In the Pursuit of Building the Foundation for Sustainability

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1 Introduction

A company (also called, Corporation, Organization, business, firm in this paper) needs to go beyond mere existence, survival and growth to perpetuate. It is this concept of perpetuation or going concern, that has often made me think. How is this possible?

A Corporation is a social entity. It has its existence in time and space; it has its upwards and downwards dynamics that binds it together to form a whole that should be able to survive and perpetuate in a very competitive environment. Therefore, if we talk about the focal Company alone, the discussion will be incomplete. If a Company complies to sustainability norms, it is wonderful; but if the company's supply chain flouts the sustainability norms and the company uses its products and services, is it still okay? Will there not be a lacuna then in their 'responsibility' to the society or in its issue of perpetuity?

2 Objectives

This paper, therefore seeks to delve deeper into:

1. The dynamics of sustainability in its upward integration, that is, the supply chain,
2. Point out its relevance, and
3. Ways and means of management;
   with references and examples drawn from the Indian context.

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Now, the question is: what comprises of the supply chain? Christopher (2012) defines supply chain as "*the network of organisations that are involved through upstream and downstream linkages, in the different processes and activities that produce value in the form of products and services in the hands of the ultimate consumer.*"

Thus, supply chain comprises of a whole ecosystem from the minutest supplier to the final customer and, any non-compliance or irresponsibility in this milieu will ultimately affect the focal company's sustainability, at the end. This supply chain, therefore, needs to be managed to ensure responsible governance, traceability and hence, accountability.

Supply chain Management, as defined by the **Association for Operations Management (APICS)** is "*the design, planning, execution, control and monitoring of supply chain activities with the objectives of creating net value, building a competitive infrastructure, leveraging worldwide logistics, synchronizing supply with demand, and measuring performance globally*" (Wisner et al. 2011).

3   Conceptual Framework

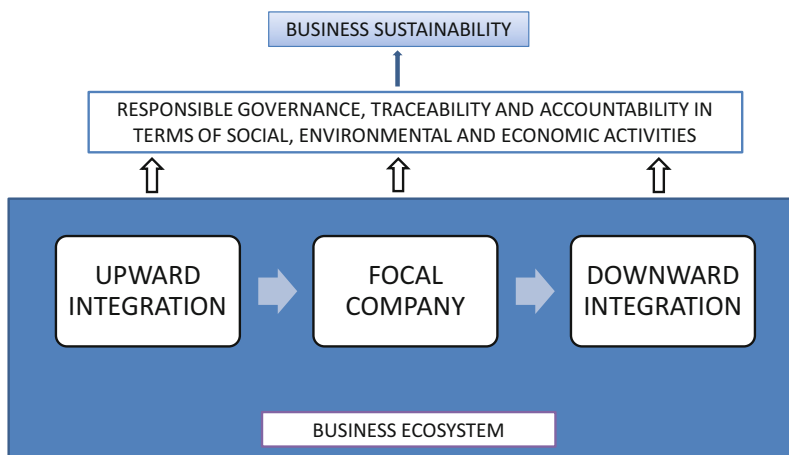The conceptual framework of this paper is as follows (refer Exhibit 1):

Exhibit 1   The foundation for business sustainability

4   Literature Review

Modern supply chains, in this age of globalisation and dynamic trade practices, are, in many cases, multi-tiered networks that involves various types of suppliers across various demographical, socio-political and geographic spread (Giblin 2013).

Therefore, in order to have an equilibrium between the focal company and its business ecosystem, there needs to be a uniformity in some of their key corporate policies and interactions that bind them together in linearity.

Here comes the debate, where, academicians and particularly practitioners have often questioned the scopes, limitations and extent of the focal companies' role in ordering its suppliers and even their suppliers, to comply (Gilmore 2015).

Let us critically analyse and discuss the various sustainability concerns faced by the modern corporations.

