



Supply Chain Standards and SRI

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Supply Chains and CSR—The Business Case

“Great companies take care to align the interests of all the firms in their supply chain with their own. That’s critical, because every firm—be it a supplier, an assembler, a distributor, or a retailer—tries to maximize only its own interests.”

Hau I. Lee,
Harvard Business Review

Supply Chains and CSR—The Investment Case

‘The aim of SRI is to invest in companies which are dealing with their environmental and social issues linked to their business activities in a responsible way. Not only as a matter of principle, but also to reduce investment risks, socially responsible investors can hardly ignore the “flight to China.”’

**Bank Sarasin, ASrIA,
“Made in China” Is this a Sustainable Label?**

Supply Chain Realities

- How healthy is a supply chain where...
 - The workers are consistently paid less than the legal minimum wage
 - Training is limited and the workplace is unsafe
 - Workers do not trust management
 - There are no mechanisms for dispute resolution
 - Labor turnover averages close to 5% a month
 - Regulatory standards are rising, but in an unpredictable fashion

- ▶▶ **Financial impact:** *higher labor costs, lower quality products, less agility*

- ▶▶ **Strategic impact:** *strategy execution deteriorates, time-to-market rises, core competencies decline*

The Outsourcing Dilemma—China's Labor Market

- Cost minimization or global value chain?
- China's labor market conditions are changing
 - Knowledge of legal rights is rising
 - Workers have more options and higher expectations
- HR practices have been slow to catch up leading to structural problems
 - Worker loyalty is very low
 - Shortage of skilled workers
- ▶ ***Low productivity is the norm, especially in factories with excessive overtime***

CSR—SRI: Driving Change in Asian Markets

- Establishing clearer standards of global best practice
- Opening up new areas of debate about disclosure and country-level versus global norms
- Bringing investors into a more active dialogue with companies, regulators, policymakers, and the accounting profession
- Preparing markets for a broader shareholder base and long-term investing

US\$3 trillion is invested globally following SRI principles

How SRI Investors Assess Supply Chain Risks

- Traditional SRI investors focus on labor and human rights issues
- **Screened funds** will exclude companies with inadequate practices
 - ▶ Key tools: codes of conduct, international labor standards, auditing, industry standards
- **Best of breed funds** will reward companies with best practices
- They want to make sure that companies have sound practices for assessing suppliers and rewarding those who invest in continuous improvement
 - ▶ Key tools: regular supplier reviews, joint training, volume orders

New FTSE4Good Supply Chain Labor Standards

- From July 2005, high risk companies in labor-intensive sectors will be asked to demonstrate policies and systems covering:
 - Equality/discrimination
 - Forced labor
 - Child labor
 - Worker representation
- From 2006, the standard will include:
 - Health and safety
 - Supply chain labor standards
 - Mechanisms including auditing, training, and management accountability
- From 2007, public reporting on policies and systems

