

Sustainable business

How can the private sector drive change towards a sustainable global economy?



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By **Jonathan Ivelaw-Chapman**, CEO, Sedex

We live in a shifting landscape, a fast-paced and uncertain globalised economy, in which the challenges of sustaining a successful business are vast. Increasingly, being a sustainable business is no longer confined to meeting

expectations around profit growth and shareholder value. The private sector, as an engine of economic growth, plays a key role in driving sustainable development. Challenges like climate change, resource scarcity and responsible sourcing are changing the systems within which business – and their supply chains – operates.

How companies respond to these complex sustainability challenges – some of which have the potential to threaten a company's licence to operate – is becoming increasingly vital as customers, shareholders and other stakeholders continue to pay closer attention. 2015 has been recognised as a critical year for sustainability: on three occasions world leaders attended major conferences to discuss issues such as climate change, biodiversity, human rights and development issues. Now that agreements have been made, how can the private sector drive sustainable development forward and which other actors are instrumental in this change?

Government has a role in setting economic, social and environmental policy for businesses. Companies can drive change through their own actions, but also by encouraging governments to follow the private sector's lead and adopt laws to provide the right framework for businesses to forge progress.

To support the private sector, the public sector can also offer strategic opportunities for goal-setting and collaboration. According to the UN Global Compact – a voluntary initiative based on CEO commitments to support UN goals – the Sustainable Development Goals are a great example of providing an opportunity for the private sector to frame long-term goals and partnerships that will make an important contribution towards achieving sustainable development for all. This is applicable to any department of a company's operations and within its supply chain.

Addressing issues within supply chains can help the private sector drive sustainable development, but the lack of visibility and direct influence over suppliers further down the chain can lead to distinct problems for companies. Indeed, a Sedex briefing highlighted that the deeper down the supply chain you go, the more risks there are.¹ Getting to these lower tiers can help uncover hidden challenges and opportunities, both for buyers and



◀ **Conflict minerals:** artisan miners working at the Ndassima gold mine in Central African Republic, which was overrun by Seleka rebels in 2014. Proceeds from the mining continue to fuel the brutal civil war

suppliers in those tiers. The level of ‘risk’ – demonstrated through the number of non-compliances found at audit – increases the further down the tiers. The sample used in the briefing found that tier two has 18 per cent more non-compliances per audit than tier one (Figure 1). On average, tier three has 27 per cent more non-compliances per audit than tier one. The research also shows that the criticality of issues is higher in the deeper tiers of the supply chain.

It is only when businesses are aware of the most vulnerable areas of their supply chain that progress towards sustainable development can be made. That is why Sedex – the largest platform that is tackling the problem at its roots – was set up in 2004. Sedex provides a collaborative platform where companies can securely share their responsible-sourcing data with their customers, helping to identify the different parts of their supply chains where risks are most likely to occur and where improvements can be made.

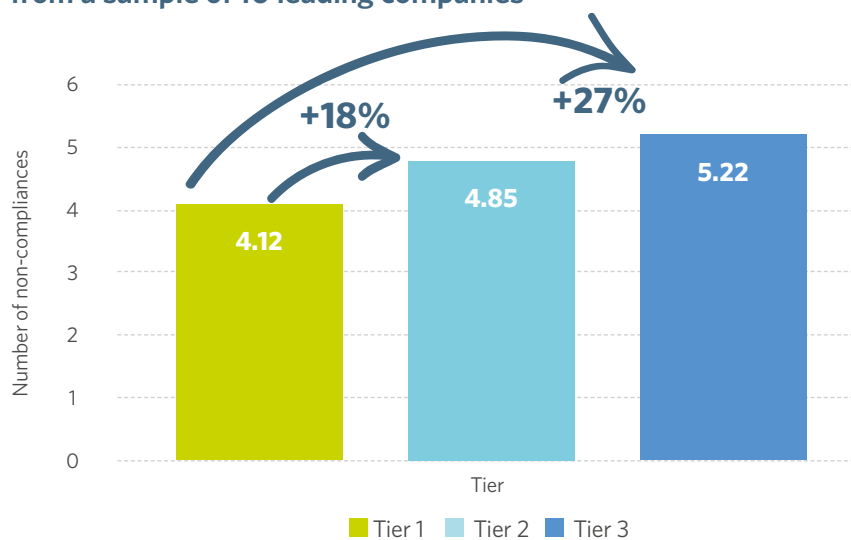
Tackling industry-wide issues collectively can accelerate the pace of change in a cost-effective way and collaborative industry platforms are becoming increasingly popular. In addition to Sedex, other organisations like AIM-PROGRESS and agreements such as the Bangladesh Accord have also helped and encouraged businesses to share information with each other through different formats.