4.1   Social Concerns

Vogel (2005) have noted that while prominently featuring information about their codes of conduct, some companies often ignore reporting the extent of compliance with them; while some others describe their own practices, but ignore those of their supply chain. Let us follow some of the Indian examples given below (Refer Table 1).

Given the above examples, in Table 1, who suffers? If the supply chain does not adhere to sustainable practices, is it not the focal company, whose brand is at stake? Is it not, always the company's long-term sustainability that comes under question?

Infact, **Anand Mahindra (2010)**, *the Vice Chairman and Managing Director, Mahindra and Mahindra Limited,* an Indian industrial group *feels*, "The purchasing power of a corporation can become a unique driver for bringing about positive change in society. Companies must use this power to achieve a purpose and make their supply chain a vehicle for inclusive growth" (UNGC, 2010). The Company initiated a programme to enable knowledge and best practice sharing with suppliers in order to address environmental, health and safety impacts throughout the company's supply chain (UNGC 2010).

4.2   Environmental Concerns

Among environmental concerns, the second panacea of sustainability, climate change is one of the major global concerns. Most climate scientists agree the main cause of the current global warming trend is human expansion of the "greenhouse effect," (GHG) caused by a build-up of greenhouse gases, primarily carbon dioxide,

Table 1 Lack of supply chain sustainability in social concern issues—Indian examples

Year	Company	Issue	Steps taken	Outcome
June, 2008 (Daily Mail Reporter 2008)	**Primark**, UK and Ireland's budget chain known for its low-cost, high fashion clothing range supply chain	– Children as young as 11 were working in squalid conditions, sewing tiny beads and sequins onto cheap t-shirts by candle-light in the store's Indian sweatshops at a maximum daily wage of INR 40 (much less than one US $ per day) (revealed through an undercover investigation done by the BBC Pano-rama team for 6 months)	The Company claimed shock and discontinued with three suppliers in India for passing work to unapproved sub-contractors using child labour	– Bad publicity, plunging profit, came to be known as the 'sweat-shop brand'
2007 (McDougall 2007)	**GAP**, the interna-tional garments and accessories chain	– Children working in filthy conditions in the Shahpur Jat area of Delhi, India (discovered by The British newspaper, The Observer)	The company pledged to convene a meeting of its Indian sup-pliers as well as withdrawing tens of thousands of the embroidered girl's blouses from the market, before they reach the stores	– Bad public-ity, financial and non-financial loss to Company

methane, and nitrous oxide that traps heat in the atmosphere, radiating from Earth toward space (Global Climate Change 2015).

The **2014 report from the Carbon Disclosure Project (CDP)**, an independent global system for companies to measure, disclose, manage and share climate change and water information, which tracks the GHG emissions and the carbon footprint of not only their own manufacturing activities, but also their transporta-tion, distribution and procurement activities, and monitors the related activities of their extended supply chains (Blanchard 2012), has, for the first time, put five Indian companies, namely **Wipro, Essar Oil, Tech Mahindra, Larsen and Toubro and Tata Consultancy Services** on its Global A-list (Clough 2015).

This is indeed a great news. The consciousness has begun.

Our collective greenhouse gas emissions will dictate whether or not we risk tipping the world towards dangerous climate change, that will change our dynamics of business, among a lot many other things (Supply Chain Report 2015). Thus, the

foundation of the business, in terms of its supply chain, needs to be strong with respect to their own sustainability issues to make the focal company stronger and sustainable.

4.3 Economic Concerns

The third panacea of sustainability, profit, found eminence in the supply chain, post 2010, by the increased attention of the management from competition between firms to competition between supply chains (Anderson and Skjoett-Larse 2009). Thus, the challenge is to '**effectively integrate the principles of sustainable supply chain practices into the existing supply chain programmes and operations**' of the focal company and also to '**ensure that sustainability considerations are embedded within all their sourcing processes**' (UNGC 2014).

The truth here is: value (and cost) is not just the culmination of the focal firm in a network, but also of all the different cross-connecting entities present in its ecosystem; and this 'extended enterprise', as some have termed it, then, becomes a key factor of (gaining or losing) competitive advantage (Christopher 2012).

