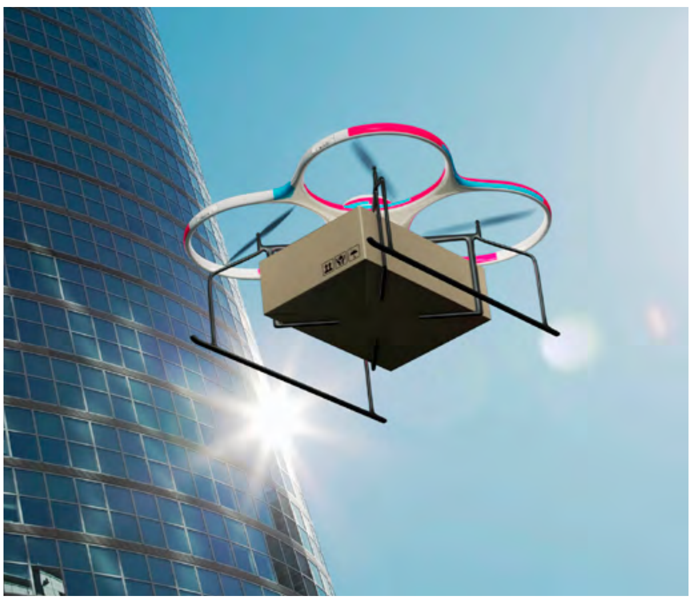

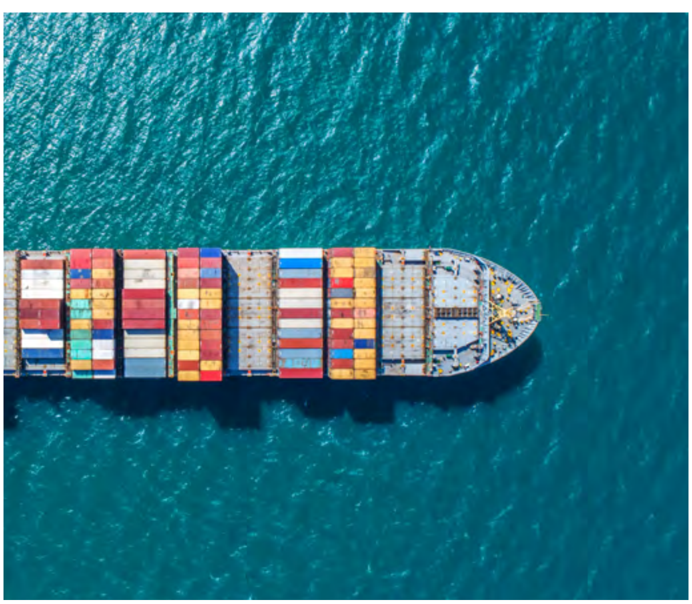

EVENT SUMMARY

RESPONSIBLE SUPPLY CHAINS: BUILDING POSITIVE IMPACT IN A CHANGING WORLD

EXECUTIVE CONFERENCE

DECEMBER 13, 2018

STANFORD GRADUATE SCHOOL OF BUSINESS | Value Chain Innovation Initiative

STANFORD GRADUATE SCHOOL OF BUSINESS | Center for Social Innovation

Event Highlights

On December 13, 2018, the Value Chain Innovation Initiative and the Center for Social Innovation at Stanford Graduate School of Business co-hosted “Responsible Supply Chains: Building Positive Impact in a Changing World.” Some 80 academics, entrepreneurs, and practitioners attended the all-day event, exploring recent trends and technological innovations aimed at improving social and environmental performance. A range of speakers from industry and academia discussed current issues in the fields of labor relations, corporate social responsibility, economic development, risk management, and environmental sustainability, and offered insights into addressing these issues.

Speakers at the December conference generally agreed that while companies continue to face many challenges to increasing corporate social responsibility in their supply chains, targeted initiatives combined with promising new technological platforms help businesses create a positive impact on workers’ well-being and the environment, as well as on organizations’ business performance.

The following summary highlights some of the main ideas presented at the conference.

Hosts

Hau Lee
Thoma Professor of Operations and Information Technology
Co-Director, Value Chain Innovation Initiative, Stanford GSB

Neil Malhotra
Edith M. Cornell Professor of Political Economy; Director, Center for Social Innovation, Stanford GSB; Professor of Political Science (by courtesy), Stanford School of Humanities and Sciences

Bernadette Clavier
Director, Center for Social Innovation

Barchi Gillai
Associate Director,
Value Chain Innovation Initiative

Engaging the Worker

Multinational brands want the factories that build their products to comply with local labor laws. But measuring and achieving such compliance can be a significant challenge, especially when these factories are run by third parties in developing areas. Greg Distelhorst, assistant professor at the University of Toronto, pointed out the limitations of the traditional model, which involves audits and penalties to noncompliant suppliers. In contrast, engaging workers and encouraging them to communicate with managers helps improve compliance by keeping managers informed of potential violations, but workers often are unable or afraid to speak up.

