Annex Volume

Sub-Reports and Appendices

Changing Course -

A study into Responsible Supply Chain Management

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for the Danish Ministry of Foreign Affairs

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For further information on the project team, see appendix 4, in the Annex volume.

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Foreword

This Annex Volume constitutes the third part of the reporting from the study 'Revisiting Responsible Supply Chain Management[1] in the light of CSR'. The two other parts are 1) the Executive Summary, and 2) the Main report. All three titled 'Changing Course – a study into Responsible Supply Chain Management').

The Annex Volume includes the six sub-reports and appendices. This reporting format is chosen in order to enhance the accessibility of the findings. The quick overview is found in the Executive Summary. More details on each of the six hypotheses, the challenges identified and the Responsible Supply Chain Management (RSCM) Generation 3.0 approach is contained in this main report. Finally, the in-depth information (elaboration on each hypothesis in the form of six sub-reports (A-F), and the supporting appendices, including the Terms of Reference, the questionnaires used, the detailed methodology of the study, etc.) is found in this Annex Volume.

Due to the (limited) amount of resources and time allocated as well as the complexity of the topic, it was decided from the outset of the study that the (developing economy) supplier perspective would be downplayed. Accordingly, the view point of the suppliers, and in particular SMEs and sub-suppliers from developing countries are not assessed in-depth. While the five hypotheses (A-E) are – with the given resources – thoroughly assessed, hypothesis F (SMEs are excluded from global supply chains) is not analysed as comprehensively. We have chosen to assess the RSCM practices of a number of front-runner companies, among large international buyers, against our hypotheses and RSCM 3.0 model, so that we may generalise from our findings cf. the critical case theory. This approach leads to an emphasis of the challenges and areas in which improvement is needed, described in the main report. However, please note that the detailed practices described in the sub-reports, constitute the good or even best practices currently in the field. This also means that the practices and views of the SME-buyers are not included.

Enjoy the reading.

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[1] Responsible Supply Chain Management can be used interchangeably with Supply Chain Sustainability; the term used by UN Global Compact and BSR in their recent publication on best practice.

List of Abbreviations

BSR	Business for Social Responsibility
CBDS	Centre for Business and Development Studies
CBS	Copenhagen Business School
Codes	Codes of Conduct
CSR	Corporate Social Responsibility
DA	Donor Agency
EU	European Union
EUR	Euro
ILO	International Labour Organization
MNC	Multi National Company
NGO	Non-Governmental Organisation
Prof.	Professor
PSD	Private Sector Development
PwC	PricewaterhouseCoopers
RSCM	Responsible Supply Chain Management
RSCM 1.0	Responsible Supply Chain Management Generation 1.0
RSCM 2.0	Responsible Supply Chain Management Generation 2.0
RSCM 3.0	Responsible Supply Chain Management Generation 3.0
SCM	Supply Chain Management
SME	Small- and Medium sized Enterprises
SRSG	Special Representative to the Secretary General
UN	United Nations
US	United States

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* A number of senior managers (in CSR, Codes of Conduct, Procurement or similar departments) of the 16 international buyer companies interviewed, including Novozymes, DLH, Lundbeck, IC Companys, Bestseller, ECCO, Coloplast, LEGO, Danfoss, Pressalit, Coca-Cola, GAP, HP, National Grid (Transgrid) and GE as well as the buyers which prefer to remain anonymous.

* CEOs and managers from 27 supplier companies and suppliers' associations in Kenya and Bangladesh.

* Representatives of the seven organisations which replied to the 'experts and organisations questionnaire'.

* The four additional members of the project team – Ms. Signe Andreasen and Ms. Mireille Jakobsen (project assistants at Global CSR) and Ms. Elise Lind Jacobsen and Mr. Ernesto Luna Madrid (research and student assistants at Centre for Business and Development Studies, CBS).

* Furthermore, the CBS Centre for Continued Business Education (Former Director Mr. Peter Stolt and Mr. Kim Pedersen) is thanked for the administrative assistance and smooth functioning of many practical matters, and finally CBS and Global CSR for providing the necessary time and resources to make the study materialise.

Introduction and Hypotheses

Danish and non-Danish companies have perceived Corporate Social Responsibility (CSR)[2] to include a requirement to ensure that minimum standards in relation to human rights (including core labour rights), basic environmental standards, and the eradication of corrupt practices are enforced in their global supply chains; this practice is referred to as Responsible Supply Chain Management (RSCM). RSCM primarily emerged as a corporate response to human rights violations appearing in suppliers' operations; sweat shops, child labour, forced labour, no living wage, discrimination, safety and health neglect and similar violations. Lack of effective human rights governance in the home state of the suppliers, as well as stakeholder pressures on the buyers to react, paved the way for RSCM as we observe it practiced by corporations today.

This Annex Volume presents the detailed results of the study on 'Changing Course – A Study into Responsible Supply Chain Management', undertaken by Global CSR and CBS and partly financed by the Danish Ministry of Foreign Affairs.[3] The reporting from the study further includes an executive summary and a main report.

The study has dealt with a set of pertinent issues in relation to RSCM; issues, which by the project team have been identified as of concern to both international buyers, local suppliers in developing countries, government agencies, Non-Governmental Organisations (NGOs) and other parties. The study has been structured around six main issues – termed hypotheses[4] – of the present implications of RSCM. This publication outlines the assessment of the six hypotheses as part of addressing corporate responsibility risks in the upstream value chain of corporations (the hypotheses are shown in the box below). It further more contains the appendices of the study (e.g. terms of reference, detailed methodology, project team questionnaires and so on).

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[2] In this study the term CSR covers how the business community can take responsibility with respect to its impact on People, Planet and Profit – also known as the Triple Bottom Line. In other words, CSR is how corporations take responsibility for contributing to, rather than becoming a barrier to, sustainable development
[3] The Terms of Reference for the study is found in Appendix 1
[4] The hypotheses are explained in greater depth in the Terms of References in Appendix 1

A. Businesses spend considerable resources on monitoring and auditing, yet research shows only relatively minor actual impact on (benefit to) workers and other stakeholders
B. Mainstream RSCM Generation 1.0 approaches lead to 'code mania'
C. Traditional corporate sourcing strategies and purchasing practices have been identified as some of the primary impediments to ensuring adequate standards with suppliers
D. Most Responsible Supply Chain Management approaches limit themselves to a few basic human rights, and are not able to acknowledge the indivisibility, interdependency and interrelatedness of human rights to secure human dignity
E. The extensive number of corporate suppliers and sub-suppliers, often amounting to tens of thousands for a single buyer, render non-discriminatory, transparent, accountable and independently verified SCM less than cost efficient, if de facto, not impossible under RSCM Generation 1.0 and 2.0.
F. SMEs are excluded from global supply chains as a result of RSCM practices

For the purpose of clarification and communication, this report has grouped present approaches to RSCM in two categories; RSCM Generations 1.0 and 2.0 respectively. Based on research, reviews, and anecdotal evidence from large companies and participants in initiatives, a range of challenges to RSCM Generations 1.0 and 2.0 can be identified.

RSCM 1.0 is the most widespread approach to RSCM. This approach involves a buyer company developing a code of conduct (Code) describing the demands that its suppliers are expected to meet. To ensure compliance to the Code, the buyer company will often include compliance to the Code in contractual obligations and include the possibility to monitor and audit its suppliers. Regular visits at suppliers' premises by company employees trained to assess suppliers' performance against Code requirements have become common practice. In addition, some companies require external auditing by independent third party CSR auditors (consultancy firms or NGOs).

RSCM 2.0 constitutes an attempt to address some of the pitfalls of the RSCM 1.0 approach. In RSCM 2.0, buyer companies use a shared Code (e.g. a Code for an entire industry or a Code established through a multi-stakeholder process) rather than individual Codes.[5] In addition to creating and using common Codes, some RSCM Generation 2.0 initiatives are shifting focus from monitoring compliance to developing supplier capacity; most notable is the Business for Social Responsibility 'Beyond Monitoring' initiative. Often a shared 'clearing house' is established to take care of monitoring or certification of suppliers and accreditation of auditors.[6]

Though RSCM has received considerable attention over the years, an analysis that collects and synthesizes existing material and in addition, qualifies un-researched challenges by primary research is not available. The present study will focus on a clarification of such challenges and subsequently seeks to outline an approach to RSCM (Generation 3.0) that may answer these challenges.[7] Taking into consideration the pace of which both non-Danish and especially Danish companies[8] are expected to adopt RSCM Generation 1.0 and 2.0 solutions in answering expectations of stakeholders and following peers, makes it timely to revisit our understanding of and practices in RSCM. It may lead to improved approaches that take into account the impact of RSCM on economic sustainability and align practices with the attempts made by development agencies to create sustainable business environments in economically developing countries. The analysis seeks to enable Danida to maintain and enhance its position as a leading development agency, in relation to business or private sector development and CSR.

In addition to the findings presented in this Annex Volume, the main report contains the challenges in relation to the assessed hypotheses and the cross-cutting observations and the lessons learned presented a set of recommendations to donor agencies (in particular Danida), to firms (international buyers) and suggestions for further analysis and research.

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[5] Examples of RSCM 2.0 approaches can be found in the Electronic Industry Code of Conduct (EICC), Business Social Compliance Initiative (BSCI), the Ethical Trading Initiative (ETI), Social Accountability 8000 (SA 8000), ILO's Better Work initiative and Fair Labour Association (FLA)
[6] The RSCM Generation 2.0 concept is wider than RSCM 1.0 and covers a range of different initiatives
[7] The RSCM 3.0 is outlined in the main report
[8] In December 2008 the Danish Act on Annual Accounts was amended mandating larger Danish companies to include a statement on CSR in their annual management declaration; the legal requirement has led to a drastic increase in the number of companies that engage with CSR and, consequently, with RSCM

Methodology

Despite the attention to RSCM issues over the years, we actually have limited knowledge of a clear set of issues in the field. The lack of knowledge has spurred the ambition to take what we can term as the first step in dealing more systematically with RSCM. Nevertheless, this study has been undertaken with a limited resource allocation and within a short timeframe, when considering the breadth and complexity of the issues studied. The study has been carried out over six months, which includes preparation time. A team of six people worked part-time on the study.[9] Given the circumstances, the approach of the study is explorative, seeking to establish a basic data foundation to qualify a preliminary assessment of the six hypotheses.

The study has combined four sets of data: a) primary data collection from 16 major international buyer companies (Danish and non-Danish), b) primary data from 27 selected suppliers and suppliers' associations from field studies in two countries (Kenya and Bangladesh), c) primary data from seven organisations, associations and individuals working in the field, and d) secondary data gathered through three desk studies, including i) a review of the international literature on Codes of conduct, ii) a review of the international literature on SMEs & Codes/CSR and finally iii) a web study of the content of the codes of conduct of 38 international companies, industry associations and multi-stakeholder initiatives.[10] The three reviews have each provided a synthesis of existing material and knowledge.

Given that the international buyers have been selected as so-called 'critical cases' (being front-runner companies) and the thoroughness of the three desk studies; it was acknowledged from the outset of the study that the view(s) of suppliers would be underrepresented compared to the buyers. The suppliers represented were randomly selected, focusing on including SMEs.

The detailed methodology regarding the content of the interview guides and the identification of the literature for the two reviews of the international literature on Codes and SMEs & Codes, etc. is described in Appendix 3. Furthermore, the concrete methodological approaches for each of the sub-studies are presented in the methodology section of each of the six sub-reports.

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[9] The project team is shown in Appendix 4 with short bios of each team member
[10] For a list of the 38 companies, see Appendix 10

Sub-Report A: Cost-efficiency

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Introduction and Methodology

The formulated hypothesis of this report reads:[11] *Businesses spend considerable resources on monitoring and auditing, yet research shows only relatively minor actual impact on (benefit to) workers and other stakeholders.*

Current RSCM practices involve significant investments by corporations into the development of internal structures and employment of external auditors to verify compliance with corporate codes. However, currently no knowledge exists on the amount of resources used by corporations on monitoring and auditing at least not as far as the research team knows. When it comes to the use of external auditors, local resources are rarely involved in such work. Auditors are flown around the globe and limited information seems available regarding local branches of the big four accountancy firms, or similar institutions in developing countries, being commissioned to do the assessments. Companies primarily invest in monitoring and auditing to protect themselves from scandals, in order to manage potential risks to reputation, supply of inputs, and consumer support. However, based on the indication of available research, the hypothesis states that there is in fact relatively little actual sustainable impact on workers' and other stakeholders' situation. Consequently, companies do not achieve the intended risk management and the impacts that result from Generation 1.0 and 2.0 are not always sustainable.

The hypothesis is thus twofold in nature, as it on the one hand concerns the identification of the costs of monitoring and auditing, while it on the other hand evaluates the actual impacts that follow as a causal result of RSCM practices.

The data used in this sub-report has mainly been found in the interviews with Danish and non-Danish buyers, as well as selected suppliers and supplier associations in Kenya and Bangladesh.[12]

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[11] The other five hypotheses are shown in Appendix 2

[12] Further information on the overall methodology is found in the methodology section of the main report and in the Appendix 3

Further input has been collected from phone and email correspondence with relevant Danish and non-Danish stakeholders, such as business associations, organisations, business networks, export organisations, relevant sectoral bodies and researchers. We have additionally made an assessment of relevant research, such as publications, government- and industry reports.

In exploring the above hypothesis it is important that the two parts of the hypothesis are not understood causally. In other words it is not possible to isolate the relationship between costs of monitoring and auditing, and impact. Other variables play an important role in determining this relationship. Thus, impact should not be understood as a direct function of costs, even though the structure of the report might indicate this to be so.

Key Findings

The structure of the findings of this study is reflected in the dual nature of the hypothesis. The aim of the first section will be to address issues related to the cost of monitoring and auditing. We commence the report by trying to establish the minimum costs involved in monitoring and auditing. Many complexities are involved in the establishment of this budget post and we therefore elaborate on some of the challenges connected to the costs of monitoring and auditing. This involves a brief overview of the nature of current RSCM monitoring and auditing practices, wherein many challenges are identified. As an introduction to the following section on impact, a section on monitoring and auditing as a way of measuring impact will be presented. The fact that monitoring and auditing are some of the only current ways of determining impact raises some issues in itself.

The subsequent section explores the impacts of monitoring and auditing we were able to identify in this study. Apart from identifying both the positive and negative impacts that are evident, several other issues concerning the measurement of impact are discussed, as these were classified as relevant nuances to the hypothesis, which also point to areas which requires further analysis and research. The final section, regards the concept of capacity building, which we have identified as a central means through which buyers pursue greater impact on supplier level, so that higher levels of compliance can be reached.

The Cost of Monitoring and Auditing

It has been notably difficult for the research team to establish any aggregate amounts for the monitoring used in RSCM Generation 1.0. A review of the literature has not been able to give any indications of any significant research studies that have attempted to determine these costs. The study has indicated five reasons for this difficulty:

1. The first reason is that our investigations indicate how buyer companies keep limited track of their actual monitoring expenses. This is often due to the complex nature of the internal monitoring systems, involving several employees, spread throughout the company; often both departmentally and geographically. Those buyer companies, who primarily enlist external auditing companies, however, seem to be more aware of the direct auditing costs involved for them, as it is often listed as a singular annual expense.
2. The second reason is that auditing costs are frequently handed down to suppliers. When asked why monitoring costs are not documented more closely, one buyer replies: "*It's just not significant for us – the supplier pays*". Other buyers simply assume that (minor) monitoring costs are not significant enough to be documented. Here, however, one can ask whether companies really do consider monitoring as a minor expense (as it can be in cases where costs are handed down to suppliers), or if companies are simply not aware how many resources they in actual fact use on monitoring? Others may simply not record the costs, as they see it as an inevitable part of risk-management, irrespective of the costs involved.

The suppliers confirm that the costs of monitoring and auditing are handed down to them. They pay both for being monitored and acquiring certificates of compliance. The manager of a large Kenyan supplier association explained the situation from their point of view: "*It is the suppliers that have to pay for the compliance and monitoring, and getting the proper certificate is expensive. Global GAP [an industry standard required by many buyers in the food industry] used to be at least 1000 Euros, now we are lucky that it has come a bit down and we can get* *it for around 500 Euros... If we have 1.5 million farmers in Kenya and you had everybody getting a certificate for 1000 Euros, the total is 1.5 billion. The total export of Kenya is 1 billion US Dollars. Thus, you are in a situation, where the total cost of certification would be higher than the total export of the country and that is only for one standard".* If the costs are levied to the suppliers and buyers actually do not see the remaining cost of monitoring and auditing as a real issue, then this explains why it is difficult to obtain information on the subject.

3. The third reason for the difficulty of establishing monitoring costs, mainly relates to companies where monitoring is carried out internally. Here, the exact costs of monitoring could not be established because:

- Monitoring is integrated throughout the company in different divisions
- Very large companies are simply too decentralised, to determine any concrete costs
- Monitoring is rarely the sole function of the responsible employee. Job descriptions customarily incorporate other activities not related to the monitoring process
- It is integrated with other work-related expenses or budgets.

As one stakeholder representing buyers confirms: "*It is not a simple task to calculate the cost on RSCM since it is more and more common to relate RSCM to the business strategy and implement it in line with other product requirements. RSCM should not be seen as an isolated activity".*

4. The fourth reason why it is challenging for us to establish the exact expenses of monitoring costs, is because the profile of the companies varies a great deal, thus making it difficult to constitute common denominators for all companies. Varying factors such as annual turnover, industry, number of employees, value of procurement, etc. all vary, making it challenging to compare the expenses of these companies directly.

5. The fifth and final reason why it has been difficult for us to determine the actual costs of monitoring relates to the variation in the companies'

monitoring practices[13]. The monitoring practices of companies vary a great deal; each including varying amount of resources, budgeted and tracked in many different ways. This relates especially to the majority of companies, who make use of internal monitoring procedures (57%[14]). Companies that make use of external auditors (38%[15]), are able to give more exact amounts of the costs, however, as we will see in the next section, this does not reflect the actual cost of auditing, as many of the costs are handed down to suppliers. The differences in procedures furthermore make it very difficult to say something in general, to cover the issue of cost across industries, location, etc.

The Minimum Cost of Monitoring & Auditing

Taking into considerations the impediments mentioned above in relation to tracking overall budgets for RSCM Generation 1.0 and 2.0 approaches, we attempt to determine indications of the size of such budgets, through a simple inductive method. By way of example, we can try to establish the minimum cost of running a RSCM Generation 1.0 model for a large Danish buyer company. A few companies were able to provide the number of employees they employ to manage the tasks related to RSCM. We can then calculate the number of man-years[16], approximate the annual costs for the company and then compare this to the total company turnover. This will provide us with a gross approximation of the correlation between size of turnover and minimum costs in relation to a RSCM Generation 1.0 approach. The intention is merely to illustrate the total cost if all companies of a certain size continue to follow the practice of establishing RSCM 1.0 initiatives.

The Costs of Internal Monitoring

In determining the minimum cost of internal monitoring we calculated the average costs for three buyers, based in Denmark, differing in both size and industry. Through this exemplary

[13] This will be further elaborated the section: 'Monitoring Practices'
[14] Danish Buyer Companies = 50%; Non-Danish Buyer Companies = 67%
[15] This percentage does not include companies with a Generation 2.0 approach, functioning with a shared monitoring/auditing system
[16] Calculated according to average labour and wage costs for Denmark, Eurostat: http://epp.eurostat.ec.europa.eu/portal/page/portal/eurostat/home/

method, we found that Danish companies on average use a minimum of 0, 22 % of their annual turnover to establish RSCM Generation 1.0 monitoring procedures.

Applying this calculation to a Danish context merely provides an illustrative example of the financial magnitude of the current practices. The total revenue for Danish businesses in 2009[17] was app. 393 294 million EUR. If one imagines that all Danish companies adopt RSCM 1.0 approaches, we can estimate that the total cost for this group of companies will amount to app. 865 million EUR (0, 22% of 393 294 million EUR). In comparison, the budget for Danish development aid in 2009 was just over 2057 million EUR[18]. This implies that Danish companies could spend about 40 % of the total amount used for development aid in a year, on Generation 1.0 RSCM models. While there can be no guarantee that these numbers fit the actual situation, the example does provide an illustrative indication.

These costs have only been calculated on the basis of the minimum number of personnel who deals with monitoring on a daily basis. Many other variables have not been taken into consideration, but will inevitably, if established, increase the costs considerably. These variables would include expenses such as, management time, the training of employees in monitoring standards and procedures, as well as travelling costs for employees who monitor suppliers in foreign destinations. The inclusion of additional costs such as the above mentioned, will lead to a much more comprehensive picture on the actual costs of monitoring.

The Costs of External Auditing

Companies that make use of external auditing of their suppliers, usually have a better idea of the costs involved for them in auditing their suppliers. From the information we were able to gather from both Danish and non- Danish buyer companies, we see that the average cost per auditing session amounts to approximately 1500 EUR. Depending on how

Case example: A buyer company with 300 suppliers, who as a minimum audits its suppliers once a year, would spend app. 450 000 EUR a year on supplier-auditing.

[17] Danmarks Statistik http://www.dst.dk/pukora/epub/Nyt/2010/NR201.pdf
[18] 15,3 Billion DKK

many suppliers the given buyer has and how often he chooses to have them audited, auditing seems to be an expensive affair. However, this amount varies greatly according to industry and the size of the supplier being audited. The amount exclusively includes the costs for buyer companies, and not the auditing costs that are paid by suppliers. Hence, the total cost of this approach is presumably higher.

Monitoring & Auditing Practices

The hypothesis suggests that monitoring and auditing suppliers is costly. And even though we are only able to deduce some vague indications of the amounts involved for companies, we can see that the approximation of these costs meet several challenges. These challenges can be linked directly to the methods in which RSCM monitoring and auditing practices currently takes its form. The issues identified, relate to:

- Whether companies make use of internal monitoring or external auditing, as this seems to be a crucial determinant in an attempt to calculate the relevant costs.
- Whether companies make use of local or international resources, as this was problematised in the introduction to the hypothesis, as an issue which might have a significant impact on monitoring costs.
- The frequency and form in which monitoring and auditing takes place, is also associated with specific challenges that contribute to these costs.

Shedding light on these issues exposes some further nuances associated with the hypothesis. An important issue which has come to our attention, concerns the question of whether monitoring and auditing is a suitable measurement of impact. It sheds some light on why monitoring and auditing is as costly as it is and why it varies to the degree that it does; and furthermore also questions who in fact bears the greatest financial burden in the monitoring and auditing process.

Internal Monitoring and External Auditing

One of the main issues to be explored in relation to RSCM practices is, whether buyer-companies make use of internal company monitoring or external auditors in their RSCM. The various best-practice buyer companies interviewed make use of both internal monitoring-systems and external auditors, utilising both systems in their supplier monitoring. They do nevertheless; all primarily focus on either internal monitoring or external auditors for evaluating their suppliers, although monitoring is often supplemented by respectively external or internal procedures. Suppliers in Kenya and in Bangladesh generally concur that they are met by both companies' own monitoring employees and external auditors alike. Thus, it is difficult to spot a strong tendency towards one or the other, as both types of practices are integrated in current RSCM procedures.

The manner in which buyer companies structure their monitoring procedures varies a great deal. Some buyer companies delegate the monitoring procedure to the sole responsibility of the procurement department. Others assign auditing to different departments within the company and/or to the companies' local procurement offices situated in main sourcing markets. The buyers that make use of internal monitoring procedures generally do so because they want to ensure monitoring is done 'right' and according to their own standards. "*People say that it is the companies that use internal auditors that are more successful than those who use 3rd party auditors. The internal auditors are integrated in "our way" – they talk the same language and understand our code...*" (Buyer Representative).

One could also argue that large buyers prefer internal monitoring as an extra level of risk-management, to e.g. protect their brand reputation. Internal monitoring might afford them the apparent greater control of monitoring and standards, as well as control over the execution of their monitoring to a greater extend. Nevertheless, certain buyers point to the general, "*lack of internal execution consistency"* (Buyer Representative), as a result of internal monitoring systems. This lack of execution consistency might be even more evident in exceptionally large companies with decentralised structures, where monitoring of the triple bottom line[19] is executed by several departments[20]. Thus, regarding internal monitoring as an extra form of risk-management, might provide companies with a sense of false sense of security, as it might

[19] Also known as the "People, Planet, Profit" bottom line
[20] See Sub-report C for an elaboration on the integration methods of RSCM

lead to further complications which could lead to inconsistencies, creating more risks and an eventual financial liability.

All in all, we can conclude that none of the monitoring procedures are the same. Even though the content of the supplier codes of conduct seem to be the same[21], monitoring processes vary immensely. Due to the different nature of companies, they all require different procedures that fit their specific needs. One may ask nevertheless, if it truly is so challenging to standardise the monitoring of suppliers to a certain degree? RSCM Generation 2.0 has been an attempt to counter this problem, but it has not been able to completely overcome this challenge, as companies often prefer to set their own benchmark for standards[22]. If monitoring and impact is, for example, centralised within a certain sectoral body, companies could be saved the complexities related to monitoring and auditing, especially in developing new knowledge systems to develop better procedures, not to mention save large amount of resources. The international standards already exist in the form of international human rights, etc. and donor agencies have already developed sophisticated systems of implementing and monitoring standards as well as providing capacity building to create sustainable solutions for suppliers.

Frequency and Form of Monitoring and Auditing

The overall cost of monitoring and auditing is also influenced by the frequency and the form which it takes in practice. Interviews with suppliers revealed that there is a big difference as to how often they are monitored or audited and how comprehensive these sessions are. For example, it seemed that monitoring and auditing is more common in the garment than in the food industry. One large Bangladeshi garment supplier explained *"We are audited by all the buyers and via the different industry codes we have joined. Every month we have 2-3 audits and they are unannounced. We have a compliance team of four people dealing mainly with the audits. We also have an inspection room in the factory designed specifically to make the audits easier"*. This example, illustrates how professionalised monitoring and auditing can be. A complete opposite example can be found in the Kenyan food industry: *"The buyers mainly do quality checks. But they do come to check us once in a year or every*

[21] See Sub-report D for further elaboration on the content of codes.
[22] See Sub-report B for an elaboration on the reasons for certain benchmark standards set by Generation 2.0 codes

second year. But it is actually quite social; they come to party a bit and take a holiday. They always come announced as I am the one who has to book their hotel. They mix the task of monitoring with holiday" (Supplier Representative). The examples illustrate the range of approaches to frequency and form from one buyer to another. This could also raise questions regarding the fruitfulness of monitoring and auditing, if it is not being executed in a consistent manner.

Through the interviews with buyer companies, we were able to determine four criteria generally used by companies, when establishing the frequency of which suppliers should be monitored or audited. Monitoring and auditing session are determined according to:

1. *A Scheduled Time*

   Regular sessions take place within a certain time-frame. The time frame normally ranges from six months to three years.

2. *Specific Issues*:

   Where auditing is required in the case of extraordinary events, i.e., a buyer may become aware of a supplier that makes use of child labour, etc.

3. *Risk status*:

   Suppliers situated in, e.g. certain geographical regions or within a certain 'high-risk industry' are as a rule monitored or audited more frequently than other suppliers.

4. *Length of relationship with buyer*:

   Often suppliers who have been with the same buyer for several years; or suppliers that have been in compliance a number of consecutive times will not be monitored or audited as frequent as new(er) suppliers.

However, not all companies make use of all of the four criteria when establishing the monitoring/auditing frequency. Some might only make use of the scheduled time audits while others might incorporate all four criteria in their audit frequency system.

A supplier situated in a 'high risk area', might be audited very frequently, despite being in compliance every time. One buyer acknowledges that it seems problematic to monitor or audit suppliers in their high-risk zone, even though they always seem to be compliant, just because they happen to be located in a high-risk region. "*There is an issue when we find suppliers that have their own CSR policy, Code of conduct, etc. These companies have understood the business case of CSR. It seems stupid to be auditing these companies – as they have taken so much ownership over the situation that it is not necessary. Therefore, we are at the moment discussing what to do with these suppliers. If there can be a situation where some suppliers are free from the audits*". Other companies situated in areas classified as low-risk, e.g. in Western Europe, might be more in need of auditing than companies situated in high-risk areas. One buyer mentioned that they are often met with resistance when requiring that suppliers located in the EU should be audited. "*We've experienced that up to one third of suppliers in the EU have issues, often concerning health and safety and security. Issues concerning discriminatory practices are also widespread with these suppliers... Many of these suppliers are even insulted, when you address their levels of non-compliance. However, data and facts show that they are not perfect*". Thus, differences in how the criteria are applied add an element of arbitrariness to current monitoring and auditing practices, when it comes to frequency and form. Apart from the arbitrariness that results from such a geographic risk-analysis of monitoring and auditing, one can also argue that it reinforces a form of structural discrimination of suppliers in high-risk areas. If we know that violations on all three bottom lines take place not only in developing economies, are corporations then able to justify why some violations take precedence over others?

Local vs. International Resources

One of the arguments leading to the anticipated costly RSCM practices is that when companies use external auditing companies, they often make use of large auditing firms (for example, the big four[23]), who fly their auditors across the globe to audit suppliers. The findings however, indicate that this might not be the case. In cases where external auditing companies are commissioned, they in turn mainly make use of local resources through local offices or affiliates. Buyers prefer using local resources to conduct audits, as local auditors are often much better equipped than international ones "*In most areas local auditors are best acquainted with local laws and customs, especially China*" (Buyer Representative).

[23] Companies often make use of the four largest international auditing firms PricewaterhouseCoopers, Deloitte Touche Tomatsu, Ernst & Young and KPMG

Nonetheless, in some circumstances, buyers who make use of internal monitoring do fly qualified staff to audit their suppliers. This is mostly geographically driven, i.e. if they do not have local offices, or if no qualified local auditors could be located. "*In other markets there are just no qualified auditors, and they need to be flown in, especially Sub-Saharan Africa*" (Buyer Representative).

All things considered, it seems as if companies are acting conscientiously through their general commitment to using local resources whenever circumstances allow it. Companies do of course still need to spend great amounts to fly and accommodate auditors around the world, but the costs might not be as great as was initially expected.

Due to several impediments, we have thus not been able to come to any definitive conclusion regarding the amount of resources used by buyer companies to maintain their monitoring systems. However, a rough calculation indicates that considerable amounts are involved. Nevertheless, the investigation of this hypothesis has revealed numerous factors, which the research team find imperative to consider in future attempts to calculate this post, as it has illustrated the intricate maze of costs involved in RSCM Generation 1.0 and 2.0 models.

Monitoring and Auditing as a Questionable Measurement of Impact

As we will see in the next section, determining the impacts of current RSCM practises is a difficult and widely contested task. One of the main reasons behind this stems from the fact that data used in determining impact is almost exclusively based on monitoring and audit reports, whose credibility as data foundation can be questioned. Furthermore, if monitoring and auditing is inadequate in its current form, it merely shows that buyers do not avoid the risks which monitoring and auditing are supposed to counter; neither does it ensure adequate sustainable development.

The methods applied in monitoring and auditing to identify impacts, are not always very reliable. Buyer-companies confess their dependency on audit reports, as the only source of information, where indications of impacts can be constituted at supplier level. At the same time, there is widespread agreement that auditing reports give insufficient indications of the actual state of affairs. *"Monitoring alone doesn't fix the problem, it only provides a snapshot; it's not telling you what actually drives the situation. We need to understand what lies behind these breeches"* (Buyer Representative).

Research studies have also shown that the methods applied in monitoring and auditing are seriously insufficient and lacking. A study on PwC auditing methods showed great limitations of their auditing systems and methodologies, some examples of these oversights and omissions are that: "*PwC auditors gathered information primarily from managers rather than workers, depending largely on data provided by management. Worker interviews were problematic. All interviews were conducted inside the factories. PwC had managers help them select the workers to be interviewed, had the managers collect their personal files, and had them bring the workers into the office for the interviews. The managers knew who was being interviewed, for how long and on what issues.*"[24]

Another issue which undermines the value of monitoring and auditing relates to the double bookkeeping which is sometimes carried out by suppliers. One author elaborates on the extensive double booking systems in China, which poses serious questions to the validity of monitoring and auditing, "*...elaborate bookkeeping systems are kept in many Chinese supplier factories. One book containing information about working hours, salaries, overtime, etc. may be prepared for the auditors while the books containing the real figures are kept safely out of sight. In other words, auditing can only provide limited insights into the actual effects that codes of conduct have on workers' conditions in the developing world.*"[25]

Locke et al.[26] have also provided a solid counter argument by questioning whether monitoring and auditing is an effective strategy at all. The authors note that *"because the debates over monitoring are so polarized, revolving around stark choices about what gets monitored, who does it and how it gets done, the*

[24] O'Rourke, Dara (2002). *Monitoring the Monitors: A Critique of Corporate Third-Party Labor Monitoring*, in Rhys Jenkins, Ruth Pearson and Gill Seyfang (eds.) 'Corporate Responsibility and Ethical Trade: Codes of Conduct in the Global Economy', London: Earthscan.
[25] Lund-Thomsen, Peter (2008). *The Global Sourcing and Codes of Conduct Debate: Five myths and Five recommendations*. In 'Development and Change', Vol. 39 (6), p. 1005-1018
[26] Locke, R. and Romis, M. (2006). *Beyond corporate codes of conduct: work organization and labor standards in two Mexican garment factories*. MIT Sloan working paper No. 4617-06 and; Locke, Ri., Amengual, M., and Mangla, A., [2008 (updated March 2009)] Page 7. *Virtue out of Necessity?: Compliance, Commitment and the Improvement of Labor Conditions in Global Supply Chains*. MIT Sloan Working Paper No. 4719-08

question of whether or not monitoring is at all an effective strategy for improving labor standards has not been adequately evaluated[27]*"* The authors point out that monitoring is more efficient when combined with other efforts that tackle the root causes of poor working conditions, such as improving the ability to better schedule work, improving quality and efficiency. There is thus, at a minimum, a need for more systemic approaches towards tackling problems by combining external countervailing pressures and a series of management systems interventions. They thus argue that workplace conditions are shaped by human resource management and work organisation policies, making a compliance orientated approach redundant.

The last issue pointed out by the literature is that companies face limited available qualified auditors and monitoring personnel. Evidence suggests that they do not seem to understand the broad purpose of their work and that they get trapped in a 'cat and mouse game', where they spend more time in finding the cheats (compliance/monitoring) rather than tackling the root causes. In most cases, monitoring and auditing sessions are exercised but are at best incomplete, having biased information with poor record keeping and lacking transparency. The key shortcoming is that there is no link between audit/monitoring-information and actual factory performance. Locke et al. claim that even if the audit information is accurate, the process of translating the information meets considerable flaws. Most importantly, the 'incentives are tactless' the threat of sanctions is in practice rarely enforced, and factories that provide systemic improvements are not necessarily rewarded[28][29].

Thus, the measurement of impact through current RSCM Generation 1.0 and 2.0 procedures are not without challenges. Meanwhile, auditing and monitoring is widely practiced and accepted as a sound method for determining whether suppliers are in violation of any principles. Also the buyers surveyed in this study make use of this approach, and few question whether the auditing and monitoring efforts do in fact depict the actual situation.

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[27] Locke, R. and Romis, M. (2006). Page 7. *Beyond corporate codes of conduct: work organization and labor standards in two Mexican garment factories*. MIT Sloan working paper No. 4617-06
[28] See Sub-Report E for further elaboration
[29] Locke, Ri., Amengual, M., and Mangla, A., [2008 (updated March 2009)] Page 7. *Virtue out of Necessity?: Compliance, Commitment and the Improvement of Labor Conditions in Global Supply Chains*. MIT Sloan Working Paper No. 4719-08

Impact

Below follows a presentation of the positive and negative impact of current RSCM approaches. Furthermore, the issue of how impact can be measured is touched upon. Subsequently follows a brief discussion of the possible limits to the scope of current impacts.

Positive Impacts

On a tangible level, suppliers have experienced several impacts, as a result of monitoring and auditing, which have had positive effect on their daily working lives. Some of the positive impacts interviewed buyer companies were able to observe are mostly associated with issues relating to:

- Workplace environment
- Safety and health measures
- Environmental performance

In the interviews with suppliers, they were also able to point some specific matters which have had a positive impact, which also corresponds to the impacts mentioned by buyer companies. Some of the cases in point mentioned by the suppliers are:

- General community development (nurseries, schools, football fields, etc.)
- Work ethics
- Workers protection (including maternity leave)
- Consistent payments of salary
- Decrease in use of child labour
- Easier or guaranteed market entry
- Better health and safety conditions
- Better working hours (less overtime)
- More environmental awareness

Improvements in these areas have also reached beyond the areas of the triple bottom line, creating positive impacts in other areas of business. Through interviews with suppliers, we have determined that monitoring and auditing has generally improved procedures concerning productivity and efficiency for the individual supplier. Buyers also concur that positive impacts additionally include areas such as supplier efficiency, innovation, productively, process control and consistency, which are all managed through better processes. "*The suppliers are also satisfied. They are now more efficient and are even grateful for the introduction of codes since they have increased their efficiency and thereby turnover.*" (Buyer Representative). This remark reinforces that some of the positive impacts of current RSCM practices do have a spill-over effect on other areas of the organisation.

