrating Sustainability into the SC.

Unit 5.4: Benefits and Challenges for Integrating Sustainability into the SC.

Unit 5.5: Conclusion





Slide 5 – Unit 5.1: Introduction

At the start of the session (during the first five minutes), ask the question contained in the slide and solicit participants' responses. The aim is to enable participants to recall what they have learnt in previous sessions. Based on the class size, students can discuss in pairs or in groups of up to four. Some groups may focus on economic supply chain goals while others note social issues and a third group could identify environmental concerns.

Each challenge may be written on a sticker so that it can be pasted on a flip chart or board. Read three key economic, social and environmental sustainability concerns presented by participants before presenting the subsequent slide. Alternatively, participants can read out the issues identified for the lecturer to summarise on a flip chart or board.

Unit 5.1: Introduction

Question

What are the key social and environmental challenges that corporations are called upon to integrate when seeking to achieve their economic supply chain goals?

5

Slide 6: Sustainability concerns in Global SCs

This slide recapitulates various economic, social and environmental supply chain sustainability issues. Begin by reading the key economic supply chain challenges presented in the slide as well as the social and environmental problems that cannot be overlooked in the management of supply chains today.

Remind participants that as discussed in earlier sessions, there are several business and societal benefits for integrating sustainability into the supply chain.

Sustainability concerns in Global SCs

- Economic goals in SCs: Cost, quality, speed of delivery, flexibility, resource utilization, visibility and innovativeness (Chan, 2003; and Gunasekaran et al, 2001).
- Social issues: respect of human and workers' rights – child labour, bonded labour, health and safety, working conditions (Maignan et al, 2002); gender equality, poverty alleviation, etc.
- Environmental problems: pollution, climate change; decline in ecosystems & biodiversity; deforestation; soil degradation; resource depletion and fresh water crisis (McAllister et al, 2005).

6

Slide 7: Question


Ask the question presented on the slide. Do participants think that it is difficult to integrate social (human and workers' rights, health and safety, working conditions, poverty, etc) and environmental (resource depletion, pollution, ecosystems, deforestation, etc) concerns alongside economic supply chain goals (cost minimisation, quality enhancement, speed, flexibility, innovation, etc).

In order to subsequently evaluate the attainment of lesson objectives, note the number of students who think 'it is difficult' to integrating sustainability issues into the supply chain, those who think 'it is easy' and those who are 'indifferent'.

This question will be repeated at the end of the session after providing participants with the necessary tools – so as to evaluate the attainment of session objectives.

Question

How many people think it is difficult to simultaneously integrate economic, social and environmental sustainability issues into the supply chain?



Slide 8: Video

Set the scene for the rest of the session by playing the proposed video – in which CEOs of various consumer and retail companies (Philips, Nestle, Kraft Foods, PepsiCo, Carrefour, etc) discuss contemporary supply chain challenges; breakthroughs; innovations; collaboration; and momentum in future supply chains. More information regarding the video can be obtained from www.futuresupplychain.com

Their views highlight key sustainability issues facing their respective supply chains and industries as well as the need for lasting solutions. The video highlights a number of concerns that will be raised during the session.

Video: What do Business Leaders Think About Supply Chain Sustainability?

“Future Supply Chain 2016”

CEOs of consumer and retail products highlight Sustainable Supply Chain concerns: challenges, breakthroughs, innovations, collaboration and momentum.

<http://www.youtube.com/watch?v=US5IO1HfmEo>



It equally stimulates thoughts and paves the way for subsequent sessions that will focus on managing stakeholder relations and building supply chain partnerships.

After the video, solicit participants' thoughts on the key issues that are raised in the video. Draw participants' attention to the fact that businesses are looking for supply chain managers to develop effective solution to existing (and future) sustainability challenges – and that the session contribute to the knowledge base and skills required.



Slide 9 – Unit 5.2: Analysing SSCM and Competitive Advantage

After introducing participants to the relationship between SSCM and competitive advantage in session four, it is worth providing a framework for participants to use and apply a practical case. Begin by informing participants that the proposed framework (Barney 2007) has been borrowed from the strategic management literature. It will be used to analyse how a sustainable supply chain management strategy could enhance company resources and capabilities and lead to competitive advantage.

Barney's (2007) competitive advantage framework is preferred given its ability to demonstrate the different types of competitive scenarios that may emerge.

Read Barney's theoretical propositions as presented on the slide: to achieve competitive advantage, resources and/ or capabilities generated must be valuable, rare, difficult to imitate and exploited by the organisation (VRIO).

Further explanation could be given by informing students that in applying the framework, they are expected to reflect on whether a resource and/ or capability generated by integrating sustainability into the supply chain:

- Enables the firm to respond to social and/ or environmental threats or opportunities (the question of value);
- Is currently controlled by the firm alone or by a small group of competing firms (the question of rarity);
- Firms without the resource and/ or capability face a cost disadvantage in obtaining or developing it (the question of imitability); and
- Whether a company's other policies and procedures are organised to support the exploitation of its valuable, rare, and costly-to-imitate resources (the question of organisation).

Unit 5.2: Analysing SSCM & Competitive Advantage

To achieve competitive advantage, resources and/ or capabilities generated through SSCM must be:

- Valuable: respond to threats and opportunities.
- Rare: Controlled by a few competing firms.
- Imitate: Costly for rivals to reproduce.
- Organisation's policies and procedures should support exploitation of the above three. (Barney, 2007)

9

Slide 10: The VRIO Framework

Present the framework and explain that where a resource and/ or capability generated are not valuable, rare, costly to imitate, and exploited by the organisation; this implies a competitive disadvantage.

Consider, for example, a telephone system as a resource or capability that connects a corporation and its suppliers. Since telephone systems are widely available and because most organizations have access to telephone systems, these systems are neither valuable nor rare or costly to imitate.

Note that unless firms with a competitive disadvantage change their activities, they are likely to earn poor economic returns and in the long run, their survival can be jeopardized.

Draw participants' attention to the fact that a valuable resource and/ or capability may lose value over time. For example, IBM's numerous resources and capabilities in the mainframe computing business became less valuable with the rise in power and reduction in price of personal computers. Therefore, firms have to constantly strive to enhance and generate new resources and capabilities.

Valuable but common resources and capabilities can only be sources of competitive parity (as it is shared by many companies), while valuable and rare resources and capabilities can be sources of at temporary competitive advantage.

For example, skills in developing and using point-of-purchase data collection to control inventory and product ordering gave Wal-Mart a competitive advantage over Kmart – a firm that, for many years, did not have access to this same timely information, and even when it did have access, did not exploit the information the way Wal-Mart did. For many years, Wal-Mart's valuable point-of-purchase inventory control system was rare, at least relative to Kmart, its major U.S. competitor.

The teacher may also cite the case of Sony which has great resources and capabilities in designing, manufacturing, and selling miniaturized electronic technology and uses it to exploit numerous market opportunities (including portable tape players, portable disc players, portable televisions, and easy-to-hold video cameras) before competitors copy. In spite of this advantage, it still lost ground when Apple introduced the iPod.

Lastly, a firm that is organised to fully realise its valuable, rare and costly to imitate resources is capable of realising a sustained competitive advantage. A good example is Caterpillar's sustained competitive advantage in the heavy construction industry. This can be traced to Caterpillar becoming the primary supplier of heavy equipment to Allied forces during World War II. However, if Caterpillar's management had not taken advantage of this opportunity – by implementing a global formal reporting structure, global inventory and other control systems, and compensation policies that created incentives for employees to work around the world – then Caterpillar's potential for competitive advantage would not have been fully realized despite its resources and capabilities. This reorganization after World War II was essential to enable Caterpillar to pursue a global opportunity and realize its full competitive potentials.

The VRIO Framework (Barney, 2007, pp. 150)

Is a resource or capability resulting from SSCM...

Valuable?	Rare?	Costly to Imitate?	Exploited by Organization?	Competitive Implications
No	—	—	No	Competitive Disadvantage
Yes	No	—	—	Competitive Parity
Yes	Yes	No	—	Temporary Competitive Advantage
Yes	Yes	Yes	Yes	Sustained Competitive Advantage

10



Slide 11: Group Discussion and Presentation

Present the slide and ask participants to brainstorm in small groups (of between 3 and 5, based on the class size). They are expected to identify specific resources and capabilities that accrued to McDonald's as a result of adopting a SSC strategy.

Each group should be given a white board or poster on which to note the resources and capabilities enhanced or generated on the left hand side, and the competitive implication (competitive disadvantage, competitive parity, temporary competitive advantage, and sustained competitive advantage) on the right side.

Group Discussion and Presentation

Identify the resources and capabilities that resulted from McDonald's adoption of a SSCM strategy. Using Barney's (2007) VRIO framework explain the competitive implications of each resource and capability identified.

11

A representative from each group or volunteer groups should be called to present their thoughts to the class and the rest of the class should be instructed to ask questions, provide inputs or comments. Using the analysis below, the lecturer should highlight and present additional points at the end of participants' presentations.

Applying Barney's (2007) VRIO framework to McDonald's Sustainable Supply Chain Case Study

The aim of the brainstorming and discussion session is to enable students to be able to clearly identify (and predict) the resources and capabilities that are generated from adopting a SSCM strategy. It should reveal the value-added that enhanced or new resources and capabilities could provide given that they constitute the principal source of competitive advantage in any industry.

The exercise is important as it enables participants to fully understand that it is important to aim at generating specific SSC resources/ capabilities as well as understand the strategic importance of each resource/ capability generated. This could be very useful if participants are called upon to initiate, participate, or lead the process to integrate sustainability into a company's supply chain in future.

Examples of resources and capabilities that are valuable but not rare – source of competitive parity:

- Reducing packaging costs; and
- Reducing energy usage and expenses (McDonald's case study, Goldberg and Yagan, pp. 13).

Examples of resources and capabilities that are valuable and rare but easy to imitate – source of temporary competitive advantage

- Knowledge of latest sustainability research findings related to the industry – For example, McDonald's suppliers benefiting from latest animal research findings and using these to improve slaughter conditions; and
- Adoption and implementation of voluntary standards – such as Conservation international's sustainable fishery guidelines (McDonald's case study, Goldberg and Yagan, pp. 6).

Resources and capabilities that are valuable, rare, difficult to imitate and exploited by McDonald's – source of sustained competitive advantage.

- Enhanced brand trust by exploring long-term solutions to sustainability challenges (such as the Amazon deforestation issues in Brazil, and unsustainable fishing in Denmark); and positioning itself as originator of sustainability standards in the industry – resulting in first mover advantages by setting industry sustainability standards in the minds of consumers and other stakeholders (pp. 13). The case of McDonald's partnering with Danish fish suppliers to convince the European Union to enact stricter sustainability standards for fishing is also highlighted in the case (pp. 14).

- Enhancing knowledge of market and suppliers (pp. 11); effectively utilizing partner expertise (of NGOs, government departments, suppliers, etc); and building credibility with NGOs and regulators/ governments – as is the case with Greenpeace with regards Amazon protection in Brazil; improving animal feed in Canada; and enhancing cattle slaughter conditions in the US.
- Building a sustainability and continuous improvement culture in the supply chain. For example, its supplier McCain began working on improving its environmental sustainability before McDonald's helped crystallize its environmental scorecard (pp. 15).
- Strong intra and inter-organisational coordination that strengthened McDonald's ability to innovate menus; and redesign product and process parameters (such as McDonald's Agricultural Assurance Programme(MAAP) launched by McDonald's Europe in 2001 with detail production standards on the environment, agricultural practices, animal welfare, nutrition and medication, transparency, and genetics). The corporation also established an independent certification scheme to support its MAAP standards (pp. 7).

It is important to draw participants' attention to the fact that McDonald's operate in a low price, value driven market – hence paying more to achieve sustainability is not a decision made lightly. This implies that sustainability vision in the industry must be pursued in a way that supports competitive pricing. The aim is to enable students to understand that stakeholders expect “affordable” sustainability solutions that benefit the entire supply chain. Emphasize that if the low price and high value fast food restaurant industry could acquire benefits as a result of integrating sustainability into the supply chain, it means that sustainability is a ‘necessity’ and not a ‘luxury’.

It should be noted that other frameworks can be used or incorporated based on the case study industry. For example, when using a case study from the extractive industries where physical capital (such as, access to mineral sites and geographic location) is important in gaining sustained competitive advantage; Hart's (1995) natural resource-based view may be preferred.

Slide 12 – Unit 5.3: Integrating Sustainability into the SC

Begin by stressing the fact that sustainability should be considered at every stage in the supply chain. It is important to tackle various social and environmental concerns (mentioned at the beginning of the lecture) when sourcing raw materials, during manufacturing, packaging, warehousing, logistics, retail and consumption.

For example, it is important for corporations to fully understand how their buying practices impact labour practices in their suppliers' institutions – that is, they should strive to promote human rights and encourage more humane working conditions and mitigate negative impacts as much as possible. Also, corporations have the responsibility to understand where their suppliers are sourcing inputs as well as the process through which such inputs are produced.

Unit 5.3: Integrating Sustainability into the SC

All levels in the SC

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

12



Slide 13: Integrating Sustainability into SC processes

In explaining the interaction of sustainability at various supply chain processes, emphasize the fact that it is important to optimise the entire sequence of steps that are involved in the production of a good or service. At the product design phase, techniques such as life cycle assessment are used to determine how to design a product or service so that maximum social and environmental benefits are derived over its useable life and afterwards. For example, the shift from the production of non-degradable plastic carrier bags to ones that are biodegradable requires the participation of product design engineers, equipment manufacturers, operations and marketing experts – as it is important to consider resource depletion, environmental consequences and consumer preferences.

Explain that manufacturing by-products is a function of both process design and continuous improvement activities. That is, when manufacturing by-products, consideration should be given to issues such as the reduction and elimination of by-products through cleaner technologies and quality enhancement methods. A good example is the use of waste derived during the production of human food (say pork pies) for producing animal feed and farm compost.

Also, by-products produced during product use offer economic opportunities and possibilities of minimising damage to the environment. Such is the case where manufacturers provide a series of services to support and supplement the sale of original products – like equipment maintenance and repairs.

Product life extension refers to techniques that are used to extend the life of products. For example, remanufacturing or refurbishment activities are now common with products such as laptops, televisions and fridges. These minimise resource depletion by reducing the production of new products as well as limiting the sourcing of new inputs.

With respect to product end-of-life, stress that the disposition of a product at the end of its useful life depends on actions taken at earlier stages – design, raw material acquisition and manufacturing. By capturing value at the end of a product's life (through reusing, recycling, remanufacturing and transformation) natural resources could be saved. A typical example is the recycling and reuse of glass and plastic bottles in the brewery industry.

Lastly, the recovery of used products has become an area of huge importance in sustainable supply chain management. While extending the supply chain to include issues of refurbishing and recycling adds complexity to existing supply chains, it opens vast opportunities that may require short-term investments and result in medium and long-term gains. Emphasize that it is the responsibility of various departments and supply chain actors to work together and realise these benefits.

In order to stimulate fresh thinking and check understanding, the lecturer can ask students to identify one social or environmental issue that is common at a given stage or process in the supply chain of a named company or industry and explain how it could become a viable economic opportunity.

Integrate Sustainability into SC processes

- Product design.
- Manufacturing by-products.
- By-products produced during product use.
- Product life extension.
- Product end-of-life.
- Recovery processes at end-of-life.
(Linton et al, 2007)

13

Slide 14: Businesses employ various strategies to integrate sustainability into the SC

Based on their experiences and values, businesses resort to various strategies to integrate sustainability into their SCs – reactive, defensive, accommodative and proactive strategies.

With reactive strategies, a company denies responsibility of the issues raised by stakeholders. Defensive strategies imply acknowledging the existence of stakeholder issues, but they avoid addressing the issues at stake; while accommodative strategies mean addressing stakeholder issues as long as they do not impair established organisational processes and financial performance. Lastly, a proactive strategy constitutes anticipating, surveying, and addressing stakeholder demands before crises erupt.

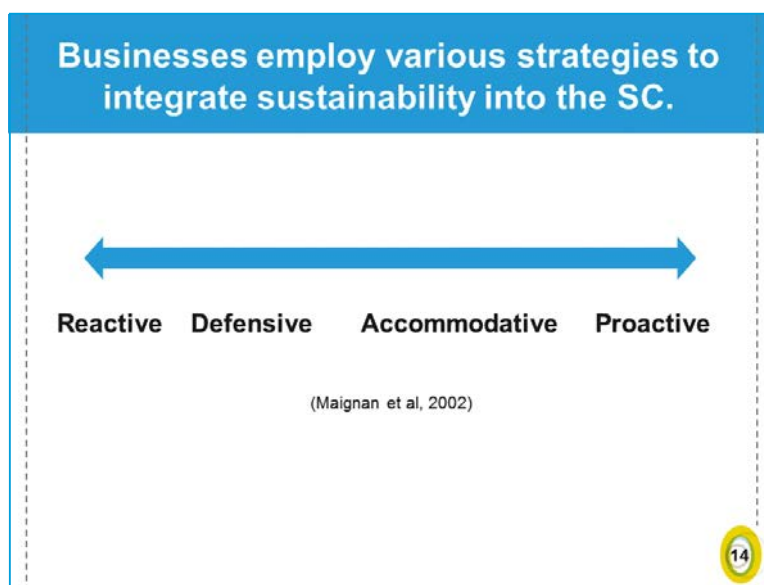
Provide as an example the case of Nike that applied all these strategies on its journey to establish a sustainable supply chain. When Nike was first accused of dealing with suppliers that used child labour in the mid-1990s, the company reacted by claiming that it was not in the business of manufacturing shoes, and that it could not be blamed for the practices of East Asian manufacturers.

Following media criticisms, consumer boycotts and declining sales, Nike became defensive and publicised a report claiming that the employees of its Indonesian and Vietnamese suppliers were living quite well. However, the genuineness of this report was tarnished by contradictory evidence produced by local activists. Next, Nike became accommodative and started introducing workers' rights and environmental guidelines for its suppliers. Yet, company representatives kept on explaining that any additional social responsibility initiative would damage its competitive position and long-term survival. In the late 1990s, Nike engaged activists and designed a suppliers' auditing process and introduced best sustainability practices in the SC.

The lecturer can also cite the sustainable supply chain journey of other companies – such as the mining giant Anglo-American plc that went through periods of employee strikes (relating to crises regarding human and workers' rights, and health and safety); local community battles, court actions and mining disasters in South Africa before developing a formal Community Engagement Plan (the Socio-Economic Assessment Toolbox (SEAT)) to guide each operation. The plan provides for flexibility in various geographic regions and requires a clear definition of the stakeholders; the issues - how to manage them; the impacts (positive & negative); the resources and accountabilities for community relations and projects; the process for handling complaints; and the review mechanism for this process.

The outdoor equipment company, Patagonia, may serve as a good example of a business that adopted a proactive value-driven sustainable supply chain strategy. The company's ethical and responsible supply chain strategy originated from its quest for recycled inputs – rather than depleting natural resources.

These explanations and examples set the stage for subsequent discussion of McDonald's response to Greenpeace campaign against Amazon destruction in Brazil – whereby the company acknowledged the issue and resorted to a sustainable supply chain solution. The key message from the different examples (Nike, Anglo American, McDonald's and Patagonia) is that corporations must not necessarily go through the respective stages outlined in Maignan et al's (2002) model – from reactive through defensive and accommodative to proactive strategies. This is because underlying drivers differ and these influence the strategies that companies adopt.





Slide 15: Proactive Strategies

Read the steps recommended by Maignan et al (2002) and emphasize on the authors' suggestion that the best approach is for companies to adopt proactive sustainable supply chain management strategies – rather than wait for crises to erupt.

When more proactive strategies are implemented, the more companies stand to meet the demands of stakeholders and create shared-value. Moreover, more proactive companies involve diverse stakeholders in the design and implementation of their sustainable supply chain strategies.

Proactive Strategies

- **Define sustainability goals.**
- **Educate suppliers.**
- **Sanction suppliers.**
- **Designate organisational member in charge.**
- **Monitor Suppliers.**
- **Communicate achievements to stakeholders.**
- **Receive stakeholder feedback**

(Maignan et al, 2002)

15

Slide 16: Framework for Integrating Sustainability into the SC

Note that Pagell and Wu (2009) framework is for guidance purposes as other sustainable supply chain integration frameworks may be used – such as Carter and Rogers (2008) provided in the complementary readings.

The choice of Pagell and Wu (2009) framework is justified by the methodology that the authors used to establish the framework (which comprise of using ten exemplar sustainable supply chain case study companies from diverse industries with varying sizes – large, small and medium-sized companies) and the framework's relative comprehensiveness.

Framework for Integrating Sustainability into the SC (Pagell and Wu, 2009)

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.

16

Begin by explaining that Pagell and Wu (2009) consider innovation capability as vital to integrating sustainability into the supply chain. Innovative institutions usually seek to understand and exploit opportunities as opposed to static organisations that are afraid to try new ventures. Also, a positive management orientation is key in establishing benchmark values and coordination so that sustainability can become a day-to-day reality in the supply chain.

The required orientation must come from senior management by way of establishing a sustainability vision and instituting policies and strategies that promote economic, social and environmental responsibility.

Add that such a process requires reconceptualising supply chain members and leveraging on the skills and abilities of non-traditional members. That is, collaborating with non-traditional supply chain members such as non-governmental organisations, regulators, and competitors. Another crucial element is supplier continuity – ability to innovate and manage sustainability orientation; improve information flow; establishing additional contingencies; decommodification of suppliers (helping suppliers to improve in times of non-compliance rather than dropping them altogether); transparency, supplier development; and reducing supplier risk. It is also necessary that the supply chain performs well on traditional metrics (such as cost, quality and flexibility), without which attempts at integrating social and environmental aspects (say through certification) may result in further complexities and challenges. In addition, it is important to certify suppliers by including social and environmental criteria in the selection and traceability process; invest in human capital development; work to close loops in the chains; and avoid traditional supply chain process improvement philosophies such as lean, just-in-time, six sigma, etc.

Lastly, Pagell and Wu (2009) recommend the institution of measurement and reward systems linking employee behaviours to sustainability outcomes. This is important as the integration of sustainability into the supply chain requires significant efforts at different levels in different organisations located in various localities with diverse economic, social and environmental challenges.



Slide 17: Model for Integrating Sustainability into the SC

Present the Pagell and Wu framework and explain the steps and processes recommended in the model.

Begin by highlighting the conclusion of Pagell and Wu's (2009) analysis that the practices that lead to a more sustainable supply chain are best practices in traditional supply chain management and new behaviours.

Then highlight the two important precursors to successful sustainable supply chain management, notably: organisational capability to innovate and a positive managerial orientation toward sustainability. These are important as they enable firms to be proactive and committed – as these can only be effective if the business model and the environmental and social elements are aligned. Such guidance is usually provided by hallmark values which have to be shared among all functions and employees.

At this juncture, it is worth reminding students of the necessity for proactive strategies as discussed in previous sections of the session. Note that management orientation is also evidenced by sustainability being part of the day-to-day conversation in the organisation.

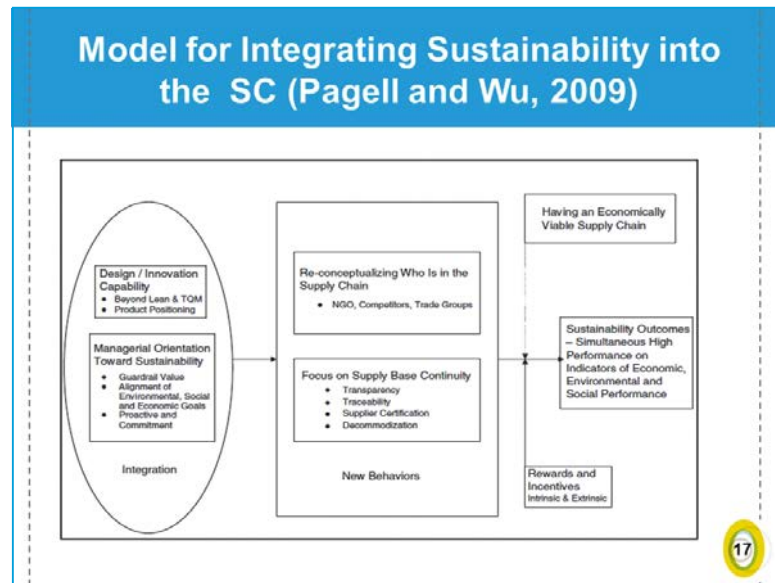
Further explain that this integration of innovation capability and a positive managerial orientation towards sustainability leads to new behaviours as the organisation will engage in two unique set of activities.

First, they will reconceptualise supply chain actors and leverage the skills and abilities of non-traditional supply chain actors such as NGOs, competitors and trade groups.

Second, managers will enhance supplier continuity by adopting practices that promote transparency, traceability, supplier certification and decommodification.

By decommodification, the authors mean establishing long-term relationships, investing in human capital development of suppliers, and actively working with suppliers to address sustainability challenges, rather than dropping suppliers whenever they fail to perform.

Given that there exist different cultures and employee commitments to sustainability across the supply chain, well-designed measurement and reward systems that link employee outcomes to sustainability outcomes are needed. This is important as desired sustainability outcomes will only be achieved if there are clear and simultaneous economic, social and environmental performance indicators.



Slide 18: McDonald's case study and Group Discussion/Class Presentation.

Note that the aim of getting participants to reflect on the steps McDonald's took to establish its sustainable supply chain using Pagell and Wu (2009) framework is to demonstrate the complementarity of (and bridge the gap between) theory and practice. Besides enabling students to judge the appropriateness of corporate responses to real-life supply chain sustainability challenges and the suitability of corrective measures, participants are exposed to a useful framework that will support future work-related sustainable supply chain assignments. Moreover, the case study provides an opportunity for the development of problem-solving skills alongside encouraging group work and effective presentation and communication skills. It is hoped that these will increase students' enjoyment of the topic and their desire to learn best sustainability practices.

McDonald's case study and Group Discussion/ Class Presentation.

Using Pagell and Wu's (2009) framework for integrating sustainability into the SC, what issues should McDonald's consider if it were to redesign and enhance its SSCM?

18



Provide a brief summary of the case by stating that:

In April 2006, despite its supply chain having purchased a small percentage of Brazilian soya from a supplier (Cargill), McDonald's Europe was targeted by Greenpeace in a public campaign against Amazon deforestation caused by soya farming. Rather than disengaging, McDonald's worked with Greenpeace, Cargill, competitors, and the Brazilian soya industry to find a solution. After McDonald's helped to bring European food retailers and global soya traders and processors to the table, the group agreed to a two-year moratorium on purchasing soya from deforested areas and created a strategy to develop the industry in a sustainable way. Greenpeace and others praised McDonald's actions.

Remind students that in order to effectively analyse and recommend solutions that McDonald's should consider to enhance its sustainable supply chain management practices, they are expected to identify whether or not McDonald's followed the various steps recommended by Pagell and Wu (2009). That is, they should identify activities in the case that portray the realisation of specific aspects in the recommended steps. The teacher should go backward and display the slide containing Pagell and Wu's framework so that participants can visualise the different processes and steps as they brainstorm. During the group discussions, the teacher should visit the respective groups, listen to points being raised and provide relevant guidance.

Before participants begin brainstorming, the teacher should draw their attention to the following facts:

- McDonald's operate a multiple and vast supply chain composed of highly perishable items. That is, coordination of many independent supply chains takes place before McDonald's can deliver value to customers, notably: beef, chicken, fish, potatoes, bread, vegetables, coffee, tea, fruit juice, etc.
- Besides the desire to build a reputation for solving problems, McDonald's pulling out of Brazil was impractical because European customers demanded non-genetically modified products (pp. 9).
- There are first mover advantages associated with the adoption of a sustainable supply chain management strategy – as McDonald's originated and set standards in consumers' minds which other competitors had to follow (pp. 14).

Following the proposed framework, the teacher is expected to guide discussions by comparing the steps that McDonald's took in integrating sustainability into its supply chain versus Pagell and Wu (2009) recommendations.

The consequences and outcomes of the major steps that the corporation took are to be analysed and recommendations made on how to enhance sustainability in McDonald's supply chain. There are no right and wrong answers as what is most important is the quality of the justification provided.

Applying Pagell and Wu (2009) framework for integrating sustainability into the supply chain to McDonald's Case study.

This group and class discussions are aimed at practically discussing the stages and strategies for integrating sustainability into the supply chain. It also highlights key benefits and challenges for integrating sustainability into corporate supply chains.

In line with the principal goal of the session, the strategic importance of corporate supply chains is also illustrated in the case study as it is acknowledged that "McDonald's supply chain has been an integral part of its success" (McDonald's case study, pp. 2).

Pagell and Wu Recommendation	Evidence of Steps McDonald's took
1) Innovation Capability	<ul style="list-style-type: none"> • McDonald's founder, Ray Kroc, sought to build an innovative SC system (pp. 2). • The company had a decentralized SCM structure around "freedom within a framework" whereby headquarter sets parameters and performs functions that leverage the scale of the entire system but defers other decisions to local managers closest to customers. E.g. Area of the World (AOW) leaders manage McDonald's Europe, North America, Latin America, Asia/ Pacific/ Mid East/ Africa; and AOW national leaders manage country operations (e.g. McDonald's Brazil) and Sub-National leaders handling specific regions within a national territory (such as McDonald's US Eastern Division) (pp. 3). • McDonald's sets high global sustainability standards and embarks on a continuous improvement strategy (pp. 12). • Supplier symposium organised to discuss menu improvement and nutrition strategy (pp. 16).
2) Positive Management Orientation – touchstone values guide decision-making; sustainability is part of the day-to-day conversation; and responsibility for social and environmental sustainability shared across the organisation.	<ul style="list-style-type: none"> • McDonald's established a clear SSC vision with specified economic, social and environmental goals (pp. 1). • Strong leadership originated from McDonald's founder and visible at various levels in the corporation – CEO, Vice President CSR, SC, etc. • McDonald's founder established strict voluntary standards for ingredients and appearance of each product (pp. 2). • McDonald's established an internal SSC Working Group (pp. 1) and a global governance team – the McDonald's Supply Leadership Board (SLB) (pp. 3). Day-to-day business emphasized sustainability issues through partnerships and constant engagement with suppliers and other supply chain partners around food sourcing, packaging, deforestation, etc. • Shared responsibility over sustainability demonstrated by fishermen's concerns that overfishing could lead to hazardous social and environmental consequences (pp. 5).
3) Reconceptualise SC members and leverage the skills and abilities of non-traditional members	<ul style="list-style-type: none"> • McDonald's recognised and integrated the views of non-traditional actors such as NGOs; government departments in the US, Canada, and Brazil; as well as producer and exporter associations in Brazil. • McDonald's also relied on the expertise of NGOs such as Greenpeace and Conservation International to seek long-term solutions to deforestation and overfishing problems, respectively.
4) Collaborate with non-traditional supply chain members (e.g. NGOs, regulators, competitors)	<ul style="list-style-type: none"> • McDonald's worked with NGOs such as Environmental Defense to implement its global environmental policy; Conservation International to develop sustainable fishery guidelines; and the Animal Welfare Council to issue animal welfare guidelines (pp. 6). • McDonalds collaborated with the US Department of Agriculture on Cattle Slaughter (pp. 4). • Collaboration with other European food retailers to urge Cargill's competitors to discuss and seek lasting solutions about how soya farming might continue without disrupting the rain forest (pp. 9). • The company collaborated with the pharmaceutical industries and other restaurants to encourage additional government regulation on animal feed which was passed in Canada in 2006 (pp. 4).