This can be at a pre-competitive level, as with AIM-PROGRESS – a forum of leading fast-moving consumer goods manufacturers assembled to enable and promote responsible sourcing practices and sustainable supply chains. By collaborating, participants can maximise their impact, sending a strong message on the benefits of many players working together and providing additional leverage that smaller purchasing companies might not possess on their own. Throughout these partnerships, transparency is critical.

Raising standards

Labels and certifications are additional elements that can contribute to raising standards by helping to provide information on the relationship between producers and consumers. For instance, Fairtrade ensures that the producer-consumer relationship is

Figure 1: Average number of non-compliances per audit per tier from a sample of 10 leading companies*



*The sample analysed 10 companies with a combined total of 3,992 supplier relationships and 6,775 audits

Source: Sedex Transparency Briefing 2013

based on honesty and respect, by asserting the rights of all to enjoy decent living and working standards. By supplying products on the market with the Fairtrade label, corporates can raise the standards of their offering while consumers have the option of making an educated purchasing choice. Rainforest Alliance also provides certification through icons, signalling the relationship corporates have with the organisation. The ‘Rainforest Alliance Certified’ seal enables consumers to both choose products and support environmental, social and economic sustainability. The wider range of products available on the market provides incentives for companies to raise the bar within their industry.

Campaigning organisations also contribute to raising awareness on standards within supply chains and boosting sustainable development. An example is the Greenpeace ‘Detox’ campaign that focuses on hazardous chemicals that have entered our daily lives through various products. After events like the recent explosions at the chemical factories in Tianjin and Shandong province in China, NGOs like Greenpeace continue to monitor the situation, publicise

wrongdoings to avoid similar tragedies from happening again, and push politicians to change how the hazardous chemicals industry is regulated. The underlying goal is to encourage companies to evolve their strategy and operations towards having a more positive impact on the environment and communities in which they operate.

Companies that do not pay attention to their sourcing practices leave themselves open to multiple risks, including human costs, environmental degradation and the less tragic issue of losing customers as a result of reputational damage. Public opinion surveys have revealed the growing influence of personal values in purchase behaviour. Product origins are now in the spotlight. With the rise of ethical consumerism, more customers have started to pay greater attention to where brands stand on sustainability issues.

Previously, there has not been a mainstream outlet for these voices to be heard. Now, social media is changing the game, raising awareness and fuelling activism about unacceptable corporate behaviour. According to the Huffington Post, in the aftermath of the 2013 Rana Plaza disaster



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▲ An explosion at a chemical plant in eastern China's Shandong province in July 2015. NGOs like Greenpeace play an important role in raising public awareness about the production and use of hazardous chemicals and campaign for tighter safety regulations

in Dhaka, Bangladesh, there was a wave of consumer outcry via campaigns like the 10cents Pledge, or the online petition urging retailers such as H&M to sign a safety accord, which received more than 900,000 signatures. Consumers now have the ability to harness passions and move them forward, towards concrete sustainable change. This impacts consumers' purchasing behaviour and demonstrates how companies can be held to account for events deep down their supply chains.

This especially applies to millennials. A Boston Consulting Group Perspectives study highlights that this younger generation of consumers views brands as extensions of its own values and status and is more responsive to sustainability actions.² To win its loyalty, companies must do more than deliver high-quality products. According to the study, through their actions, storytelling and endorsements, companies should express the

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traits and affiliations that millennials wish to project about themselves. There is therefore an opportunity for companies to capitalise on this growing consumer interest for the good of planet and profits.

A great example is from retailer Marks & Spencer. The company's Plan A programme outlines 100 sustainability commitments to both save the Earth's limited resources and achieve performance improvements across all of the company's operations – from stores, offices and warehouses to factories, farms and raw material sources – in their supply chain. Not only has Plan A led to an increase in sales for the company, it has also enabled M&S to go beyond consumers' expectations, and therefore positively enhance its reputation.

As the main driver behind our global economy, the private sector is hugely

important in addressing sustainability-related challenges. However, getting the regulatory framework right is a crucial factor in realising the potential of the private sector as a catalyst for sustainable development. Companies can indeed lead the way in sustainable development – by increasing supply chain transparency and efficiency through all supplier tiers and business sectors – but must work in close partnership with governments and other actors to move forward effectively. Interconnectivity and collaboration are key. ●

1 www.sedexglobal.com/wp-content/uploads/2011/06/Sedex-Transparency-Briefing-Nov-2013.pdf

2 See: www.bcgperspectives.com/content/articles/marketing_center_consumer_customer_insight_how_millennials_changing_marketing_forever/?chapter=3