

CREATING A CULTURE OF HONESTY AND INTEGRITY IN SUPPLY CHAINS

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ABSTRACT

Organisations have now risen to the challenge of sustainability that includes honesty and integrity in supply chains. From industry level certifications/audits and adoption of transparency progression models to principles being laid down by the UN on a Code of Conduct for sustainability and regulation by quasi-regulators like accounting standard setters as well as regulation by government bodies themselves making sustainability reporting mandatory at least for big companies, a lot of work has been done to carry forward the agenda of sustainability in supply chains. The goal is to ensure ethical practices throughout the supply chain for the benefit of consumers and other stakeholders.

Keywords: Supply Chain Integrity Principles, Sustainability Reporting

INTRODUCTION

Honesty and integrity in supply chains is now expected of every business. Shareholders, employees, customers and other stakeholders all place a premium on ethical businesses – businesses that not only follow ethical principles themselves but also ensure that their Tier 1, Tier 2 and Tier 3 suppliers, all follow codes of conduct that lead to social and environmental sustainability. Hence, it has become vital to create a culture of honesty and integrity in all internal and external activities. While maintaining an internal culture of honesty and integrity may come fairly easily, ensuring ethical conduct of suppliers and sub-suppliers can be somewhat challenging. Yet, there has been a great deal of progress in this direction at an international level.

Development of Industry Supply Chain Certifications / Audits

Industry supply chain certifications / audits are providing the easy first check as these have become eligibility criteria to be enrolled as a supplier or sub-supplier. The certifications/audits ensure that every organization is aware of the production process at the suppliers' end (visibility and traceability), communicates that well to the customers (transparency) and keeps the focus on integrity (doing it right even when no one is watching). Table 1 provides some examples of such certifications/audits. Such sector-level certifications and audits are quite common as they provide the first identifiable measure of ethical behaviour.

The Higg index, for example, comprises of online tools or modules designed for members from every segment of the apparels industry. By entering data about their business' impact areas, Sustainable Apparel Coalition (SAC) members generate standardized performance scores that can be shared with current and future supply chain partners around the world at the click of a button. Modeled after the Higgs Index is the Sedex Risk Assessment tool that gives a clear indication of the likelihood of risks occurring in the supply chain. Nonetheless,

there have been cases where audits that use scores from these indices have not been able to identify serious wrong-doing in the organisations.

Table 1. Examples of Industry Supply Chain Certifications / Audits

EXAMPLES OF INDUSTRY SUPPLY CHAIN CERTIFICATIONS/AUDITS			
Certification/Audit	Sponsor	Industry	Website
Higg Index	Sustainable Apparel Coalition	Apparel	http://apparelcoalition.org/the-higg-index/
SEDEX	Supplier Ethical Data Exchange	Fast Moving Consumer Goods	http://www.sedexglobal.com/member-services/sedex-data-monitor
EICC Validated Audit Process (VAP)	Electronic Industry Citizenship Coalition	Electronics Industry	http://www.eiccoalition.org/standards/validated-audit-process/
Conflict Materials Report "CMR" Audit	Conflict Materials Consortium	Metals Industry	http://www.conflictmineralsconsortium.com/node/29
Forest Stewardship Council (FSC) certification	Forest Stewardship Council	Forestry	https://us.fsc.org/en-us/certification
UTZ Certification	UTZ	Coffee, Cocoa, and Tea	https://www.utz.org/what-we-offer/certification/
MSC Fisheries	Marine Stewardship Council	Seafood	https://www.msc.org/get-certified
Fair Trade Certification	Fair Trade USA	Encompass many products, from tea to chocolate to body care to wine	http://fairtradeusa.org/certification