<p>5) Supplier continuity is an important outcome. That is: ability to innovate and manage sustainability orientation; improving information flow; establishing additional contingencies; decommodification; transparency; supplier development; and reducing supplier risk.</p>	<ul style="list-style-type: none"> • McDonald's suppliers knew that they would not be dropped overnight (pp. 15). This builds credibility with suppliers and gives them confidence to make sustainability investments (pp. 14) – hence instilling a long-term management culture in suppliers (pp. 15). • Contingency planning by way of having alternative suppliers was part of the SCM strategy (pp. 3). • In order to demonstrate transparency, McDonald's did not want to establish a reputation for walking away from problems (pp. 9) and resorted to open and constructive dialogues with all stakeholders to resolve issues raised (pp. 11). • Closeness with suppliers enabled McDonald's to better understand the challenges facing suppliers and suppliers relied on McDonald's expertise to design the most efficient sustainability paths – such as McDonald's support to Espersen in developing a comprehensive solution to unsustainable fishing (pp. 15).
<p>6) Supply chain performs well on traditional operational metrics.</p> <p>a) Supplier certification: social and environmental criteria included in supplier selection and traceability.</p> <p>b) Investment in human capital.</p> <p>c) No systematic adoption of process improvement philosophies (e.g. lean).</p> <p>d) Work to close loop and/or create reverse chains.</p>	<ul style="list-style-type: none"> • Traditional operational metrics in McDonald's restaurant business are: quality, food safety, and competitive prices (pp. 5). • McDonald's Global Environmental policy (1990) and Code of Conduct for Suppliers (2003) outlined the company's expectations regarding employment practices and environmental issues (pp. 6). • McDonald's is a member of the Sustainable Agriculture Initiative – a group of food companies working to develop best practices for sustainable agriculture in their supply chains (pp. 16). The company also purchased sustainable coffee from certified sources such as Rainforest Alliance and Utz Kapeh (pp. 7). • McDonald's was instrumental in sharing best practices and latest research with suppliers and enabling suppliers to stay up-to-date with consumer concerns (pp. 15) and worked with Cargill to close loops around deforestation in the Amazon region. • The case does not highlight any supply chain process improvement strategies such as lean, or just-in-time, etc.
<p>7) Measurement and reward system linking employee behaviours to sustainability outcomes.</p>	<ul style="list-style-type: none"> • McDonald's founder rewarded suppliers that were loyal and produced required volumes and made suppliers his partners – suppliers described as part of the “three leg stool” of the company (alongside employees and owners/ operators) and many small suppliers have grown with McDonald's (pp. 2). • In 2003 McDonald's established the supplier performance index when it established its global sustainable supply chain vision and guideline (pp. 6).

As illustrated in the case study, in order to effectively embed sustainability into corporate SCs, a:

- Holistic and proactive SCM approach is important (pp. 11);
- Multiplicity of SC strategies is required at various levels in the corporation and at different stages in the supply chain;
- Continuous supplier improvement strategy is key (in line with the recommendations of Clarke's (2005) "Manufacturing the Evidence" paper discussed in session 2); and
- Collaboration with traditional and non-traditional supply chain actors is indispensable regardless of a corporation's size and market position – because even though McDonald's size and market dominance enabled it to influence its direct suppliers, it could not single-handedly create industry change.


Slide 19: What does these mean for SCs?

This slide emphasizes the importance of adopting a proactive sustainable supply chain management strategy.

To further guide students on how to proceed in adopting such a strategy, the highlight the fact that management is expected to make strategic decisions by identifying and adopting relevant social and environmental standards. Moreover, establishing long-term supply relationships, implementing where appropriate, certification programmes, and building the capabilities of supply chain partners (especially small and medium-sized enterprises) is imperative. By adopting ethical and responsible practices, corporations will voluntarily fill regulatory gaps which may arise in some countries and participate in enhancing buyers' ability to influence corporate practices that contribute to economic, social and environmental sustainability.

What does these mean for SCs?

- Way forward is proactive SSCM strategy.
- Firms and suppliers should adopt and implement voluntary codes of conduct (Doh, 2005)
- Establish long-term relationships, certification and building capabilities of SMEs.
- Voluntary initiatives filling regulatory vacuum in developing countries (Frenkel, 2001)
- Enhance buyers' ability to influence sustainable supply chain practices (Bowen et al, 2001)





Slide 20: Brainstorming and Class Discussion

The brainstorming exercise that concludes this unit is aimed at portraying real-life dilemmas that corporate boards face when seeking to balance business and social goals given resource limitations. It is useful in stimulating creative, innovative and affordable solutions to social sustainability issues in the supply chain. The lecturer might choose a more suitable local business and/ or other specific local challenges.

It is worth noting that there are no absolute right or wrong answers as the justifications underlying suggestions are most important. The lecturer should solicit the views and opinions of other participants on proposals made – as is the case in real-world boardroom discussions.

Brainstorming and Class Discussion

SC sustainability projects are generally **cut to suit business and supplier priorities and circumstances.**

Given McDonald's core business, suggest MDG priorities to the Board of Directors and justify your preferences.

20

Slide 21 – Unit 5.4: Benefits and Challenges for Integrating Sustainability into the SC

Before presenting the slide, ask participants to outline the benefits of integrating sustainability into the supply chain.

This should be followed by a presentation and reading of the slide. Note that some market-based social institutions have been able to establish a bond with ethical and moral consumers (such as Fair Trade) by developing supply chains that are parallel to traditional conventional supply chains.

Unit 5.4: Benefits and Challenges for Integrating Sustainability into the SC

Benefits

- Stimulates innovation and builds new capabilities – e.g. Patagonia's quest for recycled inputs led to new product development.
- Market positioning and firm-customer bonding – e.g. the Dutch coffee brand Max Havelaar; and Ford and General Motors encouraging minority suppliers.

(Maignan et al, 2002; Markley and Davis, 2007)

21

Slide 22: Benefits

Proceed to read the slide and cite the examples provided. Little explanation is required as most of these points and examples have been discussed in the earlier sessions and units.

Benefits

- Increase sales, revenues and profits – E.g. Coca-Cola
- Positive publicity and good corporate reputation – e.g. McDonald's, Wal-Mart.
- Greater organisational and employee commitment when properly communicated – e.g. Patagonia, McDonald's.

(Maignan et al, 2002; Markley and Davis, 2007)

22

Slide 23: Challenges

It is logical that after presenting the benefits of integrating sustainability into the supply chain, participants should be exposed to a number of challenges.

Before presenting the slide, initiate a class discussion by asking students to suggest the challenges of integrating sustainability into the supply chain. This should be followed by a presentation and reading of the slide.

Stress that companies that succeed in overcoming these challenges stand to benefit from the opportunities that are likely to accrue – hence are able to become first movers and enjoy competitive advantages.

Challenges

- Insufficient dedication to sustainable development (MDGs Report, 2010).
- Lack of top management commitment and resources (Maignan et al, 2002; Min and Galle, 2001).
- Inadequate expertise.
- Strong emphasis on efficiency and governance of supply relationships rather than environmental and social sustainability (Maignan et al, 2002).
- Reactive and fire fighting culture (Preuss, 2001)

23



Slide 24: Challenges

Present the slide and read the content. An appropriate way to end this unit is by emphasizing that after applying the frameworks in this session, participants are expected to better confront the challenges outlined by the CEOs in the future supply chain video that was screened at the start of the session.

Participants should now be able to use the knowledge and frameworks provided in this session as useful guides (for ideas and inspiration) when initiating or contributing towards the integration of sustainability into business supply chains.

Challenges

- Effectively implement rather than end at senior management goals (Preuss, 2001)
- High costs; complexity of and insufficient communication in supply chains (Seuring and Muller, 2008).
- Green washing and poor supplier commitment (Greer and Bruno, 1996; and Wycherley, 1999)
- Small firms have limited resources and low response rate to supply chain pressures (Kempe and Soete, 1992; Walley and Whitehead, 2004; Hill, 1997).

24

Slide 25 – Unit 5.5: Conclusion

In order to appraise the realisation of session objectives, the following question may be asked. The teacher may note the number of students who think it is “less difficult” to integrate sustainability issues into the supply chain, those who think it is “more difficult” and those who are ‘indifferent’. The responses obtained may be compared to those obtained at the start of the session. The teacher may comment on the attainment of session objectives.

Unit 5.5: Conclusion

What do you think?

Given the guidance and tools provided in this session, do you think it can be less difficult to integrate economic, social and environmental challenges into the supply chain?

25

Slide 26: Conclusion

The teacher should recap the overriding messages from the session as presented on the slide – especially the fact that leading companies view sustainability not only as a source of business growth but also as a chance to contribute to the attainment of societal goals.

Conclusion

- A SSC is a veritable source of business growth and sustainable development.
- Think beyond short-term financial benefits and build long-term value across the entire SC.
- Corporations that have the relevant knowledge and skills are capable of realising sustained competitive advantages.

26





Readings

Selected mandatory and complementary readings are provided below to enhance understanding of the main topics discussed in the session as well as provide further explanations. Participants should be encouraged to read the case study and mandatory reading prior to attending the session so as to actively participate. The readings will also assist students in the elaboration of coursework and evaluations as well as stimulate research ideas in various areas related to sustainable supply chain management.

It is strongly recommended that the teacher should have a detail reading of (and reflection on) the case study and teaching notes, familiarise his/ herself with session slides and group discussions/ brainstorming exercises. It is also important to read the suggested mandatory reading. Note that other sustainable supply chain case studies, frameworks, and teaching materials may be used.

Mandatory Readings

-  **Case Study:** Goldberg, R. A. and Yagan, J. D. (2007), "McDonald's Corporation: Managing a Sustainable Supply Chain", Harvard Business School, April 16.
-  Pagell, M. and Wu, Z. (2009), "Building a More Complete Theory of Sustainable Supply Management Using Case Studies of 10 Exemplars", *Journal of Supply Chain Management*, Vol. 45, No. 2, pp. 37-56.

Complementary Readings

-  Barney, J. B. (2007), *"Gaining and Sustaining Competitive Advantage"*, Third Edition, New Jersey, Pearson Prentice Hall, pp. 133-169.
-  Carter, C. R. and Rogers, D. S. (2008), "A framework of Sustainable Supply Chain Management: Moving Toward New Theory", *International Journal of Physical Distribution and Logistics Management*, Vol. 38, NO. 5, pp. 360-387.
-  Kolk, A. and Van Tulder, R. (2006), "Poverty Alleviation as Business Strategy? Evaluating Commitments of Frontrunner Multinational Corporations", *World Development*, Vol. 34, No. 5.
-  Maignan, I.; Hillebrand, B.; and McAlister, D. (2002), "Managing Socially Responsible Buying: How to Integrate Non-Economic Criteria into the Purchasing Process", *European Management Journal*, Vol. 20, No. 6, pp. 641-648.
-  Markley, M. L. and Davis, L. (2007), "Exploring Future Competitive Advantages Through Sustainable Supply Chains", *International Journal of Physical Distribution and Logistics Management*, Vol. 37, Iss. 9, pp. 763-774.
-  Prahalad, C. K. and Hammond, A. (2002), "Serving the World's Poor, Profitably", *Harvard Business Review*, September.
-  Seuring, S. and Müller, M. (2008), "From a Literature Review to a Conceptual Framework for Sustainable Supply Chain Management", *Journal of Cleaner Production*, 16 (15), pp. 1699-1710.
-  Walker, H.; Di Sisto, L. and McBain, D. (2008), "Drivers and Barriers to Environmental Supply Chain Management Practices: Lessons from the Public and Private Sectors", *Journal of Purchasing and Supply Management*, 14, pp. 69-85.

Other Teaching and Learning Resources

Rogovsky, N. and Sims, E. (2002), “Corporate success through people: making international labour standards work for you”, ILO.

Short Videos

Lecturers can equally choose to use other short sustainable supply chain videos available on youtube to illustrate various aspects relating to stakeholder pressures; child labour; and other SSC journeys such as:

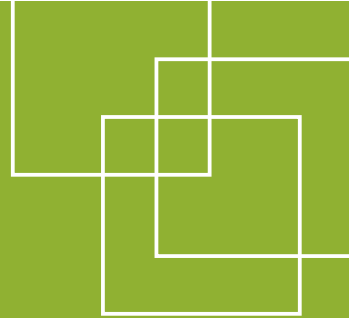
- “Greenpeace: Stopping Amazon Deforestation for Soybeans”, <http://www.youtube.com/watch?v=Fo4WXly4QYk> ;
- “Child Labour in Ruashi Mines in the Democratic Republic of Congo”, http://www.youtube.com/watch?v=ruhOO_mj1v0;
- Multi-sector child labour abuses in Eastern Europe (tobacco, mining and construction industries) – ILO TV’s “Child Labour: A Day in the Life”, <http://www.youtube.com/watch?v=mn8chUKrdsA>;
- “Wal-Mart’s Eco-Friendly Sustainable Supply Chain”, <http://www.youtube.com/watch?v=LgldATOLWJg>; and
- “McDonald’s and the Road to Sustainability”, <http://www.youtube.com/watch?v=vSqlzZpfCqs>.

Session 6

Managing Stakeholder Relations



Introducing
Sustainability
into the Supply Chain





About the session

As highlighted in previous sessions, a company's internal and external stakeholders can have significant influence over its supply chain management decisions. Companies that ignore sustainability concerns raised by these groups can suffer the consequences in lost reputation and revenues. Rebuilding either or both can be costly. Additionally, leading businesses committed to sustainability are realising the benefits that accrue from effectively engaging with both traditional and non-traditional supply chain partners. This session provides participants with an understanding of the 'why' and 'how' of stakeholder management. The session uses stakeholder theory to explain and analyse the importance of proactively managing stakeholder relations in the supply chain.



Session Objectives

The overall goal of the session is to enable participants to understand and more effectively manage stakeholder relations in the supply chain. The specific objectives are to enable participants to:

- Understand the importance of identifying supply chain stakeholders, their respective stakes; and, the stakeholder relations management process;
- Prioritize and better manage conflicting stakeholder needs and expectations;
- Understand how to effectively manage a specific stakeholder concern – human rights; and
- Identify the benefits and challenges of stakeholder engagement.



Key Learning Outcomes

The suggested session materials and methodologies are aimed at bridging the gap between theory and practice as well as encouraging active learning so as to enable participants to be able to:

- Identify and prioritise key supply chain stakeholders and their respective stakes – as this constitute an important first step towards managing stakeholder relations; and
- Understand how to actively involve various internal and external stakeholders at all stages of the stakeholder management process.

Hence, at the end of the session, participants should be able to:

- Build the case for proactively engaging stakeholders in the supply chain;
- Identify key supply chain stakeholders and analyse their main interests and claims; and
- Use recommended frameworks for managing stakeholder relations within the context of supply chains.



Key Questions

In order to attract students' attention to issues that will be examined in the session and stimulate initial thoughts, participants will be expected to read the recommended mandatory readings and the Amnesty International report (2009) – titled “Nigeria: Oil industry has brought poverty and pollution to Niger Delta” – and answer the following questions:

- 1) How do supply chain stakeholders impact the behaviour of multinational corporations?
- 2) Can multinational corporations respond to all the supply chain concerns of diverse stakeholder groups?
- 3) What should corporations consider when responding to the demands of supply chain stakeholders?
- 4) Who are the key supply chain stakeholders in the Amnesty International report (2009) and what are their respective interests or claims?



Suggested Session Outline

In order to better manage the session and deliver within the allocated time, the following breakdown is recommended:

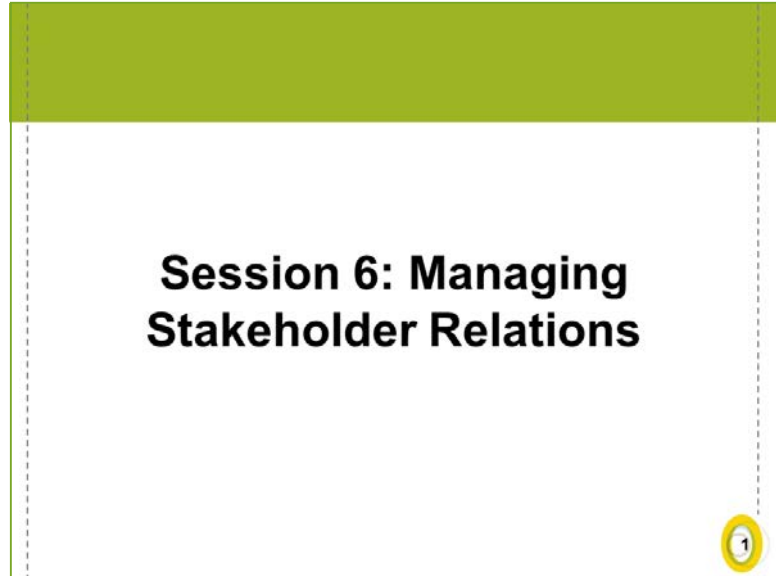
Session title	Time allocation	Slide presentation/ sub-activity	Time allocation
Unit 6.1: Introduction	25 Minutes	Session outline	2 minutes
		Session objectives	2 minutes
		Slide presentation	21 minutes
Unit 6.2: Identifying and Prioritising supply chain stakeholders	35 Minutes	Slide presentation	15 minutes
		Group exercise and class discussion	20 minutes
Short/ Coffee break	10 Minutes	Slide presentation	15 minutes
Unit 6.3: Managing Human Rights Concerns in SCs	40 Minutes	Video and discussions	10 minutes
		Slide presentation	15 minutes
		Group exercise and class discussion	15 minutes
Unit 6.4: Stakeholder Engagement	35 Minutes	Slide presentation	10 minutes
		Group exercise and class discussion	20 minutes
		Slide presentation	5 minutes
Unit 6.5: Conclusion	5 Minutes	Concluding slide	5 minutes
Total	150 Minutes		



PowerPoint Presentation and Speaker notes

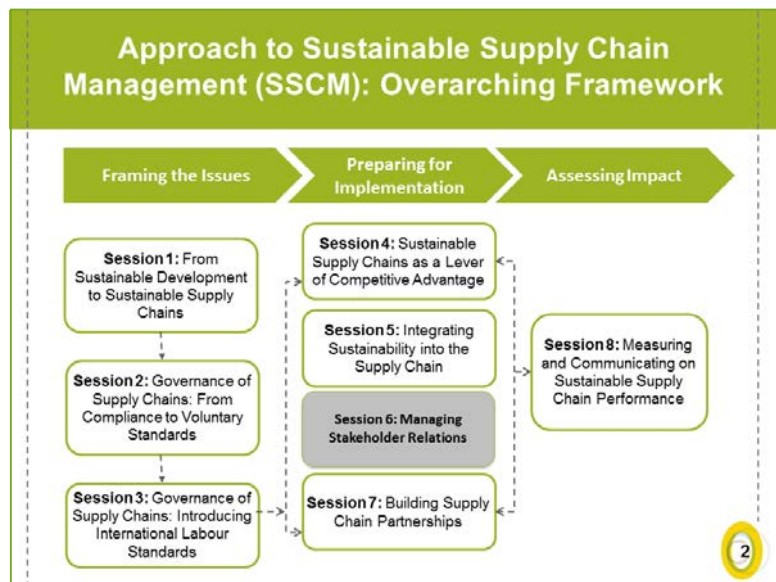
Slide 1: Session Title

Welcome participants, introduce yourself (and any co-trainers or staff) and read session topic as presented on the slide.



Slide 2: Approach to SSCM Lecture Map

Indicate the current session on the lecture map. Inform participants that they will acquire practical tools on how to prioritise and manage stakeholder interests and expectations in the supply chain.



Slide 3: Session Objectives

Begin by reminding students that in previous sessions, we emphasized the need for companies to engage both traditional and non-traditional stakeholders in the supply chain. Depending on the industry concerned, stakeholders could include: raw material suppliers, transporters, distributors, manufacturers, non-governmental organisations (NGOs), employees, local communities, etc. Given that there are usually specific stakeholder groups within a particular stakeholder category (for example, NGOs may comprise of those with particular interest in say climate change, forest conservation, ocean conservation, human rights, poverty alleviation, etc); it could be challenging to practically identify and manage the diverse needs of different stakeholders.

The lecturer should read the session objectives as presented on the slide and inform students that the most important objective is to be able to properly identify key stakeholders and manage their expectations with those of the company. Participants are encouraged to complete mandatory and recommended readings.

Session Objectives

- Understand the importance of identifying supply chain stakeholders and their respective stakes;
- Comprehend the stakeholder relations management process;
- Discuss how to prioritize and manage conflicting stakeholder needs and expectations;
- Understand how to effectively manage a specific stakeholder concern – human rights; and
- Identify the benefits and challenges of stakeholder engagement.

3

Slide 4: Session Outline

The lecturer should inform students that the session is structured into five units and read the session outline as presented on the slide.

Session Outline

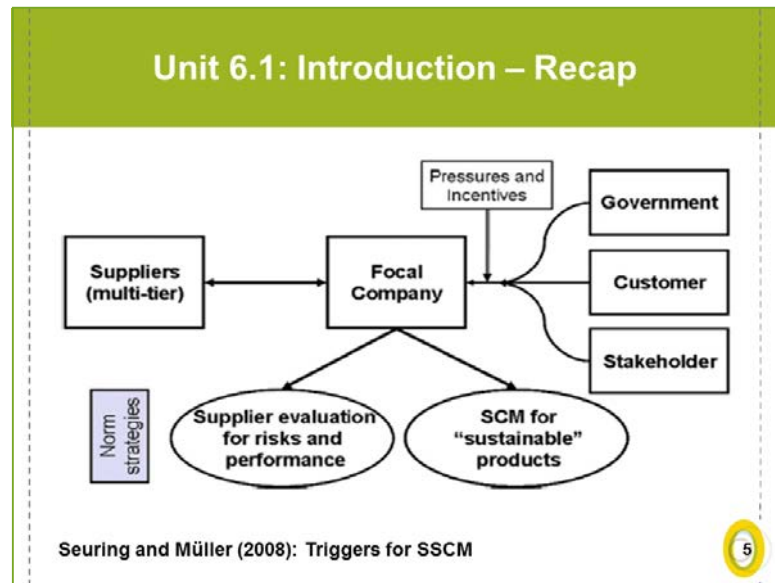
- Unit 6.1:** Introduction
- Unit 6.2:** Identifying and prioritizing supply chain stakeholders.
- Unit 6.3:** Managing human rights concerns in supply chains.
- Unit 6.4:** Stakeholder engagement
- Unit 6.5:** Conclusion

4



Slide 5 – Unit 6.1: Introduction – Recap

This slide recapitulates key concepts discussed in earlier sessions using Seuring and Müller's (2008) diagram that illustrates a corporation's relationship and actions with various supply chain stakeholders. Explain the diagram by saying that broadly speaking, the drivers for integrating sustainability into the supply chain could be classified under external pressures and incentives from diverse stakeholder groups – that is, legal demands/ regulation, reputation loss, pressure from social and environmental groups, customer demands and competitive advantage. However, government and customer actions are of particular relevance.



On the one hand, all modes of government control (from local municipalities to national or multi-national governments) influence SC arrangements. On the other hand, customers are of great importance as operating the supply chain is only justified if the products and services are finally “accepted” by customers.

Further explain that the pressures and incentives on focal/ lead companies may drive them to seek to balance economic, social and environmental goals, as well as requesting suppliers to do same. As a result, companies introduce two major strategies: “supplier evaluation for risks and performance” and “supply chain management for sustainable products”. On the one hand, the main objectives of the former are to: avoid related risks that could disrupt the attainment of set goals; and improve overall economic, social and environmental performance in the supply chain – hence the adoption of environmental and social codes (such as: ILO standards, or voluntary standards such as ISO14000, ISO26000, SA8000).

On the other hand, the ultimate business aim for adopting a sustainable product strategy is to satisfy customers and gain competitive advantage in the market. This is because ensuring the quality of the product and the performance of the operational process is important for the entire supply chain – from raw material sourcing to final consumers. Because process technologies can harm the environment while social issues (such as human rights violations) can negatively impact corporate reputation, the development of internal and external supply chain resources and capabilities – by investing in production facilities, enhancing information flows and supplier development – is important for companies to offer “sustainable products”. The lecturer should explain that the term sustainable product is used to comprehend all kinds of products that have or aim at an improved environmental and social quality.

The lecturer should stress that although the two strategies are presented separately on Seuring and Müller's (2008) diagram, they are not mutually exclusive as they support each other. For example, a company starting with supplier development initiatives for risk minimization might see opportunities for improving the economic, social or environmental performance of its products. As such, joint effort of diverse supply chain actors is usually required to address supply chain risks and exploit opportunities.

The lecturer should end the recapitulation by summarizing key concepts before moving on to examine supply chain stakeholders.


Slide 6: Class Discussion

Begin by reminding participants that all along the previous sessions we have stressed the need for corporations to work with other supply chain stakeholders to realise economic, social and environmental goals. Ask students to define a “stakeholder” and/ or a “stake”. The aim is to establish and build on students’ understanding of these concepts as well as determine the level of exploitation of the pre-session readings. The lecturer may write key words that emerge from participants’ responses on the board and compare participants’ thoughts with those of various authors when the definitions are presented in the next slide.

Class Discussions

1. Who is a stakeholder?

2. What is a stake?




Slide 7: Identifying Stakeholders

Throughout this session, participants will be considering how to identify and map various stakeholders. The set of questions in this slide from ISO 26000 (5.3.2.) can help open this session.

Identifying Stakeholders

- **To whom does the organization have legal obligations?**
- **Who might be positively or negatively affected by the organizations’s decisions or activities?**
- **Who is likely to express concerns about the decisions and activities of the organization?**
- **Who has been involved in the past when similar concerns needed to be addressed?**
- **Who can help the organization address specific impacts?**
- **Who can affect the organizations ability to meet its responsibilities?**
- **Who would be disadvantaged if excluded from the engagement?**
- **Who in the value chain is effected?**



Source: ISO 26000



Slide 8: Defining and understanding the stakeholder concept

Before defining stakeholder, it is important to let students know that there are several definitions of stakeholders in various textbooks and documents but the one chosen for this session is widely used in the academic and practitioner literature: ***“any group or individual who can affect or is affected by the achievement of the organisation’s objectives”*** (Freeman, 1984, pp. 46).

This means that just as stakeholders may be affected by the realisation of corporate goals; the actions, decisions, policies and practices of corporations also affect diverse stakeholder groups. Hence, there is a two-way interaction or exchange of influence with stakeholders.

Defining and understanding the stakeholder concept.

- Confusion in defining a stakeholder – Friedman and Miles (2006, pp. 5-8) summarise fifty-five different definitions covering seventy-five texts.
- A stakeholder is **“any group or individual who can affect or is affected by the achievement of the organisation’s objectives”** (Freeman, 1984, pp. 46).
- A stake is **“an interest in or a share in an undertaking or a claim – a demand for something due or believed to be due”** (Buchholtz and Carroll, 2009, pp. 83).

8

The lecturer should read the definition of a stakeholder and a stake as presented on the slide. It is important to stress that a stake may be monetary (such as investment in company shares, bonds or bank loans) or non-monetary (such as concern for the environment and human beings). It is also important for the lecturer to illustrate the different kinds of stakes and power implications that need to be examined as part of the proactive assessment of stakeholder positions. For example, shareholders have a financial equity stake in the firm, which gives them voting rights (which could be exercised at the company’s annual general meeting) and economic power (in that they can sell their stakes). Customers have economic power vested in their purchasing decisions and their ability to file lawsuits when a product fails or endangers or injures its users. Moreover, aggrieved customers can also exercise political power by filing complaints with consumer and government agencies.

One example of a company that recognises the general nature of stakeholder claims is Royal Dutch/ Shell Group of Companies which is aware of its responsibilities to shareholders, customers, employees, contractors, suppliers, joint venture partners and society in its Statement of General Business Principles (Shell International Limited, 1997). Government represents another claimant that can have a strong influence on the organisation formally and economically. For example, in the United States of America, the Environmental Protection Agency and the Occupational Safety and Health Administration significantly influence the supply chain processes adopted by US multinational companies. It is worth mentioning that influencers such as social and environmental NGOs are usually interested in a firm’s activities because of their social stakes for society and the planet. In order to enhance understanding, the lecturer can ask students to give other examples of stakes that various stakeholders may express towards a corporation’s activities.

Slide 9: Understanding Stakeholders

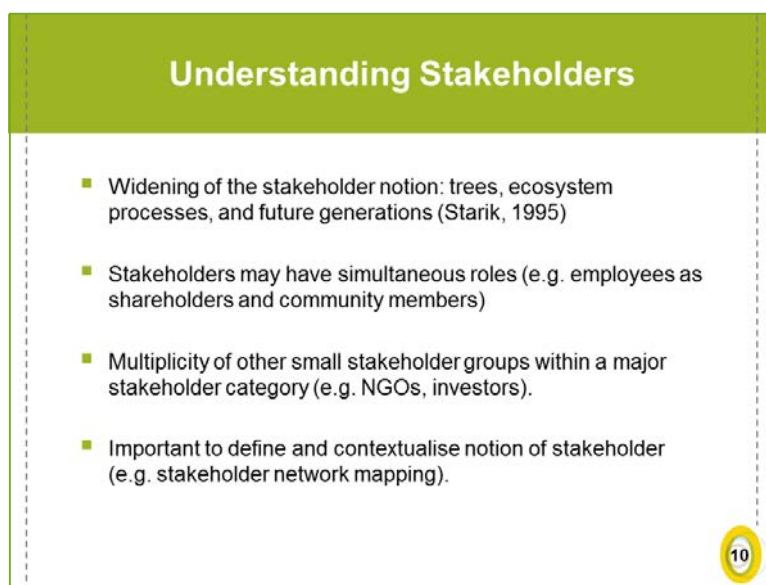
Explain that the diagram shows the firm at the centre surrounded by a group of stakeholders which Freeman (2008) refers to as primary stakeholders and an outer circle that constitutes secondary stakeholders. On the one hand, primary stakeholders are those whose continuing participation is required if an organisation is to survive. That is, they have a direct stake and relationship with the firm; and their actions will directly affect product and service delivery – thereby impacting the realisation of corporate (and supply chain) objectives. These include: employees, suppliers, financiers, communities and customers.