Some technological innovations aim to address that reluctance by offering workers additional channels of communication. The startup MicroBenefits, for one, offers an app aimed at Asian factory workers that allows them to use their mobile phones to take company surveys, anonymously report safety issues, track wages, and monitor hours worked, said Beau Seil, managing partner at Patamar Capital, which is backing MicroBenefits. Seil added that by using the app, called CompanyIQ, athletic shoe and apparel company Nike realized $450,000 in annualized savings due to lower worker turnover, and a 19 percent improvement in employee engagement and well-being (self-reported by workers in an anonymous survey).

An app from startup LaborVoices, too, lets workers report potential safety problems, wage violations, or other abuses, such as child labor. One of the unique features of this app is that it serves as a platform, compiling information related to a large number of factories and recruiters. LaborVoices's databases can then show brands which factories are the most compliant. That information benefits workers too, by letting them know which factories offer the best working conditions, said LaborVoices's founder and chief executive Kohl Gill. To reach a large number of workers and increase adoption rates, the company markets directly to workers, using fliers or announcements via megaphone in their communities. "What we do is focus on where the workers live or where the workers work," said Gill.

Michael Smith, senior corporate social responsibility analyst at EcoVadis, noted that brands are increasingly embracing technology, whether through apps used by individual workers or other systems based on artificial intelligence, to help them manage their labor operations and supply chain responsibly. "How can we tackle these issues more effectively and collaboratively by using technology to make [initiatives] more efficient and more scalable?" said Smith.

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— Michael Smith, EcoVadis

Working for Well-Being

While a factory's compliance with the law helps workers, "compliance is very different from well-being," according to Distelhorst. Legal compliance might address concrete matters such as wages or immediate safety hazards, but employers should also consider workers' well-being, which encompasses other areas such as the extent to which workers feel financially secure, happy, or free from physical discomfort, he added.

Smith of EcoVadis noted other serious issues that threaten basic human rights, including the conflict and poverty that contribute to rising flows of migrants. Some recruiters, too, demand exorbitant fees from migrants or confiscate their passports or other personal documents until they receive payment. Moreover, some forms of slavery continue to occur even in developed countries despite many government attempts to fight it, such as the Modern Slavery Act 2015 in the United Kingdom.

Supply chains frequently remain opaque, allowing forced labor and human trafficking to occur, said Sandy Tesch Wilkins, senior manager of investments at Humanity United, a human-rights research and advocacy nonprofit. Because old-style codes of conduct, audits, and voluntary reporting have had limited impact, speakers agreed that companies must try other, newer strategies, such as engaging individual workers and increasing the traceability of products as they move through the supply chain, to better address human-rights violations and improve workers' well-being.

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Including the Excluded

Outside the factory, the farmers who grow raw materials for the "first mile" of the supply chain are often excluded from formal systems of banking and accounting and thus don't work efficiently or even receive payment at the appropriate times, speakers said. Their farming businesses and data about them are usually informal. "You don't have written contracts, you have limited oversight and limited regulations, you have no digitized transactions, and you have many processes that are established ad-hoc through word-of-mouth," said Dan Iancu, associate professor of operations, information and technology at Stanford GSB, who has studied small farms in Indonesia and the inefficiencies in their operations and financing.

Addressing that problem, beermaker Anheuser-Busch InBev sought a better way to source the starchy tuber cassava for its Eagle brand from small farmers in Zambia, said Patricio Prini, the company's global vice president for innovations. The company found a partner in startup BanQu, which has created a blockchain-based software solution. BanQu's app keeps records of all transactions related to production, deliveries, and payments among farmers, middlemen, and the beermaker. By tracking and documenting farmers' activities, these records allow a farmer to create a formal transaction history and financial identity that open the door to the banking and credit system. AB InBev aims "to empower by 2025 each of our farmers and get them connected" to formal financial systems to help them progress beyond subsistence farming, said Prini.

"We want the farmer to be empowered with his or her data," added Ashish Gadnis, co-founder and CEO of BanQu.

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Addressing All Stakeholders

While workers' well-being is certainly an issue companies should be aware of and address, their corporate social responsibility (CSR) strategies should take all stakeholders into consideration.

