

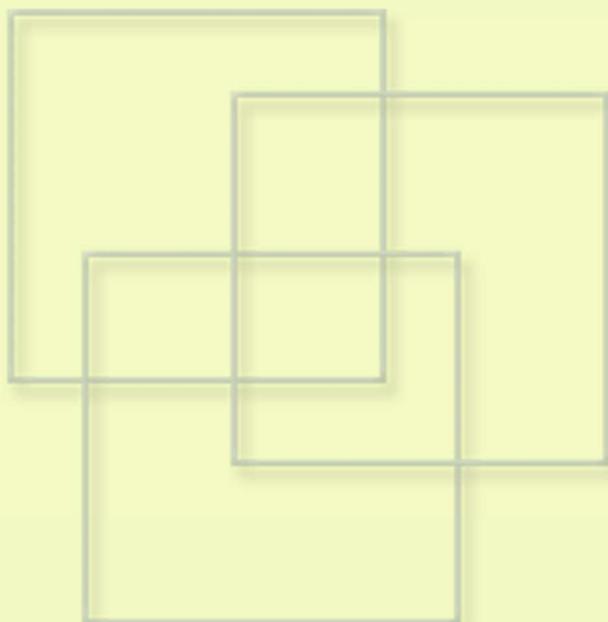


International  
Labour  
Organization

## ILO Asia-Pacific Working Paper Series

# Global supply chains in the food industry: Insights from the Asia-Pacific region

Stephen Frenkel, Ivanka Mamic and Laura Greene  
March 2016





**ILO Asia-Pacific Working Paper Series**

Global supply chains in the food industry:  
Insights from the Asia-Pacific region

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# Preface

Global supply chains play an increasingly important role in development, through direct contributions to economic growth and employment, the exchange and diffusion of knowledge and technologies, and by providing opportunities for enterprises to move up the value chain, producing higher value-added – and higher margin – products and services. The ILO has long been involved in working with its constituents to achieve sustainable and continuous improvement of labour standards in global supply chains.

Instruments such as the ILO Declaration on Multinational Enterprises and Social Policy aim to ensure that multinational enterprises address labour issues in their supply chains based on the principles embodied in the ILO's international labour standards. The expansion of global supply chains has significantly contributed to boosting the economies of developing countries and emerging economies, employment creation and livelihood enhancement, including those in the Asia-Pacific region. However, significant decent work deficits exist, and opportunities to better understand global supply chains remain. In his 2013 annual report to the International Labour Conference, the ILO Director-General pointed out that “private actors are the drivers of the constantly shifting supply chains or production networks” and indicated that “there are additional opportunities for the ILO to promote decent work in their [multinational enterprises'] operations”.

Large portions of global supply chains originate in the Asia-Pacific region, and both global and interregional trade continues to grow as a result of more connected workers and new trade agreements. Food supply chains contribute not only to economic growth in the Asia-Pacific region but also to the employment of vast numbers of people in the agricultural and food production sector in the region. As food and agri supply chains move to more complex structures and beyond local, independent actors, these workers are increasingly incorporated into supply chains.

This research contributes to the understanding of how various actors within global supply chains in the food sector relate and how they can contribute to social and economic upgrading in the supply chain. As is noted, in contrast to the global apparel sector, the food sector has relatively limited insight existing on the approaches taken by diverse buyers and retailers to address the labour and environmental challenges that characterize these supply chains.

In line with the ILO mandate for social justice and its work in advancing the opportunities of women and men to obtain decent and productive employment, a general discussion due to take place during the International Labour Conference (ILC) in 2016 will focus on “decent work in global supply chains.” As part of the ILO Asia-Pacific Working Paper Series, which intends to not only enhance and share knowledge but also to stimulate discussion, this paper also serves as an input to this upcoming ILC general discussion.