On the other hand, secondary stakeholders are those who influence or affect, or are affected by the corporation – but are not engaged in direct transactions with it and are not essential for its survival. That is, they do not have a direct stake and/or relationship with the corporation but their importance cannot be overlooked as they can influence or disrupt the realisation of corporate objectives as well as influence the actions of primary stakeholders. These include: government, competitors, consumer advocate groups, special interest groups (NGOs) and the media. Conclude the slide by stressing that in order to achieve their economic, social and environmental supply chain goals, firms are expected to effectively align and manage corporate goals with those of respective stakeholder groups.

Slide 10: Understanding Corporate Stakeholders

Emphasize that although Freeman's (2008) theorizing of corporate stakeholders is very simplistic, identifying and classifying stakeholders is complex in reality. To begin with, some authors have widened the term to include trees, ecosystem processes, and future generations (Starik, 1995). In addition, stakeholders usually have simultaneous roles (such as financiers being part of the community as well as customers) while there are a multiplicity of other small stakeholder groups within each major stakeholder category (such as investors; which refers to sovereign wealth funds, pension funds, venture capitalists, other corporate entities and individuals). Hence, it is important to help participants understand that stakeholders constitute different groups of people with distinguishable relationships with the corporation and that it is essential to always define and classify them within a given context (such as the supply chain).





Slide 11: Stakeholder initiatives may be designed to:

The lecturer should read the different stakeholder interventions as summarized on the slide and ask students to provide other examples – as these have been discussed in previous sessions. For example, in the early 1990s, human rights NGOs instigated consumer boycotts to hinder the realisation of Nike's sales and profit objectives by criticising suppliers' use of child labour in Asia.

Stakeholder initiatives may be designed to:

- Disclose wrong-doing (e.g. Shell in Niger Delta region in Nigeria).
- Spread negative images of the firm (e.g. Activists instigating consumer boycotts).
- Change company practices (e.g. working conditions).
- Demonstrate commitment to a particular standard (e.g. ILO; Fairtrade).
- Hinder the proper functioning of the firm (Maignan et al, 2006).
- Foster more social and environmental accountability and commitment of a firm.

Both internal and external stakeholders advocate for SSCs.

11

Slides 12: Stakeholder Relations Management Process

Begin by stating that the stakeholder relations management process model is aimed at facilitating the actual practice of stakeholder management in corporations – as it can greatly facilitate the task of introducing a stakeholder perspective in an existing organisation. This is because adopting a stakeholder perspective and pursuing proactive stakeholder management techniques will better fit into the ever-changing external supply chain environment.

Proceed to explain the various steps recommended in the model. To begin with, **step 1** requires the identification of all stakeholders in which the organisation has interest, as well as those who have an interest in the firm (and could, therefore, influence it directly or through interactions with other stakeholders).

Stakeholder relations management process (Preble, 2005)



12

Note that Preble (2005) decides to separate public stakeholders from primary and secondary stakeholders. Public stakeholders (mainly governments and communities) are important because they provide the firm with the infrastructure and legal frameworks in which to operate. Hence, the proper attitude to adopt is that the interests of all supply chain stakeholders are of intrinsic value and merit consideration by the firm. Once the stakeholder identification process is complete, it is often useful to construct a supply chain stakeholder map to get a visual picture of the stakeholder set that is most relevant to the organisation. The lecturer can give the example of the apparel and footwear company, Nike, which was persuaded to recognise and engage public and secondary stakeholders after its first Corporate Responsibility Report (in 2001) only considered primary stakeholders.

The lecturer should emphasize two points. First, that it is important to establish a formalised approach to stakeholder engagement. Second, that the actual stakeholder groups identified will depend on a firm's size, industry, and the location of its headquarters and operations. Participants should note that a stakeholder map may also be constructed based solely on a key issue that is of interest to a firm and its stakeholders – such as labour rights, carbon emissions, etc.

Once stakeholders have been identified, it is important to make an initial assessment of the various claims or expectations that respective stakeholders might have on the firm (in **step 2**). These stakes help to define what type of power or influence a stakeholder possess and what kind of response would be appropriate relative to each stakeholder group. Inform participants that in the subsequent slide, they will be expected to choose a corporation and identify its stakeholders and their respective stakes.

Step 3 involves assessing the needs and/ or demands of various stakeholder groups and comparing them to a corporation's behaviour to see if performance gaps exist. By learning what stakeholders want from the firm and determining if it is different from what the organisation is providing enables the firm to devise strategies to minimise potential conflicts that could result in disruptive and costly stakeholder actions against the firm.

Stress that determining stakeholder expectations can be a complex process as the wants and needs of some stakeholders could be relatively to determine such as those of workers' unions expressed through negotiations, policy statements and regular dialogues; or those stakeholders who have specific minimum and maximum expectations (such as social activists who may have minimum wage and health and safety targets; and environmental activists who expect firms to have a stated maximum amount of pollutants emitted). Students should note that some stakeholders may be inaccessible as there may be no open channels of communication between them and the corporation, thereby, making it difficult to understand and forecast their demands. A good example is the difficulty expressed by British American Tobacco (in the corporate sustainability section of their website) in understanding the position of (and effectively engaging) the NGO Action against Smoking and Health (ASH). Hence, it is worth analysing the websites and publications of "special interest groups" to help determine inaccessible stakeholder expectations.

Add that it is also advisable to go beyond stakeholder expectations and analyse the means that various stakeholder groups may use to achieve their demands. That is, is the stakeholder using or capable of using conservative persuasion; or moral exhortation (such as, "corporations have a duty of care"); versus direct confrontation/ sabotage; or a multiplicity of influencing strategies. Today Corporations are exploring ways of collaborating and partnering with influential NGOs (such as Amnesty international, Greenpeace, Oxfam, Friends of the Earth) even though their interests are generally incompatible in order to better understand and address grievances. Similarly, entering into dialogue with trade unions and supporting mature industrial relations can help companies anticipate and resolve worker concerns.

Step 4 is important because managers and organisations have limits on their time, cognitive information processing capabilities, and resources. This step focuses on ways to help sort out which stakeholder groups will command or deserve more managerial attention at different points in time. The lecturer should inform students that stakeholder prioritization will be discussed and analysed in greater depth in unit 6.2. On the whole, managers will pay more attention to stakeholders based on the threat they pose to the company and industry. For example, institutional investors holding large blocks of company stock that is plummeting in value require immediate attention as a very high priority stakeholder at that point in time. Workers preparing to strike due to unsafe working conditions. Regulators and activists are also very influential as they are capable of manipulating the views of other key stakeholders such as customers.



After identifying the firm's stakeholders, their claims, and goals vis-à-vis those of the organisation to determine gaps and effectively prioritize stakeholder claims, **step 5** requires the development of policies, strategies and organisational responses to minimize those gaps and address issues. The lecturer should highlight the fact that although stakeholder engagement strategies will be discussed in greater depth in section 5.4, it is worth noting that it is important to engage with stakeholders and set performance goals and targets with respect to the concerns and expectations of key stakeholders. This is crucial in managing firm-stakeholder relations as businesses want to either meet or change stakeholder expectations given practical resource constraints. Where potential conflicts or gaps are perceived, informal and open communication on key issues can allow each party to more clearly define their position or situation – that is, how they are being impacted or what specific constraints exist – leading to an increased understanding as well as the uncovering of common grounds. As a result of new knowledge and increased understanding, the firm and stakeholders are able to suggest initiatives and set goals towards improving their performance or can modify or refine their expectations. Setting goals with respect to stakeholder interests sets the stage for devising specific programmes and tactics to be employed in achieving those objectives. The lecturer should emphasize that there is a paramount need for top management involvement and support (as best practice global firms usually have a board member responsible for oversight of these types of activities) as well as securing adequate funding for various initiatives.

The final step (**step 6**) requires that stakeholder programmes are constantly evaluated and monitored to ensure that progress towards goals is actually being made. This is important because stakeholder positions on issues are likely to change (sometimes dramatically – as is the case with stakeholder views on the commercialisation of nuclear energy following the March 2011 nuclear disaster in Japan). The lecturer should emphasize that as strategies and programmes are being implemented, it is important to monitor progress along the way – rather than wait till the end of a budget or planning cycle. Failure to continuously monitor stakeholder expectations may result in the firm being caught off-guard or be pursuing stakeholder strategies that are no longer relevant. This process also checks if the assumptions upon which the strategies are based have changed and whether new strategies and programmes are required. Social and environmental audits are usually employed as part of the monitoring and control process.

While pointing at the restart arrow that links steps 6 and 1, the lecturer should end the slide by stating that by utilizing the feedback obtained in step 6, the stakeholder management process recycles back to step 1 for periodic re-examination and continuous improvement.

Slide 13 – Unit 6.2: Identifying and Prioritizing Supply Chain Stakeholders

The lecturer should begin by stating that as mentioned earlier (when explaining **Step 4** of the stakeholder relations management process), managers and organisations have limits on their time, information processing capabilities, and resources. This makes it practically impossible to align the demands and goals of all supply chain stakeholders with those of the corporation. The lecturer should recall the major points and issues earlier discussed by reading the slide and end by asking how managers should prioritize their stakeholders. This sets the stage for the application of a framework in mapping and prioritising various supply chain stakeholders.

Unit 6.2: Identifying and Prioritizing Supply Chain Stakeholders

Contextual stakeholder reality:

- Diverse SC stakeholders and stakes.
- Stakeholders have interests in & claims on corporations.
- Stakeholders might make their stakes known.
- Stakeholders can influence SC behaviour.

In reality, it is impossible to meet all stakeholder demands.

What criteria should managers use to prioritise?

Slide 14: Stakeholder Salience Theory

Introduce Mitchell et al's (1997) framework for identifying and prioritizing stakeholders that requires managers to consider three important attributes that stakeholders may possess, notably: power, legitimacy, and urgency. The choice of the framework is justified by the fact that it is underpinned by the stakeholder approach to management and is widely used in the academic and practitioner circles. In applying Mitchell et al's (1997) framework to the management of supply chain stakeholder relations, corporations should attribute the greatest priority to stakeholders that possess all three attributes; followed by those with two attributes; and accord little importance to the concerns of those with single attributes. At this juncture, it is important to proceed and present the proposed diagrammatic mapping of stakeholders as proposed by the framework.

The lecturer may resort to another model, such as Jawahar and McLaughlin's (2001) organisational life cycle model. The model proposes that managerial attention should follow three criteria: the potential to satisfy critical organisational needs; satisfy the right needs at the right time according to the stage in an organisation's life cycle; and satisfy the claims that are important relative to those of other stakeholders. The full reference of the paper is: Jawahar, I. M. and G. L. McLaughlin: 2001, 'Toward a Descriptive Stakeholder Theory: An Organizational Life Cycle Approach', *Academy of Management Review* 26, 397–414.

Stakeholder Salience Theory (Mitchell et al, 1997)

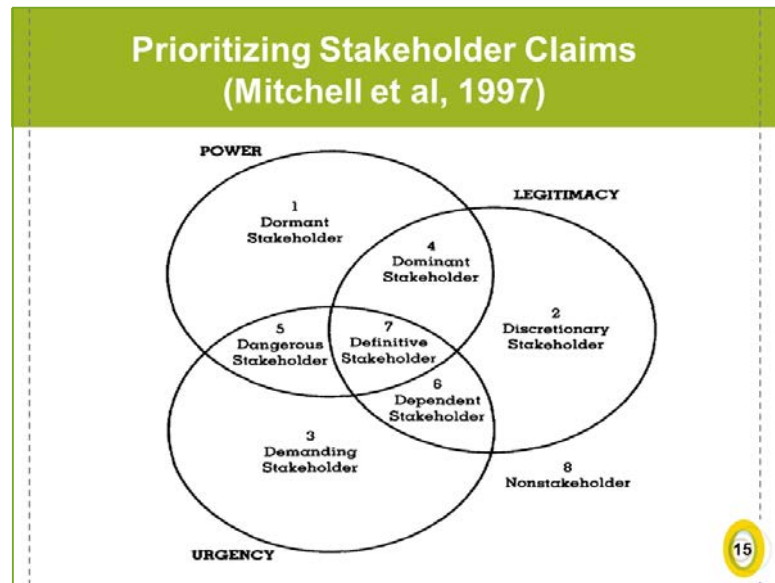
- 1) **Power:** Relationship in which one actor (A) can get another actor (B) to do something that B would not otherwise have done.
- 2) **Legitimacy:** Perception that the actions of an entity are desirable or proper within a system of norms, values or beliefs.
- 3) **Urgency:** Degree to which stakeholder claims call for immediate attention.

14



Slide 15: Prioritizing stakeholder claims

The lecturer should follow the numbering on the framework and provide the following explanation. Latent stakeholders have little salience to management as they possess only one attribute. For example, dormant stakeholders (1) have power, discretionary stakeholders (2) possess legitimacy, and demanding stakeholders (3) have only urgency. However, if one of these stakeholders gains access to another attribute their salience would increase. Expectant stakeholders possess two attributes and are of moderate salience to managers. Thus dominant stakeholders (4) possess power and legitimacy and usually form the dominant coalition of the enterprise (such as owners, employees, large creditors, and community leaders).



Dangerous stakeholders (5) have both power and urgency but lack legitimacy (such as NGOs) and must be managed carefully because they are potentially dangerous to the firm – given their ability to influence and attract legitimate stakeholders. Dependent stakeholders (6) – such as the oil spill victims in the Gulf of Mexico in the United States following the April 2010 BP oil disaster – lack power but have legitimate and urgent claims – and by gaining access to government agencies and the courts, they could obtain the power that they initially lack. On their part, definitive stakeholders (7) have a high degree of salience as managers perceive power, legitimacy and urgency to be present simultaneously. For example, most companies will prioritise the demands of large customers as they usually possess all three elements. Of course, nonstakeholders (8) are at the other end of the continuum as they do not possess power, legitimacy or urgency in relation to the firm and therefore, have little or no salience to the firm's managers.

Slide 16: Stakeholder Prioritisation

The lecturer should end the presentation of the framework by reading the summarized stakeholder attributes and relate to the expected salience that managers should accord to various stakeholder groups – as presented on the slide.



Slide 17: Group Exercise and Class Discussion

Given the difficulty of establishing an exhaustive list of supply chain stakeholders (as these depend on the specificity and complexity of any given supply chain), this exercise is aimed at enabling students to brainstorm within the context of the oil industry – as it is a high impact industry usually characterised by stakeholder issues. Moreover, the exercise is aimed at facilitating students' understanding and use of Mitchell et al's (1997) framework to map and prioritise supply chain stakeholders. The example of Shell Oil Company in Nigeria is used to lay the ground work for discussions in the subsequent section.

Group Exercise and Class discussion

Using Mitchell et al's (1997) framework, identify and classify the stakeholders of Shell Oil Company in Nigeria.

You are expected to establish a table classifying the stakeholders (under dormant; discretionary; demanding; dominant; dangerous; dependent; and definitive stakeholders; and nonstakeholders) and their respective stakes – and provide justification for your suggestions.

17

Group sizes may range from 3 to 6 – based on the class size. During brainstorming discussions, it is recommended that the lecturer should put up the slide containing the framework and visit various groups to provide guidance on the quality of group discussions.

In order to facilitate the exercise, the lecturer should draw a sample table to be completed by various groups like the one below. This can be done on a flip chart or board to guide students' focus:

Stakeholder Category	Stakeholder and stake	Justification
Dormant		
Discretionary		
Demanding		
Dominant		
Dangerous		
Dependent		
Definitive		
Nonstakeholders		



Discussion Wrap-up:

Possible responses could be:

- **Dormant stakeholders** – suppliers that have been terminated, researchers and oil exploration experts;
- **Discretionary stakeholders** – hospitals, schools, and other non-profit institutions that have benefitted from Shell's corporate philanthropy gestures;
- **Demanding stakeholders** – various local and international media;
- **Dominant stakeholders** – shareholders, employees, financiers;
- **dangerous stakeholders** – social and environmental NGOs such as Amnesty International, Human Rights Watch, Greenpeace;
- **Dependent stakeholders** – Ogoni people in the Niger Delta;
- **Definitive stakeholders** – customers;
- **Nonstakeholders** – the Zimbabwean government.

Each group is expected to write down their thoughts and later present to the class. There are no right and wrong answers as the correctness of each response will be judged by the underlying explanations. The lecturer may choose other local or global companies/ industries in order to enhance understanding and application of the framework. The overall conclusion from this exercise is that there are usually several stakeholders and diverse stakes to reconcile when managing supply chain relations; and in order to reconcile various stakeholder demands, managers must effectively prioritize stakeholders and their respective stakes.

The lecturer should end by reinforcing the message that managers who want to achieve certain ends should pay particular kinds of attention to various classes of stakeholders. It is also worth noting the changing nature and dynamism of various stakeholder categories – as stakeholders lacking particular attributes can collaborate with others to become salient. For example, indigenous people in the Niger Delta (having legitimacy) and collaborating with “dangerous stakeholders” (such as Amnesty International and Human Rights Watch, in the session exercise) who possessed **power** and **urgency** to attract the attention of Shell's management.

Slide 18 – Unit 6.3: Managing Stakeholder Relations: Human Rights Concerns in Supply Chains

The lecturer should begin by stating that as earlier mentioned when explaining the stakeholder relations management process (in step 1 – identification of stakeholders), stakeholder relations could be managed based on a particular key issue that is of interest to a firm and its stakeholders. One such problem that has attracted the attention of a variety of supply chain stakeholders has been corporate violations of universally recognised human rights and fundamental freedoms.

Unit 6.3: Managing Stakeholder Relations: Human Rights Concerns in SCs.

An important subject facing businesses today is the need to effectively manage human rights expectations.

Video:

The Case Against Shell: Landmark Human Rights Trial (Wiwa v. Shell)

<http://www.youtube.com/watch?v=L9NAzoi7h9o&feature=related>

18

The video “**The Case Against Shell: Landmark Human Rights Trial (Wiwa v. Shell)**”, (available on: <http://www.youtube.com/watch?v=L9NAzoi7h9o&feature=related>) sets the stage for further discussions on the need for enterprises to respect basic human rights, the state’s failure to protect human rights and issues relating to access to remedy by victims of human rights abuses. Specific human rights issues are raised as well as the stakes for the corporation and its stakeholders. These issues may be analysed later during the brainstorming session on the application of the UN “Protect, Respect, Remedy” Business and Human Rights Framework.

Before the video, the lecturer should ask students to note the stakeholders, human rights issues and human rights instruments that are highlighted in the video. That is, those instruments that are legally binding on states that ratify them (covenants, conventions, statutes and protocols) and those that have no binding legal effects, but have undeniable moral force and provide practical guidance for the establishment of voluntary standards (recommendations, standards, declarations, guidelines and principles). A detailed list can be consulted on the website of the office of the United Nations High Commissioner for Human Rights at www2.ohchr.org/English/law.

To facilitate a discussion, ask students to list the stakeholders that are concerned with human rights issues as portrayed in the video. Expected responses may include: Shell, Shell’s suppliers and partners, employees, shareholders, customers, the Nigerian government, US government (as Shell Nigeria operations are owned by Shell US), human rights NGOs, indigenous Niger Delta people (Ogonis), the media, etc. Some students may also cite ecosystems and future generations as environmental and social NGOs always claim to protect these stakes.

With regards human rights issues, Shell was accused of violating basic human rights (such as: the right to life, water, food, justice, etc), the rights of indigenous people (including land rights, cultural rights and consultation rights), torture, and bribery. With regards human rights instruments, the video mentions some provisions of the United Nations Indigenous and Tribal Peoples Convention (1989), the Declaration on the Rights of Indigenous Peoples (2007), and the Universal Declaration of Human Rights (1948).

Note: On the 09th of June 2009, Shell announced that it will pay USD15.5 million to victims of human rights violations in the Niger Delta (as a humanitarian gesture without admitting liability for the human rights abuses).



Slide 19: Background: Corporations and Human Rights

The lecturer should recall that as discussed in session 2, globalisation resulted in corporate expansion into various parts of the world. In their quest for global business opportunities, a number of challenges arose. Amongst these are concerns regarding the responsibilities of businesses in relation to human rights – as multinational enterprises (mainly oil, gas, mining, and chemical companies) expanded into poorly regulated developing countries. Moreover, poor working conditions in the supply chains of footwear and clothing companies were identified as human rights violations.

Background: Corporations and Human Rights

- Interference in political affairs (e.g. ITT in overthrow of elected Chilean president, Salvador Allende, in 1970s)
- Corporate human rights scandals (e.g. 1984 Bhopal chemical leak in India; Shell in Nigeria).
- Poor working conditions in clothing and footwear supply chains (e.g. Nike, Adidas).
- Pressure from NGOs (e.g. Amnesty International, Human Rights Watch).
- U.S. Federal Law – The Alien Tort Statute.

19

These abuses drew the attention of diverse stakeholders including the United Nations and its agencies, national and regional governments, human rights organisations, indigenous people, suppliers, customers, etc. These events led to the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (1977) and OECD Guidelines for Multinational Enterprises.

In order to further explain the examples cited in the slide, the lecturer should note that the high profile involvement of the telephone company ITT in the violent overthrow of the democratically elected Chilean president (Salvador Allende) in the early 1970s made many developing countries to consider multinational corporations as a threat to their sovereignty and independence. The Bhopal chemical leak in India killed over 7,000 people within 3 days and caused other short and long-term health complications to the population. These events, coupled with The Alien Tort Statute in the United States of America – making it possible to sue multinational corporations in US courts for human rights violations committed abroad – intensified the pressure on corporations to respect human rights. Such events negatively affect corporate reputation, access to capital, access to resources, recruitment and retention, as well as short and medium-term sales and profits.

Prior to this period (1970s), it was generally assumed that governments constituted the gravest threat to human rights – as human rights NGOs narrowly focused on civil and political rights (torture, extrajudicial killings and freedom of expression) – and it was held that the state had the capacity to protect and ensure the respect of human rights (Jochnick, 2010).

Explain that faced with criticisms and pressures from diverse stakeholders, companies took initiatives to voluntarily commit to respect human rights by adopting various codes of conducts (especially those facing the greatest exposure to and pressures regarding human rights violations such as consumer-based firms, high profile and high-impact companies). Ask students to cite other voluntary standards that incorporate human rights considerations as earlier discussed in sessions 2 and 3. Although many international codes contained recommendations on how businesses should manage human rights issues in their operations and supply chains, they did not clearly define the human rights responsibilities of corporations. This led to the appointment of Professor John Ruggie by the United Nations Secretary General in 2005 as a special representative to bring new focus and energy to business and human rights efforts.

Slide 20: The UN Business and Human Rights Framework

Begin by stating that Ruggie engaged business, government and NGO stakeholders in establishing a framework for business and human rights (which was published in 2008) – the “Protect, Respect and Remedy” framework. This conceptual and policy framework is a key milestone as it concretely defines standards by which to hold corporations and governments accountable for corporate human rights violations and provides a platform to move from diffuse stakeholder expectations to clear legitimised norms. It is aimed at guiding businesses and their stakeholders in better managing business and human rights challenges. The framework rests on three pillars: the state duty to protect, the corporate responsibility to respect, and access to remedy. The lecturer should note that these shall be explained in greater detail in the subsequent slides.

The Ruggie Framework for Business and Human Rights: “Protect, Respect and Remedy”

Rests on 3 pillars:

- 1) State Duty to Protect.
- 2) Corporate Responsibility to Respect.
- 3) Access to Remedy

20

Slide 21: State Duty to Protect

The state has a duty to protect its population from human rights abuses committed by third parties, including businesses. The state duty to protect applies to all national and internationally recognised human rights and fundamental freedoms that private parties are capable of impairing, including all types of business enterprises. The state, therefore, has a duty to put in place appropriate policies, regulations and adjudication as it is uniquely placed to stimulate, regulate and sanction corporate behaviour. For example, the state can require companies to perform mandatory human rights due diligence, report on their social and environmental performance, and hold companies responsible under criminal law. Moreover the State is obliged to investigate, punish and redress abuses.

State Duty to Protect

- States have primary duty to protect individuals against non-state human rights abuses.
- Governments uniquely placed to stimulate, regulate and sanction company behaviour (mandatory due diligence, reports, prosecution, etc).
- Duty to establish appropriate policies, regulation and adjudication.
- State has to investigate, punish and redress abuses.

21



Slide 22: Corporate Responsibility to Respect

With regards corporate responsibility to respect, students should understand that under the framework, companies have a responsibility – not a duty – to respect human rights. This is because the provisions of the framework do not create formal and legally binding obligations. This responsibility requires corporations to refrain from infringing upon others' human rights – by calling on corporations to pursue positive human rights actions and to do no harm. Emphasize that because companies can potentially infringe on all forms of human rights, they are expected to respect all internationally recognised human rights conventions and voluntary standards.

Corporate Responsibility to Respect

- Respect all internationally recognised human rights (UDHR, ICESCR, Freedom of Association, etc).
- Due diligence required to identify, prevent and address human rights impacts.
- Due diligence should consist of:
 - Statement of policy;
 - Periodic assessments;
 - Integration of human rights risk assessment into decision-making;
 - Tracking and reporting performance.

22

These include general human rights treaties (such as: the Universal Declaration of Human Rights (UDHR), the International Covenant on Economic, Social and Cultural Rights (ICESCR), the International Covenant on Civil and Political Rights (ICCPR)); rights of the child (such as: the Convention on the Rights of the Child, Worst Forms of Child Labour Convention); rights of women (such as: Convention on the Elimination of All Forms of Discrimination Against Women); rights of indigenous peoples and minorities (such as: Indigenous and Tribal Peoples Convention, Declaration on the Rights of Indigenous Peoples); freedom of association and collective bargaining; prevention of discrimination; Declaration on the Rights and Responsibilities of Individuals, Groups and Organs of Society to Promote and Protect Universally Recognised Human Rights and Fundamental Freedoms; amongst others.

Companies are expected to conduct regular due diligence and have proper systems in place to prevent the abuse of human rights and to identify and mitigate these abuses in case of occurrence. Such mechanisms should be context specific (that is, consider the human rights challenges in a particular country), map potential risks in relation to the company's activities, and consider potential impacts of relationships with suppliers, business partners, governments, etc. Ruggie argues that a due diligence should consist of four components, namely: a statement of policy articulating the company's commitment to respect human rights; periodic assessments of actual and potential human rights impacts of company activities and relationships; the integration of these commitments and human rights risk assessments into company decision-making; and tracking and reporting performance.

Emphasize that the responsibility to respect applies to all company activities and also through its relationships with other stakeholders such as suppliers (first-tier as well as multi-tier suppliers), communities, state and non-state actors. Corporate responsibility in the supply chain requires firms to ensure that the chains of their suppliers, partners and subsidiaries respect basic human rights – including fundamental human rights, core labour rights and other rights. Attention is paid to respect the rights of indigenous peoples. The responsibility to respect human rights extends to the relocation of local communities due to company activities.

Slide 23: Access to remedy

The lecturer should begin by stating that even in optimal responsible business operations adverse human rights impacts may be unavoidable. Where human rights violations occur, victims must be able to seek redress or have right to reparation. Effective grievance mechanisms play an important role in both the state duty to protect and the corporate responsibility to respect. On the one hand, states must take appropriate steps within their territory and/ or jurisdiction to ensure that when such abuses occur, those affected have access to effective remedy through judicial, administrative, legislative and other appropriate means. That is, the state is expected to provide mechanisms to investigate, punish and redress human rights abuses. On the other hand, companies should have means for those who believe they have been harmed to bring this to the attention of the company and seek remediation, without prejudice to legal channels available.

The framework distinguishes two categories of grievance mechanisms – judicial and non-judicial. Judicial mechanisms could provide investigation and punishment for companies who abuse human rights and redress the harm caused. Redress includes: compensation, restitution, guarantees of non-repetition, changes in relevant laws and public apologies. Non-judicial mechanisms include: company-level grievance mechanisms to respond to rights violations as part of a company's risk management strategy (so as to tackle issues before they escalate, reduce exposure of victims to abuse, and reduce reputation risks); state-based adjudicative or mediation-based grievance procedures (such as National Human Rights Institutions or National Contact Points in OECD adhering states); and multi-stakeholder or industry initiatives and financiers (to check the human rights performance of adhering institutions).

Slide 24: Group Exercise and Class Discussion (optional)

The objective of this group exercise and class discussion is to enable students to better understand corporate human rights violations and to use the UN Business and Human Rights Framework to analyse and recommend appropriate solutions to corporate human rights challenges – so as to meet the expectations of various stakeholder groups on the issue of business and human rights.

Access to Remedy

- Victims must be able to seek redress when adverse human rights impacts occur.
- Judicial and non-judicial grievance mechanisms important in state duty to protect and CR to respect.
- Judicial mechanisms to investigate, punish and redress.
- Non-judicial mechanisms: company level, state-based, multi-stakeholder or industry initiatives and financiers.

23

Group Exercise and Class Discussion

Using the "Protect, Respect and Remedy" framework analyse how human rights violations could have been avoided and/ or better managed in the case of Shell's operations in the Niger Delta region of Nigeria.

Note: the Amnesty International report "Nigeria: Oil industry has brought poverty and pollution to Niger Delta" (of 30 June, 2009) should serve as a guide to some of the key human rights issues involved.

24



Slide 25 – Unit 6.4: Stakeholder Engagement

A suitable introduction to this section is that there are various depictions of stakeholder engagement. Greenwood (2007, pp. 319) classifies over eighteen different forms of engagements based on responsibility, managerialism, and social control and construction. Given that the focus of this session is on managing stakeholder relations, the managerialist standpoint is preferred. Emphasize that a firm's decision on the extent of engagement with a particular stakeholder may depend on the company's reliance on the stakeholder(s) for resources as well as the importance of the resource to the success of firm activities. Participants should also be aware of the fact that powerful and urgent stakeholders (such as NGOs) also push companies to address their supply chain demands and/ or engage them by pursuing multiple strategies.

Unit 6.4: Stakeholder Engagement

- From managerialist theory standpoint, stakeholder engagement is **“a means by which the organisation may glean contributions or manage risks posed by influential stakeholders”** (Greenwood, 2007, pp. 319).
- Resource-dependence balance in stakeholder relationships determine the behaviour of stakeholders and their choice of strategy (Frooman, 1999).
- NGOs pursue several strategies at once (e.g. lobbying regulators, educating consumers, media, etc)

25

Slide 26: Drivers of Stakeholder Engagement

Read the self-explanatory drivers of stakeholder engagement and ask students to provide examples. The aim of soliciting examples from students is to encourage active learning, engagement and enjoyment of the session.

Drivers of Stakeholder Engagement

- Desire to build trust.
- Need to be accountable.
- Relation and reputation building.
- Drive for innovation and competitive advantage.
- Quest for influence.
- Moral or Normative motivations.
- Legal requirements

26

Slide 27: Stakeholder Engagement Strategies

Read the various engagement strategies as presented on the slide. Note that engagement could be one way, two-way, or multi-way based on the underlying motive of engaging a particular stakeholder group – for collecting/providing information; for consultation; and engagement for decision-making purposes.