Perhaps some of the positive impacts, which have followed from supplier-monitoring/auditing, could only be realised after certain impacts of importance have been established. An international buyer for example mentioned in an interview that "*In the end, a lot of it essentially comes down to human rights. If there is positive improvement in fulfilling the very basic needs, such as access to water, then many other improvements will automatically follow.*"

Findings from the literature illustrate, however, that the positive impacts, as mentioned by suppliers above, first and foremost reach permanent and/or tenured workers, most often male. As an example, Nelson et al.[30] conducted a three year study on the South African wine industry and Kenyan cut flower industries assessing the social impact of Generation 2.0 on workers in wineries and farms. On the overall impact, the study demonstrated a correlation between code-adopting companies and better working conditions and livelihoods in both industries. Such code-adopting companies provide better material and social conditions[31]. The study compares the livelihood impacts across categories of workers, showing that permanent male workers at code-adopting companies were better off , followed by permanent female workers at code-adopting companies, while the casual workers at non-adopting companies were the worst off.

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[30] Nelson, V. Martin, A. and Ewert, J., (2007) *The Impacts of Codes of Practice on Worker Livelihoods, Empirical Evidence from the South African Wine and Kenyan Cut Flower Industries*, 'Journal of Corporate Citizenship', Volume 28, Greenleaf Publishing

[31] It is important to note that the study also highlights that the differences could not be always attributed to codes. As such, code adoption can be associated with better conditions for workers, but it is not necessarily the cause of the better conditions (p. 68).

In addition, Codes play a fundamental role in countries with weak legislation and law enforcement. Barrientos et al.[32] conducted a study in Kenya, Zambia and South Africa, and found that in Kenya and Zambia sectoral Codes have a good coverage, and although they are linked to a weak national legislation, the provision of Codes is of primary importance to protect labour conditions. Codes in South Africa are still at an early stage, but given the country's more developed legislation, Codes can help to set a stronger standard.

Nevertheless, our study has shown that current RSCM Generation 1.0 and 2.0 monitoring and auditing practices, undoubtedly leads to several desirable outcomes. The study has however also identified the development of a number of processes or catalysts which has also contributed to positive impacts on supplier conditions.

Catalysts for Positive Impact

There are but a few buyer-companies who believe that the mere existence of their supplier Codes has resulted in positive impact, in the form of improvements on the triple bottom line. Many of the buyers believe that the codes have acted as a catalyst for other processes, which has instigated both positive and negative repercussions.

In this section, we will explore the conditions identified in the study, which play an important role for the realisation of positive impacts for suppliers. These conditions can be contributed to a direct or indirect consequence of monitoring and auditing, or as having an important impact on the processes which lead to positive impacts. Buyers point to several factors, which have emerged from the monitoring/auditing process that in turn has led to positive impacts for suppliers.

Communication and Engagement

Buyers especially point to the communication and engagement that has followed their Code demands. Monitoring and auditing has thus created a more open channel of communication

[32] Barrientos, S. Dolan, C. and Tallontire, A. (2003). *A Gendered Value Chain Approach to Codes of Conduct in African Horticulture*. 'World Development', Vol. 3, No. 9, p. 1511-1526.

between buyers and suppliers, where they are able to better understand and clarify the demands and justifications involved in the monitoring or auditing process. One buyer explains: *"We try not to take a pass/fail approach in our relationship with our suppliers. We rather try to work with them, and try to find the best solution possible"*. One supplier gave an example of such an engagement process: *"Many of the buyers want you to pay the workers their salaries on a specific date to ensure timely payment, but the date might vary - some of the buyers say the 30th others the 25th. In the beginning we changed the salary sheet after every audit. But at some point we had to stop. Then, I argued to the buyers that this procedure was not in the interest of the workers – and the buyers accepted. Now we always argue the workers' case whenever there are any disputes"*. Communication processes could also be enhanced through capacity building, which might lead to suppliers being better equipped for communicating and engaging with buyers. This in turn, leads to more positive impacts on ground level.

Openness and Trust

The necessity of openness and trust has also followed as a consequence of monitoring and auditing. When suppliers are open and truthful, the correct issues can be dealt with from the beginning in the best way possible. One buyer also mentioned that suppliers are often happy to be monitored or audited, as it also gives them general feedback on how their business is doing.

Length of Relationship

The length of the buyer-supplier relation seems to be an important catalyst affecting the amount of positive impacts taking place on supplier level. Long-term partnerships seem to result in more positive impacts than mere short-term affiliation between the partners. As one buyer notes: *Good relationships definitely play a big role in procurement. The length of the relationship is important; however the most important thing is that they all still need approval from assessments.* Positive impacts may also be seen as forthcoming as a result of a capacity building process. Since buyers seldom engage in capacity building processes, with suppliers they only have interim relationships with; more positive impacts could be expected from suppliers who have had a long-term relationship with their buyers.

Negative Impacts

There are numerous negative impacts pointed out by the suppliers interviewed for this study. These suppliers believe that the negative impacts described below are the direct or indirect consequence of supplier Codes and monitoring or auditing. Many of the issues mentioned by suppliers are also confirmed by relevant literature on the subject. Those authors who have assessed the impacts of supplier monitoring/auditing, have shown that impact is limited and that working conditions are often still far from optimal. Locke et al. argue that the traditional compliance model has delivered improvements in working conditions, but these improvements seem to have "*hit a plateau in which basic improvements were achieved in some areas (e.g. health and safety) but not in others (e.g. freedom of association, limits of excess overtime). Moreover, these improvements appear to be unstable in that many factories cycle in and out of compliance over time* "[33]

Increase in Cost

One of the most important and often mentioned impacts noted by suppliers is the increase of their production and labour costs. Being compliant with Codes almost always implies extra costs for suppliers. Furthermore, this study revealed that at least part of the actual monitoring and auditing cost are laid on the suppliers themselves. In order to cover these additional costs, suppliers are forced to increase their prices. The increase in prices, are however not accepted by buyers, which in turn means that suppliers either a) need to cover the extra costs (from their already scarce resources), in order to retain the buyers; or b) not implement the necessary demands, which would make them non-compliant and make it difficult or impossible to remain in the market. Either way, the supplier ends in an unwanted situation, unable to remedy it[34].

Time-Consuming

Monitoring and auditing is furthermore a very time-consuming process for suppliers. Each supplier often has several buyers with a Generation 1.0 approach, each demanding individual

[33] Locke, Ri., Amengual, M., and Mangla, A., [2008 (updated March 2009)] Page 7. *Virtue out of Necessity?: Compliance, Commitment and the Improvement of Labor Conditions in Global Supply Chains.* MIT Sloan Working Paper No. 4719-08
[34] See Sub-report C for further elaboration on dilemmas that follow an increase in cost.

monitoring or auditing, as well as buyers represented by the additional demands of Generation 2.0. Having to accommodate the many auditors during the audits alone takes up a lot of the suppliers valuable time; not to mention the amount of time suppliers use on preparing for audits and rectifying points of non-compliance. As one supplier association in Bangladesh says: "*I heard of one factory owner who had so many buyers, that it resulted in 28 audits in one month and another, who had experienced having as much as three audits in one day*" .

Low Job Security

The monitoring and auditing of suppliers has furthermore created low job security among workers[35]. Suppliers claim that dismissals are more common because of the budget constraints that follow the costs of compliance. One supplier saw this as a societal issue: *"You need to reduce staff to achieve compliance! E.g., maybe you had only three quality assurance people, but you need seven as per the requirements [in a Code or Standard]. Therefore, you might need to let go of people in the production. A negative impact therefore could be increased unemployment"*. Suppliers also admit to having to fire staff due to the pressure of ensuring compliance. As one supplier explained, *"We suspend employees in case of negligence. In extreme cases we are left with no choice, but to fire them because it can be detrimental to our business. It happens in cases of carelessness, e.g., if the supervisor at the end of the table lets through a product with caterpillars and it ends up at the market in the UK"*.

In cases of detected non-compliance, lower job security can also reach sub-suppliers further down the supply chain. If a supplier needs to find certified or compliant sub-suppliers, this in turn narrows the market for the sub-suppliers as well. It is thus evident that even though there may be positive impacts within the single organisation, there can be several negative consequences on a socio-economic level with the wider society. Today, however, most buyers only reach tier one. This issue would thus arise if Generation 1.0 and 2.0 practices were to be further expanded to target sub-suppliers, an ambition that is on the agenda of several frontrunner companies.

[35] See Sub-report E for further discussions on how low job security is contributing to the trend of reducing permanent staff and increasing casual employed

Unbalanced Human Rights Impact

Despite various attempts at addressing the shortcomings of Codes, studies consistently display that most lead to the introduction of a series of limited process rights and some outcome rights, and workers continue to suffer under poor working conditions. Process rights refer to empowering rights (such as freedom of association), while outcome rights concern concrete measures such as working hours and wages[36]. Empirical findings show that outcomes rights experienced a greater impact, whereas process rights encountered significant limitations[37]. Barrientos[38] explains this trend by a disjuncture between a compliance approach to Codes by the private sector (focus on technical outcome standards) and a process approach (focuses on empowerment of workers' rights) by Civil Society Organizations. This results in tensions leading to positive changes in outcome standards, but a lesser effect in improving workers access to process rights. While the Codes might be fulfilled and conditions may have been improved in certain areas, wages continue to be low, typically fixed at the minimum level and working conditions continue to be poor (though better than in places with no Codes, and better in places with close auditing by independent parties).

Measurement of Impact

Now that we have covered some of the impacts of monitoring and auditing, it is important to mention some of the challenges related to the measurement of impact.

The difficulty of measuring and documenting the impacts of RSCM is a notorious and well-known challenge. Issues commonly referred to relate to human rights, as set forth in the International Covenant of Economic, Social and Cultural Rights. Measurement of the impacts

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[36] Barrientos, S. and Smith, S, (2007). *Do workers benefit from Ethical Trade? Assessing codes of labor practice in global production systems*. 'Third World Quarterly', Vol. 28. No.4 (713-729), p. 713-729

[37] Barrientos, S. and Smith, S.(2007) *Do workers benefit from Ethical Trade? Assessing codes of labor practice in global production systems*. 'Third World Quarterly', Vol. 28. No.4 (713-729), p. 713-729;
Locke, R. and Romis, M. (2006). *Beyond corporate codes of conduct: work organization and labor standards in two Mexican garment factories*. MIT Sloan working paper No. 4617-06 and;
Utting, Peter, (2005). *Rethinking Business Regulation: From Self-Regulation to Social Control*. Technology, Business and Society Programme Paper Number 15.

[38] Barrientos, S. and Smith, S (2007). *Do workers benefit from Ethical Trade? Assessing codes of labor practice in global production systems*. 'Third World Quarterly', Vol. 28. No.4 (713-729), p. 713-729;

on these rights is difficult as there is often no clear physical evidence. Some buyers admit that evaluation of the impacts relating to, e.g. more process-enabling rights are, '*evaluated intuitively*' without any real clarity. This might indicate that there is either a need to develop more accessible ways for companies to measure positive impacts on process rights or it might indicate that there is in actual fact no or very little real positive impact in these areas.

It is nevertheless noteworthy that NGOs and donor-agencies have already spent decades developing systems and methods to track impacts in areas such as human rights. It therefore seems unnecessary for corporations to invest massive resources for tracking these impacts as they do today via auditing and monitoring efforts, when other institutions and associations have this as their core competency. A partnership between companies and these organisations might therefore be mutually beneficial.

Another important consideration is that impact is measured by auditors, who in turn always represent the buyers. It seems problematic that not all monitoring is done by a third party, who could act as a neutral observer. A third party could be more neutral and objective and mediate the 'reasonable' demands of buyers, while simultaneously assessing the actual impact from the point of view of both the buyer and supplier. However, including such an extra checkpoint will undoubtedly lead to additional costs for buyers and perhaps also for suppliers.

Limited Scope

An important issue relating to the impacts of monitoring and auditing is the limited scope of the positive impacts, which in turn also relates to broader negative socio- economic consequences. This point especially concerns developing countries, with large informal sectors. In Bangladesh, for example, the crux of the matter was elaborated upon by a supplier-representative. Although positive impacts are evident within larger factories, these factories represent only approximately 16% of the total number of factories within the whole of Bangladesh. Positive results are thus mainly restricted to suppliers working in Bangladesh's formal sector. It is problematic that app. 74% of factories situated within Bangladesh, operate in the informal sector. Seeing that all, but one, of the buyers only demand compliance from tier one suppliers, the positive impacts on the remaining supplier factories (the remaining tiers), are restricted to the limited trickle-down effects created by first tier suppliers. Even though one can argue that all workers benefit from the positive impacts of monitoring and auditing in one way or another, there are further limitations concerning which people the impact ultimately reaches. As we have constituted earlier, a review of the literature shows that the positive impacts of monitoring and auditing, often only reach permanent or tenured workers, of which the majority is male. Numerous problematic aspects are found among casual or non-tenured workers, most of which are female.[39] One addition consideration is that the impacts which might be evident on supplier level might in fact only be temporarily. When the relationship between buyer and supplier ends, conditions on supplier level could fall back to being sub-standard.

Taking everything into account , we can validate our hypothesis; *Businesses spend considerable resources on monitoring, yet research shows only relatively minor actual impact on (benefit to) workers and other stakeholders.* In this section we have only found evidence constituting minor improvements on ground level. Even though positive impacts have been identified, these impacts are limited in scope and possibly only of a temporary nature. In addition, several negative impacts were pointed out by suppliers, indicating serious weaknesses in RSCM Generation 1.0 and 2.0 models.

Capacity Building

Capacity building tends to be seen amongst buyers as a link between monitoring/auditing and impact. The capacity building efforts, often supplied by buyer-companies to selected suppliers, play an important role in determining the impacts on suppliers. Capacity building as a rule follows the monitoring or auditing process, and is provided by buyers (often through the help of NGOs), to help suppliers understand the required demands, so that they may become more compliant in the future. Even though the training and education of suppliers is a crucial step in

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See for example, Barrientos, S. Dolan, C. and Tallontire, A. (2003). *A Gendered Value Chain Approach to Codes of Conduct in African Horticulture*. 'World Development' Vol. 3, No. 9, p. 1511-1526.; and; Nelson, V. Martin, A. and Ewert, J. (2007), *The Impacts of Codes of Practice on Worker Livelihoods, Empirical Evidence from the South African Wine and Kenyan Cut Flower Industries*, 'Journal of Corporate Citizenship', Volume 28, Greenleaf Publishing developing lasting positive impacts, suppliers respond with ambiguity to the capacity building provided for by buyers.

Buyers stress the importance of capacity building in RSCM Generation 1.0 and 2.0, with 69% of the buyer companies claiming to have initiated capacity building programmes with their suppliers. "*Capacity building adds a very critical element to supply chain management*" (Buyer Representative). Capacity building programmes often include partnerships through multi-stakeholder initiatives or NGO alliances, although some companies provide their own. The purpose of capacity building is to educate suppliers, so that they may better understand the CSR demands of buyers and thus become compliant. These programmes aim at equipping suppliers with adequate knowledge, tools and management skills to cope with Codes. Buyers hope that this will prepare suppliers to better deal with the demands in their Codes and minimise the incidents of non-compliance detected in audits, thereby minimising the risk associated with violations of standards. Buyers normally only provide capacity building to tier one suppliers or those where recurring concerns arise. "*We work with the supplier as long as we have a good engagement and they demonstrate reasonable progress over a reasonable period of time*".

Seen from the supplier's point of view, general capacity building is received both as positive and negative. Suppliers concur that buyers, often through cooperation with NGOs, offer capacity building through training and education. On the one hand, suppliers appreciate capacity building to a certain degree as they see some of the skills and training as being directly beneficial to workers in many ways. "*When it comes to complying with the laws on for instance workers-rights, the external help, assists with the degree of compliance*" (Supplier Representative). On the other hand, suppliers view the capacity building offered by buyers as only instigating additional costs, giving them no real incentive but to accept the training. It was this view of capacity building that was most prevalent in our encounters with suppliers. Certain buyers have also experienced that some suppliers are entirely unwilling to partake in the capacity building programs they offered. The reason for this, as well as for the general negative stance on the issue, is that suppliers experience that partaking in capacity building, ultimately only infers additional costs. As one supplier says: *"Even though I get help with training from both ABD and PIP, I find, by the end of* *the day that I will have spent a million shillings just on doing the necessary improvements they [the Codes] require".*

The challenge seems to be that capacity building, as a part of RSCM Generation 1.0 and 2.0, provides suppliers with the knowledge needed to improve their compliance rate; however, in order for them to implement the knowledge and the skills that they have acquired, extra costs are almost always involved. These costs normally occur in the form of, e.g. qualified personnel, extra machinery, etc. As Mamic[40] also points out, training does not come without costs. From interviews with MNCs and their supplier representatives, Mamic found a situation where both sides were pushing away from absorbing the costs. Thus, even though suppliers experience some benefits of capacity building, the limit of its reach is also clear. The main issue is that suppliers are not opposed to the training and skills they acquire, but that they lack the funds to implement their knowledge, which would make them compliant with buyers' Codes.

The main challenge we can identify in regard to capacity building is thus the absence of enabling resources to help implement the knowledge gained. There are limits to what impact current capacity building programmes can make, unless suppliers, e.g. receive financial assistance to incorporate the knowledge they have acquired. Suppliers seem to be in a deadlock, by not having anyone who can assist with implementation costs. By having to bear the costs alone, only the suppliers with large capital resources can survive the initial downturn as a consequence of implementing the lessons learned[41]. SMEs are therefore particularly at risk of not being able to cover the extra costs, which might lead to their exclusion from the supply chain[42]. Literature also seems to further support this point. "*These codes should avoid shifting all the burden of compliance onto the supplier, and recognize that it is the responsibility of the buyer to support*

[40] Mamic, Ivanka (2005), *Managing Global Supply Chain:The Sports Footwear, Apparel and Retail Sectors*, 'Journal of Business Ethics', Vol. 59, p. 81–100
[41] Further discussion of this issue can be found in Sub-report C
[42] See Sub-report F, for further discussions on the exclusion of SMEs in the supply chain

compliance by meeting part or whole of the investment cost required, by providing technical capacity, and by funding the monitoring procedures'[43].

One therefore needs to ask what the actual value or impact of capacity building is. It seems futile for buyers to use resources on major capacity building programmes, if suppliers don't have the resources to implement their knowledge. Buyers have made capacity building an integrated part of supply chain management and increasingly of RSCM, but this does not seem to have altered the fundamental problems stated above. Hence, even with a strategic CSR approach, the buyers will continue experiencing most of the problems that our study discusses, making it an unsustainable solution. Capacity building is therefore merely seen as another form of risk management, to get suppliers to be compliant. However, as we have seen there are clear limits to this approach, which evidently also does not remove all major risks for the buyers.

Conclusion and Challenges

In relation to the hypothesis *Businesses spend considerable resources on monitoring and auditing, yet research shows only relatively minor actual impact on (benefit to) workers and other stakeholders*, we have been able to establish the following.

It has been impossible for the research team to establish any definite indications on the costs of monitoring in RSCM Generation 1.0. Several impediments for this were identified; i) limited tracking of expenses by buyers, ii) costs are handed down to suppliers, iii) internal monitoring systems are increasingly complex and diffused, iv) buyer company profiles vary immensely v) there seems to be no standard monitoring system. Nevertheless, by way of example we have been able to establish an approximate minimum cost for a Danish buyer company, which amounts to app. 0, 22 % of their annual turnover. Auditing costs amount to app 1500 EUR per auditing session. If we compare some of these calculations with the Danish development aid budget, one might ask if resources could be spent more wisely elsewhere.

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[43] De Shutter, Olivier (2009). *Report of the Special Rapporteur on the right to food.* Human Rights Council, Thirteenth session, Agenda item 3, Promotion and protection of all human rights, civil, political, economic, social and cultural rights, including the rights to development. A/HRC/13/33

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The discovery of the complexities involved in calculating monitoring costs, has led the research team to the investigation of several challenges. These impediments seem to be primarily linked to the monitoring procedures of companies (related to whether companies use internal monitoring or external auditing, as well as the frequency and form of monitoring and auditing, their use of local or international resources). The discussion of these factors shows that monitoring systems are extremely complex, and that the control corporations have over these procedures is rather limited in reality. This insight has thus led to a discussion on whether monitoring and auditing is a reliable or effective way of measuring impact, after which we can conclude that there exist several shortcomings that are difficult, or impossible to overcome.

The results from the study indicate that some positive impacts can be recorded in areas such as workplace environments, health and safety and environmental standards. Various catalysts have also been identified, which seemingly have great consequences for processes that lead to positive impacts. These catalysts are i) communication and engagement, ii) openness and trust and iii) length of relationship. However, several negative impacts, which follow the introductions of supplier codes of conducts, have also been recorded; i) an increase in costs, ii) time-consuming, iii) low job security and iv) an unbalanced impact on human rights. The positive impacts were furthermore often limited in scope, only reaching certain workers (e.g. permanent, male workers), while excluding others (e.g. female, migrant workers); and mainly concern improvements of some outcome rights, while limited or no improvements were visible on process rights.

We also conclude on questioning whether monitoring and auditing can at all be seen as an appropriate method of identifying actual impact. The measurement of impacts related to human rights poses a particular challenge, as do the complexities involved with bias monitoring personnel or auditors. The research team also found that the positive impacts that reach suppliers are often limited in scope, both in terms of only reaching tier one suppliers, being limited to the duration of the buyer-supplier relationship, as well as only reaching workers with a certain social status. An assessment of the overall value of monitoring and auditing has shown that issues such as double bookkeeping, insufficient monitoring and auditing methods and methods of identifying impacts pose a serious challenge to the value of monitoring and auditing, and need re-evaluation.

This sub-report finally touched upon the concept of capacity building. The aim of capacity building for buyers is to build the capabilities of suppliers instead of enforcing 'pass or fail' audits. However, instead of having a contribution to sustainable development as its aim, capacity building seems to act as a part of existing risk management strategies, but buyers are nevertheless not achieving the desired risk-management, as other challenges now surface. Suppliers often come to see capacity building as something which ultimately only infers extra costs. They do not oppose the training and education they receive, but merely point out that they simply do not have the financial capacity to implement the knowledge they have received. Capacity building provided by buyers therefore seems to have some clear limitations, adding no real value, making it an unsustainable solution for RSCM in its current form. This finding, however, seems new and buyers might not be aware that this is the case as suppliers do not necessarily complaint over capacity building initiatives.

Recommendations and Suggestions

The investigation of this study has led us to the formulation of the following recommendations, which might have influence on the practices of buyer-companies, donor agencies and governments, academia and other relevant stakeholder organisations.

General Recommendation:

On the basis of this sub-report, one can certainly question the cost effectiveness of monitoring and auditing procedures in RSCM Generation 1.0 and 2.0. Preliminary (yet restricted) costs calculations indicate that considerable costs are involved for buyer companies who adhere to Generation 1.0 and 2.0 procedures, yet the impact of monitoring is very limited in scope. Thus, the research team generally suggests a revaluation of the monitoring and auditing of suppliers by their buyers.

Donor Agencies and Governments:

An eventual greater collaboration between buyers, local governments and donor agencies could lead to a better utilisation of the strengths of each.

- Donor agencies are in possession of elaborate systems of evaluating impact. These systems could be developed and utilised to ensure the more accurate evaluation of impact of e.g., human rights on suppliers.
- The challenge of impartiality could perhaps be met through a Generation 3.0 model[44], where the state would take a more active role in ensuring that monitoring practices are fair and ensure that positive impacts reach both buyers and suppliers.
- Suppliers in Kenya and in Bangladesh expressed the need for governments to play a more active role in enhancing opportunities for capacity building. Kenyan suppliers suggest that the grants should be paid by foreign ministries, such as Denmark's, which should be used to, e.g. build capacity within the local ministries of a particular area, who could appoint a single body to be in charge of executing the audits and promoting standards.

Buyers:

- A critical recommendation to buyer-companies would be to start tracking the costs of monitoring. Closer examination of expenses related to monitoring might lead buyers to greater realisation on the amount of resources that is channelled into this budget post, after which buyers might reflect on the actual value they derive from their current monitoring system.
- Another recommendation for buyers would be to reconsider the consequences of capacity building programmes for suppliers. The study has shown that suppliers are faced with considerable challenges relating to training programmes that infer extensive additional costs for them. This in turn does not lead to the anticipated risk management

[44] See main report for further elaborations on a Generation 3.0 model

which buyers seek, nor does it lead to a sustainable development of the business sector of suppliers.

Academia:

Extensive research is needed on the estimation of the actual cost of monitoring and auditing. Several impediments were identified in this study, which might facilitate further research in this area. Even though the estimation of these costs could prove a daunting project, researchers might approach this challenge by trying to establish these costs according to e.g., single buyer/supplier companies or industries.

Sub-report B: Code Mania

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Introduction and Methodology

RSCM Generation 1.0 describes the situation where buying companies develop their own codes of conduct (hereafter Codes) covering the principles their suppliers are expected to meet. To ensure compliance, the company will often monitor or audit its suppliers.[45] This is typically done through regular monitoring sessions at the supplier's premises, while some make use of external auditing by independent third party auditors. As each company has its own Code and procedure for ensuring compliance, Generation 1.0 approaches lead to a situation, where suppliers are met with many individual Codes at the same time; e.g. if a company supplies to ten buyers it might be met with ten Codes, as well as 1ten auditing or monitoring procedures simultaneously. This situation has been coined 'Code Mania'[46] and can be expected to have at least two repercussions. Firstly, ensuring compliance to multiple Codes requires a lot of resources in the form of both time and finances among the suppliers. Secondly, ensuring compliance to all relevant Codes at the same time might not be possible for suppliers, as the demands stated might be conflicting or contradictory in nature. Hence, hypothesis B goes as follows: *Mainstream RSCM Generation 1.0 approaches lead to 'code mania'.*[47] In the below, the findings from the study will be presented and discussed in an attempt to substantiate whether this hypothesis can be verified or not.

The collection of data for this sub-report was primarily done through phone and e-mail correspondence with relevant stakeholders, such as international buyers (Danish and non-Danish) considered front-runners within the field of RSCM. Data furthermore stems from face to face interviews with suppliers, business associations, NGOs, multi-stakeholder/industry initiatives and researchers in Kenya and Bangladesh. The interviews with individual suppliers as well as supplier associations constitute the main data foundation for hypothesis B, as these stakeholders are able to describe to what extent they are in fact met with Codes and the consequence thereof. In addition to conducting relevant desk studies and synthesizing existing

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[45] In this sub-report, the term 'Monitoring' refers to the monitoring of suppliers by internal company employees. 'Auditing' refers to the auditing of a company's suppliers, by an external party, such as an auditing firm

[46] Freeman, B., Pica, M.B., Camponovo, C.N. (2001). *A new approach to Corporate Responsibility: the Voluntary Principles on Security and Human Rights*, 'Hastings International and Comparative Law Review', Spring 2001., p. 425; Mullerat, R., Brennan, D. (2005). *Corporate Social Responsibility: the corporate governance of the 21st century*, Kluwer Law International, p. 28

[47] The other five hypotheses can be seen in Appendix 2

material, an assessment of relevant research was also made, such as publications, government- and industry reports concerning this hypothesis. Hence, findings reported below rest on the contribution from five types of data, which is the existing literature, interviews with buyers, interviews with suppliers, a codes of conduct review and finally input from other relevant stakeholders.[48]

Key Findings

Whereas there is quite a great deal of research on the impact of the Codes and their role in general in the supply chain, only few studies have focused on the issue of 'code mania'. Even fewer have the data to really determine, whether or not 'code mania' in fact exists and what the concept entails. However, Welford and Frost conducted ten interviews with supplying factory owners in Asia. Their findings showed that a) suppliers are met with multiple Codes, b) demands in the Codes differ or contradict and c) suppliers spend a lot of time dealing with the audits and monitoring sessions that accompany the Codes.[49] Raynard also highlighted an example of one Chinese company being audited or monitored by 40 different customers in one month.[50] The World Bank also did a comprehensive study in 2003 illustrating that the issues relating to 'code mania' does in fact exist.[51]

Hence, it is possible to find some indications of the situation of 'code mania' in the literature. In general, however, there is little research shedding light on how suppliers deal with the introduction of Codes in global supply chains, the increasing amount of demands stated and the accompanying monitoring and auditing procedures. In exploring whether the hypothesis above is valid or not, a range of nuances and sub-themes to the hypothesis surfaces. These are outlined below, where it is discussed to what extent code mania does in fact exist and what the term truly covers.

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[48] See 'Methodology' in the main report for more information on the methodological considerations in relation to this study
[49] Welford, Richard and Frost, Steven (2006). *Corporate Social Responsibility in Asian Supply Chains*, 'Corporate Social Responsibility and Environmental Management', Vol. 13, p. 169
[50] Raynard P. and Forstater M. (2002). *Corporate Social Responsibility: Implications for Small and Medium Enterprises in Developing Countries*, 'UNIDO's Small and Medium Enterprises Branch and the World Summit on Sustainable Development'
[51] World Bank (2003). *Strengthening Implementation of Corporate Social Responsibility in Global Supply Chains,* The World Bank

Three Versions of Code Mania

This study revealed that the suppliers do in fact experience issues related to code mania as a result of the RSCM Generation 1.0 and 2.0 practices of buyers. The way in which suppliers experience the situation of code mania can be grouped in three different categories. Firstly, suppliers describe the problems connected with meeting multiple Codes and auditing or monitoring procedures simultaneously. Secondly, suppliers mention how the demands in the implementation manuals following the Codes can directly contradict each other, making it impossible to comply with all Codes at once. Lastly, the suppliers draw attention to how differences in the level of compliance demanded by the buying companies have consequences for their market access. Below we elaborate on the three main issues suppliers found associated with the implementation of Codes.

The Issue of Multiplicity

Looking through the interviews with the suppliers, one word stands out - multiplicity. By introducing the word multiplicity suppliers stress how the mere quantity of the Codes has become a problem. Suppliers specifically mention how being audited and monitored over and over again, on the same issues, is quite tiresome and from their viewpoint seems to be an inefficient system of control. An association representative explained the frustrations of the suppliers by way of a metaphor: *"It is like you are driving and the police man stops you and asks about your driver's license and who you are… and then you drive off and before you can go into the second gear another policeman stops you and asks you for the same thing, ´can I have your driver's license, etc'., [so you respond] 'but they just checked me' and he will say 'no, that was him not me'. They are the same, they are both policemen, but wearing different colours of uniforms and they check you for the same thing!"* Thus, having several Codes essentially means that suppliers are monitored and audited many times on the exact same issues.

Being monitored or audited is a very time consuming process for suppliers, who mention how one audit or monitoring session can take up to two days. On top of this, suppliers often have to pay for the monitoring and auditing themselves.[52] A representative from a large industry association described just how bad it can be for the large suppliers: "*I heard of one factory owner who had so many buyers that it resulted in 28 audits in one month. And another who had experienced having as much as 3 audits in one day."* The issue of monitoring and auditing that accompanies the Codes plays a big role for suppliers, who in general find the monitoring and auditing procedures to be very demanding both in terms of human and financial resources. It is thus not only the Codes but in particular the accompanying monitoring and auditing, which adds to a situation leading to code mania.[53]

Contradictory Demands

In the literature, one finds few references to the issue of contradictory demands as a consequence of code mania; however, the issue of contradictory demands has often been highlighted as an illustrative example of the negative consequences of the introduction of Codes.[54]

Quite a number of the interviewed suppliers have experienced contradictory demands in the implementation manuals, which follows the Codes they are to comply with. As a consequence, it sometimes becomes impossible to be in compliance with more than one of the buyers' code at a single point in time. As one supplier expressed, *"I had an issue with some buyers out on the staircase. I first put up some emergency lights which I knew complied with the general compliance requirements [from the industry code]. But then one of my buyers came to do an audit and wanted me to change the lights to a different type, which lights both up and down the stairs at once. But another buyer wanted me to keep the original one – so what was I to do?"* Examples such as this one were plenty among the suppliers who mentioned facing contradictory demands on a very practical level such as with regard to

[52] See sub-report A of this study for more on the costs of monitoring and auditing
[53] World Bank (2003). *Strengthening Implementation of Corporate Social Responsibility in Global Supply Chains,* The World Bank, p. 18
[54] Jenkins, Rhys (2001). *Corporate Codes of Conduct – Selfregulation in a Global Economy,* 'Technology, Business and Society, Programme' Paper No 2, United Nations research Institute for Social Development, p. 17; Welford, Richard and Frost, Steven (2006). *Corporate Social Responsibility in Asian Supply Chains*, 'Corporate Social Responsibility and Environmental Management', vol. 13, p.169

fire extinguishers, number of doors from the factory floor, the height of separating factory walls, etc.[55]

When the Codes come with implementation manuals that are as detailed as the example given above, issues of non-compliance are bound to arise due to discrepancies between the implementation manuals. Nevertheless, many of the buyers say that they are lenient when it comes to such conflicts between Codes or implementation manuals, which can lead to non-compliance with their specific Code. The comments from some of the larger suppliers buttress this statement from the buyers to some extent, as they highlight that they are sometimes able to argue their case with the buyers, when issues of non-compliance arise as a consequence of contradictory demands. An interviewed factory owner found that whenever he argued the interest of the workers, the buyers would usually accept occurrences of non-compliance: *"Many of the buyers want you to pay the workers their salaries on a specific date to ensure timely payment, but the date might vary - some of the buyers say the 30th others the 25th. In the beginning we changed the salary sheet after every audit. But at some point we had to stop. Then, I argued to the buyers that this procedure was not in the interest of the workers – and the buyers accepted. Now we always argue the workers case whenever there are any disputes"*. Or as another factory owner describes it: *"I had an issue with the factory doors. Some buyers wanted the door to open one way and another one wanted it to open the other way. So I suggested a sliding system. And the buyers accepted it – if I can explain why I am doing as I am they usually accept"*.

The larger suppliers thus seem able to bargain their way out of occurrences of non-compliance resulting from contradictory demands. This has to do with the leverage a large supplier has, as buyers might be dependent on the particular supplier. If the buyers are in fact as cooperative as stated above, then the issue of contradictory demands might be nullified and show no relevance to a situation of code mania. However, some of the smaller suppliers had the opposite experience. These suppliers emphasise how very little understanding or help is available from the buyers in cases of non-compliance – you either do as they wish or you are expelled from their supply chain.[56] Furthermore, there is little trickle down of money or

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[55] See Sub-reports A and C
[56] See Sub-report E

training from the buyers to help the small suppliers meet the demands. This finding implies that there might be a difference in how willing the buyers are to accept non-compliance as a result of contradictory demands depending on how dependent the buyers are on the given supplier. Where small suppliers might be easier to replace, large suppliers have some bargaining power of their own and are thus able to remain in the supplier base despite issues of non-compliance.[57]

Differing Demands

Not all suppliers, however, recognised the issue of contradicting demands. Some suppliers mentioned that they are not met with contradicting demands, but *differing* demands, due to differences in how the buyers implement the requirements stated in their Codes. One supplier mentioned as an example, how some buyers would accept one toilet for 20 workers and others would expect there to be only 15 workers to share one toilet. Thus, the demands or requirements do not necessarily contradict each other, as the buyers are always ready to accept if the supplier is doing better than what they require. But the differing demands force the suppliers to follow the implementation manual of the buyer who has the most elaborate demands, or the highest standard. This way they at the same time ensure compliance with the other buyers' Codes. In other words, there are differences in how 'strictly' the buyers transform their Codes into concrete demands, which will be checked during monitoring and auditing exercises.

Mamic[58] has shown that the differing demands and training provided by buyers can also lead to a 'free-rider dilemma' amongst buyer companies. It is particularly MNCs who report their frustration; one buyer would demand higher standards and bear the cost of training, while other MNCs then would benefit from this situation, without having to contribute significantly to getting a supplier to comply. This type of behaviour among buyers contributes to the situation of differing demands.

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[57] Rahbek Pedersen, Esben and Andersen, Mette (2006). *Safeguarding corporate social responsibility (CSR) in global supply chains: how codes of conduct are managed in buyer-supplier relationships*, 'Journal of Public Affairs', Vol. 6, p. 232
[58] Mamic, Ivanka (2005). *Managing Global Supply Chain: The Sports Footwear, Apparel and Retail Sectors*, 'Journal of Business Ethics', Vol. 59, p. 81–100

Differences in how strict or high the demands are create an implicit ranking of the supplying companies, according to what level of compliance they are able to adhere to. In Bangladesh, this ranking was evident in the fact that suppliers referred to themselves as being either 'level A, B or C compliant'. Ranking of suppliers has consequences for their ability to obtain contracts with buyers, as their level of compliance determines which types of buyers the suppliers can approach. As one newly opened factory owner described it *"My factory is still new and is gradually developing, so it is not 100% in compliance... This also means that the buyers I currently supply to, have Codes, but do not have very stringent requirements... I expect that when the factory has matured and grown, I will be more ready to supply to more stringent buyers and move to a higher level of compliance."* The difference in demands thus places barriers as to which buyers the suppliers can do business with. In other words, certain suppliers are excluded or pushed out of the supply chain of the 'stringent' or 'strict' buyers. This development will, as expected, add a disadvantage to the situation of the SMEs, who presumably have the largest challenge due to their capacity restraints. The literature states little on this issue, however Abonyi points out that the growing variety of "stringent standards", "conformity requirements" and certifications is increasingly creating barriers for developing countries SMEs to access key markets.[59][60]

Code Mania Increases Pressure on the Suppliers

The three different versions of code mania all have the same consequence for the suppliers: they require resources in the form of both management time and finances. From the interviews with suppliers it became clear that meeting the resource demands, associated with the Codes and not least the accompanying monitoring and auditing sessions is a big challenge – even for the large suppliers.