ITC Limited, an Indian multi-business conglomerate, recognizes the importance of extending its Triple Bottom Line (people, planet, profit) approach along its supply chain to ensure long-term competitiveness by adopting a balanced approach towards creation of social and environmental value and the economic viability of the businesses (ITC Limited 2012).

5 Managing the Foundation for Sustainability

Thus comes the concept of sustainable supply chain, as defined by Carter and Rogers (2008) as "*the strategic achievement and integration of an organisations' social, environmental and economic goals through the systematic coordination of key inter-organizational business processes to improve the long-term economic performance of the individual company and its value network*." In this definition, one talks about two critical aspects: (a) strategic achievement; and (b) improvement of the long-term economic performance of the individual company and its value network. Or, in other words, to employ strategic thinking for long-term profit of the focal company and its value network, comprising of a larger number of firms with a more complex set of relationships between them, and agreements on a greater number of interface standards (Funk 2009).

Thus, ensuring sustainability in the supply chain, in this time of globalisation, where, it may be spread across multiple countries, different segments of buying agents, suppliers and subcontractors may be challenging. A company of **Wal Mart's** stature easily has 50,000–1,00,000 suppliers, spread all over the world, including India. According to the **Supply Chain Digest**, this retail giant stocks

products made in more than 70 countries and at any given time, operates more than 11,000 stores in 27 countries around the world, and manages an average of 32 billion dollars in inventory (Lu 2014).

Moreover, as Vogel (2005) observed, the gap between the company and the industry codes and actual working conditions often remain large. This can be accounted to ineffective monitoring, independently unverifiable results and uneven compliance and violations (Vogel 2005); especially in a multi-tier supply chain. Therefore, monitoring and accountability needs to be done in an hierarchical process, one tier at a time till all the tiers are reached. Most often than not, majority of environmental, social and governance (ESG) risks lie deeper down the supply chain (Giblin 2013), resting with the grass root level suppliers, comprising mainly of the Micro, Small and Medium Enterprises (MSMEs).

In India, these MSMEs play a vital role for the growth of Indian economy. The annual report of MSME 2012–2013, has confirmed that the 44.7 million MSME enterprise with a total employment of over 100 million and more than 6000 quality products account for a large share of industrial units; as well as 43% of India's total exports in 2011–2012 (Ministry of Finance 2013). They act as the major link in the supply chain to corporate and the Public Sector Undertaking (PSUs) and significant contributors to (Ramesh 2013) large multinational enterprises (MNEs). By committing to engage in recognized traceability schemes, MSMEs can therefore demonstrate to customers their commitment to sustainability, and contribute to the achievement of MNEs, that increasingly demand more stringent sustainability requirements, and are looking for suppliers who can help them achieve these goals (UNGC 2014).

Therefore, sustainability is no longer the individual company's domain; and, as Anderson and Skjoett-Larse (2009) has noted, multinational companies are not only expected to behave socially responsible within their own juridical walls; they are also held responsible for environmental and labour practices of their global trading partners such as suppliers, third party logistics provider, and intermediaries over which they have no ownership, thereby impacting the world at large.

Thus, all companies, at different points, fall within the various tiers of the supply chain requirement. The large companies usually have the onus of managing large supply chains on one hand as well as comply as a supply chain to other companies; whereas Micro, Small and Medium Enterprises (MSMEs) also have the onus of complying as the supply chain of larger organisations (Indian and Multi National Enterprises), as well as act responsibly and manage its own suppliers (refer Exhibit 2). It is thereby, a multi-pronged/multi-tiered process.