After presenting stakeholder engagement strategies as contained in the slide, it should be emphasized that corporations may use multiple strategies to engage different stakeholder groups.

Stakeholder Engagement Strategies

(Friedman and Miles, 2006; Green and Hunton-Clark, 2003)

- **One-way strategies:** low level of engagement – motive is informative (e.g. briefing sessions, newsletters, corporate reports)
- **Two-way strategies:** medium level of engagement – motive is consultative (e.g. questionnaires, workshops, focus groups, interviews, task force, advisory panel)
- **Multi-way strategies:** high engagement levels – motive is decisional (e.g. bargaining, constructive dialogues, strategic alliances, partnerships)



Highlight the fact that collaboration and partnering are recommended for definitive stakeholders (with power, legitimate and urgent claims); strategically important supply chain stakeholders (such as those who command vital resources); dangerous stakeholders (who threaten direct confrontation/ sabotage); and stakeholders who aren't clearly understood by the firm. For example, in the McDonald's case study discussed in session 5, the company partnered with potentially adversarial groups like Greenpeace to tackle Amazon deforestation and Conservation International on issues relating to unsustainable fishing practices. Partnering techniques include: joint ventures, cooperative product development with suppliers, and collaborative lobbying campaigns that are likely to bring the firm in closer alignment with its critical stakeholders.

The strategy recommended for managing competitors in a particular industry is joint ventures, mergers and strategic alliances. This has been common in the automobile industry as the joint venture between General Motors and Toyota in the Fremont plant (California) set the stage for other strategic alliances (such as Ford and Mazda, and Renault and Nissan). It is worth noting that other traditional stakeholder management tactics include: setting up customer service, investor relations, government relations, and community relations departments; establishing long-term contracts and relationships with suppliers; and making financial and material donations (philanthropic gestures) to local communities, NGOs, and other stakeholder groups.

The lecturer should stress that if conflicts arise between the corporation and stakeholders that do not appear to be easily resolvable, then negotiation might be the most appropriate strategy – facilitated by a neutral third-party mediator who works with the disputants to facilitate cooperation and compromise.

Participants are reminded to review Session 3 for guidance on engagement with Trade Unions. In particular, the use of Framework Agreements can help define an agreed approach and conditions for establishing effective dialogue between management and workers.

While explaining stakeholder engagement strategies, the lecturer may site a particular stakeholder and ask students to suggest the most appropriate strategies to use to engage them. Students should be encouraged to give their views and justifications underlying their suggestions. The subsequent group exercise and class discussion will further strengthen students' understanding of the most effective strategies for engaging particular stakeholder groups.



Slide 28: Stakeholder Engagement: The role of social dialogue

This section helps to reintroduce the link between Stakeholder Engagement and Industrial Relations as introduced in Session 3.

Pro-active stakeholder engagement is promoted in all leading normative instruments (OECD Guidelines, ILO MNE Declaration, ISO 26000). However, there is increasing understanding that a company's engagement and cooperation with its workforce can lead to improved performance and productivity.

Labour-management cooperation, particularly through increased involvement of workers and their representatives in the planning and execution of organizational change is a necessary condition for coping with the adjustment process.

Social dialogue and workplace cooperation

- Social dialogue is defined by the ILO as including all types of negotiation, consultation or simply exchange of information between, or among, representatives of governments, employers and workers, on issues of common interest relating to economic and social policy .
- May be tripartite (with government involvement) or bi-partite (employers, workers only).
- May be informal or institutionalized or both.
- Contributes to achieving more productive and effective enterprises.

28

Cases collected by the ILO in studying labour-management cooperation in dealing with change in training, technological innovation and other changes, highlighted the importance of effective communication between employers' (management) and the workers' representative, if the introduction of new technology or important organizational change is to take place without major disturbance of labour relations.¹

Effective communication, information sharing, consultation and negotiation among the social partners at national and sector levels, and between labour and management at enterprise level, and their working together to address common problem and issues, are all essential to achieving this workplace co-operation.

Social dialogue is defined by the ILO as including all types of negotiation, consultation or simply exchange of information between, or among, representatives of governments, employers and workers, on issues of common interest relating to economic and social policy². It can exist as a tripartite process, with the government as an official party to the dialogue or it may consist of bipartite relations only between labour and management (or trade unions and employers' organizations), with or without indirect government involvement. Social dialogue processes can be informal or institutionalized, and often it is a combination of the two, and can take place at the national, regional or enterprise level.

With the mutual trust and confidence engendered by bipartite social dialogue at the enterprise level, the enterprise is better able to meet the productivity and quality improvement needed to remain competitive. Through information sharing and participative problem solving, opportunities for productivity improvement including waste reduction are identified and addressed. In the same veins, social dialogue enables management and labour to address issues related to working conditions, safety and health, skills development, sharing gains and other employment conditions issues.

Refer participants to Session 2 for more information on the core principles of freedom of association and collective bargaining.

¹ *Working Together: Labour-management cooperation in training and in technological and other changes*, A. Gladstone and M. Ozaki, eds., ILO Geneva, 1991

² ILO Convention No. 154, Promoting collective bargaining, 1981. <http://www.ilo.org/public/english/dialogue/ifpdial/downloads/c154.pdf>

Slide 29: Group exercise and Class Discussion

This group exercise and class discussion is aimed at enabling students to identify the most suitable strategies for engaging key stakeholders – such as customers, governments, suppliers, and NGOs. The lecturer should guide students to realise that there is no single recommended strategy as it depends on the stakeholder(s) concerned and the issue(s) involved. This message is later reinforced when discussing the challenges of stakeholder engagement.

Based on the size of the class and time-related constraints, one group (or particular groups) could brainstorm on one question and present their thoughts to the entire class – so as to solicit other thoughts and debates.

Question 1: possible reasons why consumers and governments are rarely involved in sustainable supply chain solutions may include:

Consumers

- Consumers seem to value low price and convenience more than social and environmental concerns.
- Consumers do not have well organised groups like NGOs and local communities.
- Consumers have very diverse views and opinions.
- Consumers' signals are not always clear.

Governments

- Governments usually struggle to reconcile valid opposing interests and views – for example, governments usually grapple with diverse views from corporations, NGOs, international and local communities, etc.
- It is costly to enforce laws and decisions.
- Governments (especially in developing countries) may lack the expertise to deal with complex supply chain issues.

Question 2: possible strategies may include:

Strategies to engage consumers: Newsletters, corporate reports, questionnaires, interviews, focus group discussions, expert recommendations, education following research findings, adherence to ethical, responsible and sustainable voluntary initiatives, etc.

Strategies to engage governments: corporate reports, briefing sessions, workshops, advisory panels, expert/ research findings, strategic alliance to promote government policies, partnerships with government agencies, etc.

Strategies to engage suppliers: Letters, joint meetings, working groups on particular issues, symposiums, collaboration and partnership, constructive dialogues, etc.

Strategies to engage NGOs: advisory panels, joint meetings, working groups, partnerships, constructive dialogues, corporate responsibility/ sustainability reports, etc.

The lecturer should stress that in order to be effective and achieve desired outcomes, multiple stakeholder engagement strategies are most desirable – based on the stakeholder(s) concerned and the issue(s) in question.

Group Exercise and Class Discussion

1) Why are consumers and governments so rarely involved in sustainable supply chain solutions?

2) What strategies can a company use to better engage consumers, governments, suppliers and NGOs?

29



Slide 30: Stakeholder Engagement: Critical Success Factors

After the group exercise and class discussions, it is worth mentioning the critical factors for successfully engaging stakeholders. Stress the need for inclusivity, regular consultation, transparency and unbiased facilitation. Failure to consider these factors could jeopardize the entire stakeholder management process even if the company has good intentions to consider the demands of its stakeholder.

Stakeholder engagement: Critical success factors.

- Regular and timely communication.
- Honesty and completeness of information.
- Empathy and equity of treatment.
- Transparency of the benefits and risks.
- Unbiased facilitation.
- Inclusivity.
- Early start to facilitate change if needed.
 - Communication and governance structures. (Strong et al, 2001; Zöller, 1999)
- **AA1000SES: AccountAbility Stakeholder Engagement Standard**

30

Slide 31: Benefits of Stakeholder Engagement

The lecturer should read the various benefits of stakeholder engagement. If time permits, participants may be asked to cite examples associated with each benefit – from their previous knowledge and experiences or from the examples earlier cited in previous sessions.

Benefits of Stakeholder Engagement

- Provides an important learning environment.
- Enables corporations to build resources (knowledge, human capital and technologies) and capabilities.
- Builds trust and understanding among stakeholders.
- Can help avoid risk of damaging publicity.
- Changes preconceived image about stakeholders.
- Potentially increase the social capital of the firm.

31

Slide 32: Challenges of Stakeholder Engagement

It is equally important to highlight the challenges of stakeholder engagement and stress on the fact that when these challenges are successfully managed, businesses tend to benefit from the inputs of various stakeholders. The outcome is usually win-win.

Challenges of Stakeholder Engagement

- Difficult to identify stakeholders and scope of responsibility.
- Contextual complexities (global and local views, different geographic regions and cultures).
- Divergent and often conflicting needs and expectations.
- Difficult to identify what might be considered 'best practice' in stakeholder relations management.
- Inadequate senior management commitment to integrate the views of other stakeholders.

32

Slide 33 - Unit 6.5: Conclusion

In the concluding slide, the lecturer should reinforce the fact that in this era of globalisation, it is crucial for corporations to effectively engage and incorporate the views of stakeholders in their SC management strategies.

Unit 6.5: Conclusion

- Stakeholder engagement is a key vehicle for exchange between the firm and its stakeholders.
- Important for companies and stakeholders to engage more often.
- Mature industrial relations helps facilitate and strengthen company operations
- Corporate-NGO relationships have evolved from hostile to constructive dialogues and partnerships.
- Effective management of stakeholder relations is a necessity for success in today's global SC environment.

33





Readings







A preparatory case study, mandatory and complementary readings are provided below to enhance understanding of the main aspects covered in the session. The aim of the case study is to use a real-world example to illustrate the importance of effectively managing stakeholder relations regarding specific stakeholder requests as well as expose participants to the use of the Ruggie framework for managing business and human rights challenges. In order to better deliver the session and lead discussions, the lecturer is expected to read the mandatory readings and preparatory case study before teaching the session.

Participants should be encouraged to read the mandatory readings prior to attending the session in order to actively participate during the session. These readings will also assist students in the elaboration of coursework and evaluations as well as stimulate research ideas in areas related to supply chain stakeholder relations management.



Mandatory Readings

-  Case Study – Amnesty International (2009), “Nigeria: Oil industry has brought poverty and pollution to Niger Delta”.
-  Preble, J. F. (2005), “Towards a Comprehensive Model of Stakeholder Management”, Business and Society Review, Vol. 110, Iss. 4, pp. 407-431.

Complementary Readings

-  Freeman, R. E. (2008), “Managing for Stakeholders: Survival, Reputation and Success”, Darden Business Publishing, University of Virginia.
-  Burchell, J. and Cook, J. (2006), “It’s Good to Talk? Examining Attitudes Towards Corporate Social Responsibility Dialogue and Engagement Processes”, Business Ethics: A European Review, Vol. 15, No. 2, pp. 154-170.
-  Mitchell, R. K., Agle, B. R., and Wood, D. J. (1997), “Toward a Theory of Stakeholder Identification and Salience: defining the Principle of Who and What Really Counts”, Academy of Management Review, Vol. 22, No. 4, pp. 853 – 886.
-  Roloff, J. (2008), “Learning From Multi-Stakeholder Networks: Issue-Focused Stakeholder Management”, Journal of Business Ethics, Vol. 82, pp. 233-250.
-  Ruggie, J. (2008), “Protect, Respect and Remedy: a Framework for Business and Human Rights”, UN Human Rights Council. 8 session. Available on <http://www.reports-and-materials.org/Ruggie-report-7-Apr-2008.pdf>
-  Sharma, S. and Henrique, I. (2006), “Stakeholder Influences on Sustainable Practices in the Canadian Forest Products Industry”, Strategic Management Journal, vol. 26, Iss. 2, pp. 159-180.

Other Teaching and Learning Resources

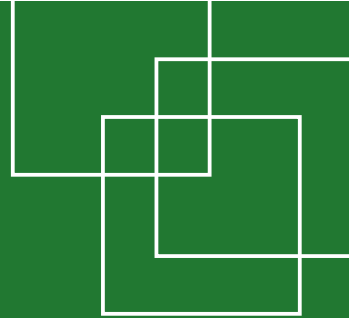
-  AccountAbility Stakeholder Engagement Standard – AA1000SES: <http://www.accountability.org/images/content/0/4/047/SES%20Exposure%20Draft%20-%20FullPDF.pdf>
-  Jochnick, C. (2010), “Business and Human Rights revitalized: A New UN Framework Meets Texaco in the Amazon”, Suffolk Transnational Law Review, Vol. 33, No. 3, September.

Session 7

Building Supply Chain Partnerships



Introducing
Sustainability
into the Supply Chain





About the session

This session explores the process of building supply chain partnerships and the advantages associated with the establishment of partnerships in supply chains. Partnerships are proposed as an option to the traditional vertical integration paradigm of supply chain relationships and are increasingly used to gain competitive advantage. The key issue is that strategic partnerships should result in a 'win-win' situation for all partners in the supply chain. For established businesses, moving from a traditional paradigm of supply chain to the partnership model may entail an organizational change. In that sense, the supply chain partnership is ideal for new business models. As with any form of alliance, the building of a supply chain partnership entails know-how and skills to devise an acceptable framework based on mutual trust.

This session aims at providing participants with the knowledge required to build and manage successful supply chain partnerships. The examples provided in this session refer mostly to the tourism industry, since it is an industry that lends well to examining the advantages of partnering in a context that supersedes the more classical approach to supply chain management that is constrained to the analysis of procurement/ buying problems or to transport and logistics issues. The session can also be used as a complement for inclusive business courses.



Session Objectives

The principal goal of the session is to provide participants with the building blocks of developing and managing supply chain partnerships. Specific objectives are:

- To understand the different types of Supply Chain relationships.
- To examine the benefits of partnerships in sustainable supply chains with a focus on value creation.
- To be able to identify, analyse and address the problems related to Supply Chain partnerships.
- To raise awareness on the requirements for building and maintaining successful partnerships and to emphasize the centrality of trust and organizational alignment.



Key Learning Outcomes

By the end of the session, participants are expected to:

- Understand the different types of relationships that develop in supply chains.
- Examine the benefits of partnerships in sustainable supply chains with a focus on value creation.
- Be able to identify, analyse and address the problems related to Supply Chain partnerships.
- Build and maintain successful supply chain partnerships.



Preparatory Questions

Participants have to answer the following questions prior to the session and submit written responses at the start of the session (maximum of 1500 words). In order to answer the questions, they are expected to read the Posada Amazonas Case and the mandatory reading provided (Kanter, 1994).

1. Identify the different participants and draw a diagram of the supply chain of Rainforest Expeditions.
2. Describe the problems that Kurt Holle is facing in Posada Amazonas.
3. According to Kanter (1994), what are the principal day-to-day problems that crop up in an alliance?



Methodology

This session uses a case study, brainstorming sessions, and lecture methods to highlight the importance of building supply chain partnerships. In terms of room set-up option; a semicircle classroom with movable chairs is recommended so participants can interact easily during the case discussion.

To effectively deliver the session, access to basic technology is required notably: a computer, a projector/ projection screen, and a writing board (white or black). Flip chart papers and bold markers will be required as respective groups will be expected to write down key points that emerge from brainstorming sessions and later present their thoughts to the entire class. It is recommended that the lecturer should go round the respective groups and listen to the quality of discussions and debates as well as provide further guidance.



Special remarks

There are several videos on YouTube that may be used for understanding the different activities associated to the supply chain of Rain Forest Expeditions and Posada Amazonas. One link of 2 minutes length, showing Posada Amazonas is:

http://www.youtube.com/watch?v=_TYZRFaqzgQ



Suggested Session Plan

Unit Title	Time allocation	Slide Presentation/ Activity	Time allocation
Unit 7.1: Introduction	20 Minutes	Session outline	2 minutes
		Session objectives	2 minutes
		Introductory slides	6 minutes
		Brainstorming and class discussion	10 minutes
Unit 7.2: Discussion – Posada Amazonas Case	50 Minutes	Group discussions	30 minutes
		Class presentations and discussions	20 minutes
Short Break	5 Minutes		
Unit 7.3: Developing and managing SC Partnerships	35 Minutes	Slide presentation	5 minutes
		Discussion on MDGs in Posada Amazonas Case	10 minutes
		Slide Presentation	20 minutes
Unit 7.4: Managing Risk Spots	7 Minutes	Slide Presentation	7 minutes
Unit 7.5: Conclusion	3 Minutes	Concluding question and slide	3 minutes
Total	120 Minutes		



PowerPoint Presentation and Speaker notes

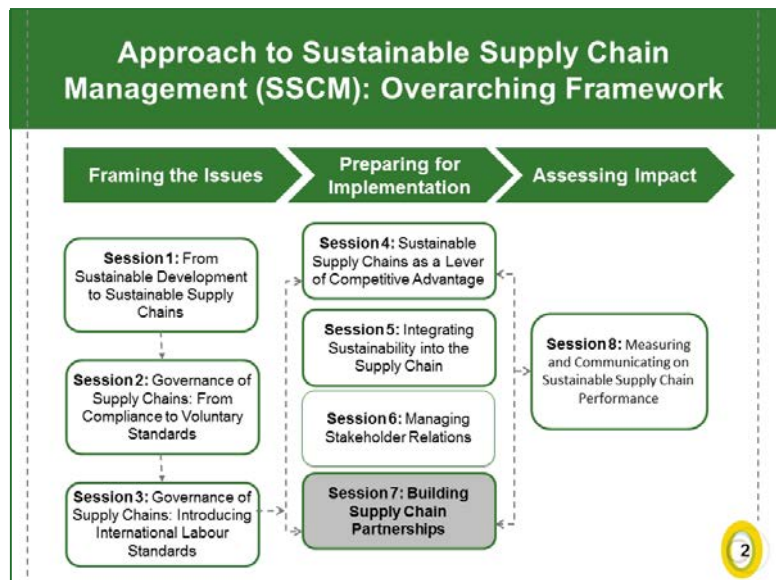
Slide 1: Session Title

Welcome participants, introduce yourself (and any co-trainers or staff) and read the session topic as presented on the slide.



Slide 2: Approach to SSCM Lecture Map

Locate the session on the lecture map. Inform participants that they will realise that businesses are now resorting to partnership models in managing their supply chain relationships – rather than the traditional contractual model.



Slide 3: Session Objectives

Read the session objectives as presented on the slide and inform participants that they will be exposed to the building blocks of SC partnerships in the session.

Session Objectives

- **Examine the value of partnerships in sustainable supply chains**
- **Learn about the types of partnerships**
- **Raise awareness on the centrality of trust in the initiation and maintenance of SC partnerships.**



Slide 4: Session Outline

Inform participants that the session is structured into five units and read the session outline as presented on the slide. The lecturer should stress that the session is designed to be participative – meaning that participants should freely contribute to the discussions based on their previous knowledge and experiences.

Session Outline

- **Unit 7.1:** Introduction
- **Unit 7.2:** Case Study Discussion
- **Unit 7.3:** Developing and Managing SC Partnerships.
- **Unit 7.4:** Managing Risk Spots.
- **Unit 7.5:** Conclusion





Slide 5 – Unit 7.1: Introduction

Begin by stating that there is no unique definition of “partnership” in the context of supply chain management.

Partnerships are often referred to as alliances or collaborations, and involve: shared goals and vision, common purpose, mutual respect, atmosphere of trust, knowledge and information sharing, open communications, and joint problem solving.

Stress that partnerships are important in both goods and service supply chains.

Unit 7.1: Introduction

Partnering is...

“an attempt to build close, long-term links between organizations in a supply chain that remain distinct, but which choose to work closely together” (Boddy et al, 2000, p.1004).

It is important in both goods and service SCs

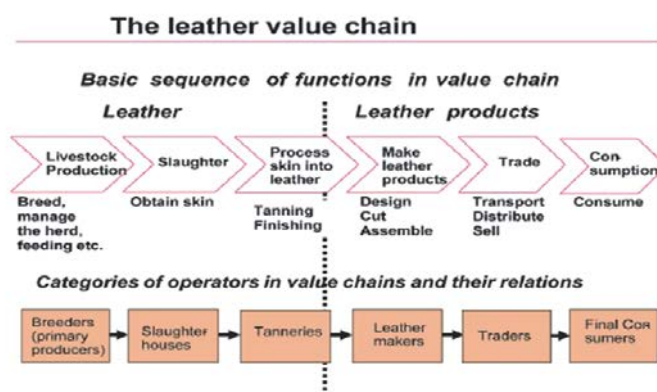
5

Slide 6: Sample SC for Leather goods

The animal to leather SC includes a variety of processes as shown on the slide. Environmental and health problems can arise at any step of the leather SC. The tanning industry is under great pressure to comply with strict regulations and to look for new methods for minimizing waste materials and pollutants. In complex and turbulent environments (such as the leather industry), operators in the SC often seek to develop alliances that go beyond simple contractor relationships in order to be in a better position to face the demands from governments and civil society.

In addition, in a highly competitive industry, partnerships are also a valuable resource to gain competitive advantage, as reflected in the following example cited by Herr & Muzira (2009), that provides a useful (and humorous) lesson of the problems that partnerships can help avoid – as presented in the subsequent slide.

Sample SC for Leather goods (Source: GTZ ValueLinks Manual, 2007, cited by Mayoux and Mackie (2008))



6

Slide 7: Finger Pointing – “It’s the cows...”

This slide is aimed at highlighting the shortcomings of relying solely on a buyer-seller relationship in supply chain management. It exposes common accusations that are unlikely in collaborative supply chain relations.

Retailers and consumers: “quality bad, price too high!”

We began in New York City to find the buyers of leather handbags from around the world, and we interviewed the representatives of 2,000 retail establishments across the United States. The data were complex but boiled down to one clear message: the prices of Colombian handbags were too high and the quality was too low.

Manufacturers: “No es nuestra culpa!” (“it is not our fault!”)

We returned to Colombia to ask the manufacturers what lowered their quality and forced them to charge high prices. They told us, “No es nuestra culpa” (“It is not our fault”). They said it was the fault of the local tanneries that supplied them with the hides. The tanneries enjoyed a 15-percent protective tariff levied by the Colombian government, which makes their products less competitive (compared to hides from Argentina).

Tanneries: “it’s the mataderos” (slaughterhouses)!

We travelled to the rural areas to find the tannery owners. The tanneries pollute the nearby ground and water with harsh chemicals. The owners were happy to answer our questions. “It’s not our fault,” they explained, “It’s the fault of the mataderos (slaughterhouses). They provide low-quality hide to the tanneries because they can sell the meat from the cow for more money with less effort. They don’t care about damaging the hides.”

Slaughterhouses: “the ranchers don’t care!”

We went to the camp and found slaughterhouses with cowhands, butchers, and managers wielding stopwatches. We asked them the same questions and they explained that it was not their fault; it was the ranchers’ fault. The ranchers overbrand their cows to keep them safe from guerrillas. Some protect them so that drug lords should not steal them. The numerous brands destroy the hides.

Ranches: “it’s the stupid cows!”

We finally got to the ranches, far away from the regional capital. We had come to the end of our search because there was no one left to interview. The ranchers spoke rapidly in a local accent. They told us that the problems were not their fault. “No es nuestra culpa,” they said. “Es la culpa de la vaca” (“It’s the cows’ fault. The cows are stupid”), they explained. They rub their hides against the barbed wire to scratch themselves and fend off the flies that bite them.

Are stupid cows the reason why Colombian hide cannot access the US market?

We had come a long way, banging our laptop computers over washboard-surfaced roads and getting our shoes destroyed with the chemicals in the tanneries and the mud. We had learned that Colombian handbag makers cannot compete in the attractive US market because their cows are dumb.

Hence, partnering in manufacturing industries can help to avoid the pitfall of blaming others in the SC for faults in the end product. When partnerships are construed, instead of pointing fingers at each other, SC operators work together because it is in their self-benefit to collaborate and solve the bottlenecks that often lead to deadlock. Partnerships help overcome the attitude reflected in statements such as “the problem is not my fault, so why should I do anything about it”? Collaboration allows addressing common concerns through joint problem-solving and promotes the sustainability of the business.

Finger Pointing – “It’s the cows...”

- Retailers and consumers: quality bad, price too high!
- Manufacturers: “No es nuestra culpa!” (“not our fault!”)
- Tanneries: it’s the mataderos (slaughterhouses)!
- Slaughterhouses: the ranchers don’t care!
- Ranchers: it’s the stupid cows!

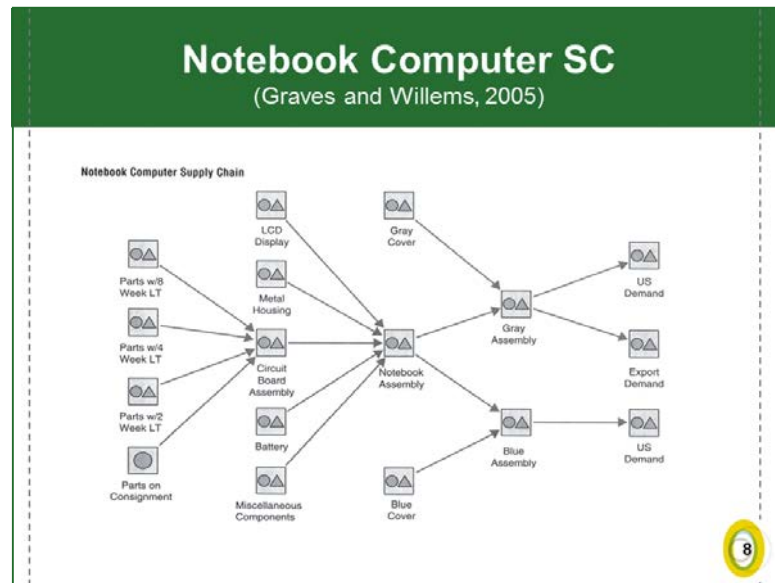
Source: Herr & Muzira (2009), quoted from Fairbanks and Lindsay (1997)





Slide 8: Notebook Computer SC

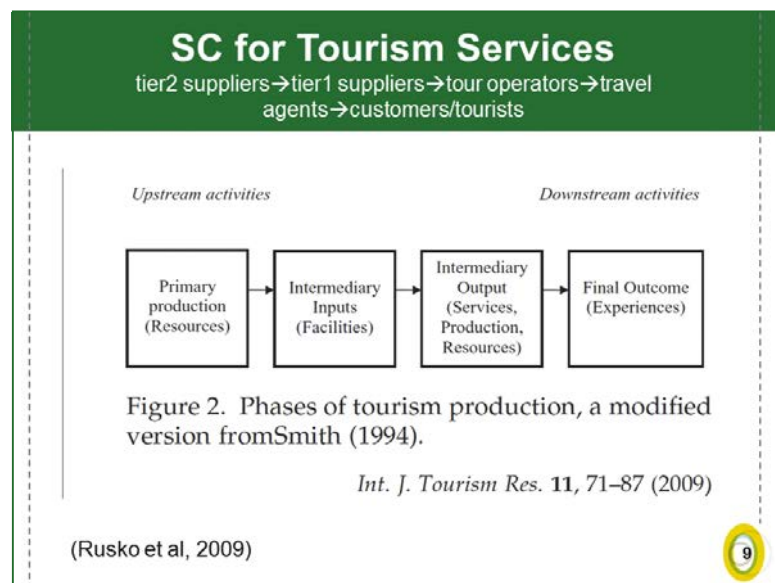
The aim of this slide is to further explain that the inefficiency problems earlier highlighted in the leather supply chain is also common in other industries such as, notebook/ computer manufacturing, auto and airline manufacturing, etc. The benefits associated to partnerships accrue not only in the manufacturing industry but are also present in the service industry as revealed in the Posada Amazonas case.



Slide 9: SC for Tourism Services

This slide illustrates the heterogeneity of institutions and services involved in the tourism SC. It generally involves businesses located in different countries with the final outcome being to provide the best possible tourist experience.

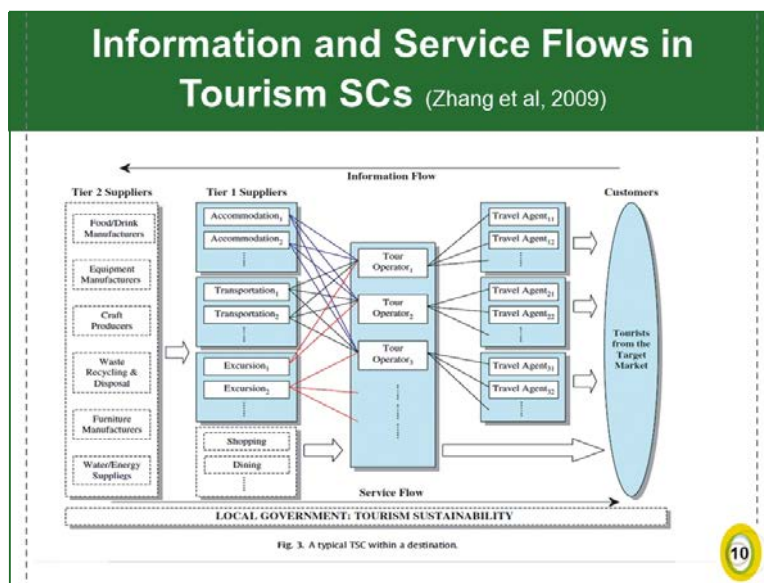
In the tourism enterprise, the chain is in some ways more complex than the one involved in the leather SC, because in the provision of the service the customer is part of the production chain. Tourism involves a holistic experience where the synchrony of the processes needs to be coordinated to achieve full satisfaction.



Slide 10: Information and Service Flows in Tourism SC

As was the case with the leather SC, there are many potential pitfalls that can affect the tourist experience for the customers. The question is whether the partnership adds to the sustainability of the SC and how it addresses the problems faced by the partners. The final experience depends on things going right at every step of the process.

The sustainability of the business initiative depends on achieving a highly functioning supply chain where all those who take part in it are deeply committed to collaborate and perform at the highest level.



Slide 11: Brainstorming and Class Discussion

In the tourism business, the supply chain entails several suppliers of services and goods that go into the delivery of the tourism product (or experience) to clients. The supply chain has to deal with arrangements regarding flights and ground transportation, accommodations, excursions, local food, food services, handicrafts and waste disposal.