Lack of Human Resources

The large suppliers mainly complain on the issue of time requirements and not so much the financial requirements following the introduction of Codes. Many of these large suppliers have

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[59] Abonyi, G. (2005). *Integrating SMEs into Global and Regional Value Chains: Implications for Sub regional Cooperation in the Greater Mekong Sub region*, 'United Nations Economic and Social Commission for Asia and the Pacific' (UNESCAP), in Bangkok
[60] See Sub-report F of this study for more on the issue of SMEs in the supply chain.

created 'compliance departments' within their administration and thus have up to as much as 10 % of their administrative staff working full-time with ensuring compliance and handling the visits from the auditors or monitoring employees. These companies often also reserved a room on the factory premises, only for accommodating the visiting auditors or monitoring employees. Hence, these companies have poured a lot of human resources into ensuring compliance and these resources could have been spent otherwise, e.g. to increase sales, etc.

As a possible way of cutting back on the human resources used, one supplier chose to install 52 CCTV cameras to monitor the factory floor. These cameras gave hourly feeds to the company's website, whereby international buyers could log in and check the factory for possible violations without actually visiting the factory grounds. By implementing this system the supplier hoped to receive fewer visits from buyers and thus use fewer human resources. Considering the costs and efforts associated with implementing such a system, it becomes quite obvious just how much the suppliers want to avoid the time-consuming audits and monitoring sessions. Also, even though a system such as this might be effective, it raises other human rights issues, such as the right to privacy.

The desire to cut down on the amount of staff dealing with compliance is basically due to the fact that management and staff resources are taken from ordinary business tasks. This prioritisation of human resources has financial consequences, when management are forced to focus on ensuring compliance instead of marketing, sales, etc. In this way the lack of human resources is related to the lack of financial resources, which will be further dealt with below.

Lack of Financial Resources

Whereas the big suppliers did not complain too much about the cost demands associated with code mania, this was a very big concern for the smaller suppliers. One supplier stressed how being compliant and acquiring all the needed certifications require a lot of investment. *"Compliance makes the cost of production high. And you will only recover these costs long-term. Compliance forces us to invest so much and the returns will take quite a while before the investment is recouped."* While the big companies might have the capital to make these large investments and recoup them slowly, the smaller companies are facing problems doing so. The smaller suppliers might have difficulties in borrowing money and only have low levels of earnings, leaving limited funds to spend. For some suppliers, the consequence is that they are forced to supply to only one or two buyers in order to minimise the number of demands and thereby the costs of complying. According to some of the suppliers, the costs associated with compliance therefore can be growth-hindering for their company and can work as a direct barrier to market entry.[61]

Lack of Assistance from Buyers

Some buyers do admit that their suppliers complain about the large amount of time they need to use on each specific monitoring or auditing session, due to the different demands of each one: *"The Codes are not so much the challenge as they are very similar. It is more the amount of time the suppliers spend on each audit… Ours take approximately 2 days and include check-ups at the production facility, going through documents, etc… It is thus, a very time-consuming procedure for the suppliers. The suppliers have also expressed the concern themselves"*. A leading stakeholder organisation also confirmed that they often hear complaints from suppliers, who are audited and monitored by multiple customers to varying standards and how this is a burden in terms of time and resources spent responding to audits and monitoring sessions and following up on corrective action plans. However, many of the buyers also claim that the suppliers do not give negative feedback concerning the use of Codes. According to these companies the suppliers are now used to the system of Codes with accompanying monitoring and auditing, and they expect it in every relation with all big buyers. Consequently, the suppliers seem to merely accept that dealing with several buyers implies dealing with several different Codes and accompanying audits and monitoring sessions. Lack of negative feedback from suppliers, if they in fact regard buyers' RSCM efforts negatively, might be a problem in itself, since the buyers do not become aware of the stress they put on suppliers, unless suppliers inform them about it. If buyers are not informed about the gravity of the issue, then there is little reason for them to change practices.

Among the buyers who do recognise the negative consequences of their RSCM Generation 1.0 and 2.0 practices, there seems to be few initiatives trying to improve on the coordination

[61] See Sub report F for more on the possible exclusion of SMEs.

between buyers in order to decrease the pressure on the suppliers. Furthermore, one could argue that if the Codes are so similar, why do the companies insist on having their own Code and own accompanying monitoring procedure? One major buyer questioned the same thing: "*For example in Bangladesh and India, we discuss it [the issue of coordination] with other buyers, but this effort has not been very successful, I should say. There seems to be reluctance on giving up one's own approach, and this reluctance is blocking efforts to harmonize the implementation"*. One of the reasons behind this phenomenon might be found in the concept of institutional inertia.[62] Employees tend to hang on to the systems they themselves created out of good intentions. Seeing that the use of individual company Codes is relatively new, many of the employees that helped develop these Codes in the buyer companies are still occupying the positions, and therefore might not be very willing to embrace some of the challenges that the current approach entails and face the consequences thereof. Among the companies acknowledging the pressure added to the suppliers from code mania, few actually do take initiatives to mitigate the problems while remaining with a Generation 1.0 approach.[63] For example one buyer is currently looking into how to conduct joint-auditing with other companies. The companies are identifying suppliers that they share and are now at the stage where they have to agree on how to execute one audit per supplier. Initiatives such as this seem to be rare, but highly appreciated by the suppliers, many of whom express the desire for harmonisation of Codes and auditing procedures. Generation 2.0 is, however, an attempt to solve some of the problems described above. Below we will turn to examining whether or not this attempt has in fact succeeded.

RSCM Generation 1.0 and 2.0 Contribute to Code Mania

The hypothesis states that RSCM Generation 1.0 leads to code mania – and as highlighted above this seems to be case. However, findings from this study suggest that RSCM Generation 2.0 also plays an important part in creating a situation of code mania. This might seem counterintuitive since, in theory, Generation 2.0 initiatives address or remove the issue of code

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[62] Rahbek Pedersen, Esben (2009). *The Many and the few: SMEs that manage CSR in the supply chain*, 'Supply Chain Management: An International Journal', Vol. 14(2), p. 111

[63] De Shutter, Olivier (2009). *Report of the Special Rapporteur on the right to food*, 'Human Rights Council', Thirteenth session, Agenda item 3, Promotion and protection of all human rights, civil, political, economic, social and cultural rights, including the right to development, p. 9

mania. Having only one code and one accompanying audit should remove the biggest problems related to code mania; including multiple, differing and contradicting demands. This study, nevertheless, identified three practices, which all indicate that Generation 2.0 Codes currently contribute to problem of code mania, instead of eliminating it.

Generation 2.0 Has Not Replaced Generation 1.0

The interviews with the international buyers confirmed that the use of Codes in the supply chain is indeed common. All of the interviewed companies made use of a Code, most frequently their own company Code. Out of the Danish companies included in the study, 93% have their own individual company Code which is applied to the suppliers. Only one company has shifted to solely using a Generation 2.0 Code. Furthermore, even though the majority of non-Danish buyer companies also have their own company Codes, most of them simultaneously take part in an industry or a multi-stakeholder Code. This is particularly evident in the very large corporations, which are rather decentralised and cover multiple industries. There thus seem to be no perceived conflict in being part of a Generation 1.0 and 2.0 approach simultaneously. On the contrary, this seems to be common among the large front-running companies.

Thus, it seems that Generation 2.0 Codes are currently being applied by buyers - *along with* company Codes. In these cases, Generation 2.0 initiatives actually contribute to the situation of code mania, instead of eliminating it. Seeing that this is apparently the current trend among the big international front-runner companies, the situation of code-mania might be even more extensive than originally anticipated, as the use of industry Codes only solves the issue of code mania if traditional company Codes are abandoned. If not, the introduction of Generation 2.0 Codes along with company Codes only increase the number of Codes the suppliers are met with and hence enforce the level of code mania.

The problem could also lie with the level of standards which Generation 2.0 Codes enforce. On the one hand, some Generation 2.0 Codes are based on the international minima. Minimum standards are employed in order to accommodate a wide array of companies. This is often not sufficient for many buying companies, thus leading them to simultaneously employ their own Codes in hope of avoiding all risks. On the other hand, some Generation 2.0 initiatives, especially in the form of clearing houses, create extremely advanced and complicated Codes, constantly pushing benchmark standards. The reason for this is often because the Code is their prime product. In order for them to get more 'customers', they need to constantly add to the Code, making it more and more advanced, so that buyers can obtain more extensive risk-management. However, more advanced Codes lead to more advanced implementation procedures for buyers. Thus, Generation 2.0 Codes seem to have difficulty finding the acceptable level of standards, leading to compensation either in the form of company-code supplements, or very intermediate industry or multi-stakeholder Codes.

Individualisation of Industry Codes

Another issue making some Generation 2.0 initiatives relevant in relation to code mania was brought up by a buyer, who engages in an industry Code initiative. This buyer highlighted that "*There was a revision of the [industry] code in 2009. But because all companies could not agree 100% on the content, you are now allowed to include a company annex, specifying your specific extra requirements*". If including exceptions, in the form of additional annexes such as this one, becomes the norm, the advantage of applying industry Codes in relation to the issue of code mania disappears, and the suppliers are left with having to comply with multiple demands at the same time with the risk of them being contradictory or differing.

Industry Codes Vary Across Markets

A third challenge associated with Generation 2.0 Codes surfaces when one looks at the industry Codes across markets. Suppliers express that they are met with different industry Codes depending on which market the particular buyer comes from. *"Every market has its own standard and if you read the standards they all sing the same song. It is only the name on the front cover that differs, but the document inside is the same"*. In the garment industry for instance the suppliers are met with the industry code called BSCI from their European buyers and the one called WRAP from their

American customers[64]. From the suppliers' perspective this contributes to the feeling of code mania, since the industry Codes are often very similar in content. Nelson et al. confirm the argument of the suppliers by stating that codes are market-specific, and hence a company supplying more than one market destination may be required to adopt more than one Code.[65] Thus it seems that some industry code initiatives still face the challenge of harmonizing across markets.

The challenge might be particularly relevant for industry initiatives; it is however also recognised among some of the multi stakeholder initiatives. As a representative from a multi stakeholder initiative states: *"Today however, there are several Generation 2.0 schemes and therefore, the next step would be to bring these closer together. Cooperation thus efficiency and also sustainability of efforts could increase, if the focus would be put more on capacity building and "political awareness raising", particularly vis-a-vis responsible stakeholders in sourcing markets."* In conclusion, it is fair to say that code mania is not only an issue related to RSCM Generation 1.0. As long as the industry Codes are used along with the company Codes, the problems related to code mania applies to RSCM Generation 1.0 and at least part of 2.0 at the same time. Furthermore industry codes in their current form might not be the solution to code mania they were expected to be.

Code 'Implementation' Mania

The word 'Code' mania implies that the problem or the mania is related to the Codes themselves. Intuitively one would therefore expect that the issue of contradictions for instance is realised on code level. In other words, the Codes currently being applied by the large buyers, be they Generation 1.0 or 2.0, are not coherent or similar.

However, a review of 38 Codes of Conduct (covering Danish, non-Danish and 2nd Generation Codes) revealed that current Codes are surprisingly similar across industries, home countries and Generations.[66] In general the Codes resemble each other by being predominantly focused

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[64] See http://www.bsci-eu.org/ and http://www.wrapcompliance.org/ (20.05.10)
[65] Nelson, V., Martin, A. and Ewert, J. (2007). *The impacts of codes of practice on worker livelihoods*, 'Journal of corporate citizenship', Vol. 28, p. 61-72
[66] See Sub-report D of this study for further details on the code review

on the social bottom line especially regarding workers' rights. As the figure below illustrates, the Codes are very similar in content, especially concerning which human rights they include. More than 98% of the Codes include the four core labour rights[67] namely abolition of forced and compulsory labour, freedom of association/right to form a trade union, elimination of discrimination and abolition of child labour. More than 80% of the Codes also agree on including other core rights such as decent working conditions, health and safety and the abolition of torture or degrading treatment. Even though there might be some minor dissimilarity between Codes, the majority thus make use of the same eight to ten rights and not much else.

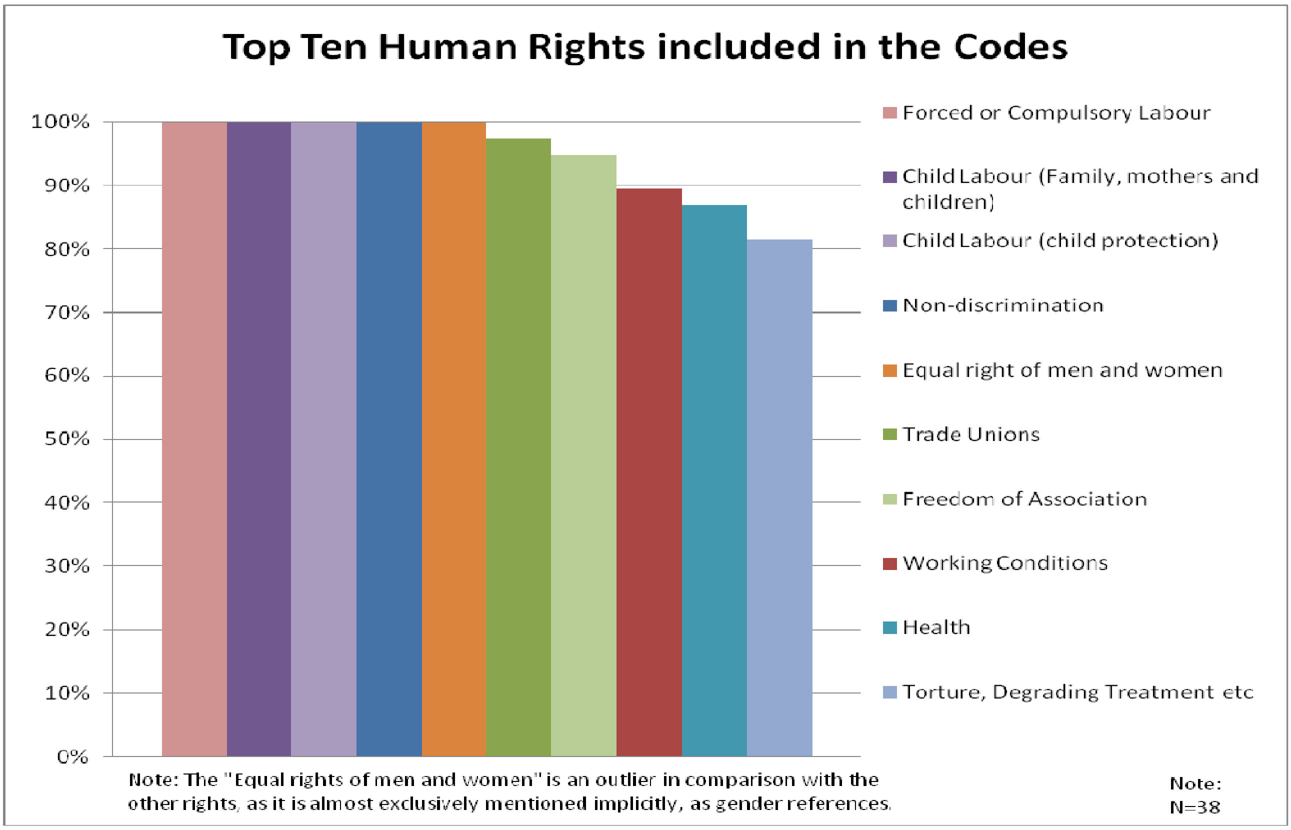

Figure 1[68]

In addition to the ten rights visible in *Figure 1*, only two other human rights were referred to in more than 25 % of the Codes. The majority of the human rights (53%) are thus referred to in

[67] http://www.ilo.org/global/About_the_ILO/Mainpillars/Therightsatwork/lang--en/index.htm (20.05.10)
[68] Source: The authors - Sub-report D

less than 10% of the Codes. In other words, there is a very large similarity among the Codes on which rights they include and which rights they do not. This finding points to the fact that the issue of contradictory demands does not exist on the Code level.

The majority of the interviewed buyer companies seem to also be aware that the content of the Codes are almost always the same and that no contradiction takes place on this level. Seeing that the Codes all basically state the same demands, the actual problem is *not* composed by the sole number of Codes by which the suppliers are met. . According to the buyers, the real problem concerning code mania arises in relation to the *implementation* of Codes. *"The problem of coordination is not on the code level. The Codes are more or less the same – the only difference is in formulation. The problem is in the implementation of the Codes, this is where the suppliers are challenged and frustrated".* Another buyer concurs by stating that: *"Our standards look a lot like the standards of our competitors… Codes are not the issue, as they are very alike. What matters is what we attach importance to [when executing the audits or monitoring sessions] – so it is more a question of how the code is used…"* Buyers generally acknowledge that their suppliers might have experienced conflicts on a more practical level in the implementation process following the introduction of the Code.

Suppliers also confirm that the content of the Codes are more or less similar and hence agree with the statement of the buyers implying that it is not the difference between the Codes themselves that is the problem. However, the suppliers question why they are met with so many different Codes, when they all state more or less the same. Following this line of thought many of the suppliers suggest one common global code as a solution to the challenges characterising the current system. The suppliers do however highlight that even though the Codes might be similar on an overall level, there can be large differences in how the buyers wish to see the demands implemented, and this is where they face difficulties and are put under pressure when it comes to capacity requirements.[69] The expectation of the suppliers is that a supposed 'global' or 'universal' code accompanied by only one implementation manual will eradicate the problems of code mania.

[69] World Bank (2003). *Strengthening Implementation of Corporate Social Responsibility in Global Supply Chains,* The World Bank, p. 22

Based on the statements from buyers, suppliers and the Codes review it is thus fair to conclude that the problems associated with conflicting or contradictory demands does not exist on the code level itself, however the problem seems to revolve around differences in the implementation of the Codes. Whereas Codes are most often publicly available on the website of the large western companies, implementation manuals describing how suppliers are expected to incorporate the Codes in their business are very difficult to get hold of. From an overall perspective buying companies are reluctant to give out too much information on how they actually implement their Codes and conduct their monitoring sessions. Therefore future research could preferably focus on shedding light on how the implementation of Codes is actually performed..

Degrees of Code Mania

According to existing literature, researchers seem to agree that the use of Codes is now regular practice at least among the large buying multinational companies. What they disagree on is the effects and consequences of the use of Codes. The literature also states how introduction of Codes is now a common way of regulating the buyer-supplier relationship. CSR-frontrunners introduced the first Codes in the early 1990s and since then, the use of Codes has grown with an impressive speed.[70] No data is currently available on how big a percentage of the buyers apply Codes in their RSCM programmes, although studies indicate that this is now the accepted way to integrate CSR in supply chains.[71]

Deviation between the interviewed suppliers indicates that it currently varies from industry to industry, just how widespread the use of Codes is. Thus, where every supplier in the Bangladeshi garment industry confirmed being met with multiple Codes from their buyers, the Kenyan food and horticultural suppliers have more diverse experiences with their buyers. All of them recognise having to live up to certain standards and acquire certain industry certificates in

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[70] Jenkins, 2002; Welford, Richard and Frost, Steven (2006). *Corporate Social Responsibility in Asian Supply Chains*, 'Corporate Social Responsibility and Environmental Management', Vol. 13; Andersen, Mette and Skjoett-Larsen, Tage (2009). *Corporate Social Responsibility in global supply chains*, in 'Supply Chain Management: An international Journal', Vol. 14(2)
[71] Jenkins, Rhys(2001). *Corporate Codes of Conduct – Self regulation in a Global Economy*, 'Technology, Business and Society, Programme Paper No 2, United Nations research Institute for Social Development', *p.* 5

order to export to foreign buyers. However, few of them were met by individual company Codes from their buyers, although the introduction of Codes on social issues seemed to be increasingly common. This difference suggests that the issue of code mania currently varies across industries. However, the variation does not seem to be a result of large differences in how RSCM is practised among the buying companies from one industry or another. Rather the variation seems to be a result of how widespread the use of Codes and subsequent monitoring and auditing is, or in other words, how far in the implementation of RSCM systems the buying companies of the particular industry have come. Thus, across industries and countries the use of Codes and audits or monitoring sessions seemed to be a growing trend expected to gain even more ground in the years to come. With this in mind the issue of code mania can be expected to become a problem for even more suppliers in the future, if not an alternative approach to RSCM is taken.

Knowing that the buyers are currently applying more or less the same excerpted human rights in their codes it provides an interesting example to imagine how the situation of code mania would look like should the buyers try to follow the guidelines from the United Nations Special Representative of the Secretary- General on human rights and transnational corporations and other business enterprises, Professor John Ruggie[72]. According to Ruggie, companies have risks in relation to *all* human rights – not just the core labour ones. According to this statement adequate risk management would imply including all human rights in your RSCM approach. If this would be done one can only imagine how this would contribute to the situation of code mania for the suppliers.

Conclusion and Challenges

The aim of this study was to either validate or reject the hypothesis claiming that *Mainstream RSCM Generation 1.0 approaches lead to 'code mania'*. From an overall perspective, the data reviewed in connection with the study, validates the hypothesis.

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[72] http://www.reports-and-materials.org/Ruggie-report-7-Apr-2008.pdf (20.05.10)

However, the study also brought up several important nuances to the original statement made. First, the suppliers helped shed light on how code mania in fact takes place. The problem of code mania faced by suppliers is thus framed in three different ways. Firstly, complying with multiple Codes simultaneously entails being monitored and audited repetitively on more or less the same issues, making it non-constructive in general and tiresome for suppliers. Secondly, suppliers are often faced with contradictory requirements on a practical level in the implementation of the Codes, making it impossible for them to comply with the Codes they are required to at once. Lastly, buyer demands often differ in standard, which in practical terms mean that suppliers need to conform to the highest code requirements, in order to be compliant with all their buyers. This in turn has several consequences; a) suppliers are excluded from supply chains, because they do not have disposal over the necessary resources and flexibility to fulfil the highest code requirements, b) corporate free-riding takes place, resulting in some buyer companies benefiting of the high standards and training given to a supplier by one company, while others reap the benefits with minimal effort and resources.

Code mania in general raises time and financial requirements among the suppliers. Especially SMEs, who by definition do not have disposal over a surplus of these resources, are hit harder than the larger suppliers. These restraints may in a worst case scenario contribute even further to SMEs being pushed out of global supply chains.

The study also revealed that code mania is not only a Generation 1.0 phenomenon. Generation 2.0 Codes contribute significantly. It seems as if buyers are using the Generation 2.0 Codes, simultaneously with their company, Generation 1.0 Codes; or are merely building in company specific annexes to the industry Codes, etc, because these Codes sometimes are not regarded as comprehensive enough to cover necessary risk-factors. As long as the Generation 2.0 Codes do not replace, but only supplement the company Codes, the situation of Code mania is worsened by the well-intentioned Generation 2.0 initiatives. Code mania can in addition be escalated, by continuously making the Generation 2.0 Codes more demanding for suppliers.

Lastly, the study established that the problem of code mania is not on Code level, as Code content is very similar even across Generation 1.0 and 2.0 Codes. Rather, differences arise on implementation level, where there are large differences in how the buying companies convert the demands in their Codes into implementation guidelines. The accompanying monitoring and auditing requirements for Codes are furthermore very diverse.

On the basis of this study, with the methodological limitations in mind, a rephrasing of the original hypothesis could be formulated as follow: *Mainstream RSCM Generation 1.0 and 2.0 approaches lead to 'code mania', a situation where suppliers are met with multiple, contradictory and differing demands*. Furthermore, ensuring compliance with these demands requires large amounts of human and financial resources, a requirement that can have the effect of excluding small and medium sized enterprises.

Recommendations and Suggestions

As a possible solution to the problem of code mania many suppliers suggested one harmonised global Code and one accompanying audit. However, one has to wonder whether this is a feasible solution, knowing how companies are reluctant to end their own RSCM engagement due to institutional inertia and the wish for individual ownership. Agreeing on one Code globally thus seems as a very challenging task. Others noted how such a global Code and not least the organisation behind it would be very powerful. Finally, a stakeholder stressed the possible risk that a pursuit of one harmonised code could result in a race to the lowest common standard, which has already been reflected in some Generation 2.0 Codes.

As an alternative one might suggest a geographically focused initiative in which a country has its own Code or set of standards, which should be based on international rules and regulations. Creating and enforcing such a national initiative would in time create a 'CSR risk free sourcing and investment zones'. In this scenario the suppliers would only have to comply with one set of standards and accompanying auditing procedure. Furthermore, buyers would practice adequate risk management by sourcing from countries having this initiative. Hence current RSCM approaches would become unnecessary, as buyers would trust that suppliers from these zones are 'safe' to choose, in the same manner as today where suppliers from western countries are often not presented with Codes, monitoring etc. Creating such a system would however, require support from developing agencies as well as buyer companies in order for local governments to meet the task. Elements of this approach can be found in the existing Ghana Business Code Initiative.[73]

The area of code mania is still rather neglected in academic literature. For instance there is seemingly very little knowledge on the use and contents of implementation manuals that lies at the core of the problem. Hence, further research could preferably try to illuminate how companies implement their demands. This however, also requires more transparency from the companies on their procedures.

[73] http://www.ghanabusinesscode.com/_index.php?page=8cf04a9734132302f96da8e113e80ce5_&cid=1 (01.06.10)

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Sub-report C: Impediments From Traditional Supply Chain Management

Table of Contents

Introduction and Methodology

This report deals with the third hypothesis (out of six in total) of the study. The hypothesis reads: *Traditional corporate sourcing strategies and purchasing practices have been identified as some of the primary impediments to ensuring adequate standards with suppliers.*[74]

Two pertinent aspects are addressed; companies' traditional supply chain management and their subsequent commitment to responsible supply chain management.

Supply Chain Management (SCM) - The traditional concept of Supply Chain Management has existed for many years. The concept is a cross-functional approach encompassing the coordination and management of various activities covering the internal processing of materials into finished goods, to the movement of these goods out of the company toward the end-consumer. Hence, it covers*" the total flow of materials from suppliers through end-users."*[75] This used to be a process that prevailed internally in the company. However, companies are now outsourcing their production activities to other countries (especially to developing countries), in order to focus on the company core competencies, to improve flexibility and to reduce costs. While reducing management control of these activities internally, it has meant greater coordination and collaboration with channel partners such as suppliers from developing countries.[76][77] Buyers manage their supply chain through a set of traditional procurement criteria involving; price, delivery time, flexibility in meeting orders, economic solidity, quality, etc. Suppliers are judged according to these criteria, which mean that they have to comply with them in order to be included in buyers' global supply chains.

Responsible Supply Chain Management (RSCM) - Since the 1990s, best practice companies have increasingly started to adopt CSR practices and today, introducing Codes and

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[74] The other five hypotheses are shown in Appendix 2

[75] Jones T. and Riley, D. (1985). *Using Inventory for Competitive Advantage through Supply Chain Management.* 'International Journal of Physical Distribution and Materials Management', Vol. 15, No. 5, p. 16-26

[76] Mentzer J., De Witt W., Keebler J., Min S., Nix N., Smith and Zacharia Z. (2001). *Defining Supply Chain Management.* 'Journal of Business Logistics', Vol. 22, No. 2, 2001

[77] Skjøtt-Larsen T., Schary P. and Mikkola J. (2007), *Managing the Global Supply Chain*, 3rd Edition, Copenhagen Business School Press

monitoring of suppliers has become a common practice. With the adoption of CSR practices a new set of criteria covering 'the triple bottom line' (TBL) is handed down to the suppliers.[78] Suppliers from developing economies are thus met with requirements concerning; human rights (equality, life and security, personal freedom and economic, social and cultural freedoms), labour rights (freedom of association, right to collective bargaining), respect for the environment and anti-corruption standards. Buyers' CSR demands can thus be seen as an add-on to their already existing procurement criteria.

Suppliers now face a situation where they have to live up to buyers' procurement demands, as well as their CSR demands. Having to live up to the criteria from both practices is expected to put a great deal of pressure on suppliers, in particular SMEs[79]. The main challenge, however, lies with the fact that SCM and RSCM potentially present opposing demands that in many instances are conflicting. Conflicting demands might obstruct suppliers' ability to comply with both practices simultaneously. On the background of these suppositions, the following hypothesis is divided in two parts. First, we will look at the conflicts, which are expected to arise when buyers impose additional CSR requirements to their existing SCM requirements and how such conflicts potentially undermine the purpose of RSCM – ensuring adequate standards with suppliers. This is discussed in the section; 'Key Findings'. Subsequently, we will assess why these conflicts might occur, in the section; 'Paradoxes resulting from a lack of integration'.

We have taken an explorative approach in establishing the necessary data foundation for the assessment of hypothesis C. We have mainly collected primary data from key stakeholders through telephone interviews and email correspondence with international buyers (Danish and non-Danish) as well as through face-to-face interviews with small and big suppliers, business associations and researchers in Kenya and Bangladesh. The findings from these interviews constitute the main data foundation for the assessment of hypothesis C and are thus used as the basis for our discussions in the following sections. In addition, we use secondary data, collected from academic articles, journals and publications, which we combine with our primary data.

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[78] The TBL pertains to issues regarding human beings, the environment and the economy (People, Planet and Profit). See Appendix 14 for a definition of the Triple Bottom Line
[79] See Appendix 14 for a definition of SMEs

However, the topics remain almost absent in the current literature. Hence, the findings from the literature are used to either confirm or reject our statements in the discussions.

Key Findings

While extensive research has been made on both SCM and RSCM practices of buyers, such studies have mainly been executed separately. Nevertheless, the focus is increasingly changing with more and more researchers investigating these two practices combined and their impact on suppliers in developing countries. More specifically, the focus has revolved around how buyers' added CSR requirements to SCM as this presents great challenges for suppliers' compliance abilities, in particular due to the two practices' opposing and even conflicting demands.

A report commissioned by the World Bank[80] investigates the effectiveness of the inclusion of RSCM criteria in MNC's purchasing strategies. This report called attention to how MNC's deal with social and environmental issues in their global chains, noting that there were overall mixed perceptions regarding the effectiveness of the top-down approach adopted by buyers. While some were optimistic about the buyers' efforts in the area, others *"complained that buyers send mixed messages about the importance of CSR vis-à-vis other buying requirements such as price and delivery."*[81] In addition, a comparative case study of selected Ethical Trading Initiatives (Generation 2.0)[82] assesses the impact of Codes in different types of supply chain arrangements and commercial contexts. The authors conclude that there is an inherent tension between commercial imperatives and Code compliance, which points to the difficulty of implementing Codes and to

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[80] Jørgensen, H.B., Pruzan-Jørgensen, M., Jungk, M. and Cramer, A. (2003). *Strengthening implementation of corporate social responsibility in global supply chains*, in Baden D.A., Harwood I.A. and Woodward D.G. (2009). *The effect of buyer pressure on suppliers in SMEs to demonstrate CSR practices: An added incentive or counter productive?*, 'European Management Journal', Vol. 27, p. 431

[81] Baden D.A., Harwood I.A. and Woodward D.G. (2009). *The effect of buyer pressure on suppliers in SMEs to demonstrate CSR practices: An added incentive or counter productive?*, 'European Management Journal',Vol. 27, p. 431

[82] Barrientos, S. and Smith, S, (2007). *Do workers benefit from Ethical Trade? Assessing codes of labor practice in global production systems.* 'Third World Quarterly', Vol. 28. No.4 (713-729), p. 713-729

the fact that "*purchasing practices are now being seen by many as the Achillees heel of corporate codes of labor practice*".[83]

These findings confirm the supposition of how buyers' conflicting demands leads to a breach of the implementation of social standards. The literature findings give however a more overall picture of the prevailing situation and do not shed light on where the conflicts surface. To validate the hypothesis, it is therefore necessary to look into the specific areas where the conflict occurs and the challenges faced at supplier premises.

Three Areas of Conflict

Our interview findings have revealed that conflicting demands are considered the main challenge in achieving adequate standards with suppliers. The next sub-sections present the three main areas, where buyers' CSR and procurement demands are conflicting; 1) the cost pressure suppliers are met with resulting from buyers' demands on implementing (costly) CSR standards while anticipating low prices, 2) the challenges of having to meet delivery times and enhancing flexibility while not working overtime, and 3) the opposing demands of ensuring a minimum wage level and low prices simultaneously.

1. High CSR Standards vs. Low Prices

A key finding from the supplier interviews has been suppliers' perception of how buyers expect high CSR standards (in terms of offering high quality products) on one hand and low prices on the other. This issue is the one mentioned the most in the interviews and is therefore a critical concern. The focus of such concern is that; suppliers are faced with increasing cost pressures, potentially leading to their commercial suicide, as a result of these conflicting demands.

Many suppliers are frustrated because of this. While one supplier has argued that *"there is a disconnect between buyers pressure on price and expectations on CSR…they want price to be low and the quality to be high, they want it both"*, another supplier expresses that; *"low prices means bad quality, but the*

[83] Barrientos, S. and Smith, S, (2007). *Do workers benefit from Ethical Trade? Assessing codes of labor practice in global production systems*. 'Third World Quarterly', Vol. 28. No.4 (713-729), p. 713-729

buyers want both a low price and a good quality…it should be balanced…they are trying to get the products almost for free". This points to the fact that buyers are not willing to make any compromises – neither on price nor on CSR, but instead, they expect suppliers to *"improve without paying for it…the price does not change…when they order it is not in the back of their minds that they should pay for our compliance…they order and push the price down while at the same time demanding [high CSR standards]…"* (Supplier Representative).

Thus, the main challenge is how to implement high CSR standards, which in itself is costly, while being pressured on prices simultaneously. This situation entails intensified cost pressures for the suppliers. Expecting compliance with both requirements is almost asking for the impossible. As stated by a supplier representative; *"how can the suppliers survive?"* The suppliers have expressed that ensuring compliance is 'merely' a way to guarantee market access, "*as a passport to international trade"* and as a consequence RSCM *"works as a sorting mechanism…a way to cut you off"* as *"the entry barriers are too high"* (Supplier Representative). Thus, these conflicting demands might have an excluding effect on smaller suppliers as buyers do not give them any preferential treatment, but instead expect all *"to meet the same standards, irrespective of company size"* (Supplier Representative).[84]

Literature also supports the findings of the cost pressures, suppliers are facing. In an empirical study on the attitudes and behaviours of SME suppliers, responding to buyer pressure to demonstrate CSR practices, Baden et al, emphasise that the implementation of CSR standards, in itself, generate a great amount of costs that inhibit suppliers' return on investment. They argue that the disadvantage of *"integrating CSR principles into [buyers] procurement criterion is that conforming to required standards can involve heavy costs in terms of time and expertise that are harder for [especially] smaller firms to bear…"*[85] Thus, their study finds evidence that adding CSR requirements into buyers' traditional procurement strategies may bring competitive disadvantages for SMEs.

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[84] Further elaboration will be given in Sub-report F

[85] Baden D.A., Harwood I.A. and Woodward D.G. (2009). *The effect of buyer pressure on suppliers in SMEs to demonstrate CSR practices: An added incentive or counter productive?*, 'European Management Journal',Vol. 27, p. 429-441

Circumventing the Cost Pressure

The suppliers themselves propose what is needed to circumvent the cost challenge. They see no other way, but to make the buyers bear some of the costs, resulting from ensuring compliance with high CSR standards. A stakeholder representative expresses this idea by arguing that; *"buyers have to understand that in order for suppliers to comply with their CSR standards they have to give in and start supporting the suppliers. The prices should be raised and accountability mechanisms enforced."* The literature concurs with this statement by suggesting how *"these codes should avoid shifting all the burden of compliance onto the supplier, and recognize that it is the responsibility of the buyer to support compliance by meeting part or whole of the investment cost required, by providing technical capacity*[86]*, and by funding the monitoring procedures"*.[87] These suggestions would lower the entry barriers of even smaller suppliers and enable them to improve the value added of their products, needed to be in compliance.

Another request, proposed by an association-interviewee, is for governments, buyers and suppliers to collaborate on an appropriate and cost effective system that would "*take the money barrier out of compliance assertification"*. The suggested solution is; *"to evidence compliance without having high cost standards, thus to make it cost effective for the [suppliers]…If the issue is to attest the compliance, then governments, retailers, suppliers need to work together to come up with a system that is focused on the attestation of compliance without having the undesired side-effect, which are cost barriers – meaning that the cost of attestation of compliance becomes a delimitation to production."* In this case, the issue is requested to be solved on a higher level, where all involved parties partake in the resolution process.