Maurizio Bussi  
Director for ILO Decent Work Technical Support Teams  
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# Abstract

Increasingly, local food markets supplied by small farmers are being replaced by global supply chains (GSCs) dominated by lead retailers, most of them based in developed countries. Workers employed by suppliers often work in low-paid, insecure, and only semi-skilled jobs. To stimulate improvements in participant firm productivity, thereby promoting decent work, it is important to understand the salient features and dynamics of food GSCs, including how these are governed. This research has focused on food GSCs, particularly with regard to the Asia-Pacific region, and has found these supply chains to be extended, heterogeneous, and sensitive to consumer safety concerns. While participation in GSCs offers the potential for social and economic upgrading, in practice there is little evidence of this occurring. Case studies of four lead retailers highlight a preoccupation with mitigating reputational risk arising from food quality failures and, to a lesser extent, risks arising from suppliers' sub-standard labour and environmental practices. Risks are mitigated through lead retailer enforcement of process standards regarding food quality and private regulation of first-tier suppliers, often based on third-party certification and auditing for labour and environmental standards. The report concludes by considering the implications of these and related findings for the ILO Decent Work Agenda. The focus is on public interventions designed to facilitate improved standards, and participation by stakeholders in the design and regulation of such interventions.

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# Acronyms and abbreviations

AP	Associated Press
B2B	business-to-business
B2C	business-to-consumer
BRC	British Retail Consortium
BSCI	Business for Social Compliance Initiative
CEO	chief executive officer
CFO	chief financial officer
COC	code of conduct
CP Foods	Charoen Pokphand Foods PLC
CSPO	Certified Sustainable Palm Oil
CSR	corporate social responsibility
ETI	Ethical Trading Initiative
EU	European Union
EUREPGAP	Global Partnership for Safe and Sustainable Agriculture
FAO	Food and Agriculture Organization
GHP	good hygiene practices
GIP	Good Inside Portal
GLOBALG.A.P.	Global Good Agricultural Practice
GMO	genetically modified organism
GMP	good manufacturing practices
GPN	global production network
GSC	global supply chain
GVC	global value chain
HACCP	Hazard Analysis Critical Control Point
IFAD	International Fund for Agricultural Development
ILO	International Labour Organization
ISEAL	International Social and Environmental Accreditation and Labelling Alliance
ISO	International Standards Organization
KPI	key performance indicator
MNE	multinational enterprise
NGO	non-governmental organization
NIG	National Interpretation Guideline
OECD	Organisation for Economic Co-operation and Development
OSH	occupational health and safety
PTI	Press Trust of India
RSPO	Roundtable on Sustainable Palm Oil
SAI	Social Accountability International
SALSA	Safe and Local Supplier Approval
SCORE	Sustaining Competitive and Responsible Enterprises
SEDEX	Supplier Ethical Data Exchange
SME	small and medium-sized enterprises
TVPA	Trafficking Victims Protection Act
UK	United Kingdom
US	United States
WHO	World Health Organization
WTO	World Trade Organization
UNCTAD	United Nations Conference on Trade and Development
USDOS	United States Department of State
USDOL-ILAB	United States Department of Labor, Bureau of International Labor Affairs

# 1. Introduction

## 1.1 ILO context and the nature of global supply chains

Research on social issues related to food supply chains has focused largely on specific themes, for example child and forced labour in commodity supply chains such as tea, coffee, or palm oil. Other research has examined the relationship between customers and suppliers, mainly in relation to large manufacturers such as Nestle and Unilever (Spence and Bourlakis, 2009:p.292). Much less is known about food retailers, despite their dominant role in the supply chain.

Supply chains coordinated by multinational enterprises (MNEs) comprise an estimated 80 per cent of global trade. A large proportion of this trade entails transactions between different firms. This has significant implications for employment levels and work quality (UNCTAD, 2013:p.iii). Supply chains extending beyond a single country are therefore an important focus for policy-setting organizations such as the International Labour Organization (ILO).