Tourism supply chains differ from the SC of goods in that tourists travel to the product and what they buy has a high service component, which involves a higher proportion of people in the immediate production of the holiday experience (Tapper & Font, 2004). For example, in the case study, Rainforest Expeditions (RFE) had to manage environmental, socio-economic and cultural issues in the supply chain with the added difficulty that the market for several potential suppliers of services was restricted to the natives and the settlers.

Moreover, services cannot be inventoried, cannot be returned and the quality depends on many uncontrollable factors, among them employee actions. Additionally, tourists (i.e. the customer) affect each other. For example, if the lodge at Posada Amazonas is not built with sufficient insulation, the snores of the tourist in the next room can become a disruptive experience. The critical issue is how to build a SC that guarantees a quality experience – which is highly dependent on the service delivered by the members of the Ese'ejá community, as well as other service providers in the value chain (air transportation services, travel agents, etc).

Brainstorming and Class Discussion

In what ways does the tourism supply chain differ from the typical supply chain for goods?



Slide 12 – Unit 7.2: Discussion – Posada Amazonas Case

Before asking participants to breakout and brainstorm in groups, the lecturer should begin by presenting a brief summary of the case to participants as follows:

The case describes a touristic endeavour that took place in the Peruvian jungle, and departs from the traditional and restricted view that supply chains can be synonymous to procurement/buying or transport/logistics. It allows for a more ample definition of supply chain management, one that entails integration, coordination and control across internal and external functions.

Unit 7.2 – Discussion: Posada Amazonas Case

- 1) What prompted Holle to enter into a partnership when developing the business?
- 2) What competitive value does the partnership offer?
- 3) What problems did the partnership encounter?
- 4) As external consultant hired to advise Holle on the SC problems, what would you advice?

12

The case looks into the collaboration between a native community (Ese'ija de Inferno) and an eco-tourism firm (Rainforest Expeditions (RFE)), highlighting a strategic partnering experience in the provision of touristic services and the ensuing economic and social value that accrued to both parties in the process. It is worth noting that the SC involves a complex network of several enterprises that work together to create a tourist experience.

1) What prompted Holle to enter into a partnership when developing the business?

After group brainstorming, the lecturer may invite a group to volunteer to answer each question or a single question (based on the number of groups).

The formation of a partnership was the first step in the journey to create the tourism business because the Ese'ija community owned land that was conveniently located for the purpose of opening a new lodge. This had the potential to increase the competitiveness of the business. It is clear in the case of Posada Amazonas, that any arrangement other than a partnership would have posed a challenge to the ecotourism initiative.

RFE also needed trained workers and staff to provide services to tourists. Rather than simply hiring workers as was done in the Tambopata Research Center, Holle and his partner opted for a different type of arrangement: a partnership. Since lodges like Posada Amazonas offered all-inclusive packages (including lodging, food, transportation and guided activities), product quality depended not only on lodge premises and services but also included quality complementary activities. The contribution of the community was required in order to provide the high-quality experience that customers required.

In the first touristic initiative (Tambopata), Holle had experienced the clash of cultures. He had difficulties with workers from the community since it was hard for commoners to adjust to a work-schedule of 8 hours for weeks and months in a row. In their culture, natives worked two or three times a week and not for eight hours. Also, it was not uncommon for natives to be drunk for two or three days in a row, as explained by one of the managers.

Furthermore, the community was uneasy because only a few members were getting the chance to work and make money at Tambopata. Thus, Holle saw an advantage to involve the community as partners for the new business endeavour – since the community was willing to put in the required efforts in making Posada Amazonas a successful tourist destination if they were partners (and not mere service providers).

Note that the alliance is a crucial element for the operation of the supply chain. The business could not have been developed without the culture of collaboration developed throughout the chain. The role of trust and the successful integration of two cultures in the supply chain are highlighted as key elements in the sustainability of the business. Benefits accrue to the founding partners of RFE as well as to the Ese'ija Native Community. The community provided the thorough knowledge of the area and the workforce to run the tourist lodge while RFE contributed with its operations and marketing expertise. This is a good example of a business that integrates the poor and disadvantaged people in society. It should be noted that in several industries, poor and disadvantaged people are often part of the supply chain – either as producer, workers, and/ or consumers – but are usually exploited or marginalised. Businesses, therefore, have a crucial role to play in enhancing livelihoods in poor communities while fostering business objectives.

The lecturer may conclude discussions on this question by saying that the case constitutes a good example of a partnership that, in spite of its rocky beginning and enduring problems, was converted into a successful inclusive business initiative. It improved the living conditions of a native community in the Peruvian jungle while benefiting shareholders and customers. The case is also a good example in which a partnership with the native community translates into competitiveness and the creation of new jobs and income opportunities – which are some of the initiatives that business and development partners seek to promote.

2) What competitive value does the partnership offer?

This alliance allows RFE to gain a competitive edge by offering a unique value proposition: an authentic eco-tourism experience. This is possible thanks to the partnership. The involvement of the community in the provision of services serves as a differentiating tool from other tourist agencies and a source of social value.

Examples of benefits that accrued as a result of the partnership include: increased visibility and good publicity of Posada Amazonas. The Lonely Planet Guide included 10 sentences for Posada Amazonas while other similar lodges got only one or two sentences.

Also, some socially-inclined tourists prefer to stay in Posada Amazonas when they know that a sizable part of their money will stay in the local native community.

The fact that the community is a partner in the business is a powerful incentive to make it prosper – even though a full-time work discipline is not part of the ethos of the Ese'ja native community. Members of the Ese'ja community through its Management Committee participate in the administration of Posada Amazonas, and take greater responsibility in preserving the natural resources of their habitat. This is of key importance for the sustainability of the business.

Finally, there is an undeniable social value to the community. Youngsters from the Ese'ja community need not migrate away from the community in search of improved living conditions. The business initiative has translated into economic returns and the advancement of social inclusion.

The instructor may highlight that Holle's behaviour is attuned to the ILO Convention C169 concerning indigenous people – that recognizes their legitimate aspirations “to exercise control over their own institutions, ways of life and economic development and to maintain and develop their identities, languages and religions.”

3) What problems did the partnership encounter?

Participants will likely point out one or more of the following challenges that are mentioned in the case – as they were important hurdles to overcome so as to guarantee the sustainability of the nascent business initiative:

- Culture clash between the life-style of the natives and the labour requirements of the business
- Irregularities in flights that brought tourists to the place
- Turnover provisions that result in high costs of training employees
- Absenteeism and drunkenness among community workers
- Conflicts between natives and settlers.

The main problem faced by the partnership lie in the suppliers (tiers 1 and 2), and concerns the cultural clash between the Ese'ja community and Holle's western cultural value system regarding work ethics and discipline. Newcomers from urban western origins such as Holle bring a particular sociocultural identity to the native community where he develops his business initiative in a way that needs to be adapted to prevailing local reality. In the process, he made decisions that he ended up regretting – such as accepting a rotating scheme for native workers.

An important problem associated to the cultural clash is the high turnover rate. In order to comply with the requirements of forced turnover implemented by the Management Committee, RFE needed to invest heavily in the training of new employees. Additionally there are many well-trained and efficient workers who are laid off to make room for new entrants. Holle acknowledged that the two-year staff turnover provision was a mistake.



Another problem was that incentives were not aligned with performance. The forced rotation of employees made it questionable whether staff and workers will have a strong incentive to perform well. Furthermore, the Management Committee made decisions to hire and fire employees according to criteria that are unrelated to performance. Since incentives to keep good workers on the job were not operational, it is likely that the motivation of employees to excel may have diminished – resulting in the decline in the quality of services to tourists.

It is possible that some participants may question Holle's decision to enter into a partnership that constrains his possibilities of managing the human resource component of the business regarding working hours and forced turnover. However, in the long-term the respect for the cultural norms and values of the Ese'ija could be an asset if they develop a sense of ownership in the business. Since they are the visible faces of the business and are closest to the clients, they can have first-hand information on what they value and be attuned to the gaps between the services as planned and the way these services are delivered to the clients on a day-to-day basis. It is in the best interest of the Ese'ijas to improve the service since they are partners (and not mere employees who receive a fixed wage regardless of the quality of service offered).

4) As external consultant hired to advise Holle on the SC problems, what would you advice?

Participants' responses will probably vary. Some will argue that there is an imbalance of power in personnel selection and recruiting and that there needs to be a greater involvement on the part of Holle and collaboration with the Management Committee in this matter. The needs of both parties have to be taken care of to achieve a more fluent relationship between RFE and the Management Committee. At present the partnership does not appear to be attaining full potential. There seem to be ample room for improvement in communications and clarification of needs and expectations. Although strengths of RFE and the community differ, they need to work more closely on joint problem solving in all areas of the business.

Slide 13 – Unit 7.3: Developing and Managing SC Partnerships

Before presenting the slide, the lecturer may ask the question: "Why is it important to establish SC partnerships?"

Most likely participants will spontaneously mention expected gains, and monetary (or financial) outcomes, while it is less likely that they will mention social outcomes, which also constitute important consequences of partnerships.

In partnerships, both partners anticipate that they will be better off. There is evidence that well-managed supply chain partnerships or alliances offer multiple financial advantages such as reducing financial risk, improving service quality, increasing productivity, and reducing costs.

It is generally acknowledged that building closer relationships through supply chain partnerships is desirable since competition in the global market is moving from firm against firm competition to a supply chain against supply chain model. There is no questioning that financial outcomes are a must, but social benefits of partnerships are also a valued outcome for businesses today. Companies have a substantial potential to positively influence society through the creation of wealth, productivity, and economic growth. Moreover, companies are expected to implement responsible business practices in their entire supply chains. Partnerships, therefore, offer an opportunity to create community goodwill as business fulfil their societal responsibilities. In the medium and long-run, the creation of social value is a good investment for businesses.

Unit 7.3: Developing and Managing SC Partnerships

Why develop a partnership?

- Anticipation of mutual gains for partners (win/win):
 - reduced financial risk, improved service quality, increased productivity, and reduced total costs
- Positive outcomes for business:
 - Financial
 - Social
 - Community goodwill
 - Fulfillment of business social responsibilities
 - Potential to contribute to achieve MDGs

13

Slide 14: Which MDGs did the Posada Amazonas Case Promote?

At this point, the instructor may ask participants to identify the MDGs that the partnership established between the E'eseja Community and Holle (in the Posada Amazonas Case) sought to promote. The aim is to encourage participants to relate the MDGs earlier studied to the session and inspire them to always seek to blend business and social and environmental goals. Participants will most likely indicate that there is evidence that points in the direction of Goals 1, 7 and 8.

Which Millennium Development Goals did the Posada Amazonas Case promote?

- **Goal 1:** Eradicate extreme poverty and hunger
- **Goal 2:** Achieve universal primary education
- **Goal 3:** Promote gender equality and empower women
- **Goal 4:** Reduce child mortality rates
- **Goal 5:** Improve maternal health
- **Goal 6:** Combat HIV/AIDS, malaria, and other diseases
- **Goal 7:** Ensure environmental sustainability
- **Goal 8:** Develop a global partnership for development

14

Slide 15: Stages in the development of partnerships

To be able to prosper, alliances have to go through a series of stages. Several models describe the processes with minor variations. Kale & Singh (2009) have suggested three-stages:

- Partner selection and alliance formation wherein a firm decides to initiate an alliance and select an appropriate partner.
- Design of the alliance – where governance arrangements are set.
- Managing the ongoing alliance.

Along the same lines, Austin (2000) (see Slide) has suggested four stages in the development of alliances:

Stages in the development of partnerships

- Seek and choose a partner.
- Evaluate strategic fit.
- Implementation of operating procedures.
- Managing the relationship and evaluating outcomes.

(Austin, 2000)

15

- **Seek and choose a partner:** The instructor may ask the participants for suggestions regarding the attributes to look for in partners. The process of seeking and choosing a partner entails having some idea of the valued characteristics that are being sought. Some criteria to consider for supplier appraisal are: being technically sound, managerially competent, adequately funded, financially stable, and reliable.
- **Evaluate strategic fit:** The evaluation of strategic fit via a due diligence process is a good idea when choosing a potential partner. It should be clear to participants that not all partners are equal and not any partner will do.
- **The implementation of operating procedures and systems:** This step is concerned with establishing the rules and governance mechanisms of the partnership.
- **Managing the relationship and evaluating outcomes:** In this stage, proactive information exchange and open and honest communications at the outset of the relationship will foster trust by aligning perceptions and expectations of both parties, which in turn will lead to a stronger partnership.



Finally, it is worth noting that managing relationships and evaluating performance outcomes is important to the success of the partnership. These are not optional activities for success – as they must be planned from the beginning.

The lecturer may ask participants for some possible outcome measures to evaluate a partnership and then group the responses under subjective measures of organizational effectiveness (e.g., improved quality) and traditional measures of financial performance. Ideally, some participants will also mention social outcomes. If not, the instructor should draw their attention to the social outcomes.

Slide 16: Key facilitating factor in partnership development

However, partnering is not easily achieved. Supply chain relationship management is probably one of the most difficult aspects to manage; and success is dependent on relationship development. Yet for relationships to emerge and develop, trust needs to be present.

Explain that the key factor in developing and building partnerships is trust. Trust means that partners can depend on each other, and will not take advantage at the other's expense. Faced with a situation in which one partner takes advantage of the other, the usual reaction is to restrict the transactions to those who have proved to be trustworthy. The level of trust will match the level of risk that a firm foresees in its relationship with a supplier. Opportunistic behavior erodes the basis on which to build a real partnership. A partnership is more likely to be long-term if both parties get a fair share of benefits and distribute the costs in an equitable fashion.

Emphasize that trust operates at two levels, emphasizing that the level of interpersonal trust does not solely depend on personal characteristics, but is influenced by the cultural context of the individuals and differs between societies.

It is generally acknowledged that building closer relationships through supply chains is desirable since competition in the global market is moving from firm against firm to supply chain against supply chain (Whipple & Frankel, 2000). To survive in this new competitive landscape firms need to foster partnerships and integrated supply chains. This is acknowledged by Mentzer et al (2001) who have suggested that in order to successfully implement an integrated SC management system that lasts, partnerships are a necessary activity which entails the integration of customers and suppliers, giving information, sharing risks and rewards, collaborating among SC members, focusing on serving customers, and integrating processes.

Experts in the field agree that partnerships are dependent on trust which in turn determines the strength of the commitment between the organizations. In terms of trust, there is a need to distinguish trust at the individual and social level. Global SCs transcend the cultural bounds of a country thus the concept of social trust is necessary in order to understand the problems entailed in building and maintaining SC partnerships.

Key facilitating factor in partnership development

key factor → **TRUST**

“a shared belief that you can depend on each other to achieve a common purpose” (Lewis, 1999)

Two levels of trust:

- Interpersonal level
- Social level

Slide 17: Trust in different cultures

Given that SCs span across different countries, it is important to highlight the fact that there is wide variation in the disposition to trust according to different cultures. Just as one finds variations in trusting behaviours between individuals, there are variations in social trust between cultures. The attitude of “innocent until proven guilty” that operates in the U.S. works in reverse in societies with low levels of social trust, where individuals treat others as “guilty until proven innocent.” Proverbs sometimes reflect this generalized tendency of distrust in certain societies. Such is the case with the Chilean proverb “It’s better to deal with a known devil than an unknown saint” and the Japanese adage “It is best to regard everyone as a thief.” In cultures with low levels of social trust such as Chile and Turkey, common beliefs hold distrusters as smarter, less gullible and more successful than generalized trusters (Koljatic, Silva & Valenzuela, 2006).

Lack of trust in a culture poses significant problems and obstacles for the development of partnerships in SCs – where firms from different parts of the world have to collaborate and trust each other.

Even in cultures characterized by high levels of social trust, collaboration is not easily achieved when there is an atmosphere of suspicion resulting from previous conflicts or unresolved problems. Trust is a key element required in order to establish a collaborative relationship that may end up in a partnership. In order for collaboration to bear fruits, partners need to understand their positions in the supply chain and acknowledge the interdependence of all parties involved. There are practical difficulties in the process of integration that relate to the level of sophistication of the participants and the nature of the competitive advantage and relative power within the supply chain.

In a relationship-driven supply chain, mutual trust is understood as a shared belief that you can depend on each other to achieve a common purpose (Lewis, 1999). A common mistake is to assume that trust implies harmony. Business relations are complex and it would be simplistic to expect agreement on all issues. However, in a trusting relationship conflicts are motivators to probe for deeper understandings and search for constructive solutions.

Trust in different Cultures

(“Social Capital: Trust, networks and involvement in associations in 13 countries”, Fundación BBVA, 2006)

Table 1.1: Generally speaking, would you say that most people can or cannot be trusted?
Mean on a 10-point scale where 0 means most people cannot be trusted and 10 means most people can be trusted (Base: all cases)

	DK ¹	UK	USA	DE	RUS	ES	IT	JP	FR	IL	MEX	CH	TR
Mean	7.2	6.5	6.1	5.9	5.9	5.9	5.8	5.8	5.6	5.4	5.4	4.6	4.4
Most people cannot be trusted (0 to 3)	3.5	6.4	13.0	16.8	16.2	10.1	13.9	10.5	14.9	20.4	21.7	33.3	34.6
Intermediate scores (4 to 6)	22.8	35.3	37.2	36.6	38.0	49.6	45.9	50.1	49.3	43.5	38.7	41.4	44.7
Most people can be trusted (7 to 10)	72.1	53.5	49.4	44.7	44.6	38.8	38.4	35.3	34.5	36.0	38.2	22.9	20.3
DK/NA	1.6	4.8	0.5	1.9	1.2	1.6	1.8	4.1	1.3	0.1	1.5	2.4	0.4

¹In this and all tables: Spain (ES), France (FR), Germany (DE), United Kingdom (UK), Denmark (DK), Italy (IT), Turkey (TR), Russia (RUS), Israel (IL), Japan (JP), United States (USA), Mexico (MEX), Chile (CH).

17



Slide 18: Other facilitating factors in partnership development

Explain that the following are other relevant factors that facilitate the emergence of partnerships:

- Under conditions where both parties can satisfy mutual needs, the emergence of a partnership is facilitated.
- A good interpersonal rapport and the ability to work together exercising joint leadership are also positive elements.
- Disposition to share information relates directly to trust. One is not disposed to share information with someone who is not trustworthy. The same applies to the investment of resources. This is the factor that is most closely associated to trust.
- Finally, the belief that both can win in the collaborative effort and the expectation that the collaboration is sustainable in time facilitates the emergence of a long-term relationship.
- Trust does not prosper in the presence of opportunistic behavior, but needs to be nurtured through transparency and the maintenance of commitments, fair play and reciprocity.

Other facilitating factors in partnership development

- Mutual needs of partners to be.
- Interpersonal connection.
- Ability to work together → joint leadership.
- Disposition to share information.
- Willingness to invest resources in collaboration.
- Belief that collaboration is an asset for both and is sustainable in time.

18

Slide 19: Types of Relationships in the Supply Chain

Although these four types of relationships appear as distinct categories, they can be conceived in terms of a continuum, from arm's length to partnership.

The arm's length category represents a traditional transactional relationship as opposed to treating suppliers as partners. Contracts are the medium for transactions that spell out everything. Price is the main selection criterion, perhaps weighted by other factors such as quality – with little interest on the well-being of the contracting firm. Usually there is some form of a competitive bidding process for selecting suppliers.

The mechanism of control of arm's length relationships (aside from legal action to enforce contracts) is that failing to perform as expected may result in losing future business.

Supplier collaboration and partnerships are strategic initiatives that have a long-term orientation. They are based on trust, where success depends on the ability to join ideas and work together as partners.

To work, they require meeting several criteria such as information sharing, joint problem solving, commitment to the alliance, evaluation of goals and performance, satisfaction with the relationship, and leadership.

Types of Relationships in the Supply Chain (Emmett & Crocker, 2006)

Relationship	Supply base	Methods
Arm's length	Multiple sourcing	Competitive tendering and spot buying
Cooperative	Fewer suppliers	Negotiation and preferred suppliers with framework agreements
Collaborative	Possible single sourcing	Open book
Partnership	Single sourcing	Joint working towards continuous improvements

19

Slide 20: Comparison between Arm's Length and Collaborative Relationships

The difference between these two categories (transactions and partnerships) can be depicted from several dimensions:

- The style of contracting with suppliers short-term versus long-term; distant versus close contractual relationships
- Price/risk "what is in it for me" orientations versus "what is in it for us" orientation;
- Price orientation versus total cost of ownership
- Style of negotiations power-based versus equality-based; win/lose versus win/win
- Interpersonal relationships none versus strong; blame-culture versus problem-solving gain culture.
- Control mechanisms high formal control versus self-control; rigid contracts versus flexible contracts.

Comparison between Arm's Length and Collaborative Relationships

These differ in the following dimensions

- Contracts with suppliers
- Price/risk
- Negotiations
- Interpersonal relationships
- Control mechanisms

(Adapted from Emmett & Crocker, 2006)

20



Slide 21: Advantages of Partnership over Arm's Length Relationship

An arm's length relationship (i.e. the traditional transactional mode) is a one-way street, where a company decides to contract with another organization for services that can be more efficiently provided externally. Sometimes it is a decision based on financial considerations (i.e. cost reduction) or because of quality considerations.

The lead company is the one that bears the risks if the decision is not sound and the end result is that the supplier is cut off. The power is in the hands of the lead firm.

In contrast, a partnership or alliance is characterized by common objectives and joint expertise. Additionally, exchanges between the two allies are long-term and involve shared risks and gains. In the tourism industry partnerships appear to enhance the outcomes of the business.

Partnerships can involve the public, private and voluntary sectors. The World Tourism Organization analyzed 49 sustainable tourism initiatives, and found that irrespective of whether they were set in developed or developing countries, the success of the business projects were linked to local community involvement in the planning, development and management in over 40% of the cases. Thus, the course of action taken by Holle, i.e. seeking a partnership with the community, appears to be a cogent option in the industry.

Advantages of Partnership over Arm's Length Relationship

- Common goals
- Power balance
- Risk sharing
- Shared gains/losses
- Joint expertise
- Greater chance of sustainability in some industries

(Emmett & Crocker, 2006)

21

Slide 22: Choosing a Long-term partner

The study of successful partnering relationships has revealed some characteristics of partners that are associated to long-term relations.

In a situation where there are multiple potential partners to choose from in the process of building a relationship-driven supply chain, a decision must be made to choose among a pool of potential candidates.

The following approval criteria for supplier selection have been proposed by Emmet and Crocker (2006). The criteria require that potential partners be:

- **Technically sound and competent**

Suppliers and contractors should demonstrate that their key personnel have the required technical background, that there is organization and control of technical activities, and that quality assurance standards are in place.

- **Managerially competent**

The key question to ask is how well run is the company. This involves a check of the organizational charts, staff numbers, review of management policies covering training, career development and so on.

- **Adequately resourced and financially stable**

This requires evidence of financial stability and requires evaluation of at least two annual reports, bankers' references and independent references (if available).

- **Reliable**

This criterion entails evidence of consistency in performance. Suppliers need to demonstrate a good customer service record of meeting delivery/completion dates and record of late deliveries/completion dates with reasons and names of customers affected.

Choosing a Long-term partner

- Technically sound and competent.
- Managerially competent.
- Adequately resourced and financially stable
- Reliable

(Adapted from Emmett & Crocker, 2006)

22



Slide 23: Critical factors for maintaining partnerships

As in any relationship, there can be growth, stagnation or death. Conditions between organizations may change over time. Unmet expectations, or diminishing returns from the partnership may result in decreased interest and willingness to invest in the relationship. Thus, relationships may wane in time. Some of the factors that are associated to the maintenance of a supply chain alliance are the following:

- match in the organizational and strategic objectives
- match in the values or philosophies regarding the management of the relationship
- availability of the expected technical resources in the partners
- willingness to share planning and performance information
- continued belief on the mutual benefit of maintaining the collaboration
- the establishment of a measurement system to actually assess the benefits gained from the partnership.

If all these managerial aspects are met (and particularly if the assessment of benefits reveal that these gains are equitably shared or are in accordance with partners' expectations), the chances are that the partnership will be maintained in time.

Critical Factors for maintaining partnerships

- Match in organizational and strategic objectives.
- Match in values or philosophies regarding the management of the relationship.
- Availability of expected technical resources in the partners.
- Willingness to share planning and performance information.
- Continued belief on the mutual benefit of maintaining the collaboration.
- Establishment of a measurement system to assess partnership benefits.

23

Slide 24 – Unit 7.4: Managing Risk Spots

It is generally agreed that in the context of a supply chain, partnerships create mutually beneficial relationships, thus leading to increased information flows, reduced uncertainty, and a more profitable SC for all those involved in it (Maloni & Benton, 1997).

Partnering provides an opportunity to combine individual strengths and attain goals that go beyond what each partner can achieve on its own.

However, there are risks in partnering that can occur at different steps of the process and that need to be considered and prevented if possible.

Unit 7.4: Managing Risk Spots

- Partner selection → deficits in due diligence
 - Choosing the wrong partner
 - Rejecting a potentially good partner
- Design of the alliance
 - Power equilibrium
 - Conflict management
- Manage the alliance
 - Poor communication/lack of transparency
 - Slackening of shared goals
 - Loss of trust

24

Partner selection and alliance formation two types of errors can occur:

- a) accepting the wrong partner or
- b) rejecting a good one.

Partner selection is often preceded by a due diligence procedure that seeks to minimize the risks, particularly the risk of choosing the wrong partner.

If the partner does not have the right capabilities or is not reliable there is a cost involved.

Sometimes (like in the case of Posada Amazonas), there is only one potentially appropriate partner, and the key to success is to evaluate if the partner-to-be meets the minimum standards required for establishing a fruitful relationship.

The instructor might point out that in the case of Posada Amazonas, Holle knew that the Ese'jea were not technically competent to deliver the services required and aimed to correct this via employee training. It is through the contact with RFE that the Ese'jea community organized themselves in order to face the demands required for reliable touristic services.

Designing the alliance

The design of the alliance entails the consideration of cultural values, resources and power issues that need to be addressed.

When alliances involve organizations with different cultures, values and ideals, efforts should be made to make alliance partners compatible by learning how to handle differences and manage conflicts so that they do not jeopardize the alliance (Pansiri, 2008).

A second issue that needs to be taken into account at this stage has to do with the amount of resources that both partners will commit to the alliance and the power equilibrium that results from it.

Attaining the right balance of power is a critical factor that should be taken into account. Power imbalance can cause friction between partners and end up deteriorating the relationship. In Posada Amazonas, there are hints of the existence of an imbalance of power in the area of personnel management as Holle had to comply with the two-year clause.

Managing the alliance

Alliances need to be managed in order for the relationship to generate value to all involved. Wrong decisions at any of the previous stages can create conditions for opportunistic behavior to occur, with the ensuing loss of trust. When this happens, chances are that the alliance will be short-lived.

Poor communication, poor up-front planning and a slackening of shared goals are considered as threats to the sustainability of the alliance (Ellram, 1995).

The management of the alliance should pay attention to the day-to-day operations in order to foster the maintenance of the relationship. Both parties should be attuned to each other's needs and manage the alliance such that each feels that they have a say and that none is reaping benefits at the expense of the other.



Slide 25: Threats to collaboration

Read the content of the slide as presented. The points raised in the slide will be reinforced in the subsequent slide.

Threats to collaboration

- Opportunistic behavior
- Deficits in communications
- Lack of transparency
- Unkept commitments
- Feelings of unfair play
- Unbalances in reciprocity

25

Slide 26: Perceptions of Contractors/ Suppliers

Since one can often learn from failures as well as from success stories, some researchers have attempted to unveil factors that hinder the emergence and growth of partnerships. This has been done via surveys. Not surprisingly, the same factors that when present are associated to success, when absent will lead to failure.

Before presenting the slide, participants could be asked to suggest possible factors that lead to partnership failures. The instructor may list them on the board before proceeding to display the slide containing findings from empirical research.

Perceptions of Contractors/Suppliers

Factors contributing to failed collaborations	Contractors' response (rank)	Suppliers' response (rank)
Poor communication	1	1
Lack of top management support	2	10
Lack of trust	3	4
Lack of total quality commitment by supplier	4	18
Poor upfront planning	5	5
Lack of distinctive value-added quality/benefit	6	13
Lack of strategic direction	7	3
Lack of shared goals	8	2
Ineffective mechanism for conflict resolution	9	7
Lack of benefit/risk sharing	10	6
Agreement does not support a partnership philosophy	11	9
Partner organization lacks top support	12	8
Changes in the market	13	16
Supplier base too large	14	15
Corporate culture differences	15	17
Top management differences	16	14
Lack of central purchasing	17	12
Low status of purchasing	18	11
Distance barriers	19	19

26

As could be seen on the table, poor communication ranks as the most important cause of partnership failure for both groups.

Also important to both groups were lack of trust, poor upfront planning and lack of shared goals.

Still, there are other factors that appear to constitute barriers for sustained collaboration. One of them is the imbalance of power.

Teaming up with a substantially larger and stronger firm does not appear to facilitate long-term collaboration since it is likely that the larger company will end up having more power and cause friction in the relationship.

Also, partnerships where three partners are involved tend to be more fragile than two-partner relationships (Greve, Baum, Mitsuhashi, & Rowley, 2010).

Slide 27 – Unit 7.5: conclusion

Partnerships constitute a vital asset in sustainable supply chain management. The positive outcomes associated with partnerships could be financial, social, etc.

The case analyzed in this session describes a business initiative that involves an alliance between a private enterprise and a native community that generates positive social and financial outcomes. The case serves to highlight that in order for partnerships to grow and prosper they need to be adequately managed. Facilitating factors as well as barriers to the initiation and maintenance of partnerships are addressed in the lecture, emphasizing the critical role of trust in the emergence and growth of the collaborative relationship.

Unit 7.5: Conclusion

- Partnerships should be an asset.
- Positive outcomes: financial and social.
- Partnerships need to be adequately managed.
- There are facilitating factors as well as barriers to developing and managing partnerships.
- Trust is key in the emergence and growth of collaborative relationships.

27



Readings

Selected mandatory and complementary readings are provided below to enhance understanding of the main ideas raised in the session as well as provide further explanations. These readings will also assist participants in the elaboration of coursework and evaluations as well as stimulate research ideas in various areas related to sustainable supply chain governance. Participants should be encouraged to read the mandatory readings prior to attending the session so as to actively participate and ask questions as need be.

Mandatory Readings









- 📖 Revilla, J. & Pérez, F. (2003), “**Posada Amazonas**”, Case SKE002-PDF-ENG. Boston: Harvard Business School Publishing.
- 📖 Kanter, R.M. (1994), “Collaborative Advantage: The art of alliances”, Harvard Business Review, July-August, pp. 96-108.

Complementary Readings

- 📖 Emmet, S. & Crocker, B. (2006), “*The Relationship-Driven Supply Chain*”, Chapter 2, Gower: England.