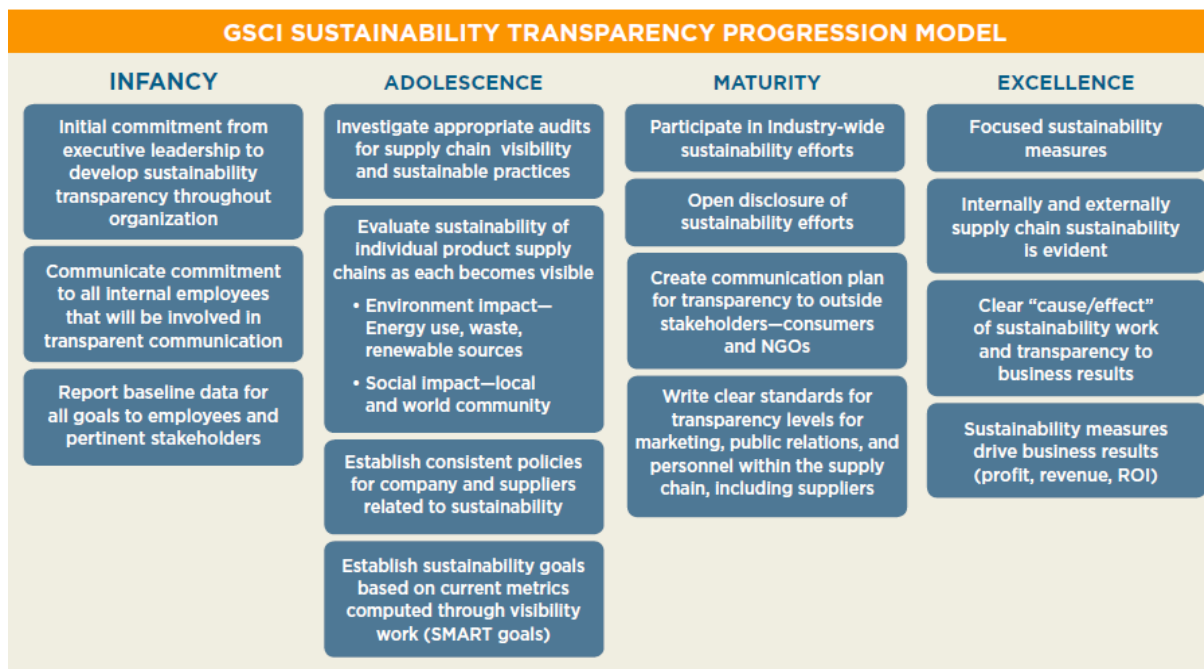
Source: Report by Global Supply Chain Institute (GSCI), University of Tennessee, November 2016

For example, the Rana Plaza garment factory in Bangladesh in 2013 collapsed after it had been audited twice by Primark's ethical team. More than 1134 people died and over 2500 injured in this collapse. The building housed illegal garment factories that were manufacturing apparels for brands like Primark, Benetton, Bonmarche, the Children's Place, El Corte Ingles, Joe Fresh, Monsoon Accessorize, Mango, Matalan and Walmart. Similarly, there was evidence of human slavery in the Thai shrimp industry in 2014.

A report on Ethical Audits and the Supply Chain of Global Corporations published by the Sheffield Political Economy Research Institute in January 2016 has noted that this system of corporate self-governance may have served the interests of corporates but may have failed the interests of workers and the environment. This is more so as auditors are self-selected and are bound by rigid confidentiality clauses making it possible for clients to influence the reporting of adherence to social and environmental standards.

GSCI has also laid down a sustainability progression model which can easily be used as a measurement benchmark tracking the progress as the organisation moves from infancy stage to excellence stage. Table 2 depicts this sustainability benchmark model.

Table 2. GSCI Sustainability Transparency Progression Model



Source: Report by Global Supply Chain Institute (GSCI), University of Tennessee, November 2016

Examples of Corporate Code of Conduct on Sustainability in Annual Reports

The UN Global Compact urges companies everywhere to align their operations with the following principles dealing with human rights:

The Ten Principals of the UN Global Compact



Source: <http://globalcompact.in/ungc-principles/>

Some examples from corporate financial reports on supply chain integrity:

