Mapping the Value Chain

a Sisyphus' task

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Many actors in the space of Responsible Business Conduct have put forward the proposition that companies need to 'map their value chains', and in so doing, require a company to identify the name, sector, and location of all its business relationships (business entities) in its upstream supply chain and its downstream distribution chain, i.e., tier 1 companies, tier 2 companies, tier 3 companies, … tier x companies. The mapping should be disclosed to enable civil society organizations and others to hold companies accountable for impacts occurring in their value chains.

Firstly, it is important to clarify that the UN Guiding Principles for Business and Human Rights (UNGPs), the globally agreed standard for responsible business conduct, do not mandate companies to map their entire value chain. Similarly, the OECD Guidelines for Multinational Enterprises on Responsible Business Conduct (OECDG) integrate uniformly the UNGPs' management system requirements and thus also do not obligate businesses to undertake value chain mapping.

Secondly, mapping the value chains carries financial risks for many entities in the value chains that need to be addressed, before such activity is considered a requirement for responsible business conduct.

Thirdly, mapping the entire value chains is an unrealistic and futile endeavor, effectively impossible to achieve while incurring significant cost.

Financial risks by mapping the value chains

Requiring companies to disclose their value chains poses a considerable financial risk to them. The company is essentially asked to reveal business secrets.

1. By disclosing the identity of the company's suppliers or distributors, the company risks:
    i. that the buyer bypasses the company and purchases goods or services directly from the company's suppliers,
    ii. that the buyer starts investing in its value chain, optimizing its profits, and making the company redundant, or
    iii. that competing companies will get access to the company's suppliers or distributors either by taking them over, because they offer superior quality or price, or by intentionally overbidding the company's engagement, to put pressure on a competitor.
2. Considering the mentioned risks, the companies that stand to gain most from a common understanding that companies must disclose the entities in their value chains are the large multinational companies, as they have the financial muscle to fully exploit scenarios such as those described in points 1. i.-iii.

Example:
GLOBAL CSR represented a mid-sized company that procured , processed and packaged its own branded nuts, which were sold primarily through large retail brands. The company had spent several years identifying the suppliers of the highest quality nuts, enabling the company to market its product as a premium brand.
Suddenly, under the pretext of responsible business conduct, several of the product's retailers began asking the company to disclose the identity of its suppliers. The company was aware that all the retail brands had strategies of developing their own branded products. Hence, they could source directly from the company's suppliers. The company had to engage in lengthy negotiations with the retailers either developing NDAs to support the disclosure or making the retailers recede on their unreasonable demands.

How to answer requests for disclosing value chain information:

1. If a buyer asks your company to disclose the identity of your suppliers and distributors, your company should refuse, referencing both the financial risks mentioned above, and the practical issues mentioned below. Considering the financial risks, the only way to comply to such request would be to negotiate a Non-Disclosure Agreement (NDA), whereby the buyer under considerable penalties commit not to misuse the information or disclose it to any other party, let alone publicly.
2. If a buyer asks your company not only to disclose the identity of your 1st tier business relationships, but your entire value chain, it is reasonable to challenge such request merely by pointing to the fact that a similar requirement must equally apply to your buyer as well.

The mission impossible

Even some of the world's largest and wealthiest companies have not managed to fully map their value chains.

A decade ago, Ed Potter, then responsible for Coca-Cola's responsible business practices, remarked on this challenge. When asked about the company's efforts to map its value chain, he said, "It will be my great-great-grandchildren who see the day we complete our full mapping."

Large complex global operations with even more complex value chains make mapping of the full value chain virtually impossible. In addition, value chains are constantly changing as companies shift locations, cease operations, merge, and form new companies.

Expecting that businesses map their full value chains would force them to establish rigorous and expensive processes, notwithstanding the financial risks highlighted above. Companies may find that their budgets for responsible business conduct and sustainability are fully consumed by such activities.