However, what seems interesting, or concerning, is that only one of the interviewed buyers acknowledges this prevailing cost challenge – what has been argued as the main concern for the interviewed suppliers. The reason for this can be that *"…[buyers] are often not aware of how their decisions [on] (…,pricing models) affect suppliers' ability to comply with social and environmental*

[86] Further elaboration will be given in Sub-report A
[87] De Shutter, Olivier (2009). *Report of the Special Rapporteur on the right to food.* Human Rights Council, Thirteenth session, Agenda item 3, Promotion and protection of all human rights, civil, political, economic, social and cultural rights, including the rights to development. A/HRC/13/33

requirements…when they are aware, they are usually evaluated based on traditional sourcing scorecards" (Stakeholder Representative). However, it is difficult to make any concluding statements in this regard. Thus, it would be relevant to investigate suggested explanations further to shed some new light on the issue. The one buyer that does agree with the above-mentioned findings confirms that buyers' Codes place a great deal of burden on the suppliers; *"they have to bear the cost and they have to provide a low price as well. This is especially tough for small companies. The contracts don't last long enough for them to see the real benefit of the changes."*

Present the Business Case to the Suppliers

Due to the cost challenges and in turn the high entry barriers, many suppliers, in particular SMEs, find it difficult to see what they will gain – the real value from adopting CSR standards. The interviewed suppliers agree that it is necessary to show and prove the business case, to strengthen suppliers' incentives for adopting CSR standards, which presently, is merely experienced as an imposition by buyers and not a voluntary measure.

The prevailing situation is that *"suppliers implement codes because of the demands from the buyers, not because they see a real value"* (Supplier Representative). However, the interviewed industry associations concur with the fact that if there are any business opportunities in terms of economic gains from adopting CSR standards and if these can be shown to the suppliers then more companies will engage. An important act in this regard is to make suppliers *"see the win-win situation where CSR [can] benefit, not only to the buyers, but also to the supplier"*. The prevailing top-down approach, in which CSR is introduced to the suppliers in the form of demands coming from the top, should be balanced with the bottom-up approach where suppliers voluntarily, rather than compulsory, take the initiatives themselves. This is seen as the criterion to ensure the realisation of, *"ownership, mutual understanding and mutual respect"* (Stakeholder Representative). The government should in this regard be included and *"play a role of the stick and carrot"* (Supplier Representative).

2. Overtime vs. Delivery Time

The next conflict that a few of the interviewed buyers have experienced outside company premises at supplier level, arises when the buyers expect their suppliers to ensure on-time delivery, while not working more hours. One buyer stresses that when suppliers comply with on-time delivery it hampers or even rules out their ability to live up to their buyers' demands on overtime. *"Overtime hours are the most prevalent issue when it comes to non-compliance. We constantly struggle with this problem…we have to acknowledge that it is partly our fault as our big orders are putting pressure on the suppliers and can create overtime."*

It has also become very common, not only to demand on-time delivery, but to also expect suppliers to be flexible in regard to the deliveries. This might increase the gap, between buyers' procurement and CSR demands even further, thus, potentially aggravating the conflict between the two. In other words, it will put additional pressure on suppliers, who will face even greater challenges in complying with their buyers' overtime demands. One buyer illustrates this dilemma by arguing that; *"flexibility is something any buyer would appreciate, but I understand that when you demand your suppliers to be more flexible, it becomes more challenging to plan the production and thus the working time at the factories."*

<u>Context Matters</u>

The buyers' understanding of the prevailing issues corresponds with the suppliers' concern related to ensuring on-time and flexible deliveries if they cannot work overtime. The majority of the suppliers state that, when buyers put pressure on delivery time and overtime simultaneously, it poses a great challenge to their ability to both deliver and comply. Additionally, contextual conditions in developing countries can have severe impact on suppliers' challenges of ensuring compliance with buyers' opposing demands. One such example is from Bangladesh.

Power cuts contribute to Bangladeshi suppliers' compliance challenges. Logistical problems such as these are out of the supplier's control, yet they face the same requirements as other suppliers. As a consequence, it is very difficult for them to plan production as necessary conditions for production cannot be relied upon. This reality, therefore, often forces suppliers to work whenever circumstances allow it, in order to meet deadlines. Finding other and more suitable working hours has made working at night a common practice for suppliers in Bangladesh, but also in many other developing countries. As a result of the inconsistent working hours, caused by their attempt to meet the deadlines, overtime is unavoidable. One supplier illustrated such circumstance accordingly; *"when I have to meet a deadline and we lose four hours of electricity in a day that will naturally affect the workers that have to work more"*.

What can be concluded from the above-mentioned example, is that context matters. Buyers can impose their demands onto the suppliers and expect compliance, but then these demands should be adapted to the local context. Currently, the suppliers are concerned with the fact that some buyers lack such understanding, which is essential if the buyers are "*to [recognise] why it can be difficult for a supplier to be in compliance"* (Supplier Representative).

A few of the buyers that are aware of their suppliers' overtime issues have been involved in different initiatives. One buyer has addressed such issue by initiating an investigation with the main purpose of exploring the link between the decision making process of the procurement department at Headquarters and its impact on the factories, down to the workers' level, in the developing countries they source from. The interviewed buyer argues that such investigation was important to make the company realise that *"...running a successful business ethically, creates opportunities for our suppliers, but we should, of course, do it in a way that is beneficial for everyone...we can now see that we can become better at planning and to keep our suppliers informed on what to expect"*. Initiatives such as these are thus relevant, as they can serve as a way to improve the awareness of the local context.

3. Minimum Wages vs. Low Prices

A number of the interviewees have argued that buyers source their products from developing countries as they can get them for a low price, as a result of cheap wages. Thus, buyers want low prices while demanding suppliers to live up to a certain minimum wage level, at the same time. Most interviewed buyers expect their suppliers to adhere to the national law, by offering workers the national minimum wage as a way to address the issue of low wages in the countries they source from and ensure compliance with their Codes. However, the interviewed suppliers agree that these opposing demands make it impossible for them to ensure compliance on both sides. This situation can be illustrated by two different examples.

In the first example, the supplier will offer a low price to accommodate the price demand. The only way to do that is by cutting down the variable costs. For most suppliers this means cutting down on labour costs, as this is their only variable costs. As a result, a new and unfortunate trend is evident in many developing countries, with suppliers decreasing the number of permanent workers while increasing the number of contracting labour, as one way to solve their labour cost issues (Stakeholder Representative).[88] Additionally, it has had implications for suppliers' overtime dilemma, as workers want to work more to supplement their low wages. Thus, workers' low wage level in developing countries has an impact on and is, in some cases, the reason for overtime. Pushing down labour costs is, however, in conflict with the buyers' CSR demands on ensuring the national minimum wage level. This situation presents *"a built-in conflict…a catch 22"* (Stakeholder Representative). Offering low prices on the one hand, will result in non-compliance in regard to buyers' CSR demands on the other hand.

In the second example, the supplier will increase the wage level of the workers and pay a minimum wage to accommodate the buyer's demands on wages. However, a wage increase might potentially have a negative impact on the suppliers' competitiveness. As argued by one supplier, *"I can only raise the salary so much without losing in the competition"*. Another supplier has the same opinion as he stresses that, *"[buyers' expectations] are sometimes too high, e.g. in relation to wages, because we compete on labour costs…there is a conflict when European companies are trying to make us elevate the wages because then we become less competitive*". The worst case scenario, according to suppliers, is that buyers would move and source from other developing countries where they can get lower prices. Offering a higher wage level on one hand, will thus result in non-compliance in regard to buyers' procurement demands on the other hand.

[88] Further information on permanent versus contractual labour, see Sub-report A

Paradoxes Resulting From a Lack of Integration

The above-mentioned findings confirm that the existing RSCM approaches currently face challenges that need to be addressed if their purpose is to be served. One way to go about this challenge is by digging deeper into the topic at hand. This will ensure a more nuanced picture of the prevailing situation and guarantee the correctness of the recommendations put forward. Complementing and underlying topics surfaced, while exploring the validity of this hypothesis, which are related to the extent to which buyers' RSCM and SCM practices are integrated or fragmented and how that influences the compliance level of suppliers. These topics will be discussed in the next section in order to shed some new light on the above-mentioned findings and to enable the level of clarification needed to either verify or reject the hypothesis.

As described above, buyers' CSR and procurement demands can conflict, making it challenging for suppliers to comply with both demands simultaneously. A question to be raised is; why these conflicts occur? The findings show that the conflicts occur when buyers' procurement and CSR demands are fragmented, rather than integrated. As expressed by one of the interviewed stakeholders; *"buyers' procurement practices are in many cases not integrated with CSR; there is no proper balance and that is really an issue."* Thus, fragmentation is what causes the conflict. Or in other words, the extent to which the demands are fragmented affects the level of conflict between the two and in turn suppliers' ability to comply, in particular SMEs – thus hindering successful RSCM.

The Fragmented Approach

The presented findings on conflicting demands clearly indicate that buyer's procurement and CSR demands are fragmented rather than integrated. Another example illustrating buyers' prevailing fragmented RSCM approach, is related to when buyers monitor or audit their suppliers outside company premises. In this case, the monitoring of the procurement and CSR requirements is carried out separately; *"…In one day we can be [monitored] twice from the same buyer. In the morning, the procurement people will come to check whether we are able to make the order in time and they are happy to see that we are, but then in the afternoon comes the compliance team and they are unhappy by the fact that we used three hours of overtime yesterday"* (Supplier Representative). Such an example illustrates how a fragmented monitoring process can materialise and how that potentially can cause a conflict, mainly experienced at the supplier level.

However, the findings from the buyers' interviews do not give an accurate picture of which RSCM approach the buyers have – integrated or fragmented. There seem to be a difference in the perspectives the buyers have in relation to the fragmented versus integrated approach and how it is in reality. The majority of the buyers state that they have an integrated or fully integrated approach. Nonetheless, the findings indicate that this perspective is only applicable within the company, as it has mainly been used to explain the internal CSR process as demonstrated below.

The majority of the buyers express that they have been through an extensive internal change process, which has not been an easy transformation. Dilemmas, between the CSR and procurement practices, were experienced by many buyer-companies during this process – in some instance even considerable internal resistance had to be dealt with. One company illustrates the set of challenges it has faced during this process; *"internally, we have had a long process of getting all to understand the CSR issues and appreciate [the company's] Codes of conduct...When we started the process, people were laughing...I guess it's because all has an opinion about CSR whether 'good' or 'bad' while quality is firmly defined…The content and goals were too broad and too diffuse - and the procurement staff was feeling most comfortable with the Excel sheet and simple 'yes' or 'no' categories. We have worked to change it."* Today, most buyers argue that they have reached a level where they do not believe that there is a dilemma between their CSR and procurement practices as they no longer perceive CSR as separate from their core procurement ideals. Instead, both ideals are seen as *"in service of the same objective"* (Buyer Representative).

Moving Towards a More Integrated Approach

The above-mentioned findings thus suggest that information on whether buyers' CSR and procurement practices are integrated, rather than fragmented, is for most parts still lacking and more future research is needed to gain new and valuable insights, into how far the buyers are with reaching an integrated RSCM approach. Some buyers are, however, increasingly recognising the need for and attempt to change their fragmented RSCM approaches as a way to diminish the level of conflict and to address the compliance challenges experienced at supplier premises. Two concrete examples can be given to demonstrate how buyers are slowly moving towards a relatively more integrated RSCM approach.

An evolving trend, among the buyers has been to form long-term relationships with their suppliers. This focus can be seen as a way for buyers, to address some of the compliance issues found at the supplier level. The majority of the buyers confirm that they do not reject new, or terminate their relations to existing suppliers, if and when these face compliance issues. Instead, the buyers emphasise the importance of having an open and on-going dialogue and collaboration with their suppliers as the way forward to ensure and improve compliance within both practices. One buyer describes this situation by arguing that; *"It is a process to develop these suppliers who cannot fulfil all requirements from day 1. Therefore, the key words for our audit process are partnership and openness…it is in our opinion the best way to collaborate and motivate our business partners – and this approach is of mutual benefit."* Another buyer concurs with this argument; *"[Our] key prioritization is to have a good dialogue and collaboration with our suppliers – thus [we] intend to solve issues together with our suppliers…This approach has also had a positive impact on [our] suppliers that have shown great interest in and ability to continuously improve the compliance level."*

Another example demonstrating an increasing movement towards a more integrated approach, relates to the buyers' monitoring and auditing process.[89] Most companies have been accustomed to having separate monitoring or auditing teams checking up on procurement and CSR demands. However, some buyers acknowledge the advantages of uniting the two practices in the monitoring process. One buyer has re-structured their monitoring as a response to the dilemmas the company has experienced at the premises of their suppliers, caused by a fragmented approach. Today, the company has a unified 'global audit team'; *"there are always two auditors from the global audit team, e.g. one from the environment department or quality department together with the procurement department. By organizing it in this way, the procurement employees will not get into the*

[89] In this study, the term 'monitoring' refers to a company's internal process of checking supplier compliance, while 'auditing' refers to buyers contracting a 3rd party to execute the same process

dilemma concerning making sure that price, quality, delivery, etc. is OK and at the same time check that working hours are in compliance with our standards." Such example presents a more unified approach where the buyer ensures "*one face – to the suppliers*" (Buyer Representative).

These examples indicate that integrating procurement and CSR is a trend among some of the buyers, with a development over time from fragmented, parallel systems, towards more integrated systems. However, there is still a long way to completing and reaching a fully integrated RSCM approach.

Conclusion and Challenges

The purpose of this sub-report was to validate or reject the hypothesis; *"Traditional corporate sourcing strategies and purchasing practices have been identified as some of the primary impediments to ensuring adequate standards with suppliers".*

Overall, the findings confirm a validation of the hypothesis. The data reveals that the imposition of buyers' additional CSR requirements to their traditional supply chain management, entails having suppliers to live up to criteria from both practices; CSR on one hand and procurement on the other - simultaneously. These two practices were, however, found to present opposing and even conflicting demands, which had severe implications for suppliers' ability to comply. Hence, buyers' conflicting demands, arising from the 'additionality' of requirements, is considered the main challenge in achieving adequate standards with suppliers in developing countries.

However, the data has also shed new light on the topic at hand as it has presented a more nuanced picture of where the conflicting demands surface and the concrete challenges suppliers experience. Buyers' conflicting demands occur within three particular areas. Firstly, it occurs when buyers require suppliers to adopt high CSR standards, which in themselves are costly, while insisting on a low price for their products. Buyers are not willing to compromise on either price or on CSR requirements. This situation entails intensified cost pressures for the suppliers and expecting compliance with both expectations is asking for the impossible.

The second conflict arises when buyers expect suppliers to ensure on-time delivery on the one hand, while not working more hours on the other hand. This condition poses a great challenge to suppliers' compliance abilities. When suppliers comply with on-time delivery it hampers, or even rules out their ability to live up to the buyers' demands on overtime. Contextual conditions in developing economies can also intensify such compliance challenges. Finally, this surfaces when buyers want low prices, while demanding suppliers to live up to a certain minimum wage level at the same time. Such opposing demands make it impossible for suppliers to ensure compliance with both requirements. If suppliers lower wages, to accommodate the price demand they cannot live up to buyers wage level requirements and vice versa.

Hence, buyers' opposing CSR and procurement demands have severe consequences for suppliers, as they obstruct the Codes compliance level, leading to a breach of the implementation of social standards. Why conflicts occur has to be seen in connection with how fragmented, rather than integrated, the CSR and procurement demands are. The extent to which the demands are fragmented affects the level of conflict between the two and in turn, suppliers' ability to comply. What has been presented on conflicting demands, clearly indicate the prevailing fragmentation of buyer's procurement and CSR practices. Nonetheless, some buyers are increasingly recognising the need to change their fragmented RSCM approaches as a way to diminish the level of conflict and to address the compliance challenges experienced at supplier premises. This has been evident from some of their initiatives, among others, on 1) ensuring open and on-going dialogue with suppliers and 2) uniting the CSR and procurement practices in the monitoring process. Hence, integrating procurement and CSR is a tendency among a group of the buyers working with a development over time from fragmented, parallel systems towards more integrated systems. However, there is still a long way to go before completing and reaching a fully integrated RSCM approach.

Recommendations and Suggestions

This study concluded that buyers' conflicting CSR and procurement practices, as a result of the prevailing fragmented, rather than integrated use of the two, is the main challenge in ensuring adequate standards with suppliers. It is evident with this finding that issues need to be addressed and changes made, in order to reverse the current situation in which suppliers' ability to comply, with both demands simultaneously, is impeded.

Currently, the literature provides an overall picture of the above-mentioned situation, with limited investigation into 1) the specific areas of: high CSR standards vs. low prices, overtime vs. delivery time and minimum wages vs. low prices (where the conflict occurs as presented in this study), 2) the fragmented versus integrated RSCM approach, as well as 3) the challenges faced at supplier premises. We therefore recommend that;

- Additional research, within these specific problem areas, is needed to fill the prevailing gap in the field and to increase awareness of the current challenges.

The presented initiatives within overtime, supplier relations and integrated monitoring processes, point to the fact that buyers are increasingly recognising some of the prevailing issues experienced at supplier level, as a result of their fragmented RSCM approach. A future suggestion is thus to have;

- A continuous focus on best-practice examples and initiatives, as a way to increase awareness of how to solve these challenges should be maintained.

These issues are very complex and additional literature, as well as improved relations between buyers and suppliers, are not sufficient responses. If a sustainable solution is to be found, we need a fully integrated RSCM approach that would reduce the conflict between buyers' CSR and procurement demands and in turn improve the compliance level of suppliers. Thus, we suggest that;

- Donor agencies and governments also need to participate in future collaborations and solution processes.

A particular concern of the suppliers was the cost challenges. To circumvent these, suppliers proposed that buyers bear some of the costs. This proposal would entail a raise in the prices of the products and services. However, requesting buyers to financially support the burden of suppliers' compliance seem questionable since they source from developing economies for exactly this reason – to ensure low prices. Instead, the challenge is to construct a RSCM approach where suppliers are not met by a substantial increase of costs. Such approach corresponds to what is presented in the proposal of establishing 'CSR risk-free sourcing and investment zones'. In these zones, the business case would also become more apparent for the suppliers, in terms of realising the potential business opportunities and thus strengthening their incentives to adopt CSR standards on a voluntary basis.

Sub-report D: Code Limitations

Table of Contents

Introduction and Methodology

Hypothesis D is formulated as follows: *Most Responsible Supply Chain Management approaches limit themselves to a few basic human rights, and are not able to acknowledge the indivisibility, interdependency and interrelatedness of human rights to secure human dignity.*[90]

During the World Conference on Human Rights in Vienna, 1993 the United Nations (UN) declared that: *"All human rights are universal, indivisible and interdependent and interrelated. The international community must treat human rights globally in a fair and equal manner, on the same footing, and with the same emphasis".*[91] Even though states are still the primary duty bearers of human rights, corporations have in recent years played a more active role in contributing to the international fulfilment of human rights. Companies realised that human rights observance had an impact on their risk-mitigation and they started to, for example, include human rights in their company codes of conduct (hereinafter Codes), requiring that their suppliers comply with these rights, whereby they could control potential risk to their reputation.

The formulation for this hypothesis stems from the general observance that companies only tend to include a handful of human rights in their Codes, mostly related to the core labour rights. Nevertheless, in 2008, on the basis of the Vienna declaration and an extensive empirical survey, the United Nations Special Representative of the Secretary General (SRSG) on human rights and transnational corporations and other business enterprises, Professor John Ruggie, stated that companies have risks in relation to *all* human rights – not only the core labour rights.[92] The rights can be seen in *Table 1* below.

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[90] The other five hypothesis can be seen in Appendix 2
[91] http://www.unhchr.ch/huridocda/huridoca.nsf/%28symbol%29/a.conf.157.23.en (20.05.10)
[92] http://www.reports-and-materials.org/Ruggie-report-7-Apr-2008.pdf (20.05.10)

Freedom of association	Right to equal pay for equal work	Right to a family life
Right to organize and participate in collective bargaining	Right to equality at work	Right to an adequate standard of living (including food, clothing, and housing)
Right to non-discrimination	Right to just and favourable remuneration	Right to physical and mental health; access to medical services
Abolition of slavery and forced labour	Right of peaceful assembly	Right to education
Abolition of child labour	Right to a safe work environment	Right to participate in cultural life, the benefits of scientific progress, and protection of authorial interests
Right to work	Right to rest and leisure	Right to social security
Right to life, liberty and security of the person	Right to marry and form a family	
Freedom from torture or cruel, inhuman or degrading treatment	Freedom of thought, conscience and religion	
Equal recognition and protection under the law	Right to hold opinions, freedom of information and expression	
Right to a fair trial	Right to political life	
Right to self-determination	Right to privacy	
Freedom of movement		

Table 1: Business impact on Human Rights[93]

Adequate risk management therefore implies including all human rights in ones RSCM approach. In accordance with Prof. Ruggie, this means that prioritising some human rights, while discarding others is an inadequate RSCM risk-strategy. If the hypothesis rings true, companies are currently not covering their risk sufficiently, e.g. companies cannot be sure that they are not violating human rights when carrying out business practises in their supply chain. Further investigation of this hypothesis will attempt to establish whether a selected number of current CSR front-runner companies limit themselves to the core labour rights in their RSCM approach.

The collection of data for hypothesis D has primarily consisted of a desk study review of Codes. The review consists of 38 supplier Codes, whereof 28 out of 38 Codes are Generation

[93] http://www.reports-and-materials.org/Ruggie-report-7-Apr-2008.pdf, p. 15, (20.05.10)

1.0 company Codes.[94] Furthermore, 14 of these Codes are from non-Danish companies and 14 from Danish companies. The remaining 10 Codes are Generation 2.0 Codes, i.e. Industry Supplier Codes or Multi- Stakeholder Initiative Codes. All of the Codes were selected through a 'critical case' method, meaning that the Codes come from companies and organisations considered key players and front-runners in the area of CSR and RSCM. Applying this selection criterion implies that if the hypothesis proves valid on these cases, it will also, with large probability, be valid on a much larger scale. However, not all front-runner companies have their Code publicly available on their website. Hence, the selected Codes also reflect which Codes, were accessible to be retrieved.

The 38 Codes were analysed, in order to establish which human rights they included. In this review the International Bill of Human Rights was used, in other words every code was reviewed in light of the rights outlined in the International Covenant on Economic, Social and Cultural Rights and the International Covenant on Civil and Political Rights. Further data was also collected via, e.g. interviews with suppliers and buyers, and is applied to a limited degree whenever relevant.

An overview of the Codes reviewed is available in the back of this report (Tables and Figures). For example, a list of Codes reviewed (*Table 3*), a table of the rights included in the Codes (*Table 4*), etc.[95]

Key Findings

Several surveys on the content and scope of Codes exist.[96] In general, they conclude that there is variation in the content of the Codes. However, upon closer examination the surveys base

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[94] There are many different types of codes of conduct out of which not all are relevant in relation to RSCM. For instance some only apply to the in-house staff of companies. However, in this study the term Codes describes the codes of conduct intended to regulate the relationship between buyers and suppliers.
95 For further information, see 'Methodology' in the Main report for more information on the methodological considerations in relation to this study
[96] See, e.g.: Jenkins, Rhys (2001). *Corporate Codes of Conduct – Selfregulation in a Global Economy*, 'Technology, Business and Society', Programme Paper No 2, United Nations research Institute for Social Development', p. 21; Kolk, A.; Van der tulder, R and Welters, C. (1999). *International codes of conduct and corporate social responsibility: can transnational corporations regulate themselves?* 'Transnational corporations', Vol. 8, no.1, p 143-80; Emmelhainz, Magaret (1999). *The apparel industry response to*

the variation of the Codes on the different purposes of the Codes reviewed (e.g. when Internal Employee Codes and Supplier Codes are reviewed simultaneously)[97] or from differences in the operationalisation or understanding of different human rights[98].

The Code review carried out in this study thus revealed that supplier Codes are in fact very similar in which rights they cover and which they do not. Below follows a presentation of the major findings and an outline of the proposed consequences of the current RSCM approaches in this respect.

Most Human Rights Are Not Included in the Codes

The Code Review illustrated that Codes, in general, do not include all human rights. To be more precise, no Code incorporated all human rights and the Code, which included the most human rights, only included 15 out of the 36 human rights (42%).

To a large extent the Codes seem to be of the same opinion on which human rights they consider noteworthy or relevant and which they do not. Thus, 11 human rights are not mentioned in any of the 38 Codes reviewed (see *Table 4*). In addition, more than 50% of the human rights are referred to in fewer than 10% of the Codes.

Figure 1 below, illustrates how the Codes in general make reference to only 32% of the human rights. In other words, a current Codes applied by the front running RSCM practitioners in general includes approximately 1/3 of the internationally proclaimed human rights.

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sweatshop concerns: A review and analysis of codes of conducts, 'The journal of supply chain management: A global review of purchasing and supply', p. 56

[97] As in the case of Jenkins, Rhys (2001). *Corporate Codes of Conduct – Selfregulation in a Global Economy*, 'Technology, Business and Society', Programme Paper No 2, United Nations research Institute for Social Development

[98] As in the case of Emmelhainz, Magaret (1999). *The apparel industry response to sweatshop concerns: A review and analysis of codes of conducts,* 'The journal of supply chain management: A global review of purchasing and supply', p. 56

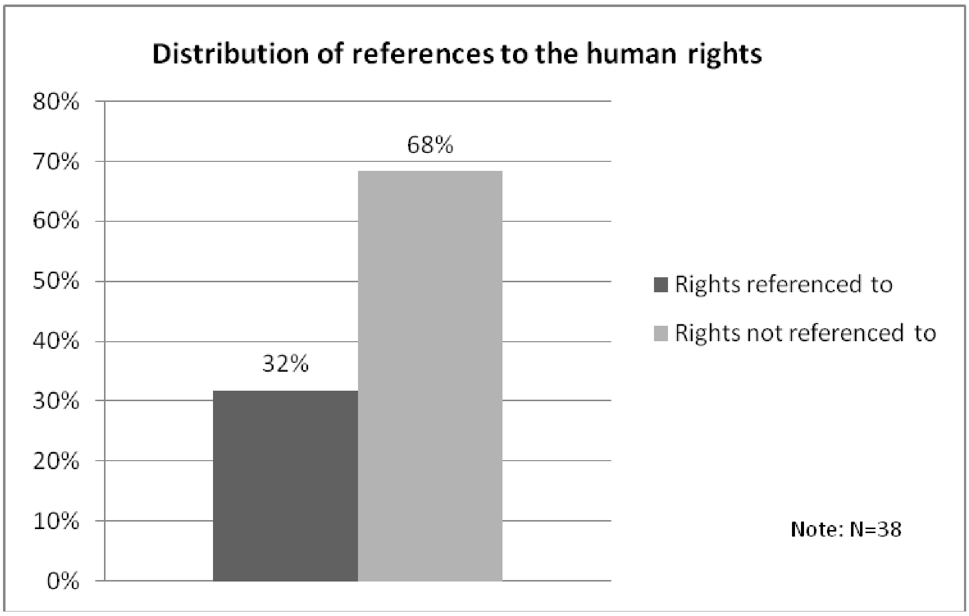

Figure 1: References to the human rights

By interviewing buyer companies it was established that they are also aware of the fact that only a handful of human rights are included in their supplier Codes. Buyers attribute this to their own lack of understanding of the general relationship between business and human rights. Also, buyers mention the lack of practical know-how in the implementation of human rights in their daily operations. A buyer admits: "*We don't really understand human rights and business, but we are trying to...Our current understanding is underdeveloped. We wonder how Human Rights affect aboriginal rights or how freedom of speech affects us. And how do we integrate this in practice*?"

Since the analysed Codes come from some of the world's leading RSCM practitioners, it seems reasonable to conclude that current RSCM practices do not follow the UN's guidelines as they, far from, include all human rights in their business operations.

Few and Similar Human Rights Are Included in the Codes

As mentioned, the Codes are also quite similar when concerning which rights they do not include; further analysis showed that they are generally also quite similar with regard to which rights they do include. As *Table 2* below illustrates, the Codes agree to a very large extent on which rights to include when regulating relations with suppliers. Thus, 5 rights are included in all of the reviewed Codes and 10 rights in more than 80% of the Codes. These 10 rights include four core labour rights namely; abolition of forced and compulsory labour, freedom of association/right to form a trade union, elimination of discrimination and abolition of child labour.[99] This finding corresponds well with the conclusions of Rhys Jenkins, who in her empirical study also found that the core labour standards are commonly referred to in supplier Codes.[100]

Human right	Generation 1.0 Codes (%)	Generation 2.0 Codes (%)	% of total Codes mentioning the right
Prohibition against Slavery, **Forced- or compulsory labour**	100	100	**100**
The right to a family life (marriage, **maternity** & children) + prohibition of **exploitative child labour**	100	100	**100**
The rights of the **child**	100	100	**100**
Non-discrimination	100	100	**100**
The equal right of **men and women**	100	100	**100**
The right to form & join **trade unions** and the right to strike	96	100	**97**
Freedom of association, incl. right to form & join trade unions	93	100	**95**
Right to a **living wage**, The right to **safe and healthy working conditions**, The right to **rest, leisure and holidays**	86	100	**89**
The right to **health**	82	100	**87**
Prohibition against **torture, inhumane & degrading treatment**	75	100	**82**
The right to **education**	46	70	**53**
The right to **adequate food**, fair distribution of food, the right to **clothing** and the right to **housing**	18	50	**26**
The right to **privacy**	11	40	**18**
Minority rights to **culture, religious practice and language**	14	20	**16**
The right of **peaceful assembly**	18	10	**16**
The right to **work**	4	30	**11**
The right to **hold opinions, freedom of expression, freedom of information**	14	0	**11**

Note: The table show the rights mentioned in more than 10% of the Codes. The "equal rights of men and women" is an outlier in comparison with the other rights, as it almost exclusively is mentioned implicit, e.g. as references to gender issues, etc.

Table 2: Human rights mentioned in the Codes of Conduct

Table 2 also shows that there is quite a difference in how comprehensive Generation 1.0 and Generation 2.0 Codes are. The overall trend is that Generation 2.0 Codes are similar to a larger extent regarding which rights to include and tend to include more rights than Generation 1.0

[99] http://www.ilo.org/global/About_the_ILO/Mainpillars/Therightsatwork/lang--en/index.htm (20.05.10)
[100] Jenkins, Rhys (2001). "Corporate Codes of Conduct – Selfregulation in a Global Economy", *Technology, Business and Society, Programme Paper No 2, United Nations research Institute for Social Development*

company Codes. Thus, all of the Generation 2.0 Codes include the same ten human rights, whereas the Generation 1.0 Codes only agree fully on five rights. In other words, the Generation 2.0 initiatives in general have a more extensive human rights coverage than individual company Codes in Generation 1.0. This finding is interesting, knowing that several of the interviewed companies deliberately abstain from taking part in Generation 2.0 initiative on the reasoning that Generation 2.0 Codes are not as comprehensive as their own Code.[101] If this is de facto not the case, then companies might be inclined to hold on to their own Codes, because they feel more secure by doing so and because they have invested financial and personally in developing their own Code.

As mentioned, there is generally a large correspondence as to which rights are included – also across Generation 1.0 and 2.0. Buyers most likely consider it easier to relate to, say, the core labour rights than, e.g. the right to education; or believe that some rights are more prone to violation than others, depending on the industry. There is, however, little knowledge on why exactly these particular rights, as opposed to others, are included in current Codes. The interviews with buyer companies did not reveal any explicit insight to why certain rights are chosen. One might argue that there seems to be an element of arbitrariness in the companies' selection of human rights. One reason might be that companies simply look at competing companies' Codes for inspiration when developing their own Code. This way the Codes become similar and no one really knows why they contain or not contain what they do.

However, the research and recommendations of the UN SRSG, specifically points to the fact that all human rights are relevant for the adequate risk management of all companies. Hence, no right can be disregarded if RSCM efforts should fulfil the purpose of proper risk management.

Differentiation Between Rights

In the Vienna declaration, the UN states that all human rights should be treated equally, "... *on the same footing, and with the same emphasis*". As established above, companies currently do not

[101] See Sub-report B (Code Mania) on more of this.

implement this recommendation, when they choose to include some rights and not others in their Codes. However, some of the interviewed buyers also admitted to adding more emphasis to some of the included rights over others. "*We have a different approach depending on the rights. Child Labour is never accepted, whereas we have a more pragmatic approach to overtime issues... Overtime hours – is the most prevalent issue when it comes to non-compliance. We constantly struggle with this problem.*" In this case, the buyer clearly prioritizes the rights of the child over the right to rest, leisure and holiday. Furthermore, the buyer also mentions the issue of prevalence. The buyer seems to be of the opinion that; if a violation of a right is prevalent, then acceptance of violations or non-compliance is okay. Obviously this approach adds another limitation to current RSCM approaches, further making it an unsustainable solution.

Rights Based Approach?

Even though no Code included all of the human rights, quite a number of the Codes make a general reference to human rights or take a rights-based approach to certain issues, e.g. child labour. Thus, 71 % of all Codes reviewed explicitly mention human rights. In addition, 42 % make reference to the UN Global Compact, which also include the support of human rights in its principles. This finding is positive; as it illustrates that a 'rights-based' foundation for Codes is quite common. A rights-based approach to development is in line with current recommendations and approaches to development within development agencies, as well as development literature.[102]

Nevertheless, human rights are often referred to in more general terms or indirectly as a broad declaration of support. However, the sheer mentioning of human rights does not guarantee adequate risk management or safeguard the company against violations. Unless the framework is unfolded and the rights implemented on a more concrete level, it remains nothing but a

[102] http://www.un.org/depts/dhl/humanrights/toc/toc9.pdf (26.05.10); Boele, Richard; Fabig, Heike and David Wheeler (2001). Shell, *Nigeria and The Ogoni. A study in unsustainable development: Corporate Social Responsibility and 'Stakeholder Management' versus a Rights-based approach to Sustainable Development*, in 'Sustainable Development', Vol. 9, p. 127

proclamation carrying no real weight, no guarantee of actual impact and providing little direction on the operational level.[103]

The Three Bottom Lines

The hypothesis focuses on the incorporation of human rights in current Codes. However, besides having the responsibility to respect all human rights, businesses also have an environmental and economic responsibility. John Elkington framed the tripartite responsibility in 1994 with the term 'the triple bottom line' outlining how companies have responsibilities to People, Planet and Profit simultaneously.[104] These three responsibilities do not lose their importance when practising RSCM.

However, the Code review revealed that current Generation 1.0 and 2.0 RSCM practises are biased towards the People bottom line. The Codes generally had very little requirements on environmental or economic issues. This finding might reflect that a) insufficient importance is given to the environmental and issues of anti-corruption, resulting in an insufficient coverage of these areas; b) demands concerning the remaining two bottom lines are issues covered through other company Codes or policies (for example, environmental Codes or integrity statements) or; c) demands pertaining to the environmental and economic bottom line is not as comprehensive as that of the social bottom line, thus requiring less elaboration in their Codes. Interviews with suppliers nevertheless leaned toward the explanation given in point a). According to the suppliers there is a lot of focus on the welfare of workers; especially concerning minimum wages, sick- and maternity leave, health issues, labour rights, overtime and child labour – in other words the social bottom line. However, the suppliers emphasised that the buyers are slowly beginning to increase the amount of environmental demands in the Codes they are met with.

[103] Emmelhainz, Magaret (1999). *The apparel industry response to sweatshop concerns: A review and analysis of codes of conducts,* The journal of supply chain management: A global review of purchasing and supply, p. 56
[104] Elkington, John (1994). "Towards the sustainable corporation: Win-win-win business strategies for sustainable development." *California Management Review* 36, no. 2, p. 90-100

Conclusion and Challenges

The review of 38 supplier Codes confirmed hypothesis D by determining that current Codes, from front-runner companies, include only few basic human rights. By basic, the companies seem to agree on including the ILO's core labour rights, as well as a couple of other rights that are intuitively relevant in a workplace context. In addition to not including all human rights, buyer companies admit that they enforce the included human rights with different emphasis depending on the given right. In other words, companies seem to rank human rights and are more readily accept the violation of some rights, while violation of others is entirely unacceptable. By adopting this approach, companies fail to recognise the indivisibility, interdependency and interrelatedness of human rights advocated for by the UN.

By following this trend current RSCM approaches do not adhere to the UN guidelines within this area. This is not only problematic from an overall viewpoint, but also poses a risk for the individual company. According to the UN SRSG companies are in danger of violating all rights independent of where they are producing. Knowing that one of the primary drivers for RSCM activities is risk management, companies practising traditional RSCM thus continue to face the danger of human rights violations in their production and hence cannot be seen as practising comprehensive or adequate risk management today.