Zero-tolerance requirements for suppliers

Globally defined HSEC and business conduct requirements that are areas of extremely high reputation risk.	
Compliance	Requirements
Corruption, bribery, sanctions and extortion	The supplier must comply with BHP Billiton's anti-corruption and sanctions requirements.
HSEC	The supplier must comply with BHP Billiton's HSEC requirements relevant to work completed as part of the supply contract with BHP Billiton.
Laws and regulations	The supplier must comply with the letter and, where it is clear, the intent of all laws and regulations relating to their business conduct. This includes understanding laws and regulations relevant to their work and complying with legal requirements of the country where they are working.
Labour rights	Requirements
Child labour	Children must not be hired to work before completing their compulsory education (as determined by applicable local laws). Notwithstanding local requirements, the minimum age for entry into employment must not be younger than 15 years of age.
Forced or compulsory labour	The supplier must affirm there is no forced, bonded or involuntary labour.
Freedom of association	The supplier must: <ul style="list-style-type: none"> • adopt an open attitude towards the legitimate activities of trade unions; • allow their workers' representatives to carry out their legitimate representative functions in the
Living wage	Wages and benefits paid for a standard working week must satisfy, at a minimum, national legal standards or local industry benchmarks, whichever is higher. In nation states where no minimum wage legislation exists, the supplier must seek to establish a living wage that provides an adequate standard of living for all its employees and their dependants.
Non-discrimination and diversity	The supplier must: <ul style="list-style-type: none"> • provide a work environment in which everyone is treated fairly and cultural, ethnic, religious or other diversity factors such as gender are respected; • offer employment on the basis of merit; • not base decisions regarding employment on attributes unrelated to job performance (including but not limited to, race, colour, gender, religion, personal associations, national origin, age, disability, political beliefs, marital status, sexual orientation and family responsibilities). Decisions relating to suppliers, customers, contractors and other stakeholders must also be based on merit.
Workplace health and safety	The supplier must provide: <ul style="list-style-type: none"> • safe and healthy working facilities and appropriate precautionary measures to protect employees from work-related hazards and anticipated dangers in the workplace; • workers with regular and recorded health and safety training; • clean and safe accommodation that meets the basic needs of the workers (where provision is applicable).

Source: BHP Billiton Annual Report, 2016

The Operational Principles of the Ruggie Framework in Inditex

	The Operational Principles of the Ruggie Framework	Application of the principles in Inditex
Policy commitment	"Business enterprises need to strive for coherence between their responsibility to respect human rights and policies and procedures that govern their wider business activities and relationships".	The Code of Conduct for Manufacturers and Suppliers protects fundamental labour rights and compliance with the Code of Conduct is mandatory for each and every one of Inditex's suppliers and manufacturers.
Due diligence	"Business enterprises should carry out human rights due diligence. The process should include assessing actual and potential human rights impacts, integrating and acting upon the findings, tracking responses, and communicating how impacts are addressed".	Identification and assessment of the supply chain by means of the Compliance Programme and the activities implemented as part of the Strategic Plan for supply chain management
Remedy	"Where a business enterprise identifies such a situation, whether through its human rights due diligence process or other means, its responsibility to respect human rights requires active engagement in remediation, by itself or in cooperation with other actors".	Optimization of the supply chain by means of Corrective Action Plans and collaboration with stakeholders.
Issues of context	"All business enterprises have the same responsibility to respect human rights wherever they operate. Where the domestic context renders it impossible to meet this responsibility fully, business enterprises are expected to respect the principles of internationally recognized human rights to the greatest extent possible in the circumstances, and to be able to demonstrate their efforts in this regard."	Inditex's policies concerning supply chain management are global in nature, but are applied locally and adapted to the needs and legislation of all countries where the Group manufactures products by means of supplier clusters.