To develop various efforts to make MSMEs more socially responsible by awareness raising and technological capability building, several attempts have been made by the government, the **Federation of Small and Medium Enterprises (FISME), World Assembly of Small and Medium Enterprises (WASME) and associations of importers in developed countries**, like the SUSBIZ India Project, initiated in 2007 by the Danish Federation of Small and Medium Sized Enterprises (DFSME) together with the Danish Commerce and Companies Agency (DCCA), that involved collaboration between eight Indian suppliers and their eight Danish
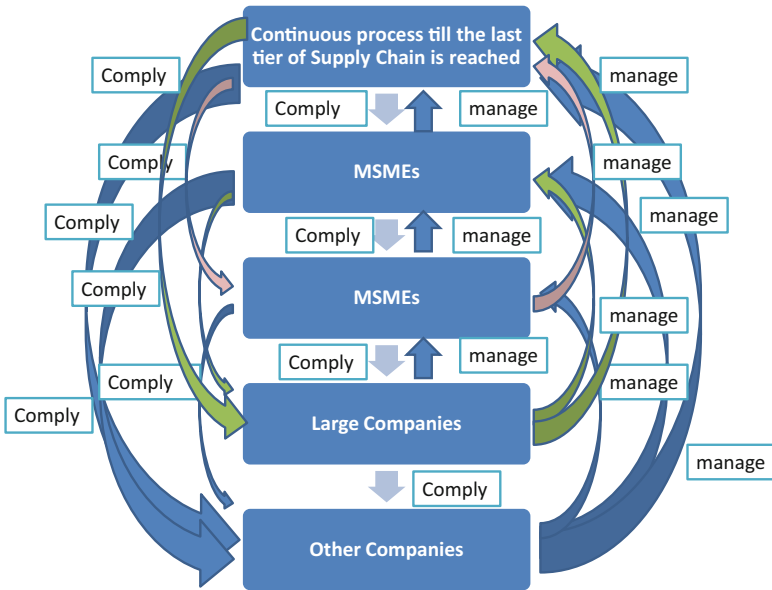
Exhibit 2 Dynamics of sustainable supply chain management

buyers (Sundar 2013). However, unless these compliances are percolated and adopted among the entire MSME sector, there will always be lacuna in the supply chain management and even the largest of the corporation will not be sustainable.

The **Indian government, in its National Voluntary Guidelines** on Social, Environmental and Economic Responsibilities of Business issued by the Ministry of Corporate Affairs, first in 2009 and updated in July 2011, realized that promotion of responsible business among the SMEs will need a multi-pronged approach, that includes "*facilitating SMEs to recognize the business case for adopting responsible business practices*" and "*preference by public agencies and large players in value chains to SME suppliers that follow CSR practices.*" (Sundar 2013).

In order to do this, the foremost requirement of the focal company is to be able to trace its supply chain till its last piece. It is extremely challenging, but not impossible. Let us take the example of Marico industries.

Saugata Gupta, the Chief Executive Officer (CEO) of the fast moving consumer goods (FMCG) major, Marico Industries, feels "*Supply chain is also a critical driver of efficiency in today's complex business environment, given the existing cost structures and challenges*" (Naren, 2013). Marico, the largest buyer of copra in India with a demand of about 100,000 tonnes a year, with the help of technology platforms could dis-intermediate its copra supply chain, in 2013, from the exploitative structures and agents, after a struggle for over two decades and trace it to the smallest possible vendor—a marginal farmer with a few coconut palms in his backyard from amongst 61 clusters involving 7982 farmers covering 1737 hectares

for its popular range of Parachute coconut oils. This, indeed, is a very big successful transparency model (Naren 2013).

In view of the necessity of such deep rooted intervention in supply chain management and compliance, an entire cottage industry of auditors and consultants have emerged to advise manufacturers on the numerous regulatory efforts in place or on the horizon (Blanchard 2012).