At its 319th Session (October, 2013), the ILO Governing Body selected the item “decent work in global supply chains” as the topic for discussion at the 105th Session of the International Labour Conference in 2016. In the same session, the Governing Body also proposed a strategy for wider engagement with the private sector. This was deemed advisable in the light of increased public awareness of the social and environmental impacts of company operations, as well as concern that MNEs are able to operate in countries where governments may prioritize attracting foreign investment over upholding acceptable standards of corporate conduct. A regulatory gap has thus emerged, suggesting the need for corporate social responsibility (CSR) initiatives to take the lead in promoting socially and environmentally responsible business across a variety of sectors.

Yet questions abound regarding the efficacy of such initiatives, with growing recognition of the need for deeper analysis of what CSR might entail both for business operations and their subsequent impacts on society (Mayer and Gereffi, 2010). Accordingly, ILO has endorsed a strategy that includes “carrying out research on trends and experiences in the field of company policy on corporate social responsibility” (ILO, 2013a:p.6). This report responds to this recommendation by examining CSR policies and practices among leading food MNEs — retailers that influence downstream suppliers through private regulation, whose foundation nevertheless is subject to public regulation at national and international levels. Ultimately, the report aims to provide a basis for improving technical assistance relating to CSR in food supply chains.

In defining global supply chains (GSCs), the relevant literature distinguishes between global value chains (GVCs) and global production networks (GPNs). Studies using the former concepts are mainly concerned with identification of value generation at different points in the chain of interlinked firms that cooperate to sell a product or service (Gereffi, 1994). Such studies tend to focus on firm strategy and micro-economics. The GPN model, on the other hand, conceives of vertical arrangements of firms engaged in co-production, often extending horizontally, especially via sub-contracting, with analysis extending beyond management of firms to include workers and other stakeholders. In addition, GPN operations have consequences for regional economic development (Yeung and Coe, 2015). This study uses the term GSC, which is similar to the GPN concept, but its application is usually limited, as it is with this study, to noting the wider consequences of supply chains, rather than examining this phenomenon itself in any depth.

Food supply chains vary in geographical scope and according to product, but they are usually characterized as having a buyer-driven rather than a producer-driven structure. In other words, it is the buyers, often large retailers located in developed and emerging countries, that determine the required volume and quality of food. These lead firms demand standardized quality and predictable supplies in order to satisfy customers and avoid reputational damage. Consequently, lead firms recognize the

importance of regulation. Governments also aim to minimize risk to public health and safety, and so endorse the need for regulation. Food supply chains thus tend to be complex, involving international and/or national government food safety regulation supplemented by private regulation by lead firms seeking to uphold international labour standards and limit environmental damage (Vorley and Fox, 2004:p.13).

No single, universally accepted definition of CSR exists. In general CSR is a term used to describe business strategies, policies, and practices intended to benefit society or stakeholders, beyond what is prescribed in national legislation, as well as benefit the firm's owners and managers. ILO defines CSR as

... a way in which enterprises give consideration to the impact of their operations on society and affirm their principles and values both in their own internal methods and processes and in their interaction with other actors. CSR is a voluntary, enterprise-driven initiative and refers to activities that are considered to exceed compliance with the law.<sup>1</sup>

In this report, the ILO definition is used to guide the review but, in terms of describing the specific CSR activities of firms that participated in this study, definitions adopted by those retailers are instead applied. In some ways, such private sector requirements may be preferable to prevailing de facto standards in the relevant sector and country, and for others these standards may simply meet the requirements of national legislation.

## 1.2 Research aims and methodology

This study has four main aims:

- identifying common features of food supply chains, including their labour and environmental implications;
- describing and analysing the CSR characteristics of four lead firms' food supply chains, including their labour and environmental challenges;
- evaluating the adequacy of extant food supply chain governance systems in relation to the ILO Decent Work Agenda; and
- examining the implications of the research findings for ILO policy regarding GSCs.