Source: Integrity of Supply Chain, Inditex Annual Report, 2014

(http://static.inditex.com/annual_report_2014/en/our-priorities/integrity-of-the-supply-chain/)

INDITEX ANNUAL REPORT 2014		MENU ≡
No. of external audits	8,062	4,110
No. of internal audits	2,212	2,502
MANUFACTURING OF RESPONSIBLE PRODUCTS		
No. of chemical products on The List, by Inditex	8,258	4,224
Best Adaptation Good Manufacturing Practice - Ready To Manufacture -	90%	65%
No. of manufacture units (wet process plants) involved - Ready To Manufacture -	885	571
Investment in innovation (euros)	1,500,000	800,000
EFFICIENT USE OF RESOURCES		
Overall Energy Consumption (TJ)	6,358	5,870
Renewable energy generation, trigeneration and purchasing of renewable energy (kWh)	63,654,362	54,898,057
CO ₂ emissions per garment released on the market (g CO ₂ eq/garment) ⁽¹⁾	674.72	685.65
Products retrieved to be sent for recycling (t) ⁽²⁾	14,287	12,385
IMPROVING COMMUNITY WELFARE		
Number of direct beneficiaries ⁽³⁾	2,768,885	756,185
Investment in social programmes (euros)	25,835,851	23,549,814
Number of non-profit organizations supported	351	313
Number of social projects undertaken	460	455
Number of garments donated to social causes	612,743	648,072
Total number of hours dedicated to social programmes by employees during working hours	37,760	26,385
No. of Social Council meetings	2	2
DEVELOPMENT OF TEAMS' MOTIVATION		
Total number of employees	137,054	128,313
% women	78%	78.40%
% men	22%	21.60%
TRANSPARENCY AND GOOD GOVERNANCE		
Indexes Dow Jones Sustainability Indices score	81/100	81/100
FTSE4 Good score	4.3/5	4.3/5
SUSTAINABILITY TEAM		
Total sustainability team	3,620	3,926
- Internal team	105	98
- External team	3,515	3,828

Figure 1. INDITEX

Source: Consolidated Sustainability Balance Sheet, Inditex Annual Report, 2014

(static.inditex.com/annual_report_2014/en/sustainability-balance-sheet/sustainability-balance-sheet/consolidated-sustainability-balance-sheet.php)

The Global Reporting Initiative (GRI) is an international independent standards organization that has laid down standards for corporate reporting on impact of activities on climate change, human rights and corruption. By using the GRI Guidelines, reporting organizations disclose their most critical impacts – be they positive or negative – on the environment, society and the economy.

They may generate reliable, relevant and standardized information with which to assess opportunities and risks, and enable more informed decision-making – both within the business and among its stakeholders. G4 is designed to be universally applicable to all organizations of all types and sectors, large and small, across the world. G4 Guidelines have now been superseded by the GRI standards, released on 19 October 2016. Use of the GRI Standards will be required for all reports or other materials published on or after 1 July 2018 – the G4 Guidelines remain available until this date. Examples of current reporting are as above figure 1.

Sustainability Reporting in India

In India, Infosys was the first company to prepare a sustainability as per G4 guidelines in 2007. Since then, many other companies in the IT sector as well as in the automobiles, cement, banking and chemicals sectors. Some of the prominent names are Wipro, Maruti-Suzuki, Moser-Baer, ONGC, SIDBI, Ambuja Cements and Mumbai International Pvt Ltd. Bombay Stock Exchange has also demonstrated sustainability leadership by being the first Asian stock exchange to join the Sustainable Stock Exchange Initiative. Companies listed at BSE are now encouraged to adopt best practices of sustainability measures. The exchange is also working closely with the GRI and published guidelines in February 2017 for linking GRI standards to India's market regulator Securities and Exchange Board of India (SEBI's) reporting requirements. SEBI has so far asked only top 500 companies listed on Indian stock exchanges to include business responsibility reports in their annual reports. But gradually with such initiatives, the number of companies reporting on sustainability measures will also rise voluntarily. Supply chain integrity will also then get a major boost in India.

Concluding Observations

Honesty and integrity in organizations in general and supply chains in particular have to be consciously created through voluntary and legislative measures. There will also be pressure coming from quasi-legislative bodies like the accounting standard setters. Nonetheless, voluntary efforts at the corporate level will continue to be important as that cements the commitment of everyone in the organization.

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