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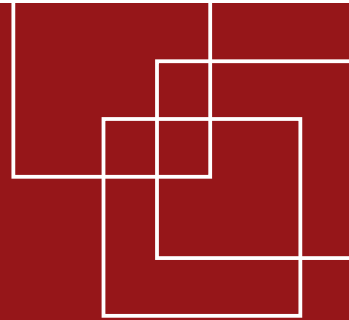
-  Mayoux, L. & Mackie, G. (2008). *Making the strongest link: A practical guide to mainstreaming gender analysis in value chain development*. Addis Ababa: ILO (International Labour Office).
-  Metzger, J. T., De Witt, W., Keebler, J. S., Min, S., Nix, N. W., Smith, C. D., & Zacharia, Z. G. (2001). Defining supply chain management. *Journal of Business Logistics*, 22(2), 1-24.
-  Pansiri, J. (2008). The effects of characteristics of partners on strategic alliance performance in the SME dominated travel sector. *Tourism Management*, 29, 101-115.
-  Revilla, J. & Pérez, F. (2003). *Posada Amazonas*. Case SKE002-PDF-ENG. Boston: Harvard Business School Publishing.
-  Rusko, R. T., Kylanen, M., & Saari, R. (2009). Supply chain in tourism destinations: The case of Levi Resort in Finnish Lapland. *International Journal of Tourism Research*, 11, 71-87.
-  Tapper, R. & Font, X. (2004). *Tourism Supply Chains*. Great Britain: Leeds Metropolitan University Environment Business & Development Group.
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Session 8

Measuring and Communicating on Sustainable Supply Chain Performance



Introducing
Sustainability
into the Supply Chain





About the session

As supply chains become more globalized and complex, their management requires optimizing systems and processes that enable accountability and further transparency. While governance issues might be monitored and managed through regulation, mandatory and voluntary standards, businesses face the challenge of identifying metrics and monitoring systems that support measuring results and readjusting goals.

This session explores the most common mechanisms in use today for measuring, monitoring and communicating progress on impact achieved through sustainable supply chain practices.



Session objectives

The overall goal of the session is to provide students with an understanding of the need to measure and monitor sustainability efforts in the supply chain. This is a complex task and companies are increasingly challenged to find the right metrics and realistic ways to measure efforts. In seeking to achieve the overall goal, the specific objectives of the session are to enable students to:

- Understand the importance of measuring and monitoring to improve sustainability performance in supply chains;
- Learn about the most widely used methodologies and tools to measuring and monitoring supply chain and sustainability performance;
- Understand the challenges involved in identifying relevant metrics and consistently measuring results;
- Explore tools and systems to track and communicate results to stakeholders.



Key Learning Outcomes

The session aims at encouraging active learning through illustrative examples and discussion. Students are expected to take home at least three main points:

- Measurement and monitoring can be useful tools for companies seeking to assess the effectiveness of sustainable supply chain efforts;
- Companies may adopt different approaches such as balanced score card depending on the scope of their efforts, goals and resources available. Regardless of the approach, it is important to adopt a systematic approach that allows monitoring progress overtime and readjusting initiatives and expected outcomes; and
- While reporting is an increasingly common practice and can increase transparency for stakeholders, it is not the only solution for communicating results. Before making the decision on reporting or communicating, business must be aware of the resources involved and implications.

Hence, at the end of the session, students should be able to:

- Explain what efforts to measure and monitor supply chain sustainability aim to achieve and how they work;
- Understand how a company seeking to measure and monitor would select a methodology and craft a framework to measure and monitor, including relevant metrics, baseline measurements and a systematic monitoring process that allows adjustments; and
- Develop simple systems to share information with relevant stakeholders on progress that allow aligned and integrated corrective actions



Key Questions

In order to attract students' attention to the issues that will be examined in the session and stimulate initial thoughts, students will be expected to read the mandatory readings and attempt answers to the following questions:

1. Why should an organization measure and monitor results achieved on sustainable supply chain goals?
2. What are the challenges that organizations may find in identifying metrics and measurement systems?
3. Which are the areas of the organization involved in and impacted by the adoption of measurement and monitoring systems?
4. How can businesses work with external stakeholders in improving measurement and monitoring, and ultimately, increasing impact across global supply chains?



Suggested Session Outline

In order to better manage the session and deliver within the allocated time, the following breakdown is recommended:

Section Title	Time allocation	Slide presentation/ sub-activity	Time allocation
Introduction & Agenda	2 Minutes	Session outline and flow	1 minute
		Session objectives	1 minute
Unit 8.1. Major Trends in Corporate Performance Measurement and Reporting	15 Minutes	Short warm up brainstorming	5 minutes
		Slide presentation	10 minutes
Unit 8.2. Drivers for Sustainability Measurement and Reporting	15 Minutes	Slide presentation	15 minutes
Unit 8.3. Measuring supply chain and sustainability performance	30 Minutes	Slide presentation	30 minutes
Short break suggested			5 minutes
Unit 8.4. Reporting on sustainable supply chain goals and progress	10 Minutes	Slide presentation	10 minutes
Unit 8.5. Class Discussion: Reporting on Sustainable Supply Chain Performance	60 Minutes	Instructions for exercise	2 minutes
		Groups Discussion	45 minutes
		Groups report back to Plenary	15 minutes
Session Wrap Up	3 Minutes	Discussion wrap up and Conclusion	3 minutes
Total	135 Minutes		



Methodology

This last session is meant to link all sessions together by showing how the sustainability of the supply chain can be measured, monitored and communicated. It reflects on the key notions discussed such as tools, instruments for governance, the three dimensions of sustainability and their integration within the supply chain, their alignment to business strategy and contribution to economic performance. It relies on a presentation and a review of Social Indicators (Human Rights Section) as presented by a corporation in its Sustainability Report (Danone 2010). The lecture will be supported by a PowerPoint presentation (or slides using an overhead projector). Through the use of illustrative examples, readings and group discussions, participants will explore alternative business approaches.

Where possible, the room set-up should enable students to sit in a U-shape or theatre setting, so they can easily come together in buzz groups (of three or four neighbours) for short discussions in plenary.



Faculty script

We suggest you to:

- a) Present the agenda and objectives for the session using the PowerPoint slides or making transparencies for overhead projector.
- b) Run the presentation to cover Units 8.1., 8.2. and 8.3., of which the latter will be the longest of these as it will review economic, environmental and social indicators. Depending on the participant's level of attention, a short break may be introduced here.
- c) Continue with Unit 8.4. and set the stage for the Groups Discussion on Danone's Sustainability Report.
- d) Once participants have concluded their discussions in groups, call 2-3 groups to the front to report on their discussions. Once they have concluded, wrap up the discussion highlighting key points and, summarize the presentation with slide 40.

In organizing the training keep in mind the following points:

- e) Encourage participation as well as group discussions and small group work. Training always has a greater chance to succeed and a greater effect when each participant is actively involved.
- f) Build on local experience. Discussions should include participants' own experiences and should take into account local realities and culture.



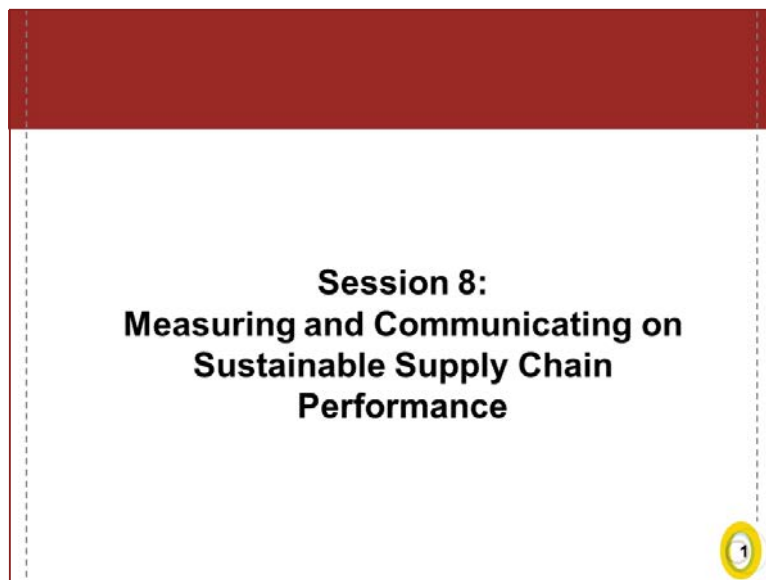
General remark

Reference to names of firms, commercial products and processes, and initiatives does not imply their endorsement by the International Labour Office, and any failure to mention a particular firm, commercial product or process, or initiative is not a sign of disapproval.

PowerPoint Presentation and Speaker notes

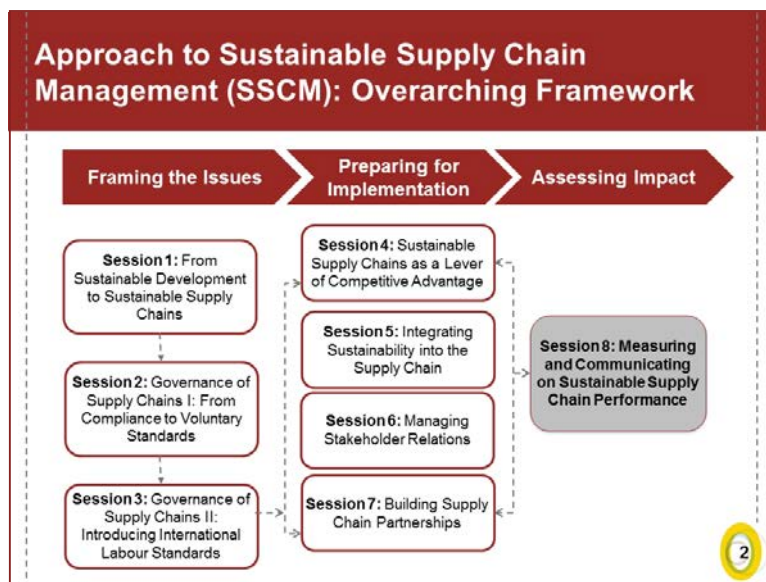
Slide 1: Welcome

Welcome participants, introduce yourself and any co-trainers or staff.



Slide 2: Module Roadmap

Explain the role of the session in the module by indicating how measuring, reviewing and adjusting closes the loop in the process and how this session integrates learnings from the entire module.





Slide 3: Session Objectives

Please read and explain session objectives and how the session aims at addressing them.

Session objectives

- Understand the importance of measuring and monitoring to improve sustainability performance in supply chains
- Learn about widely adopted methodologies and tools to measuring and monitoring supply chain and sustainability performance
- Understand the challenges involved in identifying relevant metrics and consistently measuring results
- Explore tools and systems to track and communicate results to stakeholders

3

Slide 4: Session Agenda and Unit 8.1. Introduction

Read session Agenda and explain that the session is structured into five sub-sections, of which the last is a practical exercise consisting of a class discussion in groups aimed at analysing the indicators and performance of Danone with regards to their social impacts.

Agenda

- 8.1 A review of Corporate Performance Measurement and Reporting**
- 8.2 Drivers for sustainability measurement and reporting
- 8.3 Measuring supply chain and sustainability performance
- 8.4 Reporting on sustainable supply chain goals and progress
- 8.5 Class discussion: Reporting on sustainable supply chain performance

4

Slide 5: Unit 8.1. Short Brainstorming with the audience

Begin the session by introducing participants to concepts related to performance measurement. Hence, we suggest you prompt four questions to the audience to have them reflect on these issues. You may simply ask, as the slide suggests:

1. What is performance measurement?
2. Why measure?
3. Measure....against what?
4. How to measure?

As possible, ask questions one by one and capture participants' responses in a flipchart. Take no more than 5-6' for this section.

Talking about performance measurement

1. What is performance measurement?
2. Why measuring?
3. Measuring...against what?
4. How to measure?

5

Slide 6: Quote by Richard Locke

Once you have concluded with the brainstorming on the previous slide, you may want to highlight that measurement is a key element of performance and one of the biggest challenges in integrating sustainability into the supply chain, as it has been discussed across the module.

In order to do so, the quote chosen by Richard Locke communicates a sense of urgency in terms of producing tangible results and measuring those.

The roadmap to sustainability's biggest priority by far is **performance**.
Companies must produce **tangible results** that put them on a truly sustainable path.
Performance will be the **ultimate measure** for **evaluating** a company's progress towards achieving sustainability.

Richard Locke
*Deputy Dean and Professor of Entrepreneurship,
MIT Sloan School of Management*

6



Slide 7: Four views on business performance systems

Continue the presentation by now giving participants some “theory based” responses on what performance measurement is. This slide shows a few definitions available in corporate performance measurement literature, which depict some elements that participants will be able to link to the major sustainability issues, ideas, initiatives and actors addressed during the module. While guiding participants through these, you may want to explain that performance measurement systems (PMS) have been around for the last twenty years – and yet remain an area of intense research. In this slide, we present four different perspectives on PMS, which outline the main elements that literature identifies as key in performance measurement:

- From an operations perspective, Neely talks about “a set of metrics used to quantify the efficiency and effectiveness of actions (Neely et al, 1995)”, or as the “reporting process that gives feedback to employees on the outcomes of actions” (Bititci et al, 1997).
- From a strategic perspective: Rogers identifies procedures that cascade down to align actions and people with strategy, and Gates discusses a combination of measures to turn strategies into results.
- From a stakeholder perspective: Atkinson et al (1997) recognize that stakeholder expectations and relations must be monitored and measured and sees PMS as a tool to achieve that.
- From a management accounting perspective: According to these authors, a PMS provides information that allows gauging how targets are met (Gates, 1999).

To conclude this slide, highlight the convergence of all these definitions are relevant in the context of measuring supply chain sustainability as part of an integrated corporate strategy.

Four views on business performance measurement systems

"An integrated set of planning and review procedures which cascade down through the organization to provide **a link between each individual and the overall strategy** of the organization" (Rogers, 1990)

"...one output of strategic planning: senior management's choice of the nature and scope of the contracts that it negotiates, both explicitly and implicitly, with its stakeholders. The PMS is the tool...to monitor those contractual relationships." (Atkinson et al, 1997)

"A PMS enables informed decisions to be made and actions to be taken because it **quantifies the efficiency and effectiveness of past actions** through....analysis, interpretation and **dissemination of appropriate data.**" (Neely, 1998)

"A strategic PMS translates business strategies into deliverable results. Combine **financial, strategic and operating measures** to gauge how well a company meets its targets" (Gates, 1999)

Slide 8: Performance measurement is certainly NOT about profit alone

In response to changes in markets, technology, competition and increasing demands from shareholders and other stakeholders, there has been a trend towards moving away from traditional measurement systems solely focused on financial indicators.

Authors talked about a “performance measurement revolution” in the 1990s (Eccles, 1991; Neely, 1999) as the academic, practitioner and consultancy communities focused on developing more comprehensive, appropriate measurement systems that integrate wider criteria.

Performance measurement is certainly NOT about profit alone

- By early 1980s, Johnson and Kaplan highlighted the shortfalls of financial performance measures to reflect changes in the competitive environment and strategies of organisations
- The 1990s saw a “performance measurement revolution” (Eccles, 1991; Neely, 1999) and a proliferation of frameworks that integrate wider criteria:
 - Balanced Scorecard (Kaplan and Norton, 1992)
 - Performance Measurement Matrix (Keegan et al, 1989)
 - SMART Pyramid (Lynch and Cross, 1991)
 - Baldrige Criteria for Performance Excellence
 - Performance Prism (Kennerley and Neely, 2000)
 - European Foundation for Quality Management (EFQM) Excellence Model
 - Six Sigma



In the slide we list some of those frameworks, of which some of the most popular are the Balanced Scorecard and Six Sigma:

- **The Balanced Scorecard** is a tool to articulate, monitor and execute strategy using a combination of financial and non-financial measures. It does so by translating the vision and strategy into objectives, targets and measures across four “**balanced**” perspectives: financial, customers, internal business processes and learning and growth. It allows for focus on the **activities that generate financial results**, rather than on the financial aspect only. The strength of the BSC is that it provides a framework to ensure that strategy is translated into a coherent set of performance measures.
- **Six Sigma** is a performance measurement framework initially pioneered by Motorola but made largely popular by General Electric, Citigroup and Honda. It is largely a management tool designed to achieve operational efficiencies by selecting an objective and measuring achievement of that objective based on a standard of three variations. As The Economist (February 2, 2002) once put it, it is a “way of creating a closed loop system to make continuous improvements in business processes”.



Slide 9: Bottom line, the overall concept of corporate performance is evolving to integrate measures beyond financial indicators, and the current financial crisis is giving further impetus to this movement

This slide describes the transition over the past several decades from uni-dimensional, financial reporting as the key indicator of corporate performance, to a broader definition of performance that takes into account additional measures related to a company's strategic effectiveness, including impacts on its workers, suppliers, community and the environment in which it operates. Due to stakeholder pressures arising from well-documented cases of disclosure and reporting abuses, reporting regulations have been strengthened in a number of countries.

The slide introduces triple bottom line accounting, one of the earliest reporting methods to first take into account measurement of corporate performance from three dimensions: social, economic and environmental.

Bottom line, the overall concept of corporate performance has evolved to integrate measures beyond financial indicators

- After the accounting and reporting scandals of the early 2000s (e.g. Enron), **corporate governance** became a priority for stakeholders, from regulators to consumers
- Additional stakeholder demand for **transparency** in areas such as board level remuneration, internal controls, **procurement practices** and management oversight have set **new standards for corporate reporting**
- Closer **scrutiny of practices, results and overall performance** has resulted into more complexity, new metrics, new measurement systems and greater information available for stakeholders
- The emergence of **Globally Accepted Accounting Principles (GAAP)** and **International Financial Reporting Standards (IFRS)** have formalized the need to measure and communicate broader corporate activity through reporting.
- More recently, the concept of **Triple Bottom Line (TBL)** emerged, referring to the expansion of accounting of financial performance to make corporations accountable for their environmental and social impacts.

9

Slide 10: Introduction to Unit 8.2.

The next unit will explore the drivers for sustainability measurement and reporting.

Agenda

- 8.1 A review of Corporate Performance Measurement and Reporting
- 8.2 Drivers for sustainability measurement and reporting**
- 8.3 Measuring supply chain and sustainability performance
- 8.4 Reporting on sustainable supply chain goals and progress
- 8.5 Class discussion: Reporting on sustainable supply chain performance

10

Slide 11: Drivers for measuring sustainability performance

There are several reasons why companies are interested in measuring the effectiveness of their sustainability efforts. Amongst them:

1. Effective performance measurement is of critical importance to ensuring successful implementation of a company's strategy. It is about monitoring an organization's effectiveness in fulfilling the goals it has set and for meeting stakeholders' expectations or requirements. The comparison of outcomes against goals helps to identify issues or impediments and to set corrective actions.
2. Stakeholders today expect transparency and accountability and thus insist on clear and appropriate evidence that supports a company's claims about its actions and results.
3. The number and type of stakeholders involved in a supply chain is becoming increasingly large and complex, with differing demands for information. Consequently reporting on social performance has become more detailed.
4. As supply chain operations are increasingly global, measuring and reporting can provide visibility to those operations to understand how they are adding (or destroying) value for a company and all stakeholders.
5. It can help management to align sustainable supply chain goals with corporate/business strategy.

Drivers for measuring sustainability performance

- Monitor, review and adjust
- Transparency and legitimacy: support claims for actions
- Increased demands from multiple stakeholders: shareholders, customers, community, suppliers, investment community
- Increased visibility of sustainable supply chain activities within overall business operations
- Align sustainable supply chain goals and performance with corporate performance

11



Slide 12: The Business Case Approach (Brown, 2006): creating value for shareholders

In this slide and the two following ones, we visit a theory-based approach on social and environmental measurement by Brown and Fraser, based on an analysis of existing literature. Business case proponents have a perspective based on **“what’s in it for business and shareholders”** (Brown, 2004). Business consultants and corporate managers state that there is **“significant financial payoff”**. As the points stated on the slide imply, the focus of this approach is to “identify and pursue forms of CSR and Social and Environmental Accounting (SEA) that result in win-wins for both business and wider stakeholders.”

Groups and business-driven NGOs such as Business For Social Responsibility (BSR), Business in the Community (BITC) and the World Business Council for Sustainable Development (WBCSD) have strongly contributed to this view over the past years.

BITC, a UK business-driven NGO involved in CSR, states that rewards can be earned from **“an effective business-led approach”**.

Business accounting and consulting firms, such as Deloitte (2002), have also supported the Business Case Approach, mentioning that measuring and reporting help **“mitigate risk, protect corporate brand and gain competitive advantage”**.

Of course, it should be noted that some of these business-driven NGOs and services firms sell such services and hence may not be completely objective in their assessments.

To close, supporters of the business case approach have referred to evidence that correlates sustainability efforts as a driver of increased profit and shareholder return in certain companies.

The “business case” approach (Brown, 2006): creating value for shareholders

- Social and environmental accounting seen as an expanded **management toolkit for increasing shareholder value** (Hedstrom et al., 1998)
- Focuses on “identifying and pursuing forms of CSR and SEA that result in **win-wins for both business and wider stakeholders...**” (Brown, 2006)
- BITC (2003) states that there are **“rewards”** to reap from an effective “business-led approach” that make **“the business case compelling”**
- A way to **demonstrate** “positive impact on society” (BITC, 2003), and to “head off campaigns from activists....which have the potential to threaten business interests...” (Litvin, 2003)
- “Business leaders are increasingly acting upon this responsibility (to report) because it makes **good business sense**. It helps companies **mitigate risk, protect corporate brand, and gain competitive advantage...**”(Deloitte, 2002)

12

Slide 13: Business Benefits from Sustainability Reporting (WBCSD)

The WBCSD, a business and stakeholders coalition, has also identified a number of benefits in its document “Sustainable Development Reporting: Striking the Balance”, amongst which:

- Creating financial value
- Attracting long term capital and favourable financing conditions
- Raising awareness, motivating and aligning staff, attracting talent
- Improving management systems
- Risk awareness
- Encouraging innovation
- Continuous improvement
- Enhancing reputation
- Transparency to stakeholders
- Maintaining license to operate

These benefits are mostly focused on business and operational aspects, thus enhancing the notion of the “business case” for sustainability accounting and reporting.

Business benefits from sustainability reporting (WBCSD, 2003):

- Creating financial value
- Attracting long term capital and favourable financing conditions
- Raising awareness, motivating and aligning staff, attracting talent
- Improving management systems
- Risk awareness
- Encouraging innovation
- Continuous improvement
- Enhancing reputation
- Transparency to stakeholders
- Maintaining license to operate

13

Slide 14: The Stakeholder Accountability Approach

A second view on the subject seeks to promote a more open and transparent society, by increasing the flow and quality of corporate information made available to stakeholders.

Supporters of this view understand accountability as “being called to account for one’s actions” (Mulgan, 2000). Accounting internally helps management to better evaluate its performance over time.

Accounting also provides a mechanism of external social control. This view holds that constituencies interested in corporate performance such as employees, local communities and consumers, have a “right to know” about the social impact of company operations (Swift, 2001).

The slide makes a reference to the Corporate Report, a UK discussion paper developed by the Accounting Standards Steering Committee in 1975, which was widely discussed at the time, includes a section on the “right” of stakeholders to information.

Stakeholder-accountability advocates accept that business-stakeholder relationships can be mutually beneficial (at least in the longer term), therefore the business case approach is also accepted, as long as the interdependent nature of the relationships is not ignored and the “right to know” is not conditioned on the company benefiting from sharing information, which in cases where its operations are problematic it certainly will not.

The Stakeholder-Accountability Approach (Brown, 2006): promotes a more open and transparent society

- While stakeholders share interests, there is considerable potential for conflicts of interests (Brown)
- Management’s primary responsibility is to society and managerial performance “should be evaluated in terms of both profit and the accomplishment of social initiatives” (Chen, 1975)
- “The Corporate Report” backs up the notion that “stakeholders have rights to information” (Accounting Standards Steering Committee, 1975)
- Accountability as “being called to account for one’s actions”
- Recognizes the economic, social and political power that corporations have in society
- Companies “accountable for the use of financial, human and community resources entrusted to them and that affected parties need safeguards against potential abuses...”
- Access to information plays an important monitoring role in the process

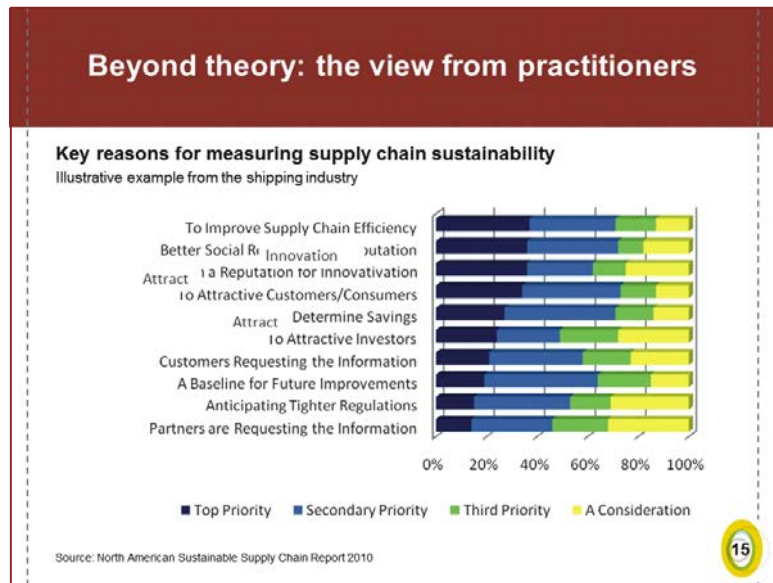
14



Slide 15: Beyond Theory: the view from practitioners

In this slide, we re-contextualize the drivers for measuring supply chain sustainability performance by using a practical example extracted from the transport sector, which appeared in the 2010 North American Sustainable Supply Chain Report. This report looks at a number of issues regarding measuring supply chain sustainability. Reporters were asked to indicate the key reasons for measuring supply chain sustainability.

The chart depicts that shippers placed importance on reputation for social responsibility after improving supply chain efficiency. Additionally, the overall brand reputation and tighter regulation were important.



Slide 16: Introduction to Unit 8.3: Measuring Supply Chain and Sustainability Performance

This section will look first at traditional supply chain measures, and then sustainability measurement frameworks, focusing on the most widely used framework—the GRI Guidelines.



Slide 17: Evolution of Supply Chain Measurement Systems

When introducing this slide, the lecturer may explain first the challenges involved in identifying appropriate performance measures for the supply chain, given its inherent complexity, particularly with global supply chains.

Traditional single measures for supply chain effectiveness - e.g. cost, customer satisfaction (Christopher, 1994), supplier performance (Davis, 1993), risk management (Johnson and Randolph, 1995) - fail to match a number of characteristics necessary in measurements systems to be effective:

- **Inclusiveness:** Must measure all relevant aspects in the supply chain
- **Universality:** Applicable across different operating environments
- **Measurability:** Data required are quantifiable and consistent over time
- **Consistency:** Measures are consistent with organizational goals

Another type of performance measurement system emphasized by Beamon is based on **Strategic goal-driven measures** (Maskell, 1991). This approach:

- allows the company to determine if performance is meeting strategic goals, and
- supports focusing on what is measured, as this will steer strategy and direction.

Strategic goals seldom refer to a single performance measure, but to a combination of measures. For example, product quality could be measured in different ways and through different metrics.

Evolution of supply chain measurement systems (Beamon, 1996)

- **Single performance measures:** e.g. cost, customer satisfaction (Christopher, 1994), supplier performance (Davis, 1993), risk management (Johnson and Randolph, 1995). Key considerations:
 - Inclusiveness
 - Universality
 - Measurability
 - Consistency
- **Strategic goal-driven measures:** type of performance measurement directly related to the manufacturing strategy (Maskell, 1991)
 - Performance meeting strategic goals
 - Performance measure as a driver for achieving vision and goals
 - Strategic goals seldom refer to a single performance measure, but to a combination of measures

An effective supply chain performance measurement system must rely in a combination of measures that acknowledge the interrelations within the supply chain, consider risks and uncertainties and are consistent with an organization's strategic goals.

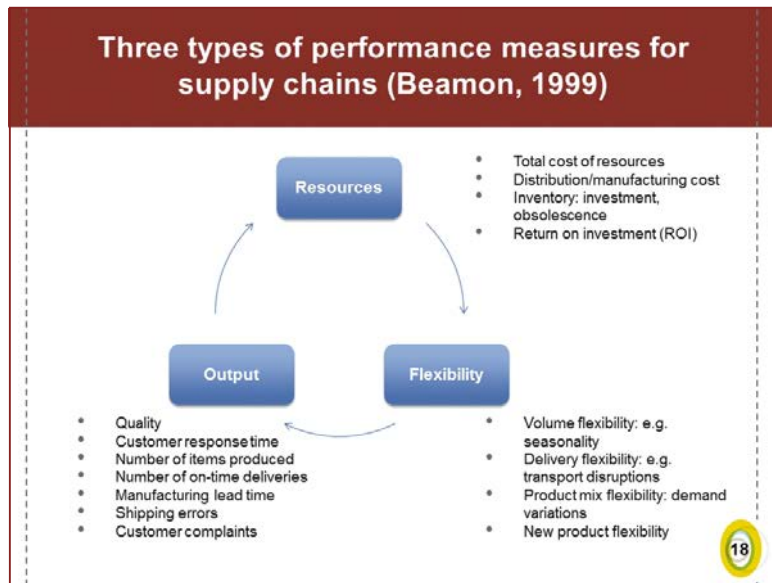
17



Slide 18: Three types of performance measures for supply chains (PMS)

As discussed in the previous slide, single measures are insufficient to gauge supply chain performance. According to Beamon (1999), assessing to what extent the organisation meets its strategic goals implies looking at three types of measures: resources, output and flexibility.

- Resources measures (generally cost) and output measures (generally customer responsiveness) have been widely used in PMS.
- Flexibility refers to the reactivity of the supply chain to uncertainty and contingencies.
- Each of these measures has different goals.



Measure Type	Goal	Purpose
Resources	High level of efficiency	Efficient resource management critical to profitability
Output	High level of customer service	Avoid customer churn
Flexibility	Ability to respond to a changing environment	Supply chains must be able to respond to change, quickly

Slide 19: Frameworks for measuring social and environmental performance of supply chains

Here we present four sustainability impact measurement approaches broadly disseminated and used in the corporate world. Of these, the most widely used is the GRI, which is discussed both as a measurement and reporting framework.



Slide 20: The Global Reporting Initiative is the most widely adopted measurement and reporting framework

The Global Reporting Initiative (GRI) is a network-based organization that created a comprehensive sustainability reporting framework widely used around the world. The initiative's core goals include the mainstreaming of disclosure on environmental, social and governance performance.

The measurements stem from extensive industry and business consultation and provide a methodology for companies to measure their impacts in terms of the three pillars. Furthermore, it breaks them down so companies can adapt and choose according to relevance.