The **United Nations Global Compact (UNGC)** also encourages participants to engage with suppliers around the ten principles (refer Table 2) and to advance

Table 2 The ten principles of the united nations global compact and supply chain sustainability

Human rights	
Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and	Companies have a responsibility to respect human rights. The baseline responsibility is not to infringe on the rights of others. In addition, business can take steps to support and promote the realization of human rights, and there are good business reasons to do so
Principle 2: Make sure that they are not complicit in human rights abuses	
Labour	
Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining	Labour conditions in offices, in factories, on farms and at natural resource extraction sites such as mines, particularly in the developing world, often fall significantly below international standards and national regulatory requirements and can lead to serious human rights abuses. Businesses should strive to uphold international labour standards within their supply chains, including the right to freely chose employment, the freedom of children from labour, freedom from discrimination and the freedom of association and collective bargaining
Principle 4: The elimination of all forms of forced and compulsory labour	
Principle 5: The effective abolition of child labour; and	
Principle 6: The elimination of discrimination in respect of employment and occupation	
	In addition, workers at times suffer from other labour rights abuses, including excessive work hours, degrading treatment by employers and inhibited movement. In order to avoid complicity in abuses, businesses should seek to ensure that they do not cause the rights of workers and others affected by their supply chain to be infringed upon, including the right to freedom of movement, freedom from inhumane treatment, the right to equal pay for equal work and the right to rest and leisure. The rights of all peoples to work in safe and healthy working conditions are critically important as well
	Companies can also begin to address human rights (including and beyond labour conditions) alone or by working with partners to promote a broad range of human rights such as gender equality and access to education and health

Table 2 (continued)

Environment	
Principle 7: Businesses should support a precautionary approach to environmental challenges	Environmental impacts from supply chains are often severe, particularly where environmental regulations are lax, price pressures are significant and natural resources are (or are perceived to be) abundant. These impacts can include toxic waste, water pollution, loss of biodiversity, deforestation, long term damage to ecosystems, hazardous air emissions as well as high greenhouse gas emissions and energy use. Companies should engage with suppliers to improve environmental impacts, by applying the precautionary approach, promoting greater environmental responsibility and the usage of clean technologies
Principle 8: Undertake initiatives to promote greater environmental responsibility; and	
Principle 9: Encourage the development and diffusion of environmentally friendly technologies	
Anti-Corruption	
Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery	The significant corruption risks in the supply chain include procurement fraud and suppliers who engage in corrupt practices involving governments. The direct costs of this corruption are considerable, including product quality, but are often dwarfed by indirect costs related to management time and resources spent dealing with issues such as legal liability and damage to a company's reputation. Companies that engage with their supply chains through meaningful anti-corruption programmes can improve product quality, reduce fraud and related costs, enhance their reputations for honest business conduct, improve the environment for business and create a more sustainable platform for future growth

Source: http://www.bsr.org/reports/BSR_UNGC_SupplyChainReport.pdf

sustainable development objectives as part of their commitment to the Global Compact, and thereby to spread good corporate citizenship practices throughout the global business community (UNGC 2010).

6   Conclusion

Awareness on supply chain sustainability in the context of the developing/emerging countries like India, is still in the nascent state. It is a 'pull' and 'push' process, between the corporations and the Government, where each one thinks, it is the duty and responsibility of the other to make the rules and monitor the compliance. The debate is inconclusive. In reality, unless the sustainability norms are complied, in

all its tiers of upward integration, that is the supply chain, the focal Company remains weak at its foundation and will have a tendency to collapse anytime like a 'house of cards.' This issue of supply chain sustainability needs to be looked into, as an investment rather than an expenditure by the corporation.

Kris Gopalakrishnan, *CEO and Co-Founder of Infosys,* an Indian multinational corporation, thus pointed out that "We live in an increasingly resource aware and resource constrained world. We need to live within our means and not borrow from the future. To build a sustainable tomorrow we need to make our supply chain sustainable today. In fact, I firmly believe that increased sustainability in the supply chain reduces risks and increases profits for all organizations and stakeholders" (UNGC 2010).

However, discussion on who makes the rules—the Government or the Corporations, or, maybe a multilateral agency like the United Nations to take care of the complex issues of supply chain sustainability, spread over different countries, cultures, local laws, could be the content of a separate study.

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