Consider the end consumers. A company's ability to responsibly manage a complex supply chain may be complicated by rapidly changing and often unpredictable preferences of consumers. In the fashion business, for example, consumer demand for jeans that appear "sandblasted" or "distressed" behooves apparel factories to find chemicals or other materials to treat denim in ways that don't expose workers to dangerous or toxic substances, said Trevor Zimmer, strategist at design and consulting firm Dalberg Design.

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But identifying the right chemicals for producing an environmentally friendly product that also meets customer expectations can be a very expensive process. Yet some consumers simply want merchandise at a certain price and may not care about safe factory conditions, the impacts of their purchased goods on the environment, or fair wages for workers. Brands may also encounter similar indifference from their shareholders and even within their own organizations.

Another question brands should ask themselves is whether they are providing their suppliers sufficient incentives to encourage compliance. As pointed out by Distelhorst of the University of Toronto, oftentimes these incentives are too weak, lacking small rewards when suppliers improve compliance.

Collaborating to Contain Costs

Oftentimes, the financial cost of improving social and environmental practices may be too high for a single organization to bear. In such instances, relying on collaborative initiatives may be a better strategy.

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To support the apparel manufacturing industry, for instance, Dalberg Design worked with nonprofit MaterialWise on an industry-wide collaborative initiative, which aims to compile a database of chemicals used in the manufacturing process and their characteristics. This database can help companies avoid the most hazardous chemicals and find more environmentally friendly alternatives in a cost-efficient way, said Zimmer.

A central platform can also help companies identify risk factors throughout their supply chains and take steps in a timely manner to minimize potential disruptions, without incurring exorbitant cost to obtain the relevant information. DHL Resilience360, developed by international logistics firm DHL, is an example of one such risk management solution. Resilience360 provides companies with information about sustainability issues at supplier sites, natural disasters, political instability, and more, based on millions of data points.

Protecting the Environment

Overall, companies have plenty of opportunity to reduce their harmful impacts on the environment. “Companies face a lot of pressure to do no harm,” especially consumer-facing brands, said Zimmer. Some multinational brands have already launched major initiatives to reduce carbon emissions and waste. Walmart’s Project Gigaton, for one, aims to eliminate one billion metric tons of greenhouse gases from the retailer’s overall supply chain by 2030 through a variety of initiatives in six key areas, which were chosen because of the opportunities they provide to prevent carbon emissions. An example of one such key area is energy consumption, which can be reduced, among other ways, by increasing the use of renewable energy and boosting the efficiency of the vast fleet of trucks in its distribution system, said Zach Freeze, Walmart’s senior director of sustainability. Among other moves, Walmart is encouraging its suppliers to join Project Gigaton and commit to contribute to this goal in whatever way they feel is most meaningful or achievable.

DHL, too, aims to reduce to net-zero all logistics-related carbon emissions by 2050, in part by using “clean” delivery vehicles, said Tobias Larsson, CEO and founder of DHL Resilience360. As an interim goal, by 2025 DHL aims to increase carbon efficiency by 50 percent compared to the 2007 baseline.

In the solar industry, recyclability is still not a big concern, given that the industry is relatively young. But this is expected to change in several years, when solar panels start reaching the end of their working lives. According to Paul Wormser, vice president of operations at consulting firm Clean Energy Associates, manufacturers of solar panels can make their products easier to recycle by eliminating certain adhesives and toxic substances. Additionally, in developed nations, solar panels are often replaced before they have failed, and there is a business opportunity in removing them and re-selling them in developing nations, where millions of people lack electricity, he said.

While both industry and consumers continue to boost rates of recycling, the actual percentage of products and materials collected for recycling is still quite low. This presents a large opportunity for companies to seek ways to unlock the value of the circular economy, explained Beril Toktay, professor of operations management at Georgia Tech’s Scheller College of Business. At the same time, companies must keep in mind some of the potential hurdles that recycling initiatives may present, such as demand cannibalization, misaligned incentives or business models, and the consideration of returns management as a cost center rather than a business opportunity.

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> Scheller College of Business

In Closing

The conference’s discussions highlighted the wide range of opportunities for organizations to enhance their corporate social responsibility practices and make a positive impact on individual workers, communities, and the environment. Speakers also pointed out the added value, as well as the limitations, of technological innovations in pursuing social and environmental goals. At the same time, many challenges remain. Workers may be reluctant or unable to speak up, misaligned incentives may discourage business partners from collaborating on socially and environmentally responsible initiatives, and the costs of CSR practices may be too exorbitant for some organizations to pursue. Industry-wide collaboration and engagement with the regulatory process are among the suggestions made by speakers to drive down costs and facilitate industry-wide adoption of improved social and environmental practices.