Recommendations and Suggestions

Companies, as well as many different stakeholders, tend to find the notion that 'all human rights should be included' challenging, to say the least. Many argue that knowing how companies do not incorporate all relevant labour rights in current Codes it is far from realistic that other (non-labour) rights such as 'the right to a fair trial' will be included within the nearest future. As one stakeholder argues: *"... A large part of these rights are linked to the political and legal system in the country the supplier is based"*, which implies that violations of these rights are beyond the control of companies and belong to the duties of government.

This argument is only valid if current RSCM approaches (Codes and Monitoring) are seen as the only approach to RSCM. However, if one acknowledges that companies do have risks on all human rights – even though some of them might only be relevant through the notion of corporate complicity[105]; a solution to the challenge implies an approach where companies and governments align their efforts to combat human rights violations; a partnership approach. In this regard developing agencies have a potential role to play in bridging the current divide between human rights approaches in the private and public sphere in economic developing economies.

Tables and Figures

Table 3: Codes of Conduct Reviewed

DANISH		NON DANISH	
1	Bestseller	15	Nestlé
2	Carlsberg	16	GAP
3	Danfoss	17	Telenor
4	Coloplast	18	GE
5	Egmont	19	The Coca Cola Company
6	JYSK	20	Ikea
7	Maersk	21	Walmart
8	NKT	22	H&M
9	Toms	23	Anglo American
10	Hartmann	24	American Eagle
11	LEGO	25	Ericsson
12	VELUX	26	Nike
13	DONG	27	HSBC Holdings
14	Kohberg	28	UN supplier Code
GENERATION 2			
29	Ghana Business Code		
30	Ethical Trading Initiative		
31	SA 8000		
32	Fair Labour Association		
33	International code of conduct for the production of cut flowers		
34	WIETA		

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[105] http://www.reports-and-materials.org/Ruggie-report-7-Apr-2008.pdf, p. 20 (05.06.10)

35	Fashion Institute NICE program
36	BSCI (IC Companys)
37	Pharmaceutical Industry Principles for Responsible Supply Chain Management (Novartis)
38	Electronic Industry Code (HP)

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Table 4: Mentioning of Human Rights in the Codes

Description	Article #	Covenant	Included in gen 1.0	Included in gen 2.0	Included in all CoCs
Prohibition against Slavery, Forced- or compulsory labour	8	CCPR	100%	100%	100%
The right to a family life (marriage, maternity & children) + prohibition of exploitative child labour	10	CECSR	100%	100%	100%
The rights of the child	24	CCPR	100%	100%	100%
Non-discrimination	2	CECSR	100%	100%	100%
The equal right of men and women	3	CECSR	100%	100%	100%
The right to form & join trade unions and the right to strike	8	CECSR	96%	100%	97%
Freedom of association, incl. right to form & join trade unions	22	CCPR	93%	100%	95%
Right to a living wage, The right to safe and healthy working conditions, The right to rest, leisure and holidays	7	CECSR	86%	100%	89%
The right to health	12	CECSR	82%	100%	87%
Prohibition against torture, inhumane & degrading treatment	7	CCPR	75%	100%	82%
The right to education	13	CECSR	46%	70%	53%
The right to adequate food, fair distribution of food, the right to clothing and the right to housing	11	CECSR	18%	50%	26%
The right to privacy	17	CCPR	11%	40%	18%
Minority rights to culture, religious practice and language	27	CCPR	14%	20%	16%
The right of peaceful assembly	21	CCPR	18%	10%	16%
The right to work.	6	CECSR	4%	30%	11%
The right to hold opinions, freedom of expression, freedom of information	19	CCPR	14%	0%	11%
The right to liberty of movement & freedom to choose residence	12	CCPR	11%	0%	8%
Freedom of thought, conscience and religion	18	CCPR	7%	10%	8%
The right to social security, including social insurance	9	CECSR	4%	20%	8%
The rights to liberty and security of person	9	CCPR	7%	0%	5%
The right to form a family	23	CCPR	0%	20%	5%
The right to take part in cultural life, The right to enjoy scientific progress, Protection of Intellectual Property rights	15	CECSR	4%	0%	3%
The right to life	6	CCPR	4%	0%	3%
Prohibition against inciting war and against hate speech	20	CCPR	4%	0%	3%
The right to self-determination	1	CECSR	0%	0%	0%

The rights of detainees	10	CCPR	0%	0%	0%
The right to education	14	CECSR	0%	0%	0%
Effective remedy	2	CCPR	0%	0%	0%
Prohibition against imprisonment for non-fulfilment of contracts	11	CCPR	0%	0%	0%
The right to seek asylum	13	CCPR	0%	0%	0%
The right to a fair trial	14	CCPR	0%	0%	0%
Retroactive punishment	15	CCPR	0%	0%	0%
Recognition as a person before the law	16	CCPR	0%	0%	0%
The right to take part in the political life	25	CCPR	0%	0%	0%
Equality before the law	26	CCPR	0%	0%	0%

Sub-report E: The Extensive Number of Suppliers and Sub-Suppliers

Table of Contents

Introduction and Methodology

This report deals with the fifth hypothesis (out of six in total) of the study. The hypothesis reads: *The extensive number of corporate suppliers and sub-suppliers, often amounting to tens of thousands for a single buyer, render non-discriminatory, transparent, accountable and independently verified SCM less than cost efficient, if de facto, not impossible under RSCM Generation 1.0 and 2.0.*[106]

International buyer companies deal with several hundred, up to several thousand first tier suppliers and an even higher number of sub-suppliers as part of their supply chains. This raises several crucial issues, including four aspects; non-discrimination, transparency, accountability and independent verification.

The issue of 'discrimination' stems from the observation that buyers have limited resources vis-á-vis all their suppliers. Most buyers choose to build up 'risk' criteria to assess which of the many suppliers they will focus on as part of RSCM 1.0 initiatives. In most risk management approaches certain (geographic-) regions are viewed upon as high risk areas, which leads to a heightened intensity of monitoring and auditing. Buyers raise the demands towards legal persons (companies). As a result certain suppliers (legal persons) are burdened with requirements in relation how they deal with basic CSR requirements based only on the supplier's nationality (all other things being equal). The core principles specified in the international human rights (also included in CSR) prohibit discrimination based on nationality in relation to physical persons. It must be considered whether the prohibition against discrimination also provides protection for legal persons (companies). International law has acknowledged such protection in relation to other basic human rights, e.g. the right to privacy and freedom of expression. Choosing certain suppliers and not others to engage in RSCM procedures based on nationality may constitute discrimination and therefore irresponsibility.

Transparency is viewed as a good practice, also in the field of CSR which, e.g. should include that monitoring requirements and monitoring results are made publicly accessible (for example Nike has done this). On the other hand, this also raises a question of the kind of supplier

[106] The other five hypotheses are shown in Appendix 2

information that a buyer can place on the internet. Certain information might be damaging such as disclosing important knowledge to the benefit of competitors, leading to loss of contracts for the supplier.

Accountability and independent verification of information are two important areas of CSR requirements, which a range of stakeholders (NGOs, human rights organisations, investors) have argued in favour of. The good practice elements do, however, also have a less desirable side, as the claim to bring in external parties to do auditing leads to increased RSCM costs. If these costs are transferred to suppliers, it poses a problem for them, due to the resource constraints that they are facing.

RSCM Generation 1.0 and 2.0 basically add a number of additional (CSR) requirements to SCM. In a situation where we find it appropriate to have non-discriminatory, transparent, accountable and independently verified relations between buyers and first tier suppliers, what are the implications of these 'additional' requirements? The same question could be asked in regard to the relations between buyers and their sub-suppliers; however, as the situation here is (very) different from the relations between buyers and suppliers, we deal with the sub-suppliers separately.

First, we look at the first tier suppliers by summarising what came out of the assessment of the four previous hypotheses with regard to the issues of discrimination, lack of transparency, accountability and independent verification of requirements. We then turn to the sub-suppliers; whether the buyers are able to include the high number sub-suppliers in their operations, the role of the first tier suppliers and of RSCM 2.0.

For this sub-report and the assessment of hypothesis E, we have combined information from the primary data collection involving buyers and suppliers, as well as from the two desk studies on the literature.[107] This means that we mainly have used the information from the interviews

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[107] Further information on the overall methodology is found in the methodology section of the Main report and in the Appendix 3

with buyers and suppliers as the basis for the discussions, as the issues have yet to receive attention in the literature. The few times that the issue is mentioned[108] show that there is an awareness of the problem, but that it is mainly addressed indirectly. The comments and dates of publication show that it is an issue, which is getting increasing attention.

Key Findings

Number of Suppliers

All buyers include the first tier suppliers in their RSCM approach. They tend to differentiate between core and non-core suppliers. The number of first tier core suppliers ranges from around 200 as the lowest, up to several thousand. The average is approximately 1700 first tier suppliers.[109] In addition to these suppliers, the international buyers have a vast number of 'non-core' suppliers, often five to ten times as many as the core first tier suppliers.[110] In addition to the first tier (and the non-core) suppliers, the buyer companies then have a substantially larger number of sub-suppliers. The number of sub-suppliers is not known to the buyers. The buyers do not record this and it would appear impossible to make a precise account.[111] Thus, the mere magnitude of suppliers is in itself a challenge, if not a hindrance, to upholding adequate RSCM standards.

We assessed the costs of upholding RSCM Generation 1.0 in the first sub-report A and showed that, while the costs to the buyers in monetary terms and in time are rather high, the impact is rather limited, so the cost efficiency is modest. Surprisingly, we also noted that the buyers do not undertake concise recording of their costs and accordingly, a number of cost items are probably not included in our attempt to present a figure. Furthermore, additional costs are

[108] Utting, Peter, (2005). *Rethinking Business Regulation: From Self-Regulation to Social Control.* Technology, Business and Society Programme Paper Number 15
[109] See Sub-report A. The figure is higher for the non-Danish buyer companies (3200) and lower for the Danish companies (1100)
[110] As these 'non-core' suppliers are of less importance to the buyer companies, they are not included in the RSCM approaches, do not have to live up to the same requirements as the core suppliers and do not have to be monitored and/or audited. Accordingly, we do not deal with these companies in the study
[111] See section "RSCM & Sub-suppliers" in this Sub-report

placed on the suppliers, who are not satisfied with the amount of costs being placed on them as part of the implementation and monitoring of the Codes.[112]

RSCM and First Tier Suppliers

The focus of this section concerns whether RSCM Generation 1.0 in particular (and 2.0 to a limited extent[113]) enables the buyers to deal with their first tier suppliers and SCM issues in a *non-discriminatory, transparent, accountable and independently verifiable manner*. We address these issues in the following three sub-sections.

Non-discrimination

We have shown in sub-report A that the buyers are moving towards an emphasis on 'capacity development of suppliers' and spend increasing amounts of money and human resources on establishing a close and intensive relationship with their first tier suppliers. Still, we also found that the buyers do not have one uniform approach in dealing with their suppliers, and that the relationship is biased, as present RSCM Generation 1.0 and 2.0 approaches tend to discriminate based on country of origin and on size. Suppliers in developing economies are discriminated against as they continue to be viewed as 'higher risks' than the European and North American suppliers; based exclusively on their national origin. Furthermore, the smaller suppliers are considered a higher risk than larger suppliers, who supposedly carry minimal risk free and are hence exempted from being monitored.

This sub-report looks at the demands or burdensome initiatives directed at legal persons (suppliers) that from a contractual point of view might be acceptable, but would appear to constitute a challenge in relation to CSR and basic UN Human Rights principles. Discrimination against physical persons based on nationality is prohibited. Interestingly, this practice appears un-questioned in a situation, where as one company framed it, '*we continue to find areas on non-compliance among our European and American suppliers*'. The UN Special

[112] See the Sub-report on hypothesis A and further assessment in Sub-report F on SMEs and Sub-report B on Code Mania
[113] As RSCM 1.0 is much more widespread compared to RSCM 2.0, though the number of RSCM 2.0 is increasing. All, but one of the interviewed buyer companies use RSCM 1.0. We deal with RSCM 2.0 below

Representative of the Secretary General (SRSG), Professor John Ruggie, similarly highlights that all basic human rights are in danger of being violated, by all business sectors, in all parts of the world.[114]

Further adding to these 'discriminatory practices' is the fact that some buyers view certain issues as higher risks than others.[115] While, e.g. child labour is a non-existing issue in most of Europe and North America, it is a much more widespread practice in a number of developing economies. As highlighted by different authors in the international literature: Why should child labour necessarily be more of a problem compared to other human rights violations?[116] Clearly, the international buyers view this differently: *"E.g. we have no tolerance for child labour. Some issues we will give them longer time to address the issue however, e.g. fire exists.[117] In minor areas of non-compliance, it is often because the supplier wasn't aware."* Again, a given supplier needs to know that dealing with 'non-compliance' in 'highly important areas' is critical, while other issues of non-compliance do not have to be addressed (at least not as urgently). Accordingly, the definition of a risk leads to a prejudice against certain suppliers. In other words, had the right to privacy obtained the same attention as child labour the economic developed countries would have been the 'high risk' areas.[118]

Lack of Transparency

As we showed in sub-report D on the content of the publicly available Codes of conduct (hereinafter Codes); the Codes are exceptionally similar in content. The suppliers also stated that they have gotten used to the Codes. They are familiar with the content and the requirements, and the suppliers do not consider it to being a major problem dealing with a number of Codes, since they are all alike in content. However, the implementation and monitoring practices ensuring compliance with the Codes vary considerable among the buyers, as highlighted in the Sub-report B on code mania. This means that the suppliers are met with a

[114] http://www.reports-and-materials.org/Ruggie-report-7-Apr-2008.pdf
[115] And with reference to Sub-report D on Code Limitations, it should be kept in mind that these 'risk assessment' are conducted with reference to a limited number of rights compared to the UN SRSG's Framework
[116] E.g. Lund-Thomsen, Peter (2008). *The Global Sourcing and Codes of Conduct Debate: Five myths and Five recommendations.* In 'Development and Change', Vol. 39 (6), pp. 1005-1018
[117] Relating to the right to a safe and healthy working environment
[118] See also Sub-report D on Code limitations

long range of specific demands, which vary from buyer to buyer and can be contradictory - and hence experience 'implementation and monitoring mania'.

While the Codes are public, the manuals for monitoring and implementation are (in most cases) not publicly accessible. It is the monitors who have the final decision when concluding an assessment of the level of compliance at a given supplier and the supplier has little choice other than to follow the demands. As mentioned in sub-report B, this is a source of frustration among suppliers, especially SMEs. While some buyers have a 'higher level' of tolerance, other buyers have a 'limited level' of tolerance. Thus, while a supplier can experience that time is given to remedy non-compliance from one buyer; contracts are terminated by other buyers with a ‘non-tolerance’ approach.

The suppliers clearly prefer the buyers who address issues in an open, long-term and transparent way. Thus, the buyer-supplier relationship is seen more as a process, in particular the buyers who employ a 'learning' perspective, as opposed to buyers who speak of 'problems' and penalties, if non-compliance continues. A learning perspective includes the incentive that fulfilment of the requirements can lead to certain bonuses. However, according to the suppliers, most buyers unfortunately have a very ‘fixed’ and non-flexible approach to compliance – where suppliers have to fulfil the demands ‘here and now’, the opposite of a learning perspective.[119]

Accordingly, we find limited or even a lack of transparency. The lack of transparency has further consequences for accountability.

Lack of Accountability and Independent Verification

When the results of monitoring and implementation are not publically accessible, it is difficult or not possible to uphold accountability and independent verification in the RSCM approaches;

[119] See Sub-report B

particularly with regard to Generation 1.0.[120] Paradoxically, it means that the demand for responsible supply chain practices by various stakeholders, which supposedly should be realised by Codes, is fraught with dilemmas. Particularly, in regard to transparency, as publicising the Codes and the demands for 3rd party auditing does not imply that RSCM 1.0 leads to accountability and independent verification. Firstly, many buyers monitor the Codes themselves and the use of third party auditor verification is limited.[121] This means that accountable and independently verified RSCM is limited. Secondly, when it is found, it is hampered by the lack of transparency, as described above.

As some of the RSCM Generation 2.0 Codes are relatively more open and transparent, the application of these approaches could improve this situation. However, as we have discussed earlier[122], the 'improvement' in Generation 2.0 approaches in most cases do not matter to the suppliers, since buyers continue to use both Generation 1.0 and even a variety of Generation 2.0 approaches. So, RSCM Generation 2.0 approaches will only improve the described situation, if RSCM Generation 1.0 approaches are abandoned and the RSCM 2.0 approaches remain open and transparent.

Adding to the dilemmas is the earlier described dissatisfaction of suppliers for having monitoring and auditing costs imposed on them. The concern from NGOs, Human Rights organisations and other stakeholders of the irresponsible practices among MNCs, which have been of key importance for the development of RSCM 1.0 and RSCM 2.0 seems not to lead to responsible practices. Rather, the present RSCM approaches still entail elements, which hamper a process of sustainable development.

In sum, the current RSCM 1.0 and 2.0 approaches entail different flaws in terms of achieving commonly desired standards like non-discriminatory, transparent, accountable and independently verified SCM in the relationships between buyers and first tier suppliers.

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[120] We are aware that many companies provide general statistics from auditing reports, e.g. according to region. Nevertheless, most of the data on which these statistics are based, have not been independently verified
[121] See Sub-report A
122 See Sub-report B

Furthermore, both buyers and suppliers recognise the additional challenges with the sub-suppliers, to which we now turn to.

RSCM & Sub-suppliers

The focus in this section is on whether buyer companies include sub-suppliers in their RSCM Generation 1.0 approach. If the buyers, as a principle, do not include the sub-suppliers, the discussions on non-discrimination, transparency, accountability and independent verification are superfluous. Furthermore, we assess why buyers include or do not include their sub-suppliers; outline the position of the (first tier) suppliers and suppliers associations, and supplement with the (limited) knowledge from the international literature. Finally, we address whether the sub-suppliers are included in Generation 2.0 initiatives.

Inclusion and Exclusion of Sub-suppliers in RSCM Generation 1.0

All buyers have supply chains which extend to second, third and so on tiers of (sub-) suppliers, but none of the buyers include the sub-suppliers in their SCM approaches as there are no legal, contractual relationship between the parties. Sub-suppliers are neither included in a manner similarly to how the buyers include their first tier suppliers, nor in a more limited or restricted way. All buyers furthermore, recognise that sub-suppliers constitute a major challenge when it comes to RSCM Generation 1.0. As the buyers' SCM practices and RSCM 1.0 approaches do not include the sub-suppliers, it is not relevant to discuss the issues of discrimination, transparency, accountability and independent verification. Instead, other issues are pertinent to address, like why the sub-suppliers are not included.

The reasons for not including, engaging with and monitoring sub-suppliers are many. Six different, though related reasons are mentioned by the buyers:

a) No contractual control or influence over sub-supplier (no leverage)

b) Very difficult to extract relevant information from the sub-suppliers

c) Lack of capacity to deal with sub-suppliers

d) Resistance from first tier suppliers

e) Difficulty tracing raw materials down the supply chain

f) Lack of resources

Part of the reason is the contractual - or legal – element (as coined in reason a), as the buyers don't deal directly with the sub-suppliers the buyers cannot put forward any demands - and the sub-suppliers don't have any requirements to live up to or being held responsible for. Hence, the sub-suppliers have no incentives to comply with and respond to providing information, if asked by the buyers (expressed in reason b). Nevertheless, nearly half (43%) of the Generation 1.0 Codes analysed in sub-report D (Code limitations) include a paragraph claiming that the sub-suppliers are covered by the Codes. These buyers, however, do not take the responsibility upon themselves to ensure that sub-suppliers follow their Code; they merely 'request' that their first tier suppliers ensure that their suppliers in turn, comply with the Codes the buyer-companies supply. About a third (30%) of the buyers has RSCM 2.0 which include similar paragraphs (See *Figure 1*).

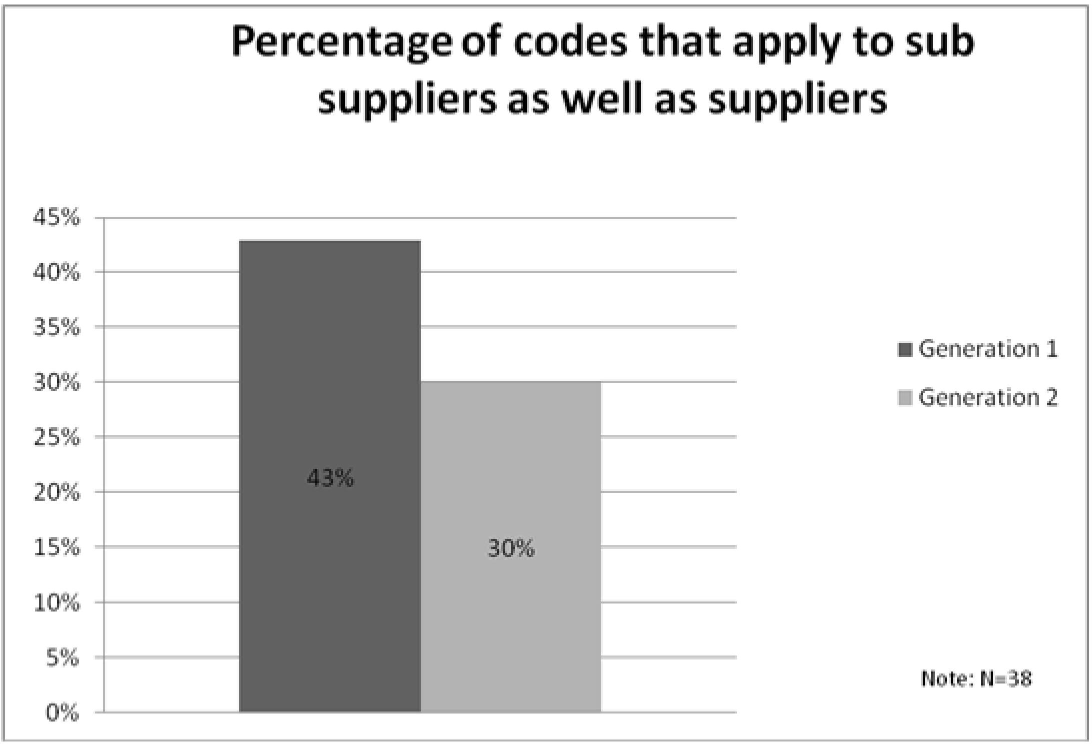

Figure 1[123]

[123] Source: The authors – sub-report D

Clearly, the first tier suppliers also see this as a problem as it encroaches on their contractual relationship with their suppliers (expressed in reason d); also placing additional demands on their shoulders. The suppliers feel that they are pressured to extend sensitive demands from the buyers to their (sub-)suppliers. On top of this, the de facto length and complexities of supply chains simply make it very difficult (or impossible) to follow all parts of the supply chains (coined in reason e and to some extent in reason c). Furthermore, if conceived possible, it would require huge human and financial resources, which the buyers admit not to have, or be willing to spend (coined in reasons c & f). Consequently, even if buyers would allocate human and financial resources, the task would be gigantic and probably impossible. In addition, as mentioned by some buyers, such practice would probably be revealing additional dilemmas and challenges. Another issue making the current model unfeasible is the fact that first tier suppliers have to deal with numerous Codes. These supplier companies are thus expected to hand down several Codes to their suppliers (the sub-suppliers) escalating the situation of code mania on sub- supplier level down the chain.

Taking this situation into consideration, it is not surprising that the international literature, though limited on the subject, highlights that the impact of Codes is very limited, if traceable at all, among sub-suppliers.[124][125]

A few buyers have initiatives, which include a limited number of sub-suppliers. One buyer has in 2010 started the process of extending the monitoring further down the supply chain in order to include the sub-suppliers of some of the key first tier suppliers: *'We are far out in our supply chain…so of course it is not easy, however, we see it as an unavoidable part of our future work as there are some challenging issues in that part of the chain into which we need to gain a further insight in order to have an*

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[124] Barrientos, S. and Smith, S. (2007). *Do workers benefit from Ethical Trade? Assessing codes of labor practice in global production systems.* 'Third World Quarterly', Vol. 28. No.4 (713-729), p. 713-729

[125] See Utting (2005), who states that CSR initiatives today are penetrating deeper into the MNC supply chains, covering more than just the parent firm and its affiliates. SMEs are found in such supply chains as either direct first-tier supplier to MNCs, or as it is often the case, as sub-sub suppliers. In our study, we found that SMEs were often involved in the periphery of the supply chain, i.e. supplying goods and services to the non-core production functions of MNCs. In other words, most SMEs have a large MNC as their major client and are thus dependent on them as part of their turnover. In addition, a discussion on the limited impacts of Codes can be seen in Sub-report A

impact…" (Buyer Representative). Another buyer representative expressed that the inclusion of sub-suppliers will be a pertinent future issue to deal with.

A few buyers do to a limited extent monitor and/or engage with their sub-suppliers. One buyer mentions, e.g. that the company follows the 'production chain', but not the 'material chain'. Another buyer explains that the company visits some of the sub-suppliers, but they do not carry out any monitoring - yet. They nevertheless also consider extending the reach of their monitoring, which they hope to do jointly with other buyers in order to minimise the resource input.

Many buyers mentioned that they in some (rare) and very specific occasions do extend the monitoring to specific sub-suppliers. Buyers would typically only intervene in cases where they, e.g. are made aware of the fact that a sub-supplier makes use of child labour, etc. Such issue-based sub-supplier monitoring, furthermore leads to an asymmetrical approach to RSCM, as only factors having direct dire impact on buyer companies are addressed, while other issues remain unresolved. Nonetheless, the main focus is on the first tier suppliers due to reasons mentioned above.

In sum, the findings clearly reveal that the sub-suppliers are excluded from the RSCM 1.0 approaches and we can conclude that the extensive number of sub-suppliers render non-discriminatory, transparent, accountable and independently verified SCM impossible under RSCM Generation 1.0 and 2.0. This finding thus implies that current RSCM approaches have serious issues, when it comes to the coverage of the approaches. Thus, human rights violations will continue to be possible on sub-levels as long as the current approaches prevail.

The findings also reveal that there is an emerging trend of experimenting with inclusion of a limited number of sub-suppliers. This trend seems closely related to the trend of capacitating the first tier suppliers, though in this regard with the ambition of having the first tier suppliers monitoring the sub-suppliers.

The Role of First Tier Suppliers

Many of the (first tier) suppliers mention that they are encouraged to engage with and extend the Code requirements to their suppliers (the sub-suppliers). A major part of the encouragement rests with the emphasis on capacity development of the first tier suppliers, which many interviewed buyers have embarked on.[126] While the capacity development certainly concerns the ability of the first tier suppliers to live up to the demands from the buyers, including what is embedded in the Codes, an additional aspect concerns the relationship between the suppliers and the sub-suppliers. However, according to the suppliers the buyers are not very persistent in their 'encouragement'. This is also the case when encouragement is specified as a demand in their Codes stating, for example. *"It is the responsibility of our suppliers to ensure that this code of conduct is introduced to and complied with by the sub suppliers*", which we found in 43% of the assessed RSCM 1.0 approaches.[127]

However, contractual aspects aside, it seems impossible for the first tier suppliers to extend the Codes of all of their buyers to their sub-suppliers. The reasons are practical and also pertain to resource constraints. The vast number of sub-suppliers will make such an endeavour gigantic, and impossible; thus verifying the problem stated in the hypothesis.

Adding to this is the essential complexity of supply chains, making it a major task to track the 'material chains'.[128] The resource constraints are also of major importance, as the suppliers (especially SMEs) are often operating with, e.g. low level earnings and limited management capacity; partly due to the considerable draw on management time, which is required as part of the RSCM 1.0 and 2.0.[129] It is very difficult to see any business case among the first tier suppliers for spending their limited resources on such challenging activities.

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[126] See Sub-report A
[127] See Sub-report D
[128] The buyer-interviews nevertheless revealed at least one buyer who has embarked on efforts to track their raw materials as far down the supply chain as possible. The company in question has nevertheless, not embarked on such an attempt alone, but has joined forces with NGOs and multi-stakeholder groups to realise such an effort
[129] See Sub-report B

Finally, what would be the consequences of enforcing the Codes among the sub-suppliers? Most likely, the answer would be similar to the findings and challenges identified in the other sub-reports in this study. If this happened the sub-suppliers would be facing a multitude of Codes that would make the current situation of code mania seem insignificant.[130] If sub-suppliers are then expected to ensure the compliance of their suppliers, the costs would be considerable and the impact probably limited, as we saw in sub-report A. Nevertheless, within some industries with short production chains, like the horticulture industry, it would be less cumbersome as the suppliers already need to make sure that the sub-suppliers (e.g. often home growers, placed as the next and only tier) do follow some quality requirements from buyers as the products will otherwise end up being rejected (e.g. when containing pesticides).

Inclusion of Sub-Suppliers in RSCM Generation 2.0

While fewer RSCM 2.0 approaches contain a paragraph on the requirement of suppliers to enforce the Codes among sub-suppliers (30%) compared to the 43% of the RSCM 1.0, the RSCM 2.0 approaches also entail significant emphasis on the capacity development of suppliers. In line with the above-mentioned, part of the emphasis relates to a wish from the buyers to control the potential risks in the supply chains by transferring the work and the costs to the suppliers. This is seemingly a paradox as the buyers openly state that the supply chains are so long and complex, including huge numbers of sub-suppliers, that the task is impossible for them, while hoping that the suppliers can handle the task.

For all/most industries, however, the RSCM 1.0 and 2.0 approaches stop at first tier – indicating the need for an approach that cuts across tiers and hence an alternative to the present approaches. We will discuss this below in the section on RSCM Generation 3.0.[131]

Conclusions and Challenges

The hypothesis investigated in this Sub-report was formulated as follows: *The extensive number of corporate suppliers and sub-suppliers, often amounting to tens of thousands for a single buyer, render non-*

[130] See Sub-report B on Code Mania
[131] Also see the Main report

discriminatory, transparent, accountable and independently verified SCM less than cost efficient, if de facto, not impossible under RSCM Generation 1.0 and 2.0.

We can conclude that the hypothesis can partly be confirmed. When considering the vast number of suppliers and sub-suppliers of a single buyer company, it is highly unlikely that non-discriminatory, transparent, accountable and independently verified RSCM 1.0 and 2.0 engagements with all suppliers from all tiers will ever happen. Indeed the mere challenge of engaging in such diligent RSCM approaches in relation to first tiers suppliers appears daunting for buyers, as the large number of suppliers is in itself a hindrance for achieving commonly desired standards. The data at hand, furthermore, highlighted a need to distinguish between two issues of the hypothesis. One issue relates to the 'buyer-supplier (first-tier)' relations; and a second issue to the buyer-sub-supplier relations.

Current RSCM 1.0 and 2.0 approaches entail different flaws in terms of achieving commonly desired standards like non-discriminatory, transparent, accountable and independently verified SCM, in the relationships between buyers and first tier suppliers. Some of these challenges were difficult to assess, as the buyers who engage with and monitor their first tier suppliers, mostly find their present RSCM approach 'appropriate and well-functioning' (whether embedded in RSCM Generation 1.0, 2.0 or a combination). Nevertheless, on the basis of our findings, we can question, whether it really is appropriate and well-functioning, when considering the expectations from stakeholders, to engaging with all tiers of suppliers. The study has shown, nevertheless, that many buyers do in fact face many challenges with their suppliers, through RSCM 1.0 and 2.0 approaches. In particular SMEs bring many issues of discrimination, non-transparency, lack of accountability and independently verification to the table, representing important challenges.

The second part of the hypothesis (sub-suppliers), on the other hand, can be verified. The extensive number of sub-suppliers, often amounting to tens of thousands for a single buyer, render non-discriminatory, transparent, accountable and independently verified SCM less than cost efficient, if de facto, not impossible under RSCM Generation 1.0 and 2.0! Given that none of the present front-runner international buyers, representing 'best practices' in comparison with other international buyers, manage to include their sub-suppliers in the RSCM approaches this, we will assume that very few, if any other buyers do. And while a few buyer companies have dealt with or just have started working on this issue, all buyers and suppliers acknowledge the major problems involved. Some buyers even view this as *the* key future issue to deal with! Even if the trend seems to be that the buyers aspire to transfer the responsibility for the enforcement of the Codes to the suppliers through capacity development of the first tier suppliers, either themselves or through RSCM 2.0 approaches and include this in the Codes (in 43% of the RSCM 1.0 and 30% of the RSCM 2.0 cases), it constitutes a paradox that the suppliers should be able to handle this task when the buyers are not doing so and cannot do so themselves. Capacity building of suppliers (in particular the use of RSCM 2.0 initiatives) strengthens the suppliers, and is seen as a way to deal with the sub-suppliers by the buyers which have aspirations of moving to include the sub-suppliers, but this will only project the mentioned flaws further down the supply chain.

As we have indications that this is an important future issue, which some of the companies foresee and parts of the literature highlight will be 'the next major issue to address', it underlines the importance of providing alternative approaches which can handle the RSCM issues in a much more constructive manner. Extending present RSCM 1.0 and 2.0 practices will only aggravate and scale up the problems and if further rights are to be part of the RSCM approaches, like the SRSG's framework, this would again only contribute to scale up the problems and make the present situation worse. This strongly points to the need for more attention to a different approach to RSCM.

Recommendations and Suggestions

While RSCM 3.0 as outlined in the main report will be able to secure non-discriminatory, transparent, accountable and independently verified practices through the role and responsibilities of the local authorities, our findings indicate a need for short term action too. One recommendation is for the buyer companies to consider these challenges to RSCM 1.0 (as well as RSCM 2.0) with regard to ensuring non-discriminatory, transparent, accountable and independently verified RSCM. A first step would be to revise current practices to live up to the important aspects, e.g. avoiding the discrimination through removing the 'risk' element, ensuring transparency by disclosing the implementation and monitoring guidelines and not transferring the auditing costs to the suppliers. The longer term proposal is then for the buyers to consider the above mentioned alternative and advantages of RSCM 3.0 by participating in pilot RSCM 3.0 projects.

On the part of Danida and other donor agencies, the recommendation is to support and advocate RSCM 3.0 nationally and internationally, e.g. having a role in supporting suppliers associations and local governments (among others by starting capacity building), engage in and support pilot projects in terms of location wise and/or industry-sector wise approaches.[132]

Last, but not least, the above-mentioned lack of knowledge in this area demonstrates the huge gaps in the field and accordingly clear needs for investigations, which focuses on the suppliers (first tier and sub-suppliers - larger and SMEs[133]). Though many kind of studies could be proposed, it should, however, be recognised that an integrated approach is needed by investigating other connected issues at the same time. Secondly, studies which in the shorter term address how to overcome the present challenges and present buyers with suggestions on how to adjust current RSCM 1.0 and 2.0 seem pertinent to undertake.

[132] See also the recommendations in the main report for additional suggestions
[133] See also Sub-report F

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Sub-report F: Exclusion of SMEs

Table of Contents

Introduction and Methodology

This sub-report deals with the sixth and final hypothesis of the study. This hypothesis deals with the possible exclusion of Small and Medium-sized Enterprises (SMEs) from global supply chains as a result of RSCM practices and reads: *SMEs are excluded from global supply chains as a result of RSCM practices.*

The assumption of this sub-report is that SMEs face a set of difficulties in answering elaborate monitoring requirements; and/or requests to pay and deliver certifications through auditors; either 3rd party, industry established clearing houses or multi-stakeholder initiatives (MSIs). As a result, large reputable suppliers that have the resources to demonstrate compliance tend to be chosen over SMEs, which do not have similar resources. Furthermore, this unfortunate bi-product of CSR[134] management is increased in areas that are perceived risk areas.

In addition, common industry codes and multi-stakeholder initiatives, RSCM Generation 2.0, are often established in order to reduce costs, avoid code-mania[135] and speed up efficiency for suppliers. This has the advantage of avoiding code mania for suppliers and a sharing of costs of monitoring and auditing suppliers. However, this implies a continuous risk of exclusion for SME suppliers since they bear the main costs of certifications, or because they have difficulties in either complying with the strict terms being set by the codes, or managing the numerous demands.

If these expectations are real, then RSCM Generation 1.0 and 2.0 may potentially undermine efforts by international donor agencies to establish sustainable business environments in developing economies.[136] There is a clash between the effects of CSR management (in relation to suppliers) and the goals of the international development community seeking to build sustainable business environments, focusing on SME development; including seeking to build the capacity of SMEs, with the purpose of increasing the ability to participate in global supply chains.

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[134] Definition of CSR in Appendix 14
[135] The situation where suppliers are faced with a series of buyer firms which all require compliance with their company specific Code of Conduct
[136] The term 'developing economy' is used synonymously with the terms 'developing country' or 'economically developing country'. See Definition in Appendix 14

Finally, it is assumed – and feared – that the SMEs are already being forced out of global supply chains, due a general trend of concentration in many industries. If RSCM 1.0 and 2.0 aggravate or accelerate this trend, the situation for the SMEs is further deteriorated and the work of the donor agencies made even more difficult.

