The Trouble with Supply Chains

Lessons from the UN Global Compact Corporate Sustainability Report 2013

Last year's United Nations Global Compact report marked a dramatic shift in corporate attitudes towards sustainability.[1] Even in the face of the worst economic downturn in nearly a century, commitments to the principles of sustainability are at a historic high.

But the report, which includes surveys of over 1,700 companies and 750 CEOs, found that despite rising expectations, most companies continue to fall short when it comes to actually embedding sustainability commitments into the supply chain.

When asked to rank the challenges "slowing or blocking advancement to the next level of sustainability performance," over 50% of companies put "extending corporate sustainability strategies through the supply chain" at the top of their list. In fact, the report found that supplier sustainability was "the top barrier for large companies in their advancement to the next level of sustainability performance."

While companies are making progress in terms of setting expectations for supply chain sustainability, most fail to implement tangible measures to drive adherence.

Cynics have pointed to low rates of implementation as evidence that the majority of compact signatories do not take sustainability commitments seriously. But survey results seem to point to a more forgiving explanation. Both lack of familiarity and the unavailability of data were cited by survey respondents among the top five reasons businesses did not push sustainability into the supply chain, suggesting that a big part of the problem could be a lack of information

The sheer size and complexity of global supply chains means that many companies that begin their journey towards collecting information on their suppliers quickly become overwhelmed with data. As interest in responsible supply chain management grows, increasing numbers of initiatives have sprung up in every sector promoting various tools and standards, leaving buyers with the sometimes daunting task of choosing between best practices.

This means that while most companies are only able to audit a small number of their suppliers due to limited resources, many suppliers face multiple audits each year from different buyers according to a wide array of standards. In order to limit auditing fatigue, collaborative industry platforms such as the Global Social Compliance Programme and the Supplier Ethical Data Exchange, or Sedex, which aim to harmonize standards and pool auditing resources, have become increasingly popular.

Even with the help of collective industry initiatives, however, the percentage of suppliers that are consistently audited within a complex supply chain remains minimal. Alternative methods of monitoring suppliers, such as questionnaires and surveys, often produce biased results and leave buyers vulnerable to fraud. This exposes companies with large or complex supply chains to considerable risks.

Interestingly, fewer than one-third of companies surveyed for the UNGC Global Corporate Sustainability Report said they reviewed publicly available information. Third-party sources such as local NGOs, government bodies and bloggers, however, are often quick to point out problems as they arise and can proactively alert companies to problems in their supply chains before they escalate into major issues.

Effectively monitoring such data in-house requires teams of analysts capable of finding and analyzing third-party sources in local languages, a method many companies find too resource-intensive. One option may be a government-funded research project led by the Zurich University of Applied Sciences and Swiss-based ESG business intelligence provider RepRisk, which aims to tackle this problem by working directly with companies to develop tools for monitoring criticism from local stakeholders. [Full disclosure: RepRisk is the author's employer.] This data can be used in the supplier onboarding stage, for the ongoing monitoring of existing suppliers and to help get the right auditing resource to the right supplier.

With over 40% of the world's 7.1 billion people already connected to the Internet, news — especially bad news — travels fast.[2] Whatever tools business leaders choose to use, companies operating in this environment cannot afford to be the last to respond to problems in their supply chain. Those that fail to adapt to the situation not only risk damage to growth prospects, long-term investments or their reputation, but may also find the regulatory repercussions surprisingly unforgiving.

As so aptly summarized in the introduction to the UNGC Sustainability report: "Turning a blind eye to sustainability issues is a ticking time bomb, and hiding missteps — no matter how deep down the supply chain — is no longer an option."

REFERENCES

1. United Nations Global Compact. "Global Corporate Sustainability Report 2013". Accessed March 2014, http://www.unglobalcompact.org/docs/about_the_gc/Global_Corporate_Sustainability_Report2013.pdf. All subsequent quotes and figures refer to this source, unless otherwise specified.

2. Albanesius, C. “40 Percent of Globe Has Web Access, 4.4B Still Unconnected”. PC Magazine, Oct. 7, 2013, accessed March 2014, http://www.pcmag.com/article2/0,2817,2425305,00.asp

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