GRI's Reporting Framework is developed through a consensus-seeking, multi-stakeholder process and that participants are drawn from global business, civil society, labor, academic and professional institutions. Thus, it benefits from a wide range of perspectives and expertise.

The GRI promotes its standardized approach to measuring and reporting as a benefit for both reporting organizations and report users.

A number of partnerships with UNEP, OECD and other organizations have increased the expertise and scope of action, as well as added to the legitimacy of the measures proposed by GRI. Today, global companies such as Carrefour, Danone, Air France, Shell and others are reporting in accordance with GRI Guidelines.






Slide 21: the GRI Guidelines and Supplements

The GRI Guidelines are comprised of the standard GRI Guidelines (Blue Book), complemented by:

- **Sector supplements** – providing guidance that captures sustainability issues faced by specific industry sectors, e.g. financial services, telecommunications, auto manufacturing, mining
- **Technical protocols** – providing detailed measurement methods and procedures for reporting on indicators contained in the core guidelines e.g. energy indicators providing definitions (e.g. direct vs. indirect energy) and measurement methodologies (e.g. conversions, units)
- **National annexes** – providing national (local) country perspectives and particular influences, nuances and contexts to sustainability
- **Issue guidance documents** – on topics such as 'diversity' and 'productivity'

The GRI Guidelines and supplements



- **The GRI Guidelines**
- **Sector supplements** – providing guidance that captures sustainability issues faced by specific industry sectors, e.g. financial services, telecommunications, auto manufacturing, mining
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21

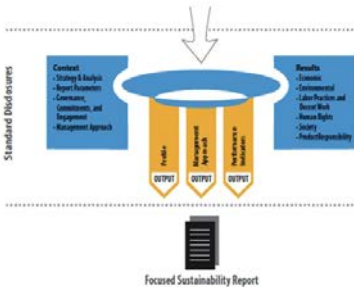
Slide 22: The Global Reporting Initiative Standard Disclosures

As explained in the previous slide, the GRI Guidelines provide a standard set of recommendations, which may be complemented by other technical or industry supplements.

The base guidelines set **Standard Disclosures** to be included in all sustainability reports. These identify information that is relevant and material to most organisations and of interest to most stakeholders for reporting. There are three types of Standard Disclosures:

- **Strategy and Profile:** Disclosures that set the overall context for understanding organizational performance such as the company's strategy, profile, and governance.
- **Management Approach:** Disclosures that cover how an organization addresses a given set of topics in order to provide context for understanding performance in a specific area.
- **Performance Indicators:** Indicators that elicit comparable information on the economic, environmental, and social performance of the organization. In the following slides, we will look at GRI sample performance indicators for each of these areas and the basis on which those have been set.

The GRI Standard Disclosures



Measures express strategic approach, management goals, and performance results through three kinds of disclosures:

- **Profile disclosures** set the overall context for understanding performance - such as strategy and governance.
- **Management Approach** disclosures explain how specific sustainability issues are managed, including goals and targets.
- **Performance Indicators** elicit comparable information on economic, environmental, and social performance.

Source: Global Reporting Initiative G3 Guidelines, accessible at www.globalreporting.org

22

Slide 23: Measuring Economic Performance according to GRI

When measuring for sustainability in terms of economic performance, one might normally consider a company's audited financial accounts (based on International Accounting Standards) as sufficient indicators. However, these accounts alone cannot measure the economic impact an individual company/firm/organization has within the wider system within which it operates.

Key areas assessed include:

- **Economic Performance:** these refer to specific economic indicators including direct economic value generated and distributed, financial and other risks associated with climate change, coverage of the organization's benefit plan obligations and any significant financial assistance received from government.
- **Market Presence:** these refer to practices specific to geographic markets and local impacts, including relative wages, spending amongst local suppliers, proportion of local employment.
- **Indirect Economic Impacts:** these refer to infrastructure investments or services provided for public benefit

Measuring Economic Performance according to GRI

- The economic dimension of sustainability concerns the organisation's impacts on the economic conditions of its stakeholders and on economic systems at a local, national, and global levels (GRI3.1). They show:
 - Flow of capital among different stakeholders
 - Main economic impacts of the organisation throughout society

ASPECT: ECONOMIC PERFORMANCE		ASPECT: MARKET PRESENCE	
CORE	EC1 Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments.	ADD	EC5 Range of ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation.
CORE	EC2 Financial implications and other risks and opportunities for the organization's activities due to climate change.	CORE	EC6 Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.
CORE	EC3 Coverage of the organization's defined benefit plan obligations.	CORE	EC7 Procedures for local hiring and proportion of senior management hired from the local community at locations of significant operation.
CORE	EC4 Significant financial assistance received from government.	ASPECT: INDIRECT ECONOMIC IMPACTS	
		CORE	EC8 Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.

23



Slide 24: Measuring Environmental Performance according to GRI

The environmental dimension of sustainability concerns an organization's impacts on living and non-living natural systems, including ecosystems, land, air, and water.

Environmental Indicators cover performance related to **inputs** (e.g., material, energy, water) and **outputs** (e.g., emissions, effluents, waste). They also cover performance related to biodiversity, environmental compliance, and other relevant information such as environmental expenditure and the impacts of products and services.

The recommended disclosure on Management Approach focuses on the following Environmental Aspects:

- Materials
- Energy
- Water
- Biodiversity
- Emissions, Effluents, and Waste
- Products and Services
- Compliance
- Transport and
- Overall.

Slide 25: Sample Environmental Performance Indicators

In this slide there are some sample environmental indicators which we suggest you read and explain to illustrate this type of measurement.

Measuring environmental performance according to GRI:

- **Performance and measures relative to inputs** (e.g., material, energy, water) and **outputs** (e.g., emissions, effluents, waste).
- Performance and indicators relative to **biodiversity**, **environmental compliance**, environmental expenditure and the impacts of products and services.
- **Corporate goals** in the area and Policy
- **Organisational Responsibility**: Management accountable for executing process
- **Training and awareness**: Procedures aimed at creating awareness and training
- **Monitoring and Follow Up**
 - **Monitoring, corrective and preventive actions** with emphasis on the supply chain
 - List of **certifications** for environment-related performance or other approaches to auditing/verification for the reporting organization or its supply chain.
- **Additional Contextual Information**
 - Key successes and shortcomings
 - Environmental risks and opportunities
 - Key strategies and procedures for implementing policies or achieving goals.

24

Sample Environmental Performance Indicators required by GRI

Environmental Performance Indicators	Environmental Performance Indicators
ASPECT: MATERIALS	EN14 Strategies, current actions, and future plans for managing impacts on biodiversity.
EN1 Materials used by weight or volume.	EN15 Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.
EN2 Percentage of materials used that are recycled input materials.	ASPECT: EMISSIONS, EFFLUENTS, AND WASTE
ASPECT: ENERGY	EN16 Total direct and indirect greenhouse gas emissions by weight.
EN3 Direct energy consumption by primary energy source.	EN17 Other relevant indirect greenhouse gas emissions by weight.
EN4 Indirect energy consumption by primary source.	EN18 Initiatives to reduce greenhouse gas emissions and reductions achieved.
EN5 Energy saved due to conservation and efficiency improvements.	EN19 Emissions of ozone-depleting substances by weight.
EN6 Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives.	EN20 NO ₂ , SO ₂ and other significant air emissions by type and weight.
EN7 Initiatives to reduce indirect energy consumption and reductions achieved.	EN21 Total water discharge by quality and destination.
ASPECT: WATER	EN22 Total weight of waste by type and disposal method.
EN8 Total water withdrawal by source.	EN23 Total number and volume of significant spills.

Source: Global Reporting Initiative G3 Guidelines, accessible at www.globalreporting.org

25

Slide 26: Measuring Social Performance According to GRI

The GRI Social Performance Indicators identify key Performance Aspects surrounding labour practices, human rights, society, and product responsibility.

In terms of labour practices and Decent Work, the Aspect indicators are based on the following international standards and instruments:

- United Nations Universal Declaration of Human Rights;
- United Nations Convention: International Covenant on Civil and Political Rights;
- United Nations Convention: International Covenant on Economic, Social, and Cultural Rights;
- Convention on the Elimination of all Forms of Discrimination against Women (CEDAW);
- ILO Declaration on Fundamental Principles and Rights at Work (in particular the eight core Conventions of the ILO concerning forced labour, child labour, non-discrimination and freedom of association and collective bargaining); and
- The Vienna Declaration and Programme of Action on human rights, including the right of development.

It is important to build linkages with the previous sessions on governance and labour standards for participants to relate better to these indicators.

Three additional aspects considered in social measures include: Human Rights, Society and Product Responsibility.

Human rights Performance Indicators require organizations to report on:

- the processes which have been implemented during the period under review; and
- any incidents of human rights violations in this period of time and any changes in the stakeholders' ability to enjoy and exercise their human rights.
- among the human rights issues included are non-discrimination, gender equality, freedom of association, collective bargaining, child labor, forced and compulsory labour, and indigenous peoples' rights.

The international legal framework for human rights is comprised of a body of law made up of treaties, conventions, declarations and other instruments. The corner stone of human rights is the International Bill of Rights which is formed by three instruments:

- i) the Universal Declaration of Human Rights (1948);
- ii) the International Covenant on Civil and Political Rights (1966); and
- iii) the International Covenant on Economic, Social and Cultural Rights (1966).

These are the first reference points for any organization reporting on human rights. In addition to these three key instruments, the international legal framework for human rights is underpinned by over 80 other instruments: ranging from soft declarations and guiding principles to binding treaties and conventions, and including both universal and regional instruments.

Also mention the Society and Product Responsibility Aspects, and the topics they cover as stated on the slide.

Source : GRI Guidelines

Measuring social performance according to GRI

1. Labour Practices and Decent Work

- United Nations Universal Declaration of Human Rights
- United Nations Convention: International Covenant on Civil and Political Rights; United Nations Convention: International Covenant on Economic, Social, and Cultural Rights
- Convention on the Elimination of all Forms of Discrimination against Women (CEDAW)
- ILO Declaration on Fundamental Principles and Rights at Work and The Vienna Declaration and Programme of Action
- ILO Tripartite Declaration Concerning Multinational Enterprises and Social Policy
- Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises

2. Human Rights

- Main issues: nondiscrimination, gender equality, freedom of association, collective bargaining, child labor, forced and compulsory labor, and indigenous rights
- Body of law: treaties, conventions, declarations

3. Society

- Impacts on local communities
- Bribery, corruption, monopoly

4. Product Responsibility: Customer Health and Safety, Labeling, Marketing, Customer Privacy, Compliance

26



Slide 27: Sample Social Performance Indicators

In this slide sample performance indicators are provided. While not all are captured, these provide a good overview across the different aspects. Select those more relevant according to the realities of participants, country or industry and use examples to illustrate measures.

Sample Social Performance Indicators required by GRI

ASPECT: EMPLOYMENT	ASPECT: OCCUPATIONAL HEALTH AND SAFETY	Human Rights Performance Indicators
L41 Total workforce by employment type, employment contract, and region, broken down by gender. L42 Total number and rate of new employee hires and employee turnover by age group, gender, and region. L43 Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation. L415 Return to work and retention rates after parental leave, by gender.	L46 Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs. L47 Rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender. L48 Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases. L49 Health and safety topics covered in formal agreements with trade unions.	ASPECT: INVESTMENT AND PROCUREMENT PRACTICES RI1 Percentage and total number of significant investment agreements and contracts that include clauses incorporating human rights concerns, or that have undergone human rights screening. RI2 Percentage of significant suppliers, contractors, and other business partners that have undergone human rights screening, and actions taken. RI3 Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.
ASPECT: LABOR/MANAGEMENT RELATIONS L44 Percentage of employees covered by collective bargaining agreements. L45 Minimum notice period(s) regarding operational changes, including whether it is specified in collective agreements.		ASPECT: NON-DISCRIMINATION RI4 Total number of incidents of discrimination and corrective actions taken. ASPECT: FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING RI5 Operations and significant suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and actions taken to support these rights.
		ASPECT: CHILD LABOR RI6 Operations and significant suppliers identified as having significant risk for incidents of child labor, and measures taken to contribute to the effective abolition of child labor. ASPECT: FORCED AND COMPULSORY LABOR RI7 Operations and significant suppliers identified as having significant risk for incidents of forced or compulsory labor, and measures taken to contribute to the elimination of all forms of forced or compulsory labor.

27

Slide 28: Additional sector-specific indicators: Sector Supplements

This slide provides an overview of the industries covered by the sector supplements and their applicability.

Additional sector-specific indicators: Sector supplements

- Working Group**
 - Media
- First Draft**
 - Airports
 - Construction & Real Estate
 - Event Organisers
- Final Draft**
 - Food Processing
 - NGO
 - Oil & Gas
- Pilot**
 - Apparel & Footwear
 - Automotive
 - Logistics & Transportation
 - Public Agency
 - Telecommunications
- Final**
 - Electric Utilities & Financial Services
Sector Supplement obligatory to obtain level A from 1 January 2010
 - Mining
Sector Supplement required to obtain GRI Application level A from 31 December 2011

28

Slide 29: Introduction to Unit 8.4.: Reporting on Sustainable Supply Chain Goals and Progress

This segment will look at how sustainability reporting has evolved, drivers, current status and future outlook.

Agenda

- 8.1 A review of Corporate Performance Measurement and Reporting
- 8.2 Drivers for sustainability measurement and reporting
- 8.3 Measuring supply chain and sustainability performance
- 8.4 Reporting on sustainable supply chain goals and progress**
- 8.5 Class discussion: Reporting on sustainable supply chain performance

29

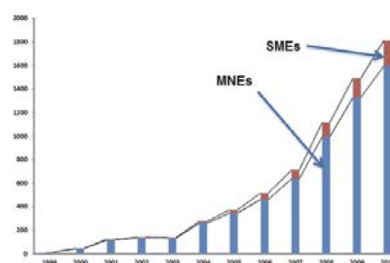
Slide 30: Number of reports (on GRI Guidelines) and their geographic distribution 2010

Sustainability reporting has grown substantially in use as a communications and management tool, from 22 organizations in 1997 to 1000 in 2010.

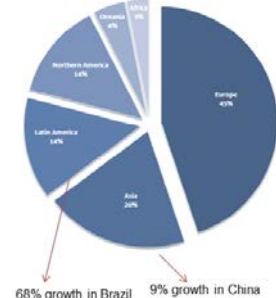
More importantly, the quality of the information has improved, with meaningful statistics and insights for stakeholders. Emerging markets are making important strides in sustainability reporting, as the chart on the right shows.

The number of companies reporting on GRI Guidelines continues to expand, with increased SME and emerging markets participation

Number of Reports 2010



Geographic Distribution 2010



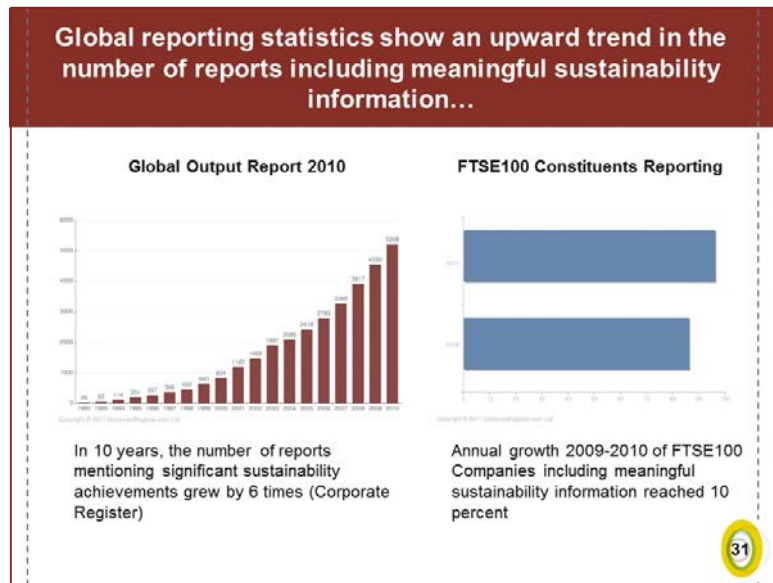
Source: Global Reporting Initiative 2010 Statistics

30



Slide 31: Number of reports including meaningful sustainability information

As these charts show, not only the number of organizations reporting under the GRI has substantially increased, also sustainability information is increasingly being included in Annual Reports, which may have implications for business in the supply chains of companies reporting under GRI.



Slide 32: From corporate reporting to sustainability reporting

As done in previous Units, begin by looking at the shifts happening in markets moving from traditional corporate reporting practices to sustainability reporting.

To do so, the slide highlights the role of sustainability reporting both as a complement of corporate reporting and as a specific tool for communicating results to several stakeholders using one single channel that, in turn, is legitimated by third party assurance.

The role and goals of sustainability reporting include the following:

- As discussed, it is widely acknowledged that **financial reporting captures only a portion of a company's value creation potential and corporate risks**
- **Intangible factors** such as strategy, innovation capacity, talent retention, reputation management, commercial risk reduction (e.g. bribery, occupational accidents), resource efficiency and others can be **measured and disclosed through sustainability reporting**
- Sustainability reporting **complements financial reports** by integrating non-financial value drivers, such as **human capital formation, broader or non-traditional corporate governance indicators, management of environmental risks and the ability to innovate**
- Reporting on social and environmental performance allows **establishing the link between business strategy and sustainability** by assessing the sustainability issues which may influence the company's competitive advantage

It is a tool to communicate with stakeholders, disclose and discuss **risks, uncertainties, challenges and trends** that may materially affect financial performance.

When explaining the slide, please refer to the session on "Sustainable Supply Chains as a Lever of Competitive Advantage"...



Slide 33: Sustainability Reporting


Once you have discussed the objectives of sustainability reporting and its function, this slide provides the GRI definition of reporting, which will define the boundaries and provide a broader understanding of what sustainability reporting covers and how it differs from standard corporate reporting.

We suggest you read and explore definition with participants by asking a couple of participants what their understanding is of this notion.

Sustainability Reporting

- «Sustainability reporting is the practice of **measuring, disclosing and being accountable to internal and external stakeholders** for organisational performance towards the goal of sustainable development. »
- «Sustainability reporting is a broad term considered synonymous with others used to describe **reporting on economic, environmental, and social impacts** (e.g., triple bottom line, corporate responsibility reporting, etc.). »

GRI Sustainability Reporting Guidelines
Version 3.1, 2010-2011



33

Slide 34: Drivers of sustainability reporting

In this slide, we look in detail at the drivers for sustainability reporting.

The drivers are classified as Financial or Market Forces, Stakeholder Forces and Regulatory Forces.

Financial/Market Forces:

- Institutional investors: risk management, compliance and combined performance
- Sustainability driven corporate competitiveness and profitability measurement
- Competitive benchmarking
- Guidelines and indicators of performance: UN Principles for Responsible Investment (UNPRI), FTSE4GOOD and Dow Jones Sustainability Indexes, Ethibel Sustainability Index (Standard & Poors)

In this category of drivers, we see a myriad of “financial” stakeholders and market forces. While many forces are shareholder or financial sector driven, we find many which are driven by competitive advantage as well.

Market forces influencing sustainability reporting

Financial/Market Forces	<ul style="list-style-type: none"> • Institutional investors: risk management, compliance and performance • Sustainability investment performance track record • Sustainability driven corporate competitiveness and profitability measurement • Competitive benchmarking • Guidelines and indicators of performance: UN Principles for Responsible Investment (UNPRI), FTSE4GOOD and Dow Jones Sustainability Indexes, Ethibel Sustainability Index (Standard & Poors)
Stakeholder Forces	<ul style="list-style-type: none"> • Voluntary sustainability initiatives and accountability • Stakeholder pressure for mandatory disclosure • Stakeholder pressure for mandatory pension fund disclosure • UN Environmental Programme Finance Initiative (UNEP FI), UN Global Compact, Global Reporting Initiative (GRI), Carbon Disclosure Project (CDP), Coalition for Environmentally Responsible Economies (CERES)
Regulatory Forces	<ul style="list-style-type: none"> • National environmental and financial metrics and disclosure demands • Intergovernmental legislation and action plans: EU communication on CSR from November 2011 • Mandatory Reporting on Greenhouse Gases Rule (US), OECD Guidelines for Pension Fund Governance, Sarbanes-Oxley Act

34



Stakeholder Forces:

- Voluntary sustainability initiatives and accountability
- Stakeholder pressure for mandatory disclosure
- Stakeholder pressure for mandatory pension fund disclosure
- UN Environmental Programme Finance Initiative (UNEP FI), UN Global Compact, Global Reporting Initiative (GRI), Carbon Disclosure Project (CDP), Coalition for Environmentally Responsible Economies (CERES)

This category refers to the myriad of initiatives, instruments, standards; and pressure from stakeholders making use of those standards and instruments, further motivating companies themselves, to enhance their disclosure on social and environmental issues.

Regulatory Forces:

While regulation is tightening in some national markets, there are inconsistency in the required levels and types of reporting for publicly listed companies across regions and even across countries in a similar region. In that respect, the European Commission's Communication on CSR from November 2011 proposes guidelines as to how publicly listed companies are expected to report on their social impacts.

Some examples of regulation addressing sustainability reporting are:

- National environmental and financial metrics and disclosure requirements
- Intergovernmental policies: EU communication on CSR from November 2011
- Mandatory Reporting on Greenhouse Gases Rule (US), OECD Guidelines for Pension Fund Governance, Sarbanes-Oxley Act

Slide 35: To Report or Not to Report?

This slide aims at clarifying that not all companies might consider voluntary reporting as a suitable approach. There are any number of reasons why companies may not choose to report or be able to report (e.g. size and composition: non publicly-traded, start-ups, SMEs or family-owned businesses, among others, costs) and there is no evidence to support that failure to report indicates poor performance on sustainability measures. Equally, critics of expanded reporting requirements would argue that the presence of reporting may not always provide evidence of good practice in the areas reported. As such, this Unit does not aim to endorse reporting as a practice, but simply outlines some of the necessary conditions for doing so when companies opt to undertake reporting.

The second point highlights the different formats in which reporting can take place and how it has evolved to become more integrated, and to use diverse channels and formats with the advance of communication technologies.

Reporting has also become an industry, and companies may be faced with marketing pressure from consultants selling their services. This section aims to help participants to assess the benefits and costs, to be able to make informed choices.

To Report or not to Report?

- **Factors influencing decision to report relate to size, stakeholder relations, regulatory requirements, etc.**
- **Reporting has evolved to integrate several formats and channels:**
 - Stand-alone Sustainability Reports
 - Integrated Corporate and Sustainability Reports
 - Interactive online Reports
 - Online, dedicated websites with regularly updated information
 - Different channels and content for different stakeholders

Slide 36: Future outlook: sustainability and integrated corporate reporting mainstreaming...

In concluding this Unit, draw participants attention to the fact the sustainability reporting might no longer be an isolated practice. There is a strong trend towards the integration of sustainability and corporate reporting, which is also being actively promoted in some countries through regulation (example: France) and by the investment community, which is demanding more combined information that allows for understanding performance in an integrated manner:

- In France, a new law has expanded requirements for sustainability reporting to non-listed firms with at least 500 employees as well as French subsidiaries of foreign companies, becoming mandatory for around 2,600 companies. One out of every seven written questions from shareholders of companies on the CAC40 (benchmark index of the French stock exchange) during general assemblies in 2010 related to sustainability issues.
- In South Africa, companies listed on the JSE Securities Exchange must comply with the King Report on Corporate Governance for South Africa (King III), which recommends but does not require that companies produce an integrated report rather than a separate annual financial report and sustainability report.
- Mainstream investors increasingly looking for reliable information that can be independently verified and benchmarked within and across sectors.

A final word of caution is in order—if a company chooses to report, it should be at the end of the process. It is important to first integrate and mainstream sustainability into operations.

Future outlook: sustainability and integrated corporate reporting mainstreaming...

Governments and the financial community strongly driving the trend

- In France, a new law has expanded requirements for sustainability reporting to non-listed firms, becoming mandatory for around 2,600 companies.
- In South Africa, companies listed on the JSE Securities Exchange must comply with the King Report on Corporate Governance for South Africa (King III), which recommends that companies should produce an integrated report rather than a separate annual financial report and sustainability report.
- Mainstream investors increasingly looking for reliable information that can be independently verified and benchmarked within and across sectors
- One out of every seven written questions from shareholders of companies on the CAC40¹, during general assemblies in 2010 related to sustainability issues
- Specialist companies, such as Vigeo, Eiris and SAM, have emerged to provide sustainability ratings, providing independent assessments of ESG performance

1. France's main stock index. It The index represents a capitalization-weighted measure of the 40 most significant values among the 100 highest market capitalized stocks on Euronext Paris bourse.

36



Slide 37: Introduction to Unit 8.5.: Class Discussion on Reporting on Sustainable Supply Chain Performance

Agenda

- 8.1 A review of Corporate Performance Measurement and Reporting
- 8.2 Drivers for sustainability measurement and reporting
- 8.3 Measuring supply chain and sustainability performance
- 8.4 Reporting on sustainable supply chain goals and progress
- 8.5 Class discussion: Reporting on sustainable supply chain performance**

37

Slide 38: Class Example and Discussion: Danone's Human Rights Indicators

In this slide there is an insert of the Section on Social Indicators from the Danone 2010 Sustainability Report, which participants have read as preparation for the session. Guide participants through the report they have read and as the slide shows, build the linkage to the GRI Indicators the report uses as basis.

Participants also should have reviewed the “Danone Way”—the company’s sustainability strategy.

Class Example and Discussion: Danone's Human Rights Indicators

Investment and Procurement Practices

HR1 Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening.

Danone's commitment to human rights is expressed in:

- Danone's membership in the UN Global Compact since 2003 (see page 142).
- Agreements between Danone and the IUF integrating the 7 Fundamental Social Principles (see below) drawn from International Labour Organization (ILO) conventions and applied worldwide.

Human Rights Performance Indicators

ASPECT: INVESTMENT AND PROCUREMENT PRACTICES

HR1 Percentage and total number of significant investment agreements and contracts that include clauses incorporating human rights concerns, or that have undergone human rights screening.

HR2 Percentage of significant suppliers, contractors, and other business partners that have undergone human rights screening, and actions taken.

2010 SUSTAINABILITY REPORT

PERFORMANCE INDICATORS

Human Rights	
INVESTMENT AND PROCUREMENT PRACTICES	203
NON DISCRIMINATION	206
FREEDOM OF ASSOCIATION AND COLLECTIVE BARGAINING	206
CHILD LABOR	207
FORCED AND COMPULSORY LABOR	207
SECURITY PRACTICES	208
INDIGENOUS RIGHTS	208

38

Slide 39: Discussion in Groups

After explaining the documents, walk participants through the exercise and questions. Participants will have 45' to discuss in small groups, the following questions:

- In your view, what are the main (2-3) initiatives Danone is taking forward in this area and what have been the results so far?
- What are specific tools through which Danone measures the sustainability of their suppliers' practices?
- How are the corporate headquarters and the Country Business Business Units (CBUs) working together in implementing and monitoring procedures and practices?
- What are in your view, areas on which Danone's disclosure on human rights performance could improve? Please provide specific examples.

Slide 40: Conclusion

Summarize and repeat key messages when wrapping up, incorporating main topic areas of discussion which may arise during the session.

Class Discussion: Danone's Human Rights Performance Indicators

- As preparation for the module, you have read the Danone Sustainability Report's Section on Human Rights Performance Indicators and related pages
- In your groups, take 45' to discuss this section. Please use the following questions in guiding your discussion:
 - In your view, what are the main (2-3) initiatives Danone is taking forward in this area and what have been the results so far?
 - What are specific tools through which Danone measures the sustainability of their suppliers' practices?
 - How are the corporate headquarters and the Country Business Business Units (CBUs) working together in implementing and monitoring procedures and practices?
 - What are in your view, areas on which Danone's disclosure on human rights performance could improve? Please provide specific examples.

39

Conclusion

- Several approaches to measuring and tracking supply chain performance, but **no one-size fits all solution**
- Measuring and communicating allows for increased **credibility and trust** amongst all stakeholders (including workers)
- Measuring and monitoring as a **systematic process** contributes to **increased operational efficiency** and hence, overall performance improvement
- **Different stakeholders are interested in different metrics.** Tailor efforts and communication accordingly
- The journey has just began. **Transparency** will become ever more important for consumers, investors, suppliers as instant connectivity grows and consumers engage at a deeper level with business

40



Class discussion

An exercise is proposed on the Presentation Notes on Slides 38 and 39 of the Lecture Presentation.

In this class discussion in small groups, participants will be asked to analyse and discuss the section on Human Rights indicators extracted from Danone's 2010 Sustainability Report. The objective of the exercise is to give them a first dive into a report and its indicators in relation to the GRI Framework, which is discussed during the session. We suggest you split participants in groups of 3-4. Their discussion will be guided by the following questions:

- In your view, what are the main (2-3) initiatives Danone is taking forward in this area and what have been the results so far?
- What are specific tools through which Danone measures the sustainability of their suppliers' practices?
- How are the corporate headquarters and the Country Business Units (CBUs) working together in implementing and monitoring procedures and practices?
- What are in your view, areas on which Danone's disclosure on human rights performance could improve? Please provide specific examples.



Once the groups have finished discussion, allow 15' to have a couple of groups report back to the Plenary on their discussion while other participants may complement the discussion.

In case participants have not had time to read the materials beforehand, we suggest you allocate 10' to read as it is simple reading. Participants will, in any case, go back to the pages during the discussion for specific information.



Reading materials

Selected mandatory and complementary readings are provided below to enhance understanding of the main ideas raised in the session as well as provide further explanations for other issues highlighted in the session. Students should be encouraged to read the mandatory readings prior to attending the session so as to actively participate in the sessions and ask questions where need be. These readings will also assist students in the elaboration of coursework and evaluations as well as stimulate research ideas in various areas related to sustainable supply chain management.



Mandatory Readings

-  Danone 2010 Sustainability Report's Section on Human Rights Indicators (pp. 202-208), Danone Way Update (page 81) and RESPECT Program (page 86), available at: www.econsense.de/sites/all/.../Danone-2010-Sustainability-Report.pdf
-  Danone 2009 Sustainability Report's Danone Way Overview, pp. 52-55, available at: www.econsense.de/sites/all/.../Danone_Sustainability_Report_09_1.pdf

Complementary Readings

-  GRI Guidance Documents, available at: www.globalreporting.org/resources
-  We strongly recommend that Faculty teaching this session reads the GRI G3.1 Guidance Document prior to the session.

Other Teaching and Learning Resources

-  "Reporting Change, 2010 Survey of Readers and Reporters", Sustainability, Futerra and KPMG
-  "Small, Smart and Sustainable : Experiences of SME Reporting in Global Supply Chains », Global Reporting Initiative (2008)

Tools and Resources

PowerPoint facilities will be required to deliver the session, notably: a computer, projector, and projection screen.