The study combines primary data collected from interviews with 16 international buyer companies and 27 selected suppliers, business associations, NGOs and multi-stakeholder initiatives from field studies in Kenya and Bangladesh with a review of the international literature on SMEs and Codes of Conduct or CSR. Finally, primary data was collected from email interviews from seven organisations, associations and individuals working in the field to form the basis of this Sub-report.[137]

Key Findings

The buyers can be categorised in four ways regarding development in the number of suppliers, including SMEs in their supply chains over the past five years. First; the largest group of buyers (44%), has decreased their number of suppliers. Second; other buyers (25%) has not reduced the number of suppliers during the past five years, but some of them have reduced the number earlier. Third; the last group of buyers (25%), has increased the number of suppliers, mainly due to growth in operations. Finally; one buyer did not have any record of the trend in the number of suppliers (see table 1 below).

Category (number of buyers & % of total in parenthesis)	*Trend in number of suppliers (increasing, stable, decreasing)*	*Comments:*
A (7, 44%)	Decreasing	
B (4, 25%)	Stable	Reduction happened earlier
C (4 , 25%)	Increasing	
D (1, 6%)	Not known or Not relevant	SMEs not first tier suppliers

Table 1: Trends in number of suppliers over the last 5 years by categories

[137] The working questions addressed to buyers, suppliers and other stakeholders are found in Appendix 5, 6 and 8. The terminology and definitions of key terms are found in Appendix 14. For the detailed information on the methodological approach of our study, see the 'Methodology' section in the Main report and Appendix 3

We therefore see mixed results, where half the buyers report seeing either a decrease in the number of suppliers, or do not have access to the information; the other half report an increase in or an unchanged number of suppliers. Still, the single most important category is A with buyers, which have reduced the number of suppliers, equivalent to 44% of all buyers. However, four buyers (31%), of which three have reported reductions, do not have figures on how many suppliers are located in developing economies. The general trend is nevertheless, a reduction in suppliers from developing economies. Among the thirteen buyers which have recorded the number of suppliers from developing economies, five reported a reduction[138], four 'stable' and four an increase.

Identifying the Cause of Exclusion

It is, however, difficult to establish the tendency more precisely in regard to SMEs in developing economies. Different reasons for this have been identified: Firstly, only two buyers know the level of procurement from SMEs from developing economies whereas nine (56%) do not record the number of their SME-suppliers; hence, they do not know how many SME-suppliers are located in developing economies. Secondly, all the buyers that reported a reduction in the number of suppliers do not record the number of SME-suppliers, including the SMEs from developing economies. Among the seven (44%) of the buyers who do record their number of SME-suppliers, four reported an increase, while three reported no change or stable.

Thirdly, the number of suppliers from developing economies, as opposed to the number of SMEs, grants us access to more information; but we are still faced with certain limitations in the data material. While 14 buyers get 10-90% of their total procurement from developing economies, fewer buyers record the number of suppliers from developing economies. If we assume that level of procurement is similar to number of suppliers, and if we further assume that 10-90% of the suppliers come from developing economies (see *Table 2* below). Among these, four buyers have a limited number (10-25%) of the suppliers from developing economies, three buyers have from 33-50% of the suppliers from developing economies, and

[138] The key reasons mentioned by the buyers are an on-going effort for efficiency and risk considerations. See also the section on 'Consolidation of supply chains' below

finally, seven (44%) of the buyers have a majority of suppliers from developing economies (55-90%).

Buyer	**Trend in no of suppliers over last 5 yrs ***	**Total no of suppliers**	**% of suppliers from developing economies**	**No of SMEs as suppliers**	**% SME-suppliers in relation to total**
A	Decrease	400-600	33	NA	NA
B	NA	1500-2000	NA	NA	NA
C	Decrease	NA	90*	NA	NA
D	Decrease	700	75* (or more)	NA	NA
E	Decrease	10000	Below 50	NA	Small percentage
F	Stable	3200	79	App. 2700	86
G	Increase	400	70	NA	A minority
H	Decrease	390	85	NA	NA
I	Increase	1000	33	780	78
J	Decrease	5000	NA	NA	NA
K	Increase	550	15	380-390	75
L	Increase	540	55	App. 520	97
M	Stable	220	20	180	Vast majority
N	Decrease	650	NA	NA	NA
O	Stable	3000	10-20*	NA	NA
P	Stable	8	50	7	90

Notes: *) Based on % of procurement

Table 2: International buyers and the number of suppliers in total no. of SME and % SME-suppliers.

Thus, while some buyers do not have any SMEs among their first tier suppliers[139]; two other buyers have 'a minority' or 'small percentage' of SMEs among their suppliers and; six buyers have 75-97% SMEs as suppliers. Since all the buyers, who have a high number of SME-suppliers, have reported an increase or stable development over the last five years; and none of the buyers, who have reduced the number of suppliers or record their number of SME-suppliers, it is difficult to give a more precise indication of the development among SMEs in developing economies. However, given that approximately 2/3 of the buyers have 33% - 97% of their suppliers in developing economies, we can conclude that it is very likely that the general trend of a decreasing, or consolidating suppliers-base, also means a reduction in SME-suppliers from developing countries. The trend also depends on the number of SMEs among all the

[139] The buyers, who do not have SMEs as suppliers, state that SMEs are not able to deliver the quantity of products needed.

suppliers. The higher number of SMEs -the higher impact; the lower number of SMEs - the lower impact. Hence, from the limited data material, this also indicates a tendency towards decreasing numbers of SME-suppliers from developing countries.

While the buyers, who have reduced the number of suppliers, are evenly distributed between Danish and non-Danish buyers; only Danish buyers have experienced a growth in their supplier-base. Finally, three of four buyers, who have had a stable number of suppliers, are Danish. While there is a tendency for non-Danish buyers to reduce, or at best consolidate their suppliers' base, the picture among the Danish buyers is very varied; with only a small majority (four) increasing their number of suppliers, three buyers reporting a 'stable development' and three a reduction.

Unequal Distribution of Negative Side-Effects

From the suppliers' perspective, it is primarily difficult to assess this issue, as we did not include or estimate suppliers, who have been excluded from our buyers' supply chain, but only interviewed existing suppliers from Kenya and Bangladesh. Still, the observations from the interviewed suppliers, the suppliers' associations, the international literature and the earlier sub-reports, in particular sub-report B on code mania assist in the further investigation of this dilemma.

The key challenges spotted from the supplier interviews seem to be financial (A+B below), size (C) and skills and knowledge - or know-how (D, E and F):[140]

A. High costs of RSCM practices (monitoring, certifications)
B. Lack of finances
C. Inadequate infrastructure (equipment, buildings, technology)
D. Manpower (people to implement desired RSCM changes)
E. Lack of know-how
F. Lack of or limited RSCM awareness.

140 One supplier stated that the small suppliers' key problem is that they are faced with differing challenges, all depending on the buyer

The literature on SMEs & CSR highlights similar challenges. Some authors explain the difficulties by the increased pressures from buyers' RSCM requirements; as well as the restructuring of the supply chain by the reduction of suppliers, which points to the issue of consolidation in the supply chain, driven by business imperatives.[141]

One may question whether RSCM requirements is driven as top-down management, in order to apply pressure to suppliers to comply with basic CSR principles or if it is rather seen as building an incentive to engage SMEs in CSR practices? Baden et al[142] conducted a study of SMEs in Hong Kong where they found that supply chain pressures was the most effective driver for environmental change, scoring highest in terms of impact.[143] More sceptical views highlight the issues with supply chain drivers, where many suppliers perceive RSCM requirements as administrative burdens that are not the first priorities for purchasing decisions.[144] Baden et al.[145] conclude that there is currently insufficient evidence to determine the likely effect of buyer pressure on SMEs' engagement with CSR. Notwithstanding the inconclusive effect of buyers' pressure, we turn our discussions towards the actual implications of non-compliance. A study of SMEs and CSR in the UK found that the risk of not engaging in CSR meant an exclusion from supply chains.[146] Thus, this highlights the importance, if not necessity, for suppliers to meet and comply with the RSCM demands, which in turn relates to the skills and knowledge of the suppliers (see below). Suppliers in Bangladesh stated that it is difficult for SMEs to manage. One supplier representative states that nearly 60% of all SMEs in Bangladesh cannot maintain the level of compliance. The suggested and related reasons for this are: a) the existence of a

[141] This often results in penalizing the smaller suppliers by cutting access to the export market as mentioned by e.g. Fassin, Y. (2008). *SMEs and the fallacy of formalizing CSR*, 'Business Ethics: A European Review', Vol. 17, October 2008; Luetkenhorst W. (2004). *Corporate Social Responsibility and the Development Agenda: The Case for Actively Involving Small and Medium Enterprises*, 'Intereconomics', Vol. 39, No. 3; Abonyi, G. (2005). *Integrating SMEs into Global and Regional Value Chains: Implications for Sub regional Cooperation in the Greater Mekong Sub region*, United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), in Bangkok, Welford, Richard and Frost, Steven (2006). *Corporate Social Responsibility in Asian Supply Chains*, 'Corporate Social Responsibility and Environmental Management', Vol. 13, p. 169; Raynard P. and Forstater M. (2002). *Corporate Social Responsibility: Implications for Small and Medium Enterprises in Developing Countries*, 'UNIDO's Small and Medium Enterprises Branch and the World Summit on Sustainable Development'

[142] Baden D.A., Harwood I.A. and Woodward D.G. (2009): *The effect of buyer pressure on suppliers in SMEs to demonstrate CSR practices: An added incentive or counter productive?,* 'European Management Journal', 27, p. 429-441

[143] In Baden D.A., Harwood I.A. and Woodward D.G. (2009). *The effect of buyer pressure on suppliers in SMEs to demonstrate CSR practices: An added incentive or counter productive?*, 'European Management Journal',Vol. 27, p. 430

[144] For more on this, see Jørgensen A. and J. S. Knudsen, (2006): *Sustainable competitiveness in global value chains: how do Danish small firms behave?,* 'The Copenhagen Centre', Copenhagen

[145] Baden (2008) p. 433

[146] Roberts, S., Lawson, R. and Nicholls, J. (2006): "Generating regional scale improvements in SME corporate responsibility performance. Lessons from responsibility Northwest", in Baden et al., (2009), p. 430

code mania, b) cost burden faced by suppliers and lack of financial capacity or means, and c) the skills and know-how limitations of SMEs.

A. Code Mania[147]

The problem of code mania faced by suppliers is framed in three different ways:

1. Complying with multiple Codes simultaneously entails being monitored repetitively by a number of buyers, on more or less the same issues, making it very time consuming and tiresome for suppliers, in particular management.
2. While the Codes are very similar on paper, the suppliers are often faced with contradictory requirements on a practical, implementation level, making it impossible for them to comply with all the Codes they are required to at once.[148]
3. Buyer demands often differ in standard, which in practical terms mean that suppliers need to conform to the highest code requirements, in order to be compliant with all their buyers.

This in turn has several consequences, which put SMEs especially, but also suppliers in general, at risk of being excluded from (global) supply chains. Code mania raises cost burdens and financial requirements among suppliers, which especially hit SMEs, who do not have disposal over, or access to similar resources, compared to larger suppliers. Furthermore, code mania stresses the lack of skills and knowledge among SMEs. We deal with these two issues in the following sections.

B. Cost Burden (Lack of Financial Resources)

SMEs lack the financial resources to meet the requirements imposed by CSR demands and Codes. The main challenge is the lack of access to financial resources - they cannot access loans, due to a lack of collateral. SMEs do not have the needed robustness (whether being capital, liquid funds or access to credit); and if banks are willing to lend capital, the interest rates are often too high for SMEs to meet. A supplier representative in Bangladesh mentioned that

[147] See Sub-report B for an in-depth discussion of the issues pertaining to code mania
[148] Furthermore, it leads to a non-transparent process, often discriminating the developing country suppliers (see Sub-report E)

even though SMEs can get loans, the loans must be used for survival and not for CSR and Code compliance.

The cost burden can consist of different things. Firstly, certifications against required standards imply high costs, e.g. the certifications for many Generation 2.0 standards. Secondly, costs derived from fulfilling issues related to compliance, as a result of monitoring and/or audits are considerable.[149]

One supplier interviewed, stated that SMEs are excluded from the markets because of costs incurred from meeting RSCM standards: "*as much as [they] want the certifications, it is too expensive*". [150] Complying is in fact costly. The auditing costs are difficult to establish as they vary across industry, location and type of audit. Yet, we estimate that the minimum cost is approximately 1500 EUR per audit session.[151] However, it is very often the supplier who bears the costs of auditing or monitoring. One international buyer explained that it expects its suppliers to pay for the auditing costs, as a result of the introduction of an industry code. In the presence of code mania, this becomes even more costly for suppliers, as they would have to bear the costs of being audited for different codes. The manager of a large Kenyan supplier association explained the situation from their point of view:

> "*It is the suppliers that have to pay for the compliance and monitoring, and getting the proper certificate is expensive. Global GAP [an industry standard required by many buyers in the food industry] used to be at least 1000 Euro, now we are lucky that it has come a bit down and we can get it for around 500 euro... If we have 1.5 million farmers in Kenya and you had everybody getting a certificate for 1000 euro, the total is 1.5 billion. The total export of Kenya is 1 billion US Dollars. Thus, you are in a situation, where the total cost of certification would be higher than the total export of the country and that is only for one standard*"

Furthermore, meeting these costs are more challenging for SMEs than for larger suppliers. One supplier association mentioned that it is a greater challenge for SMEs to comply with the codes than for larger suppliers due to high entry costs. "*The standards are the same, but the incomes are very*

[149] For further details on the cost of monitoring, see Sub-report A
[150] Interestingly; one buyer stated that its company did not record the monitoring costs "*because it is a very small amount*"
[151] This usually involves an external auditor. For more on internal monitoring costs, see Sub-report A

different" and "*standards are not harmonized so they are very expensive to small suppliers*". Apparently costs incurred by meeting RSCM standards do not differ depending on company size, implying a more favourable situation for the larger suppliers, as these by nature have more resources to meet such costs.

Finally, a supplier interviewed described a situation of rising costs and stagnant income (sales prices). By referring to Fair Trade certifications and the use of such logos for their products, he explains that the buyers were not paying extra for adding the logo to the product, so the expenses increased, but the price remained unchanged.

Lastly, it should be noted that costs of monitoring also involve non-financial resources, in particular time spent during monitoring (ceasing production, diverting management time, etc.), which is often a resource that SMEs lack - management time. Thus, the demands increase the production costs of the SMEs and in the words of one supplier association; *"…for some it becomes impossible to stay in business"*.

C. Skills and Knowledge Limitations

As already mentioned, meeting the RSCM requirements imply significant costs in terms of time and expertise, which especially affects resource-scarce SMEs.[152] The difficult situation is due to at least three, interlinked issues. Firstly, the amount of time needed to handle a considerable amount of visits by monitoring buyer employees and auditors adds up to a significant amounts, drawing on and draining, management time. As the management in SMEs is usually limited, this has a number of implications with respect to the time spend on other important functions (strategizing, engaging with stakeholders, handling marketing, HR, financial matters, etc). Secondly, the SMEs might lack personnel who know how to handle various RSCM requirements. While the Codes are very similar, the implementation practices or sub-standards differ a lot and lead to issues of non-compliance which are difficult to react to, as the is a gap of knowledge (proper ventilations, proper treatment of chemicals, safety equipment, etc.). If SMEs are to pay for external consultants to help them out with the additional buyer demands -

[152] Baden et. al, (2009); Fassin, Y. (2008); Vives A. (2005). *Social and Environmental Responsibility in Small and Medium Enterprises in Latin America*, Journal of Corporate Citizenship, Vol. 21, p. 39-50; Abonyi, G. (2005)

it adds extra costs. Finally, SMEs might lack proper awareness of CSR; or as some might say - the right mindset. This means that suppliers do not understand or appreciate why, e.g. responsible safety measures should be in place. This will naturally limit the supplier's motivation to meet RSCM requirements.[153] Thus, many suppliers stated that it is not just a cost matter, but a question of having the right mindset.

Understandably, a number of sources (supplier associations, organisations and the literature[154]) points to a significant need for capacity-building and training, in order for SMEs to address such issues and meet requirements. Organisations particularly stressed the need for training and capacity-building of SMEs. This implies a shift of focus from auditing to capacity-building. Others pointed to the need for RSCM that goes beyond a monitoring approach. Most importantly, MNCs play a role by having stronger ties with their suppliers through commitment and capacity building of suppliers for their sustainability performance. In other words, *"supply chain management is not a cure at all; businesses should not and cannot do all the work of governments" (*Expert interview).

In sum, our findings do not show a clear-cut picture of whether RSCM Generation 1.0 and 2.0 lead to exclusion of SMEs in global supply chains. First, the data foundation is limited as many buyers simply not keep track of the number of SME-suppliers and the development over time. Secondly, half of the buyers have experienced growth or at least no reduction in the number of suppliers over the last five years. Thirdly, our resources available and the methodology have not allowed us to distinguish between RSCM requirements and general trends in the business environment (see below).

Still, the findings highlights that the largest section of the buyers (nearly half) has reduced their supplier-base, of which SMEs often count for a large to very large majority. Furthermore, the interviews in Kenya and Bangladesh as well as with organisations, experts and observations in the international literature points to a number of special difficulties for SMEs in meeting the requirements of the RSCM Generation 1.0 and 2.0.

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[153] This also points to several cultural challenges, e.g. no tradition for education, etc which could act as an additional impediment

[154] Like Welford and Frost (2006)

Abonyi (2005) summarizes the issues at hand: "*Fundamentally, participation and upgrading in GVCs led by global retailers such as Carrefour , or global producers such as Nestle, require that SMEs change their way of doing business all along the value chain. (..) This requires significant investment by small producers in machinery, facilities, and organization, often beyond their individual technical capacity and financial capabilities*".[155] Now we turn to the closely related issue regarding the trend of consolidation in supply chains and the impact that this might have on the exclusion of SMEs.

Consolidation of the Supply Chain

Procurement strategies and a preference for fewer suppliers

As mentioned above, e.g. Abonyi[156] suggests that restructuring of the Global Value Chains (GVC) is leading to a concentration of the supply base. One key reason, which we have also dealt with in the other Sub-reports[157], is the increasing demands for 'traditional SCM' virtues, including a preference for committed suppliers that can meet consistent high-quality, reliable delivery of products. This preference leads to an exclusion of producers and exporters lacking scale and capacity to meet the requirements (in time delivery, quality control, volume, etc.) as well as CSR requirements, thus upholding exceedingly demanding standards for SMEs.

Furthermore, we have not found any indication in the literature of an opposite trend (of buyers increasing number of SME-suppliers), although we identified a couple of buyers, who had increased the number of suppliers.

Existing SCM Pressures

Our findings clearly show a trend, where buyers emphasise close relations to first tier suppliers, including spending growing resources on capacity developing of the same suppliers.[158] The literature, however, points to the risk of exclusion if MNCs chose not to engage with their SME suppliers. A number of authors explains this by the increased pressures (from buyers, which suppliers are meant to meet), as well as the restructuring of the supply chain by reducing their number of suppliers, which often penalises the smaller suppliers by cutting access to the export

[155] Abonyi, G. (2005), p. 27
[156] Abonyi, G. (2005)
[157] See Sub-reports A and C
[158] See Sub-report A

market.[159] The key seems to be a long-term relationship and trust; otherwise suppliers face problems with compliance since they seek to handle too many requirements with limited human and financial resources. One international buyer explains that "*we prioritize where we spend the most. And we prioritize by risk*". However, another buyer representative states: *"I don't think CSR plays a big role in the supply development issue"*.

In some cases, buyers do not make use of SMEs, primarily due to their limited production capacity. A couple of the internationals buyers stated that SMEs cannot handle the size of the orders required. As one buyer representative noted, "*the size of the orders makes us prefer bigger companies. Not so much the Code of conduct, but the size of the orders today makes it impossible to be a small company and supply to us. These small suppliers simply cannot stock the amount of cotton needed*"

Finally, the issue of discriminatory practices is also part of the trend and explanation of potential exclusion of SMEs.[160] One buyer interviewed considered SMEs as a risk. Since the smaller suppliers are seen as less financially stable compared to larger suppliers, the company prefers to deal with larger suppliers due to such risk-management considerations. Such perception of SMEs partially supports our expectations that SMEs face a higher probability of being excluded from supply chains.

In sum, the international literature clearly highlights the trend of consolidation in global supply chains. While we lack the appropriate information to substantiate this, it adds to the indications found above - namely that the SMEs are increasing pressured and very likely to the excluded from the first tier level of the supply chains. One supplier points out that 74% of the labour force in Bangladesh works in the informal sector, whereas standards are only implemented in the formal sector. Therefore, RSCM in actual fact reaches very few suppliers and furthermore excludes the largest section of the business community. Consequentially, SMEs have limited opportunities of taking part in the increasing amount of resources being spent on capacity development of suppliers. This in turn provides an additional type of discrimination of SMEs, as the larger suppliers through capacity development (everything else being equal), will be able

[159] Fassin, Y. (2008); Luetkenhorst, W. (2004); Abonyi, G. (2005); Welford and Frost (2006); Raynard et al. (2002)
[160] See Sub-report E for further details

to meet the RSCM requirements in the future.[161] SMEs on the other hand, struggle with mere survival in an increasingly competitive environment.[162]

We have seen exceptions to this development, e.g. in industries mainly relying on business to business relations where competence and knowledge is as, if not more, important than size. This can also be seen in industries with shorter supply chains, as in the horticulture industry in Kenya, where the structure of the industry enables many small farmers to be part of the top tiers of the supply chain through linkages with exporters. Finally, exceptions can be found where long-term collaboration is valued, which to a certain extent can provide the necessary time for SME-suppliers to handle requirements.

Nevertheless, these observations are the exceptions. While the trend is consolidation of supply chains, due to a combination of SCM and RSCM practices, hereby excluding SMEs from the supply chains. Given the negative consequences of this exclusion, it begs the question of what the findings tell us about what can be done to change this situation. What is the way(s) forward - if any? We turn to this discussion before the concluding sections.

The Way Forward

Two keys issues are in need of being addressed. The first concerns the problem that our findings show suppliers from developing economies in general, and SMEs in particular, do not experience the win-win situations that the buyers might experience. Closely related to this, is that SMEs are discriminated against, as the terms and conditions are mostly posed on the basis of larger suppliers, hence leading to an uneven playing field. One example is the certification costs being equal to all irrespectively of size.[163] The second concerns the role of governments and international donor agencies, where we seem to experience a paradox between reductions in the number of suppliers on the one hand, while government and donor agencies on the

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[161] See Fassin, Y. (2008), Raynard and Forstater (2002); Vives, A. (2005)
[162] Dutta S. and Banerjee S. (2009). *Ownership Patterns and Ethical Practices of Small Enterprises in Kolkata*, 'The Journal of Entrepreneurship', Vol. 18, No. 2, p. 191-207
[163] A related issue concerns whether SMEs can exercise any influence at all on the business conditions? Arnold, D. and Hartman, L. (2006). *Workers Rights and Low Wage Industrialization: How to avoid Sweatshops,* 'Human Rights Quarterly', Vol. 28, p. 676–700

other hand, are trying to work more with SMEs, capacitate them, etc. We will return to the first issue in the recommendations below and focus here on the second issue.

In a situation, where we see consolidation in global supply chains as a general business trend (often accelerated by the RSCM approaches), the many efforts of assisting, supporting and capacitating SMEs by government and donor agencies, might seem a Sisyphean task. Since a vibrant SME-sector is important for economic development and growth, governments and donor agencies clearly need to rethink present policies and initiatives, in order to make sure that these reflect actual circumstances.[164] We will, however, address what governments and donor agencies can do, in the section on recommendations and suggestions.

One important element, in particular for governments, is to secure appropriate infrastructure. If suppliers operate in a business environment characterised by lack of basic governance and infrastructure, it only aggravates existing problems. While we came across problems with frequent power-cuts which forced the suppliers involved to adapting to unfavourable circumstances, the problems also include poor roads and transportation systems, lacking of assistance on how to deal with trade requirements, and corruption. Not only do these circumstances pose additional challenge to SMEs and sub-suppliers, they also create mistrust to governments.

Conclusion and Challenges

Our findings clearly indicate that there is a general trend where SMEs are being excluded from global supply chains. However, the limited data from the international buyers and our limited resources point to the need for a more in-depth assessment of this development. It is difficult to isolate what the determining factor of exclusion is (RSCM Generation 1.0 and 2.0 or existing SCM practices, including the consolidation which many studies report). Nevertheless, our findings indicate that RSCM is a factor contributing to the exclusion of SMEs in supply chains. Whereas the study was not able to collect evidence to determine whether RSCM excludes or do not exclude per se, it has established strong indications that RSCM demands accelerate already

[164] See Polaski, S. (2006). *Combining Global and Local forces: the case of labour rights in Cambodia*. 'World Development', Vol. 34 (5), p. 919-932

existing consequences of exclusion in SCM practices. In addition, the study was not able to identify any elements in RSCM approaches, which counteract this trend. Buyers state that all suppliers are treated equal (large - small; existing - new), however, as both the other Sub-reports and this report have shown, RSCM practices lead to an unequal playing field for SMEs.

While their size excludes many SMEs from supplying buyers, due to their inability to meet the volumes required, key factors from a RSCM perspective are the financial and human resources limitations. The financial elements concern the combined effect of SMEs having difficulties in acquiring loans, due to lack of collateral and/or mobilising own funds due to limited earnings and the cost burdens that monitoring and auditing lead to (whether being in terms of investments for meeting compliance and/or payment for certifications). The human resource elements concern: skills and knowledge and the combined effect of limited management time (of which substantial parts need to be employed to accommodate code mania), lacking skills in particular areas of expertise and lacking awareness of the importance of RSCM practices.

Though governments and donor agencies are active in assisting SMEs through various policies and initiatives, they are fighting an up-hill battle trying to assist SMEs in being capable of participating in the supply chains and accessing export markets, while the general business conditions are not remotely conducive or supportive of this.

Several challenges need to be addressed. Firstly, the interviews with suppliers in Kenya and Bangladesh and the international literature, demonstrate that presently RSCM Generation 1.0 and 2.0 do not enable the suppliers, and hence SMEs, to see a business case. The SMEs predominantly experience a win-lose (some would say lose-lose) situation, where fulfilling requirements, enable them to maintain orders to international buyers, but at a cost, which most probably leads to a decrease in earnings. An added element is, as noted by Luetkenhorst that the SMEs face CSR requirements that *"do not yet apply to their domestic markets"*.[165] This means that the SMEs (or other local suppliers) have limited chances or opportunities of reclaiming the investments to meet the RSCM requirements.

[165] Luetkenhorst (2004), p. 161

Secondly, the exclusion of SMEs is a serious challenge to government and donor agencies that strive to support SMEs, in order to enhance local economic development and hence, increasing larger economic development and growth. However, it can be debated whether participation in global supply chains is necessarily the only means to secure this, as regional and local supply chains can also be considered important. The exclusion of SMEs in developing economies from such global supply chains naturally entails their exclusion from international markets.[166] This is clearly problematic as it restricts the possibilities of acquiring new knowledge and skills among SMEs, with the risk of further marginalizing them under the rising demands in the global economy. Hence, it limits the chances of securing economic development and growth in developing economies. It is a major concern, relating to most of the present Private Sector Development activities, which is undertaken by governments and donor agencies in developing economies, thus calling for new approaches.

RSCM Generation 3.0, as described in the main report, assists in that CSR risk free zones will remove some of the mentioned burdens from SMEs. Code mania and costs will be faded out. RSCM 3.0 needs to be supplemented with the more common 'business development initiatives', e.g. regarding improved financial support to SMEs and initiatives from governments to increase the skills base and awareness of responsible practices.

Recommendations and Suggestions

Based on the findings outlined above, our recommendations and suggestions can be divided in short- and long-term considerations, relevant to governments, donor agencies, buyers and researchers (a need for further studies). The short-term recommendations for governments, donor agencies and buyers can take the form of a number of initiatives, which aim to avoid the present biases towards SMEs. It includes enhancing the options for financial support and loans, the removal of certification costs to SMEs and preparing the ground for RSCM 3.0.

The long-term recommendations, concerns the importance of shedding more light on the business case of CSR/Codes to SMEs, including a deeper understanding of the specificities for SMEs. While this points to further studies (see below), it is a prerequisite, for developing better

[166] Raynard et al. (2002).

policies and initiatives among governments, donor agencies and buyers. We will deal with these SME-issues first, before we outline other recommendations.

What will it take to make a business case of CSR to SMEs? It basically involves that SMEs get to experience that participation in global value chains along with necessary investments makes good business sense. While code mania and cost burdens are presently the key concerns to deal with, the long-term goal should be an increase of prices (though other elements, like frequent deliveries (at short notice) also create problems). Ensuring stable-, and over time increasing-, prices enabling SMEs to meet the increasing costs (on wages, energy, inputs etc) is a difficult issue, unless an international or global agreement is reached. This issue also relates to an understanding of what sustainable development entails. Thus, addressing the issues of improving financial support and a decrease of the costs of participating in global supply chains, as well as enhancing skills development and access to appropriate knowledge, will be crucial starting points. As suggested by one supplier, we need to tackle the issue by investigating how SMEs can get loans that are related and focused on implementing CSR activities, e.g. cooperate with SME foundations, and clarify how SMEs can get guidance from e.g. business service centres on how to implement CSR activities.

Regardless of the vast presence of smaller firms in the supply chain, there is a considerable gap in the literature that specifically addresses the needs and perspectives of SMEs in relation to RSCM. The need for empirical evidence is even far greater[167]; and even more so regarding the social responsibility behaviour of micro enterprises and SMEs, as well as the impact of codes on SMEs.[168]

There is a body of literature highlighting the differences in terms of resources and structural realities between SMEs and MNCs.[169] Some point to the need for a different approach, often speaking of 'Small Business Behaviour' or 'Small Business Social Responsibility'.[170] Empirical

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[167] Luken R. and Stares R. (2005): *Small Business Responsibility in Developing Countries: A Threat or an Opportunity?,* 'Business Strategy and the Environment', 14, p. 38-53
[168] Kumari P. (2008): *Comparison of Major Issues Pertaining to Social Responsibility in Corporate and Micro, Small and Medium Enterprises (MSMEs) in India*, UNIDO
[169] Fassin, Y, 2008; Raynard and Forstater, 2002
[170] Fassin, Y. (2008); Luetkenhorst, W. (2004); Vives, A. (2005); Raynard and Forstater (2002); Kumari, P. (2008); Dutta and Banerjee (2009)

studies suggest that often SMEs are involved in CSR activities, but that they do not report or communicate these to their external stakeholders, or they do so informally.[171]

On compliance, Baden et al[172] say that "*the tick-box approach not only fails to capture the idiosyncratic, informal and diverse engagement in CSR by the SMEs involved, but also evokes cynicism and resentment among many SMEs*". Therefore, incorporating CSR criteria into procurement decision should be done comprehensively, or not done at all. Raynard et al[173] argue for the need for a 'third generation of CSR', in order to tackle poverty exclusion and environmental degradation that goes beyond individual voluntary corporate approaches (RSCM 1.0) and successfully engages with civil society and public policy (some RSCM 2.0 initiatives and RSCM 3.0).

Thus, in regard to long-term suggestions, donor agencies both need to consider changing practices, as well as supporting the process towards an alternative to present RSCM approaches - namely RSCM Generation 3.0. Similarly, buyers need to consider that the cost burden of SME-suppliers is reduced and to support the process moving towards RSCM 3.0.

Lastly, we are, as the international literature and all involved parties agree, in need of more knowledge on the situation of SMEs, in order to get a much more thorough picture of present challenges (how the business case for CSR can be developed and how SMEs operate). While this potentially includes numerous studies, we will highlight three key studies as a point of departure:

a) A study on the number of (SME)-suppliers from developing economies and the change over time. This would entail a study covering a number of years, e.g. three to five years, a number of important sectors, and a number of countries.
b) A study on the business case for SME-suppliers. How do we make win-win situations for these companies?[174]

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[171] Fassin, Y. (2008); Raynard and Forstater (2002); Kumari, P. (2008)
[172] Baden et al. (2009), p. 439
[173] Raynard et al (2002)
[174] A few authors talk about how to create **incentive systems** (for all companies, not just SMEs), i.e. how to identify and reward those that implement RSCM successfully. Need for market incentive systems that reward good performance on labor practices (Arnold, Barrientos, Emmelhainz). Most importantly, Baden et. al's study shows that SMEs are motivated more by SME owner values, rather than extrinsic rewards and do not typically like "bureaucracy"/top-down from buyers

c) While the big front-runner buyer companies are important trendsetters, various sources, including a number of the mentioned references in this sub-report, point out that SMEs differ from large companies. As a majority of MNCs are actually smaller firms, or what we could term MNC-SMEs or SME-buyers, a study of practices among SME-buyers and their procurement practices is urgent in order to assess whether, how and why they are different from the large buyers.

Appendices

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Appendix 1 – Terms of Reference

Revisiting Responsible Supply Chain Management in the light of CSR

Corporate Social Responsibility (CSR) has developed into a global discourse influencing the behaviour of companies and, increasingly, the establishment of framework conditions for business activities – the licence to operate. The UN Global Compact ranges as the largest CSR initiative in the world and the only UN authorised initiative. The Danish National CSR Action Plan from May 2008 recommends the adoption of the UN Global Compact principles for Danish companies. Art. 99 (a) in the Act of Annual Accounts require Danish companies of a certain size to report annually on their CSR efforts. This requirement is expected to spur a considerable rise in interest for CSR from Danish companies.

Danish and international companies have seen CSR as a requirement to live up to, a minimum standard in relation to human rights (including core labour rights), basic environmental standards, and the eradication of corrupt practices in the global value chains. Since the early development of CSR, supported by media focus, companies have put emphasis on the adoption of minimum standards in their supply chain. This has been done via Codes of Conduct, monitoring and auditing; the latter to create credibility. This is referred to as Responsible Supply Chain Management (RSCM) Generation 1.0. As a result of the big costs related to unilateral initiatives and in an attempt to answer criticism in relation to the formulation of standards by companies, multi-stakeholder and sector initiatives on RSCM emerged. Stakeholders or companies from a certain sector would create a uniform Code of Conduct and a mechanism whereby suppliers could become accredited or certified. This is referred to as RSCM Generation 2.0.

Based on research, reviews, and anecdotal evidence from large companies and participants in initiatives, a range of challenges to both RSCM Generation 1.0 and 2.0 can be identified. However, an analysis that collects and synthesizes such evidence and in addition qualifies un-researched challenges by primary research is not available. The present analysis will focus on a clarification of such challenges and subsequently seek to outline an approach to RSCM (Generation 3.0) that may answer the challenges.

Taking into consideration the pace of which Danish companies are expected to adopt RSCM Generation 1.0 and 2.0 solutions, to answer the expectations of stakeholders and following peers, makes the analysis timely. It may lead to improved approaches that take into account their impact on attempts by development co-operations, to create sustainable business environments in developing countries. The analysis is also expected to point to approaches that may be more cost-effective to Danish companies, as well as to other foreign companies that wish to act responsibly. Finally, the analysis can enable Danida to maintain and increase its position as a leading development cooperation agency in relation to business/private sector development and CSR.

The analysis will consist of one main report with six sub reports (annexes) attached. All of these will be related to the challenges of RSCM Generation 1.0 and 2.0. Furthermore, the report will include an elaboration of an approach on how to meet such challenges in the best way (RSCM Generation 3.0). In order to ensure that Danish companies and other relevant national and international stakeholders become aware of the findings, the challenges, and the possible solutions, the analysis will be concluded with a large conference with international participation, where the final report is presented and discussed. The conference will most likely take place in June/July 2010 (note: now scheduled for late September 2010). In addition, the analysis may identify areas, which are relevant for further research.

Purpose

The purpose of the project is to collect and synthesize written information and conduct primary research, into challenges in relation to existing approaches to responsible supply chain management. Information will derive from research projects, articles, reports, and books on the subject. Additionally, primary research will include the collection of information through interviews, possibly questionnaires and documentation from both Danish and international corporations, practitioners, initiatives and public offices. The analysis aims at creating a foundation for improved approaches by businesses and organizations to responsible supply chain management and to provide guidance for aligning such activities with the development cooperation efforts of Danida.

This analysis contains a sketching of RSCM Generation 3.0, including a vision of how to enhance sustainability, scale up existing supply chain initiatives and prompt closer collaboration between private and public sectors. This vision meets the challenges of RSCM Generation 1.0 and 2.0 as described below and will be further elaborated through the research to be undertaken by this project.

Background

The analysis is based on the assumption that existing approaches to RSCM (Generation 1.0 and 2.0) have demonstrated a range of shortcomings. The analysis will raise the question of, how to improve current approaches to RSCM as a basis for discussions with governments, large corporations, employers' and workers' associations, NGOs, and various multi-stakeholder initiatives.

For the purpose of clarification, previous approaches to RSCM are identified as 1.0 and 2.0 Generation approaches. Should the assumed challenges of RSCM (Generation 1.0 and 2.0) prove to be valid, this project will seek to identify possible elements for a revision of RSCM approaches – *RSCM Generation 3.0*.