Even if a company successfully mapped its entire value chains, the map would not indicate where unmanaged impacts are located. Identifying these impacts would require significant additional resources and engagement. Without proper management, such efforts may well be perceived by business relationships as intrusive, mistrustful, or overly controlling.

Unfortunately, early approaches – pre-UNGPs – to responsible supply chain management were based on the fundamentally flawed assumption that impacts primarily occur 'out there' in the value chain This perspective made due diligence prone to prejudices and biases towards companies from certain countries or in specific sectors, and diverting attention away from identifying and managing risks within a company's own operations.

Mapping the value chain is often cited as necessary for the company to identify 'risks' of adverse impacts in the value chain. However, dealing with the responsibility in business relationships becomes impossible if companies set out to engage on all risks of adverse impacts; it is hard to imagine a company that is not at risks of causing or contributing to adverse impacts on at least 15 human rights.

Consequently, a pragmatic approach would limit companies to engage on risks of *severe* impacts only when addressing their responsibility in business relationships. However, even such an expectation would be an overreach. From GLOBAL CSR's experience conducting more than a hundred impact assessments against all three bottom lines, primarily in the EU, it has become evident that no company should conclude that it is not at risk of causing or contributing to severe (material) impacts. This finding is consistently supported by the companies already reporting under the EU Corporate Sustainability Reporting Directive (CSRD). All companies report that they are at risk of causing or contributing to material impacts on one or more key areas of sustainability. The areas are referred to as "topics" by the European Sustainability Reporting Standards (ESRS) under the CSRD.

It is fair to assume that each entity in a company's value chains has potential severe (material) impacts on one or more key areas of sustainability. As such, it would become a daunting task for any company to identify potential severe impacts on the key areas of sustainability[1] in its value chains. Similarly, it would be impossible for a company to meaningfully prioritize between the countless risks of (i.e., potential) severe impacts in the company's value chains, while ensuring fair and equal treatment of all entities in the value chains.

Hence, companies cannot be expected to manage or report on risks or *potential* impacts in their upstream and downstream value chains. Instead, the only logical and pragmatic expectation from companies to engage beyond their own operations would be limited specifically to the use of leverage when connected to *actual* severe (material) adverse impacts. From a reporting perspective, companies should report on any *actual* severe (material) impacts that the company identifies in their value chains during the relevant accounting period.

What is the alternative for mapping the value chain

If an actual severe adverse human rights impact is *directly linked to* the company's own operations, then the enterprise must determine the appropriate action to address such situation. To determine the appropriate action, the enterprise must consider its **leverage** over the entity concerned, how crucial the **relationship** is to the enterprise, the **severity** of the abuse, and whether **terminating** the relationship with the entity itself would have adverse human rights consequences.

The steps for managing actual severe adverse impacts in the value chain are:

1. If the company has leverage, it must make the causing entity cease the impact and prevent or mitigate their recurrence or any other impacts, i.e., implement the Standard.

[1] The key areas of sustainability are spelled out in the GLOBAL CSR "Primer on the International Minimum Standard for Responsible Business Conduct": https://globalcsr.net/wpcontent/uploads/2024/10/24_GLOBAL_CSR_PRIMER_Minimum_Standard_2910.pdf

2. If the company finds that it has no leverage, and is unable to increase its leverage, then it must consider ending the relationship.
3. If the business relationship is **crucial** for the company and there are no reasonable alternatives, then it should consider addressing the adverse impact directly. Meanwhile, the enterprise should demonstrate ongoing efforts to mitigate the impact and be prepared to accept any reputational, financial or legal **consequences**.

This increase in transparency through the communication of the results of regular impact assessments by all entities in the value chains allows for the proper identification of risks of impacts and the effective management of such impacts. The impossible task of mapping the value chain would be unnecessary.

In other words, if all entities would implement the management system designed by the Standard, conduct their due diligence by assessing risks of impacts in own operations and ask their business relationships to do the same, while being transparent about their results, then the cascade of entities adopting the Standard would effectively make the imperative to map the value chains redundant.