The computer should be able to support multi-media resources and videos, in case Faculty decides to use one during the session. Ideally, the computer should be connected to the internet as these videos are found online. In the absence of internet connection, the teacher should acquire and upload the video on the computer prior to the session. A writing board (white or black) and flip charts with writing materials will also be required for groups to summarise discussions and brainstorming responses.

Prior to the session, it is recommended that the teacher should read in detail the mandatory and suggested readings, familiarise his/herself with session slides and group discussions/ brainstorming exercises.



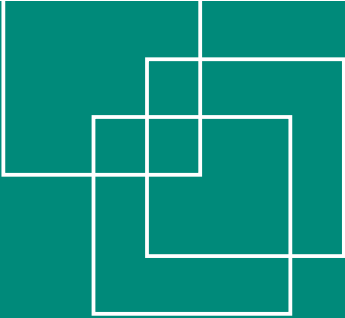
Additonal References

- 📖 Beamon, B. M (1999), “Measuring Supply Chain Performance”, International Journal of Operations and Production Management, Vol. 19, No. 3, pp. 275-292.
- 📖 Brown, J. and Fraser, M. (2006), “Approaches and Perspectives in Social and Environmental Accounting: An Overview of the Conceptual Landscape”, Business Strategy and the Environment, vol. 15, pp. 103-117.
- 📖 Neely, A. et al (2007), “Towards a Definition of Business Performance Measurement System”, International Journal of Operations and Production Management, Vol. 28, No. 8, pp. 784-801
- 📖 Kennerly, M and Neely, A. (2002), “A Framework of the Factors Affecting the Evolution of Performance Measurement Systems”, International Journal of Operations and Production Management, Vol. 22, No. 11, pp. 1222-1245

PARTICIPANT HANDBOOK



Introducing
Sustainability
into the Supply Chain





Sessions 1-8

This handbook was developed as a preparatory guide for participants in the course: “Introducing Sustainability into the Supply Chain”.

It provides session descriptions, objectives, and target learning outcomes. It further provides participants with guidelines on advance preparation, such as reflection questions, assignments, and lists of required and complementary reading or other learning resources for each session.

Participants are encouraged to have read all mandatory readings, including case studies, before each session.

Session 1

From Sustainable Development to Sustainable Supply Chains



About the Session

This session provides an introduction to the complete module and aims to provide course participants with a shared understanding of common definitions, key concepts and issues around “sustainable development”, “sustainability” (social, environmental, and economic), and “sustainable supply chain management”. The session begins by introducing participants to contemporary issues in human development, the impact of globalization on sustainable development, and the potential role of business in addressing development challenges, including through implementation of sustainable supply chains.

The session also outlines for participants the logical flow of the module and describes how each individual session can contribute to the participant’s ability to better address sustainability challenges and introduce improved sustainability practices into their organization’s supply chains.



Session objectives

- Introduce definitions of “sustainable development”, its evolution and key concepts
- Raise awareness for the global social, economic and environmental development priorities that the public and private sector are increasingly urged to address
- Explore the impact of globalization in supply chains and implications for businesses
- Identify leading drivers for introducing sustainability practices in supply chains



Key Learning Outcomes

The suggested session materials and techniques intend to bring together the main theoretical concepts and practitioner views on sustainability and supply chains. Through the combination of lecture contents, reflection questions and brainstorming exercises, participants will be able to:

- Understand the evolution of thinking and ideas around sustainable development and how the issue is being addressed by the international community, business and governments worldwide;
- Identify and categorize key sustainability considerations in supply chains from an environmental, social and economic perspective;



- Understand the broad concept of sustainable supply chains and the link between sustainability, supply chains and competitiveness.

Hence, at the end of the session, you should be able to:

- Build the case for building sustainable supply chains;
- Map supply chains and identify key sustainability issues to address;
- Pinpoint the drivers of sustainability in supply chains and their possible implications.



Readings

A mandatory case study and complementary readings are provided below to enhance understanding of the main aspects covered in the session. Please read the case study: **“Michelin: Green Gold Bahia Project”** prior to attending the session in order to actively contribute to the plenary and smaller groups discussions.

Mandatory Reading

- 📖 **Case Study: “Michelin: Green Gold Bahia Project (Projeto Ouro Verde Bahia)”**, adapted from: Sims, E. & Posthuma (2009), A., “Global reach–local relationships: Corporate social responsibility, workers’ rights and local development”, ILO Employment Working Paper No. 28.

Complementary Readings

- 📖 Carter, C.R. and Rogers, D. S. (2008): “A Framework of Sustainable Supply Chain Management: Moving Towards New Theory”, International Journal of Physical Distribution and Logistics Management, Vol. 38, No. 5, pp. 360-387.
- 📖 Millennium Development Goals Progress Report 2011 United Nations, New York, 2011, accessible at: <http://mdgs.un.org/unsd/mdg/Host.aspx?Content=Products/ProgressReports.htm>
- 📖 The Sustainable Development Timeline, available at: www.iisd.org

Session 2

Governance of Supply Chains I: From Compliance to Voluntary Standards



About the Session

Trade liberalization over the past three decades has led to dramatic changes in industrial organization. In today's economy, globalized production systems have provided unprecedented access to new markets for developing and developed countries alike. Developing countries have enhanced their industrial capabilities, leading transnational corporations in many cases to vertically disintegrate and outsource many of their core manufacturing and service activities. With the proliferation of NGOs and business initiatives dealing with standard setting, certification and labelling activities, governance and collaborative arrangements for sector specific policy-making, and supply chain management interventions, questions are raised concerning which stakeholders are key for these initiatives and under what institutional arrangements and mechanisms. Therefore, the production and process control exercised by lead firms or transnational corporations over others in their chain is not only the focus of firms keen to build or retain competitiveness and brand value, but is a growing area of focus for policy makers, activists, academics and consumers, in the context of promoting social and environmental sustainability standards. This session intends to discuss the concept and models of the supply chain governance, and how the mechanisms are used by different actors from within the supply chain to influence and control the actions of other supply chain partners.



Session objectives

The overall goal of the session is to provide participants with an understanding and appreciation of the changing institutional environment and governance mechanisms of global supply chains. As a result, participants should be able to:

- Understand the impact of globalisation on industrial organization;
- Explain common definitions, typologies and importance of “governance” in the context of global value/supply chains;
- Identify the variables that influence how supply chains are governed and the roles of internal and external actors in parameter setting and enforcement;
- Recognize emerging trends and implications for buyers, suppliers, and policy-makers.



Key Learning Outcomes

Through the mandatory reading, the use of video, examples and classroom discussion, participants should have an improved ability to:

- Build an appropriate and effective sustainable supply chain governance mechanism;
- Engage stakeholders, through a collaborative approach, towards addressing sustainability challenges;
- Anticipate the sources of change in global supply chain governance based on a better understanding of why supply chain governance patterns arise.



Key Questions

In order to stimulate initial thoughts, you will be expected to read the mandatory readings and reflect on the following questions:

1. Why does governance matter in supply chain management?
2. How can lead firms in a supply chain more effectively guarantee the sustainability of their supply chains? What are the risks associated with failure to effectively implement effective governance mechanisms, including the appropriate implementation of standards?
3. Which stakeholders could be valuable in ensuring effective implementation of social and environmental sustainability standards across global supply chains?



Readings

Mandatory Readings

- 📖 Gereffi, G.; Humphrey, J. and Sturgeon, T. (2005); “The Governance of Global Value Chains”, Review of International Political Economy, 12:1, pp. 78-104.
- 📖 Humphrey, J. and Schmitz, H. (2001), “Governance in Global Value Chains”, Institute of Development Studies Bulletin, 32, pp. 19-29. Available at: <http://www.ids.ac.uk/index.cfm?objectid=FA0B9173-5056-8171-7BB32B3E86AD3BC7>.

Complementary Readings

-  Albareda, L. (2008), "Corporate Responsibility, Governance and Accountability: From Self-Regulation to Co-Regulation", *Corporate Governance*, Vol. 8, No. 4, pp. 430-439.
-  Castka, P. and Balzarova, M. (2008); "ISO 26000 and Supply Chains – On the Diffusion of the Social Responsibility Standard", *International Journal of Production Economics*, 111, pp. 274-286.
-  Dolan, C.; and Blowfield, M. (2010); "Outsourcing Governance: Fairtrade's Message for C21 Global Governance", in "Climates of Change: Sustainability Challenges for Enterprise"; Smith School Working Paper Series, University of Oxford, April. Available at: <http://www.smithschool.ox.ac.uk/wp-content/uploads/2010/02/Blowfield-online2.pdf>
-  Robinson, P. K. (2010), "Do Voluntary Labour Initiatives Make a Difference for the Conditions of Workers in Global Supply Chains?" *Journal of Industrial Relations*, Vol. 52, Issue 5, pp. 561-573.
-  Vermeulen, W. J. V. and Seuring, S. (2009), "Sustainability Through the Market – The Impacts of Sustainable Supply Chain Management: Introduction", *Sustainable Development*, Vol. 17, Iss. 5, pp. 269-273.
-  International Voluntary Standards such as: United Nations Global Compact Principles; ILO Declaration on Fundamental Principles and Rights at Work; Multinational Enterprise Declaration; OECD Guidelines for Multinational Enterprises; ISO14000 and ISO26000 Guidelines.



Session 3

Governance of Supply Chains II: Introducing International Labour Standards



About the Session

This session supplements Session 2: Governance of Supply Chains I in providing participants an additional overview of the leading international standards and key instruments pertaining to the social dimension of sustainable development. The session is divided into two distinct thematic areas: (1) An overview of the diverse categories of standards, and a description of the leading standards, and (2) An introduction to core labour standards based on ILO conventions and integrated into all leading instruments.

As many supply chains feed into global production systems and trade, participants should gain a deeper understanding of how public policy and private codes as well as the underlying principles and norms are increasingly addressed to supply chain operations.

Building on learning in Session 2 and this session, participants are introduced to the role of social dialogue through the discussion of the International Framework Agreement case study.



Session objectives

- Build awareness for the main standards and key instruments as well as the role of international organizations pertaining to the social dimension of sustainable development.
- Understand the role of labour principles and standards in supply chains.
- Discuss how principles can be implemented in supply chains.



Key Learning Outcomes

The suggested session materials and techniques intend to bring together the main theoretical concepts and practitioner views on international standards and codes of conduct in supply chains. Through the combination of lecture contents, reflection questions and brainstorming exercises, you will be able to:


- Identify the key international standards and instruments within diverse categories, differentiating those which are authoritative and rights-based from other initiatives.
- Identify core international labour standards and important underlying principles of good practice.
- Consider the link between the application of standards, productivity, and competitiveness.



Readings

Please read the case study: *International Framework Agreement* between Inditex and The International Textile, Garment and Leather Workers Federation (ITGLWF) prior to attending the session in order to actively participate and contribute to the plenary and groups discussions. Additional complementary readings are provided below to enhance understanding of the main aspects covered in the session.

Mandatory Readings

-  *International Framework Agreement* between Inditex and The International Textile, Garment and Leather Workers Federation (ITGLWF) on the implementation of International Labour Standards throughout the Inditex Supply Chain, from October 4, 2007, at: <http://www.itglwf.org/lang/en/global-framework-agreements.html>.

Complementary Readings

-  Human Rights Council (March 21, 2011): Report of the Representative of the Secretary-General on the issue of human rights and transnational corporations and other business enterprises, John Ruggie: Guiding Principles on Business and Human Rights: Implementing the United Nations “Protect, Respect and Remedy” Framework [on <http://www.business-humanrights.org/SpecialRepPortal/Home> and <http://www.business-humanrights.org/media/documents/ruggie/ruggie-guiding-principles-21-mar-2011.pdf>].
-  International Labour Organization (2006) Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy, Geneva: http://www.ilo.org/empent/Publications/WCMS_094386/lang—en/index.htm
-  International Labour Organization (1998), Declaration on Fundamental Principles and Rights at Work, Geneva.
-  International Labour Office (2009), Rules of the Game: A brief introduction to International Labour Standards.
-  International Labour Office (2008), The Labour Principles of the United Nations Global Compact: A Guide for Business.
-  ISO 26000 (2010), Guidance on social responsibility.
-  ITGLWF (2010), The ITGLWF - Inditex GFA: Trail Blazing Agreement to Promote Decent Work in Inditex Supply Chain - <https://www.itglwf.org/.../global-framework-agreement> [accessed December 15, 2011].
-  Litovsky, A., Rochlin, S., Zadek, S. and Levy, B. (2007) Investing in Standards for Sustainable Development: The Role of International Development Agencies in Supporting Collaborative Standards Initiatives. Account Ability, London, United Kingdom.
-  Ruggie, John, Speaking at the International Labour Conference in Geneva in June 2010: <http://www.youtube.com/watch?v=55PJw077eQE>.
-  OECD (2001), OECD Guidelines for Multinational Enterprises, OECD Publishing <http://dx.doi.org/10.1787/9789264115415-en>.
-  OECD, ILO (2008) Instruments Relevant to Corporate Social Responsibility.
-  United Nations Conference on Trade and Development (2011): World Investment Report 2011, Corporate Social Responsibility, pp. 111-122.



Session 4

Sustainable Supply Chains as a Lever of Competitive Advantage



About the Session

As more and more companies begin to recognize the importance of including sustainable development goals in their strategic planning, the focus on implementation is rapidly shifting towards the role of the supply chain – as more often today “supply chains compete, not companies” (Christopher, 1992). Considering the complex nature of Supply Chains and the fact that sustainability issues stretch beyond single companies and industries, Sustainable Supply Chain Management (SSCM) is increasingly being considered a potential source of sustainable competitive advantage. Moreover, in the wake of the recent global and economic crisis (2008 – 2010), there is additional pressure for business leaders and schools to embrace principles of sustainable management. It is within this context that this session explores approaches to SSCM that could result in competitive advantage.



Session Objectives

The principal goal of the session is to understand how competitive advantage can be achieved by integrating sustainability practices into the supply chain. Specific objectives are to:

- Identify the link between strategy, competitive advantage and Sustainable Supply Chains (SSCs);
- Understand the complex nature of Supply Chains;
- Explore the possibility of gaining Competitive Advantage (CA) through SSCM.



Key Learning Outcomes

The suggested session materials aim at enabling participants to understand the competitive benefits that are likely to accrue from pursuing a SSCM strategy – so as to enable you to:

- Identify and prioritise sustainability challenges that ought to be considered within specific supply chain management contexts; and
- Be able to develop appropriate sustainable supply chain vision, mission and strategies capable of creating competitive advantage.

By the end of the session, you should be able to:

- Build a convincing case for pursuing a SSCM strategy; and
- Lead or champion the process of integrating sustainability into the supply chain.



Readings

Mandatory Readings

- 📖 **Markey, M.J. and Davis, L. (2007), “Exploring Future Competitive Advantage through Sustainable Supply Chains”, International Journal of Physical Distribution and Logistics Management, Vol. 37, No. 9, pp. 763-774.**

Complementary Readings

- 📖 Davis, E.W. and Spekman, R.E. (2004), “The Extended Enterprise: Gaining Competitive Advantage Through Collaborative Supply Chains (Chapter 4), New Jersey, Financial Times Prentice-Hall
- 📖 Porter, M. and Kramer, M. (2011), “Creating Shared Value: How to Reinvent Capitalism - and Unleash a Wave of Innovation and Growth”, Harvard Business Review, January-February.
- 📖 Porter, M. and Kramer, M. (2006), “Strategy and Society: The Link Between Competitive Advantage and Corporate Social Responsibility”, Harvard Business Review, December
- 📖 Lee, H. L. (2010), “Don’t Tweak your Supply Chain – Rethink it End to End”, Harvard Business Review, October.
- 📖 Waller, D. L. (2003), “Operations Management: A Supply Chain Approach”, 2 Edition, London, Thomson
- 📖 Jenkins, M., Ambrosini, V. and Collier, N. (2007), “Advanced Strategic Management: a Multi-Perspective Approach”, 2 Edition, New York, Palgrave MacMillan (Chapter 9)



Session 5

Integrating Sustainability into the Supply Chain



About the Session

As the sources of competitive advantage become rarer, the integration of sustainability practices into supply chain management is increasingly a viable source of competitive advantage. Leading businesses are going beyond conventional supply chain management practices and are adopting new behaviours – by collaborating with non-traditional supply chain partners and introducing new performance measurement metrics. This session seeks to provide knowledge and tools required to address the complexities associated with rising social and environmental concerns in order to effectively integrate sustainability into the supply chain. Supply chain professionals are well positioned to simultaneously contribute to business growth and societal wellbeing.



Session objectives

The principal goal of this session is to provide participants with the knowledge base and framework required to effectively integrate sustainability into the supply chain. After providing participants with key concepts related to sustainable supply chain management (SSCM) and its strategic importance to company and societal growth, this lecture moves on to explore implementation, “how-to” approaches. The session is designed to achieve a number of specific objectives as participants are expected to:

- Understand best practices for integrating sustainability into the supply chain;
- Discuss and analyse the steps required to effectively build a sustainable supply chain; and
- Understand the benefits and challenges for integrating sustainability into the supply chain.



Key Learning Outcomes

Participants should be able to internalize at least three main messages from the session, notably:

- A proactive approach to sustainable supply chain management is key, even if it stems from criticisms and concerns of various stakeholder groups;
- Despite real-life complexities involved in establishing sustainable supply chains, researchers have developed useful guides and steps that can facilitate the integration of social and environmental sustainability issues into supply chains; and
- Integrating sustainability into the supply chain is crucial for the long-term growth and survival of a business.

Hence, at the end of the session, participants you should be able to:

- Build a solid case for proactively integrating sustainability into the supply chain; and
- Use the tools provided to effectively integrate sustainability into the supply chain of any company, regardless of the industry and company size.



Key Questions



In order to stimulate initial thoughts on the issues that will be examined in the session, you will be expected to read the case study: **Goldberg, R. A. and Yagan, J. D. (2007), “McDonald’s Corporation: Managing a Sustainable Supply Chain”, Harvard Business School, April 16**, and reflect on questions 1 to 4 below.

1. Assume that you are appointed supply chain manager in a corporation of your choice, what will be your three most important sustainability priorities and why?
2. What incentives will you use to induce buy-in from senior management, employees and suppliers?
3. To what extent can it be said that “McDonald’s sustainable supply chain initiative is a proactive strategy?”
4. How can McDonald’s use its SSCM strategy to foster the attainment of the Millennium Development Goals in developing countries?












Readings

Mandatory Readings

-  **Case Study:** Goldberg, R. A. and Yagan, J. D. (2007), “McDonald’s Corporation: Managing a Sustainable Supply Chain”, Harvard Business School, April 16.
-  Pagell, M. and Wu, Z. (2009), “Building a More Complete Theory of Sustainable Supply Management Using Case Studies of 10 Exemplars”, *Journal of Supply Chain Management*, Vol. 45, No. 2, pp. 37-56.

Complementary Readings

-  Barney, J. B. (2007), “*Gaining and Sustaining Competitive Advantage*”, Third Edition, New Jersey, Pearson Prentice Hall, pp. 133-169.
-  Carter, C. R. and Rogers, D. S. (2008), “A framework of Sustainable Supply Chain Management: Moving toward New Theory”, *International Journal of Physical Distribution and Logistics Management*, Vol. 38, NO. 5, pp. 360-387.
-  Kolk, A. and Van Tulder, R. (2006), “Poverty Alleviation as Business Strategy? Evaluating Commitments of Frontrunner Multinational Corporations”, *World Development*, Vol. 34, No. 5.
-  Maignan, I.; Hillebrand, B.; and McAlister, D. (2002), “Managing Socially Responsible Buying: How to Integrate Non-Economic Criteria into the Purchasing Process”, *European Management Journal*, Vol. 20, No. 6, pp. 641-648.
-  Markley, M. L. and Davis, L. (2007), “Exploring Future Competitive Advantages through Sustainable Supply Chains”, *International Journal of Physical Distribution and Logistics Management*, Vol. 37, Iss. 9, pp. 763-774.
-  Prahalad, C. K. and Hammond, A. (2002), “Serving the World’s Poor, Profitably”, *Harvard Business Review*, September.
-  Seuring, S. and Müller, M. (2008), “From a Literature Review to a Conceptual Framework for Sustainable Supply Chain Management”, *Journal of Cleaner Production*, 16 (15), pp. 1699-1710.
-  Walker, H.; Di Sisto, L. and McBain, D. (2008), “Drivers and Barriers to Environmental Supply Chain Management Practices: Lessons from the Public and Private Sectors”, *Journal of Purchasing and Supply Management*, 14, pp. 69-85.
-  Rogovsky, N. and Sims, E. (2002), “Corporate success through people: making international labour standards work for you”, ILO.

Session 6

Managing Stakeholder Relations



About the Session

As highlighted in previous sessions, a company's internal and external stakeholders can have significant influence over its supply chain management decisions. Companies that ignore sustainability concerns raised by these groups can suffer the consequences of lost reputation and revenues. Rebuilding either or both can be costly. Additionally, leading businesses committed to sustainability are realising the benefits that accrue from more effectively engaging with both traditional and non-traditional supply chain partners. This session provides participants with an understanding of the “why” and “how” of stakeholder management. The session uses stakeholder theory to explain and analyse the importance of proactively managing stakeholder relations in the supply chain.



Session Objectives

The overall goal of the session is to enable participants to understand and more effectively manage stakeholder relations in the supply chain. The specific objectives are to enable participants to:

- Understand the importance of identifying supply chain stakeholders, their respective stakes; and the stakeholders' relations management process;
- Prioritize and better manage conflicting stakeholder needs and expectations;
- Understand how to effectively manage a specific stakeholder concern – human rights; and
- Identify the benefits and challenges of stakeholder engagement



Key Learning Outcomes

The suggested session materials and methodologies are aimed at bridging the gap between theory and practice as well as encouraging active learning so as to enable participants to be able to:

- Identify and prioritise key supply chain stakeholders and their respective stakes – as this constitute an important first step towards managing stakeholder relations; and
- Understand how to actively involve various internal and external stakeholders at all stages of the stakeholder management process.

Hence, at the end of the session, you should be able to:

- Build the case for proactively engaging stakeholders in the supply chain;
- Identify key supply chain stakeholders and analyse their main interests and claims; and
- Use recommended frameworks for managing stakeholder relations within the context of supply chains.



Key Questions



Please read the mandatory reading titled: “**Nigeria: Oil industry has brought poverty and pollution to Niger Delta**”. In order to facilitate your understanding of the case, we suggest you explore the following reflection questions as you read:

1. How do supply chain stakeholders impact the behaviour of multinational corporations?
2. Can multinational corporations respond to all the supply chain concerns of diverse stakeholders groups?
3. What should corporations consider when responding to the demands of supply chain stakeholders?
4. Who are the key supply chain stakeholders in the Amnesty International case and what are their respective interests or claims?









Readings

Mandatory Readings

-  Case Study – Amnesty International (2009), “Nigeria: Oil industry has brought poverty and pollution to Niger Delta”.
-  Preble, J. F. (2005), “Towards a Comprehensive Model of Stakeholder Management”, *Business and Society Review*, Vol. 110, Iss. 4, pp. 407-431.

Complementary Readings

-  Freeman, R. E. (2008), “Managing for Stakeholders: Survival, Reputation and Success”, Darden Business Publishing, University of Virginia.
-  Burchell, J. and Cook, J. (2006), “It’s Good to Talk? Examining Attitudes towards Corporate Social Responsibility Dialogue and Engagement Processes”, *Business Ethics: A European Review*, Vol. 15, No. 2, pp. 154-170.
-  Mitchell, R. K., Agle, B. R., and Wood, D. J. (1997), “Toward a Theory of Stakeholder Identification and Salience: defining the Principle of Who and What Really Counts”, *Academy of Management Review*, Vol. 22, No. 4, pp. 853 – 886.
-  Roloff, J. (2008), “Learning From Multi-Stakeholder Networks: Issue-Focused Stakeholder Management”, *Journal of Business Ethics*, Vol. 82, pp. 233-250.
-  Ruggie, J. (2008), “Protect, Respect and Remedy: a Framework for Business and Human Rights”, UN Human Rights Council. 8th session. Available on <http://www.reports-and-materials.org/Ruggie-report-7-Apr-2008.pdf>
-  Sharma, S. and Henrique, I. (2006), “Stakeholder Influences on Sustainable Practices in the Canadian Forest Products Industry”, *Strategic Management Journal*, vol. 26, Iss. 2, pp. 159-180.



Session 7

Building Supply Chain Partnerships



About the Session

This session explores the process of building supply chain partnerships and the advantages associated with the establishment of partnerships in supply chains. Partnerships are proposed as an option to the traditional vertical integration paradigm of supply chain relationships and are increasingly used to gain competitive advantage. The key issue is that strategic partnerships should result in a 'win-win' situation for all partners in the supply chain. For established businesses, moving from a traditional paradigm of supply chain to the partnership model may entail an organizational change. In that sense, the supply chain partnership is ideal for new business models. As with any form of alliance, the building of a supply chain partnership entails know-how and skills to devise an acceptable framework based on mutual trust.

This session aims at providing participants with the knowledge required to build and manage successful supply chain partnerships. The examples provided in this session refer mostly to the tourism industry, since it is an industry that lends well to examining the advantages of partnering in a context that supersedes the more classical approach to supply chain management that is constrained to the analysis of procurement/ buying problems or to transport and logistics issues. The session can also be used as a complement for inclusive business courses.



Session Objectives

The principal goal of the session is to provide participants with the building blocks of developing and managing supply chain partnerships. Specific objectives are:

- To understand the different types of Supply Chain relationships;
- To examine the benefits of partnerships in sustainable supply chains with a focus on value creation;
- To be able to identify, analyse and address the problems related to Supply Chain partnerships;
- To raise awareness on the requirements for building and maintaining successful partnerships and to emphasize the centrality of trust and organizational alignment.



Key Learning Outcomes

By the end of the session, you should be able to:

- Understand the different types of relationships that develop in supply chains.
- Examine the benefits of partnerships in sustainable supply chains with a focus on value creation;
- Be able to identify, analyze and address the problems related to Supply Chain partnerships;
- Build and maintain successful supply chain partnerships.



Key Questions

Case Study Preparatory Assignment: Please read the mandatory case study: “**Posada Amazonas**” and reading “**Collaborative Advantage: The art of alliances**” (Kanter, 1994). Based on these readings, please answer the following questions prior to the session and submit your written responses at the start of the session (maximum of 1500 words).

1. Identify the different participants and draw a diagram of the supply chain of Rainforest Expeditions.
2. Describe the problems that Kurt Holle is facing in Posada Amazonas.
3. According to Kanter, what are the main day-to-day problems that crop up in an alliance?



Readings

Mandatory Readings

- 📖 Revilla, J. & Pérez, F. (2003), “*Posada Amazonas*”, Case SKE002-PDF-ENG. Boston: Harvard Business School Publishing.
- 📖 Kanter, R.M. (1994), “Collaborative Advantage: The art of alliances”, Harvard Business Review, July-August, pp. 96-108.

Complementary Readings

- 📖 Emmet, S. & Crocker, B. (2006), “The Relationship-Driven Supply Chain”, Chapter 2, Gower: England.



Session 8

Measuring and Communicating on Sustainable Supply Chain Performance



About the Session

As supply chains become more globalized and complex, their management requires optimizing systems and processes that enable accountability and further transparency. While governance issues might be monitored and managed through regulation, mandatory and voluntary standards, businesses face the challenge of identifying metrics and monitoring systems that support measuring results and readjusting goals.

This session explores the most common mechanisms in use today for measuring, monitoring and communicating progress and impact achieved through sustainable supply chain practices.



Session objectives

The overall goal of the session is to provide participants with an understanding of the need to measure and monitor sustainability efforts in the supply chain. This is a complex task and companies are increasingly challenged to find the right metrics and realistic ways to measure efforts. In seeking to achieve the overall goal, the specific objectives of the session are to enable participants to:

- Understand the importance of measuring and monitoring to improve sustainability performance in supply chains;
- Learn about the most widely used methodologies and tools to measuring and monitoring supply chain and sustainability performance;
- Understand the challenges involved in identifying relevant metrics and consistently measuring results;
- Explore tools and systems to track and communicate results to stakeholders.



Key Learning Outcomes

The session aims at encouraging active learning through illustrative examples and discussion. Students are expected to take home at least three main points:

- Measurement and monitoring can be useful tools for companies seeking to assess the effectiveness of sustainable supply chain efforts;
- Companies may adopt different approaches such as balanced score card or other depending on the scope of their efforts, goals and resources available. Regardless of the approach, it is important to adopt a systematic approach that allows monitoring progress overtime and readjusting initiatives and expected outcomes; and
- While reporting has been widely adopted and has increased transparency for stakeholders, it is not the only solution for communicating results. Before making the decision of reporting or communicating, business must be aware of the resources involved and implications.

Hence, at the end of the session, you should be able to:

- Explain what efforts to measure and monitor supply chain sustainability aim to achieve and how they work;
- Understand how a company seeking to measure and monitor would select a methodology and craft a framework to measure and monitor, including relevant metrics, baseline measurements and a systematic monitoring process that allows adjustments; and
- Develop simple systems to share information with relevant stakeholders on progress that allow aligned and integrated corrective actions.



Key Questions

In order to stimulate initial thoughts on the issues that will be examined in the session, you may reflect on the following questions:

1. Why should an organization measure and monitor results achieved on sustainable supply chain goals?
2. What are the challenges that organizations may find in identifying metrics and measurement systems?
3. Which are the areas of the organization involved in and impacted by the adoption of measurement and monitoring systems?
4. How can businesses work with external stakeholders in improving measurement and monitoring, and ultimately, increasing impact across global supply chains?





Reading Materials




Selected mandatory and complementary readings are provided below to enhance your understanding of the main ideas raised in the session as well as to prepare participants for the activities and discussions planned during the session.

Please read the mandatory readings ahead of the session so as to actively participate and contribute to the discussions. These readings are extracts of French company **Danone's Sustainability Report 2010** and focus on the company's indicators for measuring and reporting of progress on human rights issues, which will serve as a case for analysis and discussion in class.

Mandatory Readings

-  Danone 2010 Sustainability Report's Section on Human Rights Indicators (pp. 202-208), Danone Way Update (page 81) and RESPECT Program (page 86), available at:
www.econsense.de/sites/all/.../Danone-2010-Sustainability-Report.pdf
-  Danone 2009 Sustainability Report's Danone Way Overview, pp. 52-55, available at:
www.econsense.de/sites/all/.../Danone_Sustainability_Report_09_1.pdf

Complementary Readings

-  GRI Guidance Documents, available at: www.globalreporting.org/resources.
-  "Reporting Change, 2010 Survey of Readers and Reporters", Sustainability, Futerra and KPMG.
-  "Small, Smart and Sustainable: Experiences of SME Reporting in Global Supply Chains", Global Reporting Initiative (2008).

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