Generation 1.0	A situation where each corporation develops, monitors, and audits compliance with their code of conduct
Generation 2.0	Industry or multi-stakeholder initiatives such as the Ethical Trading Initiative (ETI), Fair Labour Association (FLA), and the Electronic Industry Code of Conduct (EICC), which may include capacity building of suppliers
Generation 3.0	Creating "CSR Risk Free Sourcing Zones" by building capacities through partnerships between international buyers, local state authorities, development agencies, suppliers, business associations, workers' and employers' associations, NGOs, and multilateral organisations.

A key challenge in relation to RSCM Generation 1.0 and 2.0 practices seems to be the exclusion of small and medium-sized enterprises (SMEs) from global value chains. SMEs face a set of difficulties in answering elaborate requirements or requests to pay and deliver certifications either through industry established clearing houses or corporations themselves. As a result large reputable suppliers are often chosen over SMEs. The project team (Søren Jeppesen and Sune Skadegaard Thorsen) has, despite of its close engagement in the field through several years, not yet identified research or analysis on such possible effects of existing corporate approaches to RSCM. However, anecdotal evidence points in this direction[175].

If these challenges are real, then RSCM Generation 1.0 and 2.0 may potentially undermine efforts by development co-operations to establish sustainable business environments in developing countries. There is a clash between the effects of CSR management (in relation to suppliers) and the goals of the international development community that seek to build sustainable business environments focusing on SME development.

Thus, on the one hand, current RSCM approaches are not capable of including a great number of SMEs as a part of global value chains (i.e. the difficulty associated with engaging the sub-sub-contractors, the more removed 'tiers' of suppliers). On the other hand, development agencies spend taxpayers' money on building the capacity of SMEs to increase growth (e.g. through participation in global value chains). However, these SMEs are not addressed in the current buyer company efforts in order to strengthen supply chain oversight and reduce or eliminate transgressions of human rights, core labour rights, environmental standards, and anti-corruption.

Another challenge for existing RSCM practices is the significant investment of corporations into the development, monitoring and auditing of their codes of conduct in order to protect themselves from scandals and in order to manage potential risks to reputation, supply of inputs, and consumer support. The problem is that research indicates that there is in fact relatively little actual sustainable impact on workers' and other stakeholders' situation. Consequently, companies do not achieve the intended risk management.

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[175] At a conference on responsible supply chain management arranged by DI early 2008 the head of IKEA supply chain management responded that during five years of monitoring and auditing in relation to a code of conduct IKEA halved the number of suppliers to include primarily larger suppliers. Similar effects were mentioned in conversations with Hewlett Packard and GAP.

Responsible Supply Chain Management Generation 1.0

In RSCM Generation 1.0, corporations develop, monitor and audit compliance to their own codes of conduct detailing the standards which suppliers need to meet. Consequently, a wealth of individual corporate codes of conduct is passed on to suppliers, who are forced to comply with the code(s) of the buyer(s) under contractual obligations. To ensure compliance, buyers monitor their suppliers by regular visits and some require external auditing by independent third party CSR auditors; often through spot checks. However, research has indicated that this type of Supply Chain Management has minimal positive effect on the workers that they, supposedly, are designed to protect. Examples demonstrate that this approach fails to reach the most disadvantaged groups of workers such as migrant workers, women, casual workers and workers employed by third-party labour contractors.[176] These disadvantaged groups face the harshest working conditions (highest amount of working hours, poorest working conditions, with the fewest rights, if any) and the lowest wages.

Moreover, code standards are often in conflict, e.g. one code prescribes red emergency exits, while others prescribe yellow emergency exits. In addition, massive resources are invested in internal structures and in employing external auditors to verify compliance with corporate codes. IKEA claims to employ 500 people full-time whereas Wal-Mart claims to employ 200 people.[177] [178] When it comes to the use of external auditors the problem is that local resources are rarely involved in such work. Auditors are flown around the globe and the research team has next to no knowledge of local branches of the big four accountancy firms, or similar institutions in developing countries, being commissioned to do the assessments.

Responsible Supply Chain Management Generation 2.0

For the purpose of clarification, the research team uses the term 2nd Generation RSCM, to describe industry or multi-stakeholder initiatives such as the Business Social Compliance

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[176] See e.g. Barrientos, Stephanie & Smith, Sally: Report on the ETI Impact Assessment 2006: The ETI Code of Labour Practice – Do Workers Really Benefit? Institute of Development Studies, University of Sussex, 2007. Available at www.ids.ac.uk/UserFiles/File/poverty_team/PB35.pdf and http://www.ethicaltrade.org/Z/lib/2006/09/impact-report/index.shtml . Retrieved August 4, 2008.

[177] According to the CSR manager at IKEA as stated at the "Supply chain 2.0" Conference in the Confederation of Danish Industries (DI), Copenhagen, January 2008

[178] According to Wal-Mart http://www.reports-and-materials.org/Wal-Mart-response-re-China-Labor-Watch-report-29-Jul-2008.doc. Retrieved August 4, 2008.

Initiative (BSCI), the Ethical Trading Initiative (ETI), Social Accountability 8000 (SA 8000), Fair Labour Association (FLA), and the Electronic Industry Code of Conduct (EICC). Such approaches to RSCM are characterised by corporations creating common industry codes of conduct to mitigate the adverse effects of the plethora of individual codes - also known as 'code-mania' - for RSCM Generation 1.0. Moreover, the approaches shift their focus from monitoring compliance to building supplier capacity.

In order to avoid code-mania, to cut costs, and to speed up efficiency for suppliers, common industry codes are developed and a common 'clearing house' is often established to take care of monitoring and accreditation of suppliers. This provides clear advantages in comparison with RSCM Generation 1.0, because suppliers merely have to comply with a single code, and buyers can share the costs and experiences of monitoring and auditing the suppliers. Furthermore, the focus on building capabilities instead of 'pass or fail' audits contributes to a higher degree to sustainable development than RSCM Generation 1.0. However, small and medium-sized suppliers continue to face the risk of being excluded especially when suppliers bear the main costs of accreditation, or codes are too rigorous or voluminous to manage. This poses a challenge to the objectives of sustainable development.

Responsible Supply Chain Management Generation 3.0

The analysis on possible negative consequences for Responsible Supply Chain Management approaches Generation 1.0 and 2.0 will provide the foundation for a discussion and sketching of a RSCM Generation 3.0. Business for Social Responsibility (BSR) promotes the idea of a new Generation of RSCM in its excellent report 'Beyond Monitoring'. The report refers to a need for capacity building with local state authorities, though the recommendations in this regard are somewhat vague.

Notwithstanding the main challenge to the impact on SMEs, this analysis presents a question as to whether these vast amounts could be spent more wisely building capacity with the local authorities to monitor compliance in relation to universally agreed minimum standards (see description of RSCM Generation 3.0 in the table above).

Analysis hypotheses

Hypotheses to be researched in relation to RSCM Generations 1.0 and 2.0:

A. SMEs are excluded from global supply chains
B. Businesses spend considerable resources on monitoring, yet research shows only relatively minor actual impact on (benefit to) workers and other stakeholders
C. Mainstream RSCM Generation 1.0 approaches lead to 'code-mania'
D. Traditional corporate sourcing strategies and purchasing practices have been identified as some of the primary impediments to ensuring adequate standards with suppliers
E. The extensive number of corporate suppliers and sub-suppliers, often amounting to tens of thousands for a single buyer, render non-discriminatory, transparent, accountable and independently verified Supply Chain Management less than cost efficient, if not - de facto – impossible under Generation 1.0 and 2.0 approaches
F. Most Responsible Supply Chain Management approaches limit themselves to a few basic human rights, and are not able to acknowledge the indivisibility, interdependency and interrelatedness of human rights to secure human dignity[179]

Project description

The Project is led by Assoc. Prof. Søren Jeppesen, CBS and Partner Sune Skadegaard Thorsen, CSR Global (the Project team). The task of the project team will be to direct, guide and oversee the execution of the research. In addition, the project team is responsible for coordination and communication with the MFA and the assistants attached. The overall responsibility for the academic quality of the analysis lies with Assoc. Prof. Søren Jeppesen. Four student/research assistants (Stud. Scient. Pol. Signe Andreasen, Cand. Merc. Int. Elise Lind Serra Jacobsen, Stud. Merc. Int. Ernesto Luna and Stud. Mag. Mireille Jakobsen) will assist in carrying out the research under direction and supervision of the project team. The work is anchored with CBS, Centre for Business and Development Studies (CBDS) and the CBS Centre for Continued Education (CBS-CCE). While CBDS guarantees the quality of the investigation, CBS-CCE ensures the administration and accounting. Findings and progress will be shared with the

[179] In the recent framework provided by the UN through the UN Special Representative of the Secretary General on Human Rights and Business, John Ruggie, the adherence to only a few human rights standards are described as in-adequate risk management since risks occur in relation to all rights.

Danish Ministry of Foreign Affairs (ERH and UFT) during monthly meetings from November 2009, and possible adjustments of ongoing activities will be agreed on.

Following the finalization of the report a conference with participants, nationally and internationally, of important development agencies, institutions, businesses, and associations in the field will be held in Copenhagen. It is estimated that approximately 200 people would participate. The Danish Ministry of Foreign Affairs (MFA) will appear as host for the conference, and may influence the organization and program including speakers in due consideration of the budget to be allocated.

The analysis will result in policy input to the MFA in relation to shaping strategies and interventions in relation to private and business sectors. In addition, extracts will be sought published with major CSR and Supply Chain Management magazines.

Methodology

The analysis will have an explorative approach in establishing the necessary data foundation for the assessment of the hypotheses. Each of the above-mentioned analysis hypotheses (A-F) will be assessed in the following manner including: primary data collection, desk studies (syntheses of existing material and knowledge) or a combination:

* A: Primary data collection (web searches on existing knowledge (both research and practice), interviews with national and international stakeholders (individual companies, donor agencies (national and international), business associations (e.g. DI, HVR, DE, BLHR, WBCSD), multi-stakeholder/industry initiatives (e.g. ETI, NIEH, DIEH), relevant sectoral bodies, researchers and NGOs), assessment of research publications, government and industry reports). Due to the pilot nature of the analysis, this will be focused around case studies (of selected countries and/or sectors in Africa and/or Latin-America and Asia)

* B-D: Desk studies synthesizing existing material (research, practitioners' reports and other types of documentation as well as phone and email correspondence with relevant stakeholders)

* E-F: Combined method (primary data collection and desk studies)

Cross Cutting Issues

The analysis focuses on correcting unfortunate consequences for low income countries of existing approaches under CSR. Furthermore, it relates to core principles on human and labour rights, the environment and anti-corruption. These principles cover HIV/AIDS challenges, and gender.

Important risk elements and precautions taken

The analysis may be challenged by lack of cooperation by interlocutors such as large corporations or business associations that have made large scale investments into Generations 1.0 and 2.0. Challenging the assumptions and consequences of such approaches can be discouraging for participation. One the other hand, one could argue that large scale investments foster expectations of positive results. As this might not be the outcome of RSCM Generation 1.0 and 2.0, an accommodating approach on behalf of the corporations may also be expected. Indeed, our preliminary contact with several corporations indicates both recognition of the challenges and an appreciation of further research, considering that it has the potential to improve current RSCM practices.

Corporations may also be reluctant or unable to disclose information on e.g. cumulated costs from RSCM systems. To accommodate the risk, measures of confidentiality and discretion, might be applied in order to secure the participation of given corporations. This possible risk can also be circumvented methodologically by applying a triangulation of methods for data collection. In this way the desired information might be obtained via one of the methods applied.

The analysis relies on the ability to recruit student assistants and research assistants on a short-term basis. In a market where CSR expertise is in high demand, it may prove difficult to identify and recruit skilled assistance within a relatively short period of time, increasing the need for capacity development, supervision and editing on behalf of the project team. However, four student and research assistants have already been identified, all of which have previous experience with the focus of the analyses and have cooperated with the project team on earlier occasions.

Appendix 2 – Hypothesis of Revisiting RSCM in the light of CSR study

Hypotheses to be researched in relation to RSCM Generations 1.0 and 2.0

A. Businesses spend considerable resources on monitoring, yet research shows only relatively minor actual impact on (benefit to) workers and other stakeholders

B. Mainstream RSCM Generation 1.0 approaches lead to 'code-mania'

C. Traditional corporate sourcing strategies and purchasing practices have been identified as some of the primary impediments to ensuring adequate standards with suppliers

D. Most Supply Chain Management approaches limit themselves to a few basic human rights, and are not able to acknowledge the indivisibility, interdependency and interrelatedness of human rights to secure human dignity

E. The extensive number of corporate suppliers and sub-suppliers, often amounting to tens of thousands for a single buyer, render non-discriminatory, transparent, accountable and independently verified Supply Chain Management less than cost efficient, if not - de facto – impossible under Generation 1.0 and 2.0 approaches

F. SMEs are excluded from global supply chains

Appendix 3 – Detailed Methodology

A. The selection of the international buyers has been based on a 'critical cases approach', meaning establishing a group of known front-runner international companies, 35-40 in total. 'Front-runners' in the sense that the companies e.g. have been among the first to set RSCM systems, are among the ones taken active part in multi-stakeholder initiatives and international forums and/or are known from media and research, including personal undertakings by the authors. The assumption has been that these front-runner buyer companies will represent 'good practices' in the field of RSCM and accordingly indicate important key trends in the field. This also includes how the assumed challenges (the stated hypotheses) are perceived and dealt with. Furthermore, we then assume that if the information from the front-runner indicates that the hypothesis can be confirmed, our conclusions can be generalised to many parts of the private sector.

In agreement with Danida, it was decided to select roughly half of the companies among the group with headquarters in Denmark and the other half among all other (non-Danida) companies. In the report, referred to as 'Danish' and 'non-Danish' international buyers. In contacting the international buyer companies, we have experienced a high degree of willingness to participate and interest in the study. While, no company declined to participate on ground of finding the study irrelevant, two companies were in the process of reorganising their RSCM and preferred not to take part. The rest directly accepted to participate and pointed us to the relevant units and people.

B. Drafting the questionnaire for the buyers took place through a process where we combined questions to cover aspects of the hypotheses with input from the literature review of the international literature on Codes. The questionnaire includes a quantitative part where we asked for a number of specific data (number of suppliers, spread of suppliers on size, region and so on) and a more open, qualitative part where we asked for ways of handling RSCM, reasons, changes over time, challenges and future perspectives (see appendix 5 for further details).

C. Contact to each buyer proceeded through the following format: An email with an introductory letter, a more elaborated description of the study and the questionnaire was sent to a buyer representative at top-management level. Upon acceptance of reception, a phone-call to the person was conducted, providing further details to the objectives, identifying the relevant person(s) to interview and establishing a date for the interview. In most cases the buyers were given time to complete at least the quantitative part of questionnaire and return it to the project team. Then the interview took place over the phone between one from the project team and one or two buyer representatives. The project team interviewer either recorded the interviews or took detailed notes (or both) and afterwards drafted a detailed set of minutes plus a summary of the interview (structured around the six hypothesis). The interview took place over a period of 2 1/2 months from mid January to end March 2010.

D. The selection of suppliers and suppliers associations was based firstly on a decision of relevant Danida/Danish collaboration countries - meaning having a local industry with a certain number of suppliers engaged in global supply chains. After selecting Kenya and Bangladesh, the responsible from the project team (Ms. Signe Andresen and Ms. Elise Lind Jacobsen) and the Danida responsible in Copenhagen (Ms. Christina Ravn) along with assistants at the Danish Embassies in Nairobi (Ms. Jessica Larsen) and in Dhaka (Ms Farah Naber Zabeer) were instrumental in identifying suppliers and suppliers' associations to interview. Ms. Jessica Larsen and Ms. Farah Naber Zabeer ensured that a workable, tight, schedule was drafted in each country, which Ms. Signe Andresen and Ms. Elise Lind Jacobsen visited from end February to mid March 2010. The programme is found in appendix 6.

E. Drafting of the questionnaire for the suppliers and suppliers associations took the point of departure in the questionnaire for the buyers. The questions were adjusted according to the different perspective of the suppliers compared to the buyers. The format is found in appendix 7.

F. The interviews with the suppliers and representatives for suppliers' associations were conducted face-to-face, involving Ms. Signe Andresen, Ms. Elise Lind Jacobsen and one or two company representative(s). The interviews lasted about one to one and half hours. The interviews were recorded and afterwards typed into minutes and a summary.

G. The selection of organisations, associations and experts to participate was based on prior knowledge of these organisations etc from the previous work and contacts of the involved team. A list of 20 contacts was compiled comprised of industry associations (chamber of commerce and industry and joint industry collaborations, like the Federation of Danish Industries, the Federation of Small and Medium-sized Enterprises in Denmark), multi-stakeholder initiatives (like DIEH, ETI, BSCI) and industry initiatives (like the Electronic Industry Code).

H. The questionnaire for the organisations was compiled from the hypotheses, stating the each hypothesis, giving a short text of the background and challenges and leaving a text field for the response of the organisation. The questionnaire was distributed via email along with an accompanying letter and the revised TOR of the study (see appendix 2). The replies were received by email and in a number of cases followed up by either phone or personal communication.

I. The code of conduct review consists of 38 supplier Codes, whereof 28 out of these 38 Codes are Generation 1.0 company codes.[180] Furthermore, 14 of these Codes are from non-Danish companies and 14 from Danish companies. The last 10 Codes are Generation 2.0 Codes, i.e. Industry supplier Codes or Multi Stakeholder Initiative Codes. All of the Codes were selected through the 'critical case' method, meaning that the Codes come from companies and organisations considered key players and front-runners in the area of CSR and RSCM.[181] Applying this selection criterion implies, that if the hypothesis proves valid on these cases, it will also, with large probability, be valid on a much larger scale. However, not all front-runner companies have their Code publicly available on their website. Hence, the selected Codes also reflect which Codes, were accessible to be retrieved.

The 38 Codes were analysed, in order to establish which human rights they included. In this review the International Bill of Human Rights was used, in other words every code was reviewed in light of the rights outlined in the International Covenant on Economic, Social and Cultural Rights and the International Covenant on Civil and Political Rights.[182]

J. The review of the international literature on Codes of Conduct was based on web searches of newer key international literature. In total about 70 entries were identified of which about half (37) were considered being of sufficient academic quality and sufficient relevance for the study. All 37 entries were read, notes of key points drafted and summaries drafted. A selected number

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[180] There are many different types of codes of conduct out of which not all are relevant in relation to RSCM. For instance some only apply to the in-house staff of companies. However, in this study the term Codes describes the codes of conduct intended to regulate the relationship between buyers and suppliers.
[181] For an overview of the Codes reviewed see appendix 10
[182] The results of the review are visible in appendix 15

of these entries have been used in the main as well as sub-reports as highlighted in the foot notes.

K. The review of the international literature on SMEs and Codes/CSR was conducted in the same manner as the review of the international literature on Codes of Conduct. Due to the topic being a key research area of the CBS team leader, a number of entries were identified and known prior to the review. The review supplemented these entries and a total of about 30 entries was established of which 15 were considered being of sufficient quality and relevance to the study. Again, the 15 entries were read, notes of key points and a final summary drafted. And also here, a selected number of these entries have been used in the main as well as sub-reports as highlighted in the foot notes.

L. The specific details on the data foundation are found in the beginning of each of the sub-reports. In all the reports we have taken the point of departure in the above mentioned sources of information and made an independent analysis of the information, whether from buyers, suppliers, organisations and/or the reviews to form the presented material.

Appendix 4 – Project Team

Søren Jeppesen - CBS – Team leader

Søren Jeppesen is Associate Professor, Centre for Business and Development Studies, Department of Intercultural Communication and Management, Copenhagen Business School. His main research areas concerns a) Corporate Social Responsibility in developing countries, in particular SMEs and CSR, b) Developing Country Firms (DCFs) and strategies, c) Development of DCFs, including impact of outsourcing and linkages between DCFs and Multinationals. His main focus is on Africa, in particular Southern Africa. A major research project concerns investigation of impact of Codes of Conduct on the working conditions in the textiles industry in Southern Africa (South Africa, Lesotho and Swaziland) in collaboration with Wits University, South Africa. Another research project is titled 'Youth and Employment: The Role of Entrepreneurship in African Economies' in collaboration with University of Copenhagen and three partner universities in Ghana, Uganda and Zambia. The project runs from 2010-2013. Previous major research projects include 'Outsourcing for Development' (2006-2009) and 'Transnational Corporations and Local Firms - Linkages and Upgrading' (2003-2006). He has been coordinating the International Research Network on Business, Development and Society (see bdsnetwork.cbs.dk). For further details, see: www.cbs.dk/staff/sj

He can be contacted at +45 3815-3363 (CBS), +45-23350387 (cell) / E-Mail: sj.ikl@cbs.dk

Sune Skadegaard Thorsen

Sune Skadegaard Thorsen founded and heads the consultancy GLOBAL CSR, Copenhagen, and is partner in Corporate Responsibility Ltd. in London. With a background in international corporate law, Mr. Thorsen specialized in Corporate Social Responsibility (CSR) since 1996. GLOBAL CSR advises a range of leading transnational corporations, governments and organizations as experts on social sustainability. He was expert advisor to Mary Robinson's Business Leaders Initiative on Human Rights (2003 – 2009) since inception. He continued as expert advisor to the Global Business Initiative on Human Rights and European Advisor to the Institute for Business and Human Rights, London. His honorary positions include Chair of the Danish Institute for Human Rights and the International Commission of Jurists, Danish Section, in addition to serving as director in the Danish Centre for International Studies and Human Rights, the Danish Peace Foundation and as member of a range of CSR initiatives and advisory boards. He frequently speaks at international conferences and contributes papers and articles to books, journals and news media. For more information please see www.global-csr.com, or contact Sune Skadegaard Thorsen at Cell: + 45 4020 9906 / E-Mail sst@global-csr.com

Mireille Jakobsen

Mireille Jakobsen is a project assistant at the consultancy firm GLOBAL CSR. Mireille is currently completing her Master's Thesis on corporate human rights responsibilities in the supply chain, from Business Studies & Philosophy, at Roskilde University. Mireille has a general interest in Corporate Social Responsibility and Business Ethics, and specialises in human rights challenges in the supply chain.

Signe Andreasen

Signe Andreasen is a project assistant at the consultancy firm GLOBAL CSR. She is currently pursuing her master's degree in Political Science at The University of Copenhagen. She has a general interest in Corporate Social Responsibility with specific emphasis on CSR in the context of economic developing countries. She furthermore specialises in responsible supply chain management. Signe has a NGO background and a geographical focus on and experience with especially Africa.

Elise Serra Lind Jacobsen

Elise Serra Lind Jacobsen is a research assistant at the Centre for Business and Development Studies, Department of Intercultural Communication and Management, Copenhagen Business School (CBS). Elise's master’s degree in Business and Development Studies at CBS and working experience has equipped her with specialized knowledge in international business and development economics. She has consultancy and project management expertise within CSR. She commands particular knowledge in CSR from a developing country context, innovative partnerships for development and responsible supply chain management. Moreover, Elise is currently working at Save the Children where she contributing to the project, ’Work2Learn’ that is a partnership between the organization and Danish textile corporations.

Ernesto Luna Madrid

Ernesto Luna Madrid is a student assistant at the Centre for Business and Development Studies, Department of Intercultural Communication and Management, Copenhagen Business School. He is currently completing his masters degree in Business and Development Studies, with a regional focus in Latin America and minor in Social Entrepreneurship at Copenhagen Business School. Ernesto has a general interest in CSR, public-private partnerships, and youth entrepreneurship. Moreover, Ernesto has previously worked in NGOs, and currently heads the CBS chapter of the student organization AIESEC. For more details, see: http://dk.linkedin.com/in/ernestoluna

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GLOBAL CSR
sustainable business consulting

Appendix 5 – Interview guide for international buyers

Revisiting Responsible Supply Chain Management

CBS – Centre for Business and Development Studies (CBDS), Global CSR - Consulting Company and the Danish Ministry of Foreign Affairs

January, 2010

Information on types of questions:

The interview guide consists of three types of questions; a) quantitative information (numbers etc), b) broader and open questions relating to the processes and procedures of the company's procurement/supply chain management, and c) concrete and more closed questions (yes/no, amounts and similar).

Buyers Survey

1. Company name:
2. Date:
3. Name of interviewee:
4. Position (function and place in organization):
5. Number of years in position:

Quantitative Information

What is the total amount of people working in procurement/sourcing at your company? (Approximately)

- At Headquarters ________
- At subsidiaries ________

What is the total amount of people working with CSR and/or Codes of Conduct at your company? (Approximately)

- At Headquarters ________
- At subsidiaries ________

What is the approximate value of the procurement per year? (In total, by your unit, by your company) Depending on how it is assessed/measured

What was the total number of suppliers in your company's supply chain, when you introduced CSR demands/your Code of Conduct? (App. number)

What is the total number of suppliers in your company's supply chain today? (App. number)

Where are your company's suppliers located?

Regional spread (in percentage – in numbers and in size of volume)

- USA/North America ________ ________
- Europe ________ ________
- Latin America ________ ________
- (Sub-Saharan) Africa ________ ________
- Middle East ________ ________
- Asia _______ ________

How is the spread on size of suppliers in %? (App. figures – if your company uses a different way of categorising the suppliers, please indicate this)

- Large (above 250 employees)________
- Medium (between 50-249 employees)________
- Small (below 49 employees)________

Has the composition in size of suppliers changed during the last five years?

If yes,

- In which direction?

How is monitoring of supplier behaviour/compliance carried out?

- Internal staff
  - No. of man/years employed in relation to total turnover ________
  - Amounts spend on training auditors ________
  - Travel expenses for monitoring /auditing ________
- External auditors
  Yes, no, please explain
  - Does your company use local resources ________
  - Does your company use international resources ________

Are the costs of monitoring recorded?

If yes,

- How and by whom?
- What is the average cost per monitoring session?

If no,

- Why?

Preamble – General information on procurement/sourcing

Which department(s) is (are) in charge of the responsible procurement/sourcing from suppliers?

- The procurement (sourcing or buying) department ________
- CSR (compliance or Code of Conduct) department ________
- Other departments ________
- Or both (all) ________

How does the procurement and CSR department (and/or other departments) interact with each other/work together in relation to?

- The responsible procurement from suppliers
- The Company's Codes of Conduct
- Other relevant company guidelines

Companies' Procurement Practices

Could you give a short description of the procurement/sourcing process? (From ordering to delivery)

What are your company's selection criteria when choosing a supplier? (If possible – app. weight for criteria)

- Price ________
- Quality ________
- Delivery time ________
- Flexibility in meeting order ________
- Economic solidity ________
- CSR performance (ability to live up to basic standards/code demands in place) ________
- Other ________

Which other relevant factors influence the terms and conditions of the relationship with your company's suppliers?

- Size ________
- Length of relationship ________
- Other ________

Which requirements are new suppliers met with compared to existing suppliers?

Yes, no, please explain

- The same requirements ________
- Other requirements, e.g. having a Code of Conduct in place ________

What is the average length of partnership with a supplier?

- Short term (less than a year)________
- Medium term (1-5 years)________
- Long term (more than 5 years)________

In which geographical location does your company procure from and why?

- Africa ________
- Asia ________
- Latin America ________
- Other (Europe and North America) ________

Can you describe the development of the partnership with your company's suppliers? (E.g. over the last 5 years)

- Have there been changes in the selection criteria?
  Yes, no, please explain

  - Enlargement in numbers ________
  - Reduction in numbers ________

- What are the reasons for this development?

Does your company have specific policies or guidelines concerning SMEs in the Supply Chain?

Yes, no, please explain

Codes of Conduct

Is your company's Code of Conduct part of a CSR policy/framework?

If yes,

- Which elements does the CSR policy/framework include?

When did your company introduce demands on CSR issues to your suppliers?

Which Responsible Supply Chain Management approach (RSCM) does your company have?

Yes, no, please explain

- Company code _________
- Industry code _________
- Multi-stakeholder _________
- Other _________

Which areas do your company's Codes of Conduct cover?

Yes, no, please explain

- Human rights (equality, life and security, personal freedom and economic, social and cultural freedoms) ________

- Labour rights (freedom of association, right to collective bargaining etc)________
- Environment ________
- Others ________

When are your company's Codes of Conduct applied in relation to your suppliers?

- Always ________
- Only sometimes ________
- A requirement to become a supplier ________
- Something that has to be in place after a certain period ________
- Importance vis-à-vis other factors ________

What is the development in the scope/extent of the codes applied over a time span of, e.g. 5-10 years?

- Have there been changes in the areas that your company's codes cover?

If yes,

- Which and why?

To which degree is your company's Codes of Conduct differentiated from supplier to supplier?

- Does your company apply the same CSR requirements (covering all areas of your company's Codes of Conduct) to all suppliers?

- Or different CSR requirements depending on the:

  - Size of suppliers ________
  - New vs. existing suppliers ________
  - Countries of origin ________

- Different types of suppliers in relation to product/service ________
- Other factors/requirements ________

How important or relevant are fulfilment of code requirements when choosing a supplier and/or retaining contact to a supplier? (E.g. on a scale from 1-5)

Is it your impression that the introduction of CSR demands, (i.e. the requirement to live up to certain standards from your company's code of conduct) has lead to a change in the supplier base?

If affirmative,

➢ Do you know which suppliers have increased/decreased?

- Larger suppliers ________
- Medium sized ________
- Smaller suppliers ________

What are your experiences in regards to your company's choice of RSCM approach?

Has your company been satisfied with this choice of approach?

If yes,

➢ Please explain (and see next question)

If no,

➢ What do you think is needed for further improvements?

What are the positive impacts of the RSCM efforts on your company's suppliers?

Yes, no, please explain

- Improved working conditions (wages, working hours, safety & security, etc) ________
- Improved human rights achievements ________
- Improved environmental performance ________
- Others (including issues like efficiency, productivity and similar) ________

What are the identified challenges for both your company and suppliers in relation to adherence to the Code of Conduct?

Which factor(s) influence the behaviour of the suppliers in your opinion?

Yes, no, please explain

- The code itself ________
- Monitoring ________
- The length of the relationship ________
- The dependence of the supplier on the firm (in terms of procurement volume) ________
- The dependence of the firm etc. ________
- Other factors ________

How does your company handle a situation where your suppliers do not comply with the requirements set out in the Company Code of Conduct?

- Does capacity development form part of your non-compliance approach?

Procurement and Code-practices

To what extent are your company's CSR requirements integrated with the general purchasing criteria? (Such as price, delivery time, etc.)

Yes, no, please explain

- Not integrated ________
- Integrated ________
- To a limited extent ________
- To some extent ________
- Fully integrated ________

Do you experience a dilemma between your company's traditional procurement practices and the CSR compliance demands laid out in your company's Code of Conduct?

- If yes, how does your company handle this dilemma?
- Can you illustrate the dilemma between procurement and CSR ideals in a concrete example from your company's supplier relations?

Is it the ideals of procurement or the CSR department that are given highest priority in your company?

Auditing and Monitoring

Which department is in charge of carrying out auditing and monitoring in relation to code compliance?

How is auditing and monitoring of code compliance generally carried out within your company?

What kind of resources does your company use in the monitoring process and what are the reasons for this choice? (in man hours, and/or monetary costs)

- Internal resources ________
- External auditors (international) ________
- Local resources ________
- A mix of all 3 (if yes, which relative share do each of the three have) ________

How often is monitoring carried out?

Is monitoring of compliance to your company's code of conduct intensified for suppliers from certain geographical locations?

Is it your impression that a connection exist between the level of code-enforcement that you employ and your dependence on the supplier? (The hypothesis being that codes are not enforced as strictly, where the level of buyer dependence is high)

Is it your impression that a connection exist between the degree of compliance by the suppliers and the degree of the supplier's dependence on your purchases? (The hypothesis being that suppliers are more inclined to comply, when the degree of supplier dependence is high)

Sub-Suppliers

Apart from the suppliers, does your company's supply chain include sub-suppliers (the suppliers of the suppliers) in the RSCM?

If, yes

- How many tiers (1, 2, more) ________
- Does your company monitor sub-suppliers
    - If yes, how?

What are the challenges of extending the RSCM to include (additional) sub-suppliers?

Do you have any ideas as to how an extension of RSCM to include more sub-suppliers could be realised within your company or generally?

Thank you for your time!

Revisiting Responsible Supply Chain Management

CBS – Centre for Business and Development Studies (CBDS), Global CSR - Consulting Company and the Danish Ministry of Foreign Affairs

February, 2010

Information on types of questions:

The interview guide consists of three types of questions; a) quantitative information (numbers etc), b) broader and open questions, and c) concrete and more closed questions (yes/no, amounts and similar).

Supplier Survey

6. Company name:
7. Date:
8. Name of interviewee:
9. Position (function and place in organization):
10. Number of years in position:

Quantitative Information

How big is your company?

- Micro (less than 10 employees)________________
- Small (between 11 and 50 employees)___________
- Medium (between 51 and 250 employees)_______
- Large (251 employees and above)______________

What is the total amount of people handling of Codes of Conduct and/or working with CSR at your company? (Approximately)

- _________

How big a part of handling of international sales does handling of Codes/CSR demands comprise? (percentage)

- _________

What has been the development in the number of companies that your company supplies to (buyers) the last 5-10 years? (App. number)

- Today:________
- 2005:_________
- 2000:_________

What has been the overall development in the size of your company's orders understood as turnover the last 10 years?

- They have increased__________
- They are the same____________
- They have decreased__________

Where are your buyers located?

Regional spread	**Percentage (Approx.)**	**Numbers (Approx.)**	**Size of volume (Approx.)**
USA/North America			
Europe			
Latin America			
Africa			
Middle East			
Asia			
	100 %	Total number of buyers	Total size of export

What has been the development in the number of your own suppliers the last 10 years? (App. number)

- Today:________

- 2005:_________
- 2000:_________

Preamble

When were demands like codes of conduct and/or other CSR issues first introduced to your company?

- ________

Could you describe the way in which your company´s buyers typically carry out so-called 'responsible practices' or 'Responsible Supply Chain Management'?

Which types of codes is your company met with? (percentage)

- Company codes _________
- Industry code _________
- Multi-stakeholder codes _________
- Other _________

What are your company´s experiences in dealing with company specific and/or industry codes?

- Do you find that it makes a difference whether the codes are company specific or industry codes?
- In what way?

Which areas do the codes of conduct you deal with usually cover?

(eg. Child- and forced labour, non-discrimination, environment etc.)

- ____

What are the distribution on the demands you are met with between (on a scale from 1-5 where 1 signifies the most represented area):

- Labour rights (freedom of association and right to collective bargaining, non-discrimination, child – and forced labour, min. Wages etc)________
- Other human rights (life and security, privacy, personal freedom and economic, social and cultural rights) _______
- Environment ________
- Corruption________
- Others ________

What is the development in the scope/extent of the codes applied?

- Are the codes more or less comprehensive today compared with 5 years ago?
- If there has been a change, in which areas did it occur?

Do you find that codes of conduct are a good way of integrating CSR in the supply chain?

- What would be the optimal way to integrate CSR in the supply chain from your point of view?

Does your company have a Code of Conduct?

If yes:

- Is it part of a CSR policy or RSCM approach?
    - Which areas does your company prioritize in your CSR policy?
- Do you find that having your own approach helps your company to deal with the RSCM demands?

If no:

- Why is this?

Codes of Conduct

How many of your buyers have introduced codes of conduct over the last 10 years? (App. number)

- Today:________
- 2005:________
- 2000:________

How many codes of conduct does your company have to comply with? (App. number)

- Today:________

- In 2005:________
- In 2000:________

Has your company experienced opposite or contradictory demands in the codes your company are met with?

If yes,

- Can you describe in what way this situation occurred?
- Can you give any examples of contradictory demands?
- How did your company handle such a situation?

What can be done to improve this potential challenge?

Code Compliance

How does your company make sure it complies with the codes of conduct?

- Which actions does your company take in order to comply with the codes?
- Do you have control mechanisms in place and how do they function?

Has your company experienced challenges in adhering to the demands stated in the codes of conduct?

If yes,

- In what areas did they occur? ______________________
- How did your company handle these challenges?

Have there been incidents in your company where non-compliance was detected?

- What was the reaction from your company's buyer(s)?
    - Exclusion
    - Dialogue
    - Other

Has your company received any assistance from your buyers in managing the demands stated in their codes of conduct?

If yes, was it in the form of:

- Money
- Capacity Building Training
- Other?

Is it your impression that a connection exist between the level of code-enforcement you are met with and how dependent the given buyer is on you as a supplier?

Do you feel more inclined to comply with the codes of conduct of your largest buyers as opposed to codes from smaller buyers?

Impact and Monitoring

Are the changes your company experiences from RSCM mostly positive or negative?

What is the positive changes/influences of the RSCM efforts in your company?

E.g.

- Improved working conditions (wages, working hours, safety & security, etc) ________
- Improved human rights achievements ________
- Improved environmental performance ________
- Others (including issues like efficiency, productivity and similar) ________

What are the negative changes/influences of the RSCM efforts in your company?

E.g.

- Time consuming___________
- Capacity demanding________
- Costly____________________
- Others____________________

How often do your buyers make audits on your code compliance?