Supply Chain Standards—A Survey

Environmental and social supplier management in the sample companies

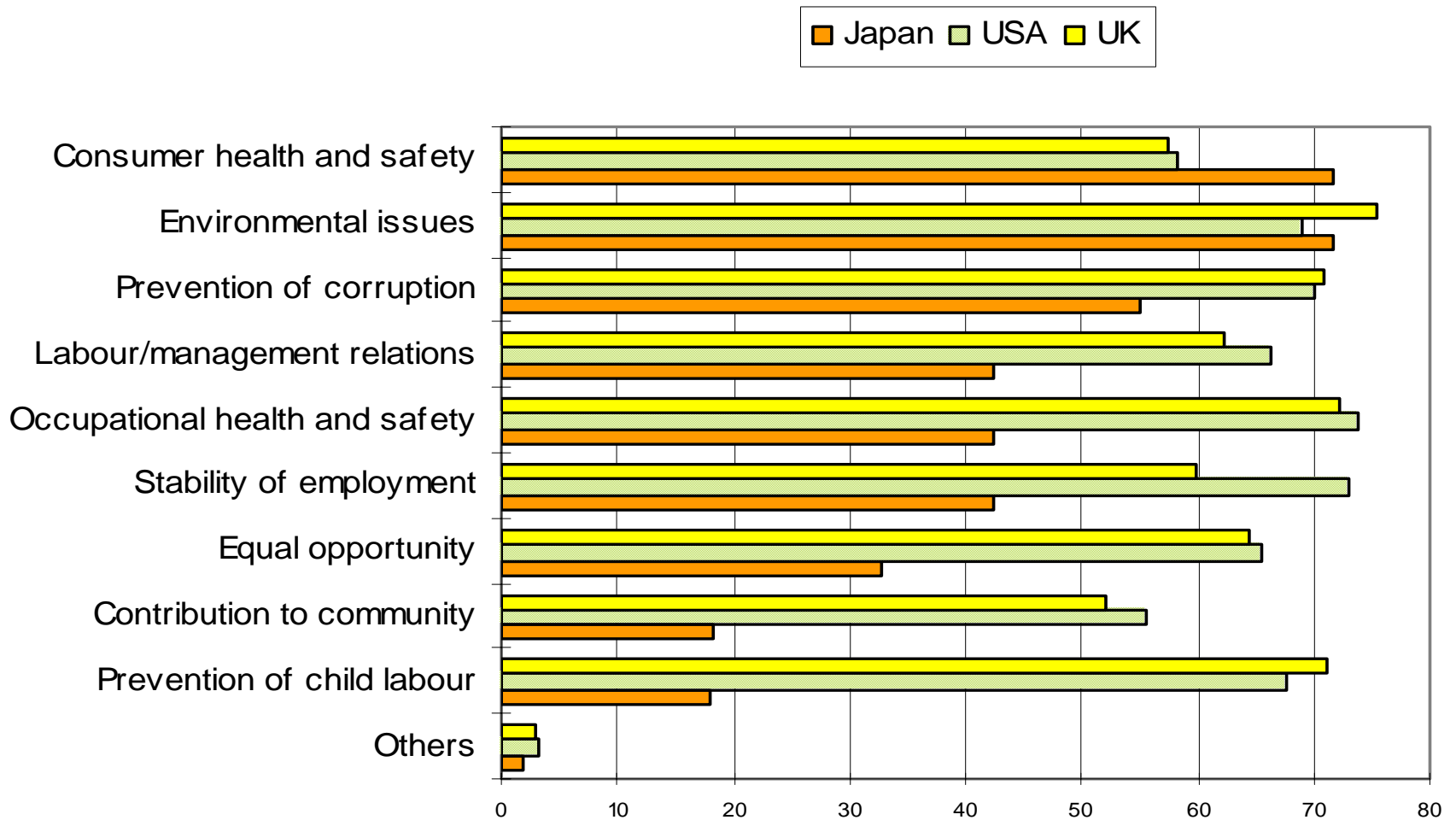
Company	Ethical Supplier Code		Implementation	
	Environmental	Social	Environmental	Social
Retailers:				
B&Q (Kingfisher)	Yes	Yes	Supplier assessments, audits, Promotion of environmentally friendly products	Supplier assessments, audits Cooperative programs
J Sainsbury	Yes	Yes	Supplier self-assessments Promotion of sustainable farming and timber	Supplier assessments, audits, Joint projects
Marks & Spencer	Yes	Yes	Promotion of sustainable food	Supplier assessments, audits, Cooperative programs, Joint projects
Outsourcing Consumer Goods and Electronics Companies:				
Adidas	Yes	Yes	Supplier assessments, audits Supplier training	Supplier assessments, audits, Cooperative programs (worker dialogue), Joint initiatives
HP	Yes	Yes	Supplier assessments	Supplier assessments
IBM	Yes	Yes	Supplier assessments	Supplier assessments
Manufacturing Companies:				
Canon	Yes	No	Supplier assessments	Part of supplier assessments (not formalised)
Geberit	No	No	Part of supplier assessments (not formalised)	Part of supplier assessments (not formalised)
Kyocera	Yes	No	Supplier assessments, audits	(not formalised)
Ricoh	Yes	No	Supplier assessments, audits	(not formalised)
Sulzer	Partially (under development)	Partially (under development)	Planned	Planned

Challenges for Companies and Investors

- Formal versus informal auditing and review mechanisms
- How do we address the gap between local laws and market practices
- Bribery and corruption—not a sustainable practice
- What is the correct role for government and industry groups? Lowest common denominator or useful starting point?

Do Customers and Investors Care?

**Comparison of Individual Investors' Interests -
Japanese Ministry of the Environment Survey 2003**



ASrIA

- A focus for investment and financial community activity
 - *A member-backed not-for-profit*
- Research on issues
 - *SRI country reports*
 - *Labor standards in China*
 - *How Japanese investors are defining SRI issues*
 - *Pensions in Asia*
- Resources for fund managers and policymakers @ www.asria.org