Who typically conducts these audits and monitoring?

Are the audits typically announced or unannounced?

How do you prepare yourself for the audits?

Buyers' Procurement Practices

Does your company experience that the procurement and code-practices from your buyers are integrated?

- If yes, how?
- If no, in what way does your company experience the lack of integration?

Does your company deal with the same or different persons when it comes to negotiating price and handling codes of conduct/responsible practices' demands?

- ______________

Do you experience that it is the ideals of procurement/sourcing or the codes of conduct/CSR departments in the buyer companies that are given highest priority? (price, quality etc vs. responsible practices/CSR)

- Can you give a concrete example of this situation?
- Do your buyers try to address this challenge? (if yes how)

Sub-Suppliers

Does you experience that your company's buyers require you to introduce their codes of conduct to your own suppliers?

- If yes, how many tiers (1, 2, more) ________

Does your company use a code of conduct towards your own suppliers (yes, no)?

- If yes: Is it your own code of conduct or one from your buyers?

- Does your company monitor or audit your suppliers?
  - If yes, how?

What are the challenges of extending the RSCM to include (additional) sub-suppliers?

Do you have any ideas as to how an extension of RSCM to include more sub-suppliers could be realised within your company or generally?

Small- and Medium sized Enterprises

Do you think that it is a greater challenge for SMEs to comply with the codes of conduct than it is for larger companies?

Please elaborate (why/why not)?

What are the opportunities and obstacles of being a SME in handling the demands of RSCM?

- Opportunities
- Obstacles

Does your company see a tendency of excluding SMEs from global value chains as a consequence of buyers' RSCM?

Thank you for the time taken.

Appendix 7 – Programme of tour to Nairobi and Dhaka

Nairobi, 1st-6th March 2010	
1st of March 2010	Arrival
2nd of March 2010	**FPEAK,** Fresh Produce Exporters Association Kenya, Chief Exectutive Officer Stephen Mbithi **University of Nairobi,** Associate Professor Dorothy McCormick (MSEs, Industrialisation and Gender Issues)
3rd of March 2010	**PJ Flowers Ltd.,** Director Elizabeth Thande, Horticultural Producer and Exporter (outside Nairobi)
4th of March 2010	**Kyome Fresh Co. Ltd**, Managing Director Grace M. Nyaa, Horticultural Producer and Exporter **Kokocepts Plantations Ltd**, Managing Director, Roy Bbayah, Coconut processor, Coconut oil for the export market **Jakal Services Ltd**, Director Nadeem Bandali, Exporter of Tea and Horticulture **Nazkom Ltd**, Managing Director John Lenga, Cashew Nut Grower and Processor **Springgrow Kenya Ltd**, Managing Director Peterson Munyoki, Horticulture Exporter
5th of March 2010	**KEPSA,** Kenya Private Sector Alliance, CEO Carole Kariuki/Antony Weru **KISM,** Kenya Institute of Supplies Management, Council Member Jeremiah Ogola, Head of Secretariat, Hedwig Nyawal **EPC,** Export Promotion Council, Enterprise Assistance Services Manager Jane Ndungo-Mbogo

6th of March 2010	**K-Net Flowers Ltd.,** Managing Director Mike King'ori, Horticultural Broker Departure
Dhaka, 7th – 13th March 2010	
7th of March 2010	Arrival **Global Factory,** Managing Director Kristian Nordskov, Smoke Solutions **Hatil,** Human Resources Manager, Mr. Md. Maharuzzaman, Doors and Furniture
8th of March 2010	**Save the Children Bangladesh,** CSR Responsible, Obaidur Rahman **FBCCI,** The Federation of Bangladesh Chambers of Commerce & Industry, President Mr. Annisul Huq
9th of March 2010	**Imam Label Printing,** Managing Director Abu Akhter Fakir, Sub supplier **Virtual Fashions Ltd.,** Managing Director Hasan Imam Khan, Garment manufacturer and exporter
10th of March 2010	**CSR Center,** CEO Shahamin S. Zaman **BGMEA,** Bangladesh Garment Manufacturers & Exporters Association, Representative **H&M, Buying Office Dhaka,** Ms. Payal (Compliance responsible) and Mr. Christopher (CSR responsible) **DK Group,** Managing Director Syed Zahid, Buying Office and Garment Exporter
11th of March	**Fashion Tex International,** Managing Director Jashim Uddin Ahmed, Buying Office and Garment Manufacturer **Meer Ala Group,** Marketing Director, Faizul Abedin, Steel Manufacturing and Garment Export **Hamid Group,** Director Abu Mohammad Abdullah (among others), Construction and Garment Exporter
Friday March 12	**BWCCI,** Bangladesh Women Chamber of Commerce and Industry, President Selima Ahmad **News Style Garments Ltd.,** Senior Merchandiser Hannan Khan,

	Garment Manufacturer and Exporter
Saturday March 13	Departure

In total 27 interviews with suppliers and supplier associations.

Appendix 8 – Interview guide for organisations (experts)

Revisiting Responsible Supply Chain Management

CBS – Centre for Business and Development Studies (CBDS), Global CSR - Consulting Company and the Danish Ministry of Foreign Affairs

April 2010

Organisations Survey

Organisations, Networks and Experts on Responsible Supply Chain Management (RSCM)

1. Name of Organisation:
2. Date:
3. Name of interviewee:
4. Position (function and place in organisation):
5. Number of years in position:

Are the following statements/trends something that you encounter in your daily work (either from businesses, NGOs, governments, suppliers in developing countries or other)? Please comment in the response area provided.

1. Businesses spend considerable resources on RSCM, including monitoring and auditing, yet research shows only relatively minor actual impact on (benefit to) workers and other stakeholders?

Comment: In spite of spending considerable resources, businesses do not record the amounts used for RSCM. The challenge investigated further here relates to the considerable costs that business use for RSCM compared to the actual impact on the ground and the sustainability of such impact. Is it cost-efficient?

1. Response:

2 .Mainstream, 1st Generation RSCM approaches (one company one code - either their own or an industry/international code) lead to 'code-mania'

Comment: As each international business has at least one code or standard, but the suppliers have many different customers, it means that suppliers are overwhelmed with different requirements, in particular when it comes to monitoring and auditing. Is the multitude of codes, whether Generations 1.0 or 2.0, and not least their implementation (sub standards for monitoring and auditing purposes) a challenge for a sustainable approach to RSCM?

2. Response:

3. Traditional corporate sourcing strategies and purchasing practices have been identified as some of the primary impediments to ensuring adequate standards with suppliers.

Comment: While businesses e.g., emphasise that overtime work is unacceptable or to be avoided, they still continue to request deliveries with (extremely) short lead time - leaving the suppliers with no choice other than exceeding overtime limits if to meet the delivery deadline. Does traditional focus on the financial bottom line inhibit RSCM?

3. Response:

4. The extensive number of corporate suppliers and sub-suppliers, often amounting to tens of thousands for a single buyer, render non-discriminatory, transparent, accountable and independently verified Supply Chain Management less than cost efficient?

Comment: An increasing amount of businesses seek to implement codes at their first level suppliers - however the vast amount of suppliers turns it into a major undertaking in itself. And still, very few are able to include the even greater number sub-suppliers in their operations, although this demand is raised by stakeholders.

4. Response:

5. Most Supply Chain Management approaches limit themselves to a few basic human rights, and are not able to acknowledge the indivisibility, interdependency and interrelatedness of human rights to secure human dignity?

Comment: The present codes are not only very alike, but typically only include 7-8 of the internationally acknowledged human rights (that include the core labour rights and additional labour rights), while the Ruggie framework makes it explicit that business may violate all 30 human rights from the international bill of human rights and that adequate risk management would have to cover these. Do you see it as a challenge that the vast majority of Generation 1.0 and 2.0 RSCM codes only cover a fraction of the rights that suppliers may violate?

5. <u>Response:</u>

6. SMEs are excluded from corporate supply chains?

Comment: Due to the major workload (and financial resources) involved, businesses tend to concentrate their supplier base as it is easier and much more manageable to operate with a small number of major suppliers compared to thousands of smaller suppliers. RSCM appears to have accelerated this trend especially in economic developing countries that are considered 'risk areas' under RSCM schemes and thus call for increased diligence by code demands, monitoring, certification or auditing. SMEs in economic developing countries are consequently more exposed to exclusion from international value chains due to their lack of capacity to demonstrate code compliance. Development agencies focus business sector development to the development of SMEs. Do you appreciate this dilemma? And are you aware of initiatives to minimize this possible negative impact of RSCM on economic development?

6. <u>Response:</u>

7. In regard to the present limitations of RSCM, which proposals/ideas/suggestions do you/your association/organisation/network see as a means to improve the situation?

7. <u>Response:</u>

Appendix 9 – List of organisations contacted (experts)

Company	Contact details
Håndværksrådet *	Håndværksrådet Islands Brygge 26 Postbox 1990 2300 København S Tlf. 33 93 20 00 hvr@hvr.dk
DIEH *	Dansk Initiativ for Etisk Handel Porcelænshaven 18A DK-2000 Frederiksberg Tlf. 3815 4221 info@dieh.dk
Fair Trade Danmark	Fair Trade Danmark Knullen 2 5260 Odense S Tlf: 7021 1771 info@fairtrade.dk
Fairtrade Mærket Danmark	Fairtrade Mærket Danmark Svanevej 12, 4. sal 2400 København NV Tlf: 7023 1345 info@fairtrade-maerket.dk
DI *	H.C. Andersens Boulevard 18, 1787 København V Sundkrogskaj 20, 2100 København Ø Tlf. 3377 3377 di@di.dk
Dansk Erhverv	Dansk Erhverv Børsen 1217 København K

	Tlf.: 3374 6000 info@danskerhverv.dk
Center for Samfundsansvar (CenSa) *	Erhvervs- og Selskabsstyrelsen Center for Samfundsansvar Kampmannsgade 1 1780 København V Tlf.: 33 30 77 00 eogs@eogs.dk
BSCI *	Business Social Compliance Initiative BSCI Executive Office c/o FTA - Foreign Trade Association 168, Av. De Cortenbergh 1000 Brussels Belgium Tel.: 0032-2-762 05 51 Email: info@bsci-eu.org
SAI *	Social Accountability International 15 West 44th Street, 6th Floor New York, NY 10036 tel: (212) 684-1414 Email: info@sa-intl.org
ETI	Ethical Trading Initiative 8 Coldbath Square London EC1R 5HL UK Tel: +44(0) 20 7841 4350
BSR *	Business for Social Responsibility Europe Paris 36, rue de l'Arcade 75008 Paris, France T: +33 (0) 1 46 47 99 04 connect@bsr.org
Better Work	*Better Work* *International Labour Office* 4, route des Morillons CH-1211 Geneva 22 Switzerland betterwork@ilo.org

	International Finance Corporation 2121 Pennsylvania Ave., NW Washington, DC 20433 USA betterwork@ifc.org
CSR Europe (European Alliance for CSR)	CSR Europe Rue Victor Oudart 7 1030 Brussels Belgium tel +32 2 541 1610 info@csreurope.org

* = participated/responded to our study

Appendix 10 – Codes content – list of companies reviewed

International non-Danish

1. GAP
2. Telenor
3. GE
4. The Coca Cola Company
5. Ikea
6. Walmart
7. H&M
8. Anglo American
9. American Eagle
10. Ericsson
11. Nike
12. HSBC Holdings
13. Nestlé
14. UN Supplier CoC

Generation 2.0 Codes

1. Ghana Busines Code
2. Ethical Trading Initiative
3. SA8000
4. Fair Labour Association
5. HP (Electronics Industry Code)
6. International code of conduct for the production of cut flowers
7. IC Companies (BSCI)
8. Novartis (Pharmaceutical Industry Principles for Responsible Supply Chain Management)
9. WIETA
10. Fashion Institute NICE program

Danish

1. Bestseller
2. Carlsberg
3. Danfoss
4. Coloplast
5. Egmont
6. JYSK
7. Maersk
8. NKT
9. Toms
10. Hartmann
11. LEGO
12. VELUX
13. DONG
14. Kohberg

Copenhagen Business School
HANDELSHØJSKOLEN

GLOBAL CSR
sustainable business consulting

Appendix 11 – Cost estimates – buyer RSCM expenditure

Costs for Monitoring Supplier Behaviour		Company code		
	INTERNATIONA	1.	2.	3
Financial Data				
Company Turnover/Revenue 2009		118,697	15,687.00	114,552.00
App. value of (direct) procurement per year		?	4 000	60 000
Currency		Millions of	Millions of	Millions of
Average number of employees working with:				
Sourcing		?	220	200
Codes & CSR		80	5	20
Monitoring				
Mostly Internal/External/Shared Monitoring		Internal	External	Shared
Internal staff				
• App. no. of employees/total turnover/years		70	20	10 / 600,000 / 5 years
• Amounts spend on training auditors		?	2 days every 2-3 years	?
• Travel expenses for monitoring /auditing		?	?	?
External staff				
• Local resources		?	no	?
• International resources		?	Yes; app. 14,000 anually	?
Average cost per monitoring session		?	?	2-3,000

Reasons for not recording costs	**L**	?	• Internal audits are integrated, with the different departments and often coincide with other work-related activities.	• The actual cost for own internal audit, as it is incorporated with other expenses

Costs for Monitoring Supplier Behaviour			
	4	**5**	**6**
Financial Data			
Company Turnover/Revenue 2009	155,777.00	30,990.00	14,526.00
App. value of (direct) procurement per year	100 000	40 000	?
Currency	Millions of	Millions of	Millions of
Average number of employees working with:			
Sourcing	?	250	?
Codes & CSR	?	420	85
Monitoring			
Mostly Internal/External/Shared Monitoring	Internal	Internal	Internal
Internal staff			
• App. no. of employees/total turnover/years	700 +	?	60
• Amounts spend on training auditors	?	25	?
• Travel expenses for monitoring /auditing	?	30	0
External staff		Big 4 & NGO's	
• Local resources	yes	yes (NGO)	yes
• International resources	no	yes (Big 4)	no
Average cost per monitoring session	?	2	?

Reasons for not recording costs	• See no point in recording costs	• Not significant, as supplier pays the cost	• It is done internally and it is thus not that important for them to establish this • They often work with NGO's, or labour organisations to do the monitoring

Costs for Monitoring Supplier Behaviour						
	DANISH	1	2	3	4	5
Financial Data						
Company Turnover/Revenue 2009		8,448	7,565	4,600	1,550	25,653
App. value of (direct) procurement per year		4,000		1,300	?	8,933
Currency		Millions of DKK	Millions of DKK	Millions of DKK	Millions of DKK	Millions of DKK
Average number of employees working with:						
Sourcing		60	420	44	120	200
Codes & CSR		15	16	2	11	5
Monitoring						
Mostly Internal/External/Shared Monitoring		Internal	Internal	External	External	Internal
Internal staff						
• App. no. of employees/total turnover/years		120	12	2	?	?
• Amounts spend on training auditors		?	?	N/A	?	?
• Travel expenses for monitoring /auditing		?	?	?	?	?
External staff				Veritas		
• Local resources		?	No	Yes	No	Yes
• International resources		?	Yes	No	Yes	?

Average cost per monitoring session		?	?	6,000 - 14,000	?	?
Reasons for not recording costs		?	?	N/A	?	• It is integrated in daily procurement activities

Costs for Monitoring Supplier Behaviour					
	6	**7**	**8**	**9**	**10**
Financial Data					
Company Turnover/Revenue 2009	76,962	8,820	4,928	8,570	37,446
App. value of (direct) procurement per year	1,000	1,952	30	5,000	2,642
Currency	Millions of DKK	Millions of DKK	Millions of DKK	Millions of DKK	Millions of DKK
Average number of employees working with:					
Sourcing	35	35	10	60	88
Codes & CSR	4	10	13	7	48
Monitoring					
Mostly Internal/External/Shared Monitoring	Internal	External	External	External	Internal
Internal staff					
• App. no. of employees/total turnover/years	6	1	?	?	13
• Amounts spend on training auditors	12,000	N/A	?	?	40,000
• Travel expenses for monitoring /auditing	500,000	N/A	?	?	See above
External staff					
• Local resources	?	Yes	?	Yes	Yes

• International resources	?	Yes	?	Yes	Yes
Average cost per monitoring session	?	10,000	?	?	?
Reasons for not recording costs	• Because it is a very small amount		• Its included in our prices	• Company is too decentralised	?

Appendix 12 – Buyer companies description

Buyer (code)	Trend in no of suppliers over last 5 yrs (Decrease (D) – Stable (S) – Increase (I))*	Total no of suppliers	% of suppliers from DC	No of SMEs as suppliers	% SME-suppliers in relation to total
A	D	400-600	33	NA	NA
B	NA	1500-2000	NA	NA	NA
C	D	NA	90*	NA	NA
D	D	700	75* (or more)	NA	NA
E	D	10000	Below 50	NA	Small percentage
F	S	3200	79	Approx 2700	86
G	I	400	70	NA	A minority
H	D	390	85	NA	NA
I	I	1000	33	780	78
J	D	5000	NA	NA	NA
K	I	550	15	380-390	75
L	I	540	55	Approx. 520	97
M	S	220	20	180	Vast majority
N	D	650	NA	NA	NA
O	S	3000	10-20*	NA	NA
P	S	8	50	7	90

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* = used explicitly in the Sub-Reports

Appendix 14 – Definitions of terms used

Below follows a presentation of a selection of the most essential concepts in the analysis.

1. Auditing

Some companies require external auditing of suppliers against their individual company Code by independent third party CSR auditors; either professional audit firms like KPMG, PWC, Deloitte and Ernst & Young, more specialized firms such as Bureau Veritas or by Non-Governmental Organizations (NGOs).

2. Code of Conduct (Code)

A Code of Conduct (also called Supplier-Code, or merely Code), is a set of expectations by a buyer company to its suppliers. They typically include guidelines based on relevant international instruments, notably on matters concerning social, environmental and anti-corruption.

3. Corporate Social Responsibility (CSR)

CSR is a term covering how the business community can take responsibility with respect to its impact on people, planet and profit – also known as the Triple Bottom Line. In other words, CSR is how corporations take responsibility for contributing to, rather than becoming a barrier to, sustainable development.

4. Developing Countries

The term 'developing country' is used synonymously with the terms 'developing economy' or 'economically developing country'. Developing Countries is a term used to describe a country with a low level of material well-being. The World Bank's main criterion for classifying economies is gross national income (GNI) per capita. Low-income countries have GNI per capita of US$975 or less and lower- middle income countries have GNI per capita of US$976–$3,855. The World Bank classifies all low- and middle-income countries as developing but stresses that, *"The use of the term is convenient; it is not intended to imply that all economies in the group are experiencing similar development or that other economies have reached a preferred or final stage of development. Classification by income does not necessarily reflect development status."*[183]

[183] Based on World Bank definition: http://data.worldbank.org/about/country-classifications

5. Monitoring

'Monitoring' refers to the regular visits at suppliers' premises by company employees trained to assess suppliers' performance against company Code requirements (CSR). Thus, monitoring only takes place by means of internal company processes.

6. Multinational Corporation (MNC)

The multinational corporation is also often referred to as a transnational corporation (TNC) or a multinational enterprise (MNE)[184]. The MNC essentially manages production or delivers services in several countries simultaneously.

7. Supply Chain Management (SCM)

Supply Chain Management encompasses the coordination and management of procurement activities. Companies are increasingly outsourcing their production activities to other countries, especially in developing economies. Buyers manage their supply chain through a set of traditional procurement criteria typically involving: price, delivery time, flexibility in meeting orders, economic solidity, quality, etc.

8. Responsible Supply Chain Management (RSCM)

Responsible Supply Chain Management, concerns the responsible behaviour of businesses in the supply chain. Current RSCM practices are mainly carried out through the implementation of Codes of Conducts, containing CSR demands, in global supply chains and the consequent monitoring or auditing of suppliers to ensure compliance. The additional CSR demands of buyers toward suppliers can thus be seen as an add-on to their already existing procurement practices.

This study deals with three types of RSCM, named RSCM Generation 1.0, 2.0 and 3.0. A brief definition of each follows below.

8.1. RSCM Generation 1.0

In RSCM Generation 1.0, corporations develop their own company Code of Conduct, along with monitoring and auditing compliance to these individual (CSR) standards which suppliers need to meet.

8.2. RSCM Generation 2.0

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[184] Pitelis, Christos; Roger Sugden (2000). *The nature of the transnational firm*. Routledge. p. 72.

This approach to RSCM is characterised by companies creating common industry codes of conduct. Common industry codes are often developed and a common "clearing house" is often established to take care of monitoring and accreditation of suppliers. This approach to RSCM shifts focus from monitoring compliance to building supplier capacity (but with no government involvement).

8.3. RSCM Generation 3.0

A Generation 3.0 approach to RSCM, involves creating 'CSR Risk Free Sourcing Zones' by building capacities through partnerships between international buyers, local state authorities, development agencies, suppliers, business associations, workers' and employers' associations, NGOs and multilateral organisations.

9. Small and Medium Sized Enterprise (SME)

The definition of SMEs used in this study is based on companies whose headcount falls below a certain limit. A small company thus has a headcount of fewer than 50 employees; while a medium sized company has fewer than 250 employees[185].

10. Sustainable development

Sustainable development is a development that meets the needs of the present without compromising the ability of future Generations to meet their own needs.[186]

11. Triple Bottom Line

The Triple Bottom Line, popularly described by the three Ps; People, Planet, Profit, serves to assist corporations in addressing sustainable development.[187]

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[185] Based on EU definition: http://ec.europa.eu/enterprise/policies/sme/facts-figures-analysis/sme-definition/index_en.htm
[186] Definition by the Brundtland Commision
[187] Elkinton, J. 'Cannibals with forks: The triple bottom line of 21st century business'. Canada, New Society Publishers, 1998.

Appendix 15 – Overview of the Codes of Conduct Review

Mentioning of Human Rights in the Codes

Description	Article #	Covenant	Included in gen 1.0	Included in gen 2.0	Included in all CoCs
Prohibition against Slavery, Forced- or compulsory labour	8	CCPR	100%	100%	100%
The right to a family life (marriage, maternity & children) + prohibition of exploitative child labour	10	CECSR	100%	100%	100%
The rights of the child	24	CCPR	100%	100%	100%
Non-discrimination	2	CECSR	100%	100%	100%
The equal right of men and women	3	CECSR	100%	100%	100%
The right to form & join trade unions and the right to strike	8	CECSR	96%	100%	97%
Freedom of association, incl. right to form & join trade unions	22	CCPR	93%	100%	95%
Right to a living wage, The right to safe and healthy working conditions, The right to rest, leisure and holidays	7	CECSR	86%	100%	89%
The right to health	12	CECSR	82%	100%	87%
Prohibition against torture, inhumane & degrading treatment	7	CCPR	75%	100%	82%
The right to education	13	CECSR	46%	70%	53%
The right to adequate food, fair distribution of food, the right to clothing and the right to housing	11	CECSR	18%	50%	26%
The right to privacy	17	CCPR	11%	40%	18%
Minority rights to culture, religious practice and language	27	CCPR	14%	20%	16%
The right of peaceful assembly	21	CCPR	18%	10%	16%
The right to work	6	CECSR	4%	30%	11%

The right to hold opinions, freedom of expression, freedom of information	19	CCPR	14%	0%	11%
The right to liberty of movement & freedom to choose residence	12	CCPR	11%	0%	8%
Freedom of thought, conscience and religion	18	CCPR	7%	10%	8%
The right to social security, including social insurance	9	CECSR	4%	20%	8%
The rights to liberty and security of person	9	CCPR	7%	0%	5%
The right to form a family	23	CCPR	0%	20%	5%
The right to take part in cultural life, The right to enjoy scientific progress, Protection of Intellectual Property rights	15	CECSR	4%	0%	3%
The right to life	6	CCPR	4%	0%	3%
Prohibition against inciting war and against hate speech	20	CCPR	4%	0%	3%
The right to self-determination	1	CECSR	0%	0%	0%
The rights of detainees	10	CCPR	0%	0%	0%
The right to education	14	CECSR	0%	0%	0%
Effective remedy	2	CCPR	0%	0%	0%
Prohibition against imprisonment for non-fulfilment of contracts	11	CCPR	0%	0%	0%
The right to seek asylum	13	CCPR	0%	0%	0%
The right to a fair trial	14	CCPR	0%	0%	0%
retroactive punishment	15	CCPR	0%	0%	0%
recognition as a person before the law	16	CCPR	0%	0%	0%
The right to take part in the political life	25	CCPR	0%	0%	0%

Equality before the law	26	CCPR	0%	0%	0%

Appendix 16 – Abbreviations

BSR	Business for Social Responsibility
CBDS	Centre for Business and Development Studies
CBS	Copenhagen Business School
Codes	Codes of Conduct
CSR	Corporate Social Responsibility
DA	Donor Agency
EU	European Union
EUR	Euro
ILO	International Labour Organization
MNC	Multi National Company
NGO	Non-Governmental Organisation
Prof.	Professor
PSD	Private Sector Development
PwC	PricewaterhouseCoopers
RSCM	Responsible Supply Chain Management
RSCM 1.0	Responsible Supply Chain Management Generation 1.0
RSCM 2.0	Responsible Supply Chain Management Generation 2.0
RSCM 3.0	Responsible Supply Chain Management Generation 3.0
SCM	Supply Chain Management
SME	Small- and Medium sized Enterprises
SRSG	Special Representative to the Secretary General
UN	United Nations
US	United States

Appendix 17 – Summary of observations and findings in Kenya and Bangladesh

Summaries Kenya	
Data + Type of Codes they meet	Interviews conducted from the horticultural and flower industry. 12 interviews were conducted with associations, flower broker and exporters of small farmers. All interviews were very useful and interesting; however some stood a bit more out. These were the interviews with; FPEAK, Kyome Fresh Ltd., Nazcom and K NET Flowers. Suppliers in Kenya are met with a variety of codes, both company and industry codes, but every market also has its own standards and certifications that suppliers in the horticultural industry have to comply with. The main focus still seems to be on food safety and/or quality. However, the social aspect is growing, especially for suppliers exporting to the European market and/or bigger supermarket chains. **Standards/certifications/codes that suppliers are mainly met with in Kenya:** • The Global, Euro and Kenyan Gap • The Kenya Bureau Standard • FLO Certificate • British Retailers Consortium • Sedex
C)'Code Mania'	All agree that it is necessary to have codes and standards. However, everyone also comes to the same conclusion: there are too many standards/certifications & codes and this puts suppliers in a very challenging position. The content does not really differ, but it is the multiplicity effect that is a big issue in the horticultural industry in Kenya. **Main consequences of the multiplicity issue:** ▪ **The costs issue -** The cost of getting a standard (being in compliance) is high. Many suppliers might have the capacity to adopt one, but not too many as the costs add up. The FLO certificate itself costs approx. 2500 Euros, the Global Gap 500 Euros etc. It is an unsustainable system. ▪ **The auditing issue -** Necessary to be audited many times, which is time-consuming and costly An industry code might in some instances circumvent the multiplicity issue. However, there are different industry codes for every region. The suppliers do not believe that buyers' demands contradict. However, one supplier gave an example of where complying with chemical regulations in fact prevented it from entering the market. The regulation states that specific chemicals, which kill the bugs,

	should not be used. However, when the product reached the EU and bugs were found, the orders got cancelled.
Code Compliance	Adopting codes is a way to ensure market access. However, being in compliance is a big investment; the production costs will increase and it will take a long time to recoup the investment. Thus, the cost of compliance is high = certain suppliers' (SMEs) ability to enter certain markets and/or supply to certain buyers is very low. Some suppliers might receive some training, but they do not get any financial support in order to comply. The buyers are not willing to pay for the value added – the suppliers hold all the costs.
B) Impact on workers	Summing up from the different interviews. **General positive impact:** ▪ Productivity and efficiency increases ▪ Guarantee market entry ▪ Improved work ethics ▪ Save use of pesticides ▪ Workers protection ▪ Less overtime ▪ No under-aged workers ▪ Safe drinking water ▪ Nurseries, schools, football fields etc. **General negative impact:** ▪ Increase in production costs with no changes in the price of the product ▪ Pressure on labour costs ▪ Dismissals due to budget constraints following from the costs of compliance and in case of detected non-compliance (in terms of product quality) from out-growers further down the chain - low job security ▪ Time-consuming
B) Monitoring resources	Buyers mainly come to do quality checks. The audits are both announced and unannounced and are executed once every six-month or once every year. Many of the exporters have hired a consultant that prepares them for the audits. This consultant gives advise on; welfare of the workers, food safety, packaging, crop management, pesticides etc.
D) Traditional sourcing strategies – impediments to ensuring adequate standards	The procurement practices and the code requirements are not integrated. **Dilemmas:** ▪ **Prices vs. quality demands** – buyers expect to get a low price and a quality product at the same time. Suppliers experience increased production costs due to investments in required standards, but are not getting paid for the improvements of the product. Thus, suppliers do not see any benefits from their investments. ▪ **Low prices vs. wage increases -** Buyers want a low price, while having requirements on minimum wages. Suppliers can only offer a low price by cutting their variable costs = offering cheap labour. However, that is in conflict with the CSR demands.

E) Extensive number of suppliers render transparent SCM	**Structure of the horticultural industry:** It is an integrated network constituting of, in some cases a broker=middleman, the exporter (usually a farm in itself, but supply from out-growers to add up the volume) and the small-scale farmers (out-growers). The existing 240 exporters represent the produce of 150.000 small-scale farmers. The exporters are expected to include the out-growers in the compliance system. All the interviewed exporters have technical advisors who are hired to ensure safety and quality compliance from the out-growers. The advisors function as supervisors and give guidance, training and help build the capacities of the out-growers etc.
SME's are excluded from GVCs	It is very difficult for SMEs. The company's might have a few buyers they supply to, but they are also in a risk zone of getting excluded altogether. **Lack of company capacity is the main challenge:** ▪ **Financial capacity** – SMEs cannot get loans due to a lack of collateral. In addition, the standards do not give any special treatment to SMEs – getting a standard costs the same, irrespective of company size. ▪ **Lack of infrastructure** – the needed equipment, buildings, technology ▪ **Manpower** – the needed people to implement it ▪ **Lack of know-how & RSCM awareness**
F) Codes limitations	The main concern is still food safety & quality. **The codes and standards cover:** ▪ **Welfare of the worker –** Minimum wages, leave, medical issues, labour rights, overtime, child labour ▪ **Environment –** Still very limited. However, the government is now recognizing the environmental issues (chemicals & water use) within the flower industry. Thus, the environmental agenda is growing. ▪ **Food safety & quality -** Remains the number one priority **Remaining issues in the horticultural industry:** ▪ Seasonal workers ▪ Minimum wages – poorly monitored and the laws are not enforced ▪ Working hours ▪ Child labour
Generation 3 hints	**Potential solutions:** ▪ **Unified standard and auditing –** Key words are harmonization and application. A uniform standard and auditing that is applicable to everyone should be developed in order to solve the multiplicity and the cost issues. ▪ **Local government involvement –** The government needs to get involved; *"we see the possibility of bringing the standards where they belong…which is in the governmental system, but with the inclusion of the private sector".* However, not all suppliers support this. They believe that the government should only facilitate the development of this standard, but not play an active role. Instead it should be left to the private sector. ▪ **Support and build the capacity of the government** - Support from the Danish ministry to the Kenyan government is needed. Use grants to build up the capacity of e.g. the ministry of agriculture and the departments that would be in charge of executing the audits – that would be a way to spend the funds in a

	useful manner. ▪ **Multi-stakeholder partnership –** Create a partnership between governmental agencies, the industries and the private sector from developed countries. ▪ **Financial support & capacity building of SMEs** – SMEs should be able to get loans from the banks without collateral. In addition, the cost spent on adopting standards should be adapted according to the size of the company. Buyers should also make a long-term commitment to its smaller suppliers with a focus on giving financial support and mentoring. ▪ **Make codes applicable to the local context** – this would ease some of the compliance issues. ▪ **Show the business case of CSR** – CSR needs to be seen as a business opportunity, a way to improve the company's competitiveness and to enter new markets; that will motivate more companies to engage. **Challenges:** ▪ Codes/certifications is a business in itself – the auditing companies are making a lot of money, thus convincing people of having a unified code & auditing system will be challenging.
Other relevant issues	A common view among suppliers and associations was that the standards make the Kenyan companies dependent on and getting punished by the Western world.

Summaries Bangladesh	
Data + Type of Codes they meet	Interviews conducted from the garment and textile industry. 14 interviews were conducted with associations, bigger factories, buying offices, smaller factories and one sub-supplier/subcontractor. Thus, we have covered the entire chain. Some of the more interesting interviews were; CSR Centre, Virtual Fashions, Imam Label Printing, BGMEA and Save the Children. Suppliers in Bangladesh are both met with company and industry codes. **2 main industry codes:** • WRAP – the American code • BSCI – the European code
C)'Code Mania'	All agree that it is not the codes that are the main problem, as the content are more or less the same, but the implementation part/the auditing that is an issue. Here buyers' demands differ and sometimes even contradict – they might e.g. not agree on where the fire door, emergency lights should be placed, disagreements on overtime etc. In addition, the suppliers are being audited by each buyer and/or association, thus using time and resources each time. A buyer like H&M make 2-3 audits per factory per year and that is only 1 buyer. Suppliers might have 5-10 buyers and will thus be audited approx. 10-20 times per year. An industry code might circumvent this issue, but many of the factories have both company and industry codes to live up to.

Code Compliance	
B) Impact on workers	There were different statements to this point. Some agree about the positive things, but others also state that **General positive impact:** • Child care facilities • Maternity leave • Regular Salary, paid every month • % Child Labour • Dining facilities • Hospitals • Schools • Limited overtime = workers get enough rest = positive impact on the productivity However, the positive impact has mainly been seen at larger factories and that is only 10% of the factories. In addition, CSR only reaches the workers working in the formal sector and currently 74% of the labour force in Bangladesh is working in the informal sector.
B) Monitoring resources	Buyers use their own auditors or third party auditors. The audits are mainly unannounced, but can also be announced.
D) Traditional sourcing strategies – impediments to ensuring adequate standards	All suppliers agree on dilemmas between their buyers procurement practices and CSR demands which let us to believe that they are not integrated. **Dilemmas:** • **Delivery time vs. overtime –**buyers are very focused on not having too much overtime, but still expect them to ensure the delivery time. However, an issue in Bangladesh is the power cuts, which they have 4 times a day. This has an effect on the overtime if suppliers want to meet the deadlines. • **Low prices vs. high standards –** Buyers are putting pressure on prices while having high CSR & quality expectations. These dilemmas affect the suppliers' ability to comply!
E) Extensive number of suppliers render transparent SCM	CSR demands/CoC stops at the factory level. It does not reach the entire supply chain. Some buyers expect their suppliers to check-up on their suppliers further down the chain, but it is rarely enforced. The garment industry has many networks, which includes various sub-contractors. It might thus be a big challenge for suppliers to control their sub-suppliers/sub-contractors further down the chain.
SME's are excluded from GVCs	Difficult for SMEs to manage. Approx. 60% of all SMEs cannot maintain the compliance level. According to the interviews there are many reasons for this. • **Financial aspect** - SMEs can get loans, but the loans are for survival and not for CSR. • **Lack of awareness** – SMEs do not have the know-how and expertise. The companies need to see that it is a good investment.

	Many have stated that it is not just a cost matter, but a question of having the right mindset!
F) Codes limitations	
Generation 3 hints	**Potential solutions:** • **Unified code** – If it is too challenging to agree on 1 global code some suppliers suggest that there then should be one American and one European e.g. = 1 code for every region. Bangladesh should set a minimum standard that is benchmarked to the regional codes. • **Unified auditing** – only having one audit per year would ease the time and resources currently spent by suppliers on auditing. It is the government's duty to introduce a system that would ensure accountability mechanisms and quality check. The government needs to be involved to create a sustainable system that is based on mutual understanding and agreement. • **Multi-stakeholder partnerships** – important stakeholders should be involved in the process. Associations, civil organisation and not least the buyers in order to ensure the build up of the capacity of labour inspection, suppliers (SMEs) monitoring part, etc. • **Capacity building (SMEs)** – The government should make a commitment to enhance the capacity of the suppliers. There should be more focus on how to support and give training to SMEs. • **CSR loans to SMEs** - Loans should be related to implementing CSR activities. • **Demonstrate the business case** - The business case needs to be demonstrated so the suppliers have an incentive to engage in CSR. The government needs to play the role of 'stick and carrot' and make value assessments. • **Key Success Criteria –** Transparency, ownership, mutual accountability, mutual respect! **Challenges:** • The government is currently not fulfilling its basic obligations (issues related to infrastructure, electricity, communication etc.) The big question is then how the government can take on another responsibility if it cannot ensure these basic services. Might meet potential resistance from governmental agencies that currently are earning money on the current system via corrupt inspections. **What to do:** • **Lobby the government –** The private sector is funding money to the government. There is thus a need to buy-in from the private sector and lobby and do advocacy work with the government.
Other relevant issues	