A focus on large food retailers is timely because food is a staple product that is currently attracting considerable controversy related to health and personal-identity issues (Maloni and Brown, 2006). Large retailers represent the point at which the supply chain meets individual and business customers, and it is these firms that must deal with complaints and accusations amplified by mass and social media. In the case of business-to-consumer retailers, where own-brand goods are concerned, this linkage is clear. Where other brands are stocked, however, the consumer may be directly linked to the producer or manufacturer, given that these products would not bear the retailer's branding but rather those of the producer or manufacturer.

Relevant research has tended to focus on large general or specialist non-food retailers that supply to the general public (O'Rourke, 2003; Fishman, 2006; Andersen and Skjoett-Larsen, 2009), while studies of the food supply chain have concentrated on the suppliers, particularly the income and conditions of agricultural workers and small farmers (Barrientos, 2001; Barrientos and Smith, 2007). Little is known about large food retailers, which in the developed countries tend to dominate retail markets with each of two models: business-to-consumer (B2C), e.g. Tesco in the United Kingdom (UK), Carrefour in France; and business-to-business (B2B), e.g. SkyChef in the United States (US).

Instead, studies have explored social issues linked to specific food products such as bananas or coffee. Previous research examining the social performance of lead firms or retailers has focused on the

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<sup>1</sup> InFocus Initiative on Corporate Social Responsibility: Strategic Orientations (GB.295/MNE/2/1). Available at:<http://www.ilo.org/public/english/standards/reln/gb/docs/gb295/pdf/mne-2-1.pdf>.

garment and apparel sector, with case studies of such firms as Nike (Zadek, 2007) and Reebok (Yu, 2008), thereby providing a superior understanding of how companies promote social performance in footwear and apparel supply chains. Building on these studies and ILO multi-sector research (Mamic, 2004), the present study acknowledges the knowledge gaps that exist relative to diversified retailers (whose supply chains consist of food, apparel, and other items), and seeks to build on what we know about supply chains in these other sectors.

### **Case study selection and the research process**

Available resources supported four case studies selected on the basis of three criteria:

- The firms needed to be food retailers, preferably one of two types: business to consumer (B2C), which are typical high street brick-and-mortar companies (who may or may not have an online sales capability); or business to business (B2B) retailers, i.e. firms that sell food to other firms or institutions (e.g. hospitals and schools).
- The second criterion was size. These firms needed to be lead retailers, i.e. relatively large, located in developed countries, and possibly multinational in scope.
- The third criterion related to their supply chains. Since the study focused mainly on the Asia-Pacific region we sought lead firms whose suppliers were mainly based in this region.

Four firms granted us permission to undertake research that comprised mainly interviews with key managers and analysis of documentary data. Since access was subject to confidentiality and anonymity, pseudonymous abbreviations are used in referring to these firms, and some data are reported in a way that seeks to avoid company identification. Two of these firms, diversified B2C retailers, are referred to as Company A and Company B. These firms are based in Australia, while the other two are multinational diversified B2B food service providers: Company C, headquartered in the UK, and Company D, headquartered in France.

This study started with a desk review of the literature on food supply chains including associated labour and environmental issues, particularly in the Asia-Pacific region. Interview protocols were then developed and discussed with colleagues within the team before being submitted for internal ILO review. Following further refinement of the protocols, interviews lasting 1.25–2 hours each were conducted with four types of respondent within each company: (1) a corporate strategy manager; (2) a procurement or merchandizing manager; (3) a manager responsible for ethical sourcing or corporate social responsibility (CSR) practices in the firm's supply chain; and (4) a manager of at least one significant supplier to the relevant lead firm.<sup>2</sup> A total of 19 interviews were undertaken either face-to-face or via Skype/telephone (see Appendix 1 for details). The interviews covered a variety of topics (reflected in the findings below), with some questions being asked of more than one type of respondent to verify a perception (e.g. the role of CSR or a equivalent function) or to explore variations in perception (e.g. the effectiveness of regulating labour standards in the company's supply chain).

Documentary data to complement information obtained via interviews were of two kinds: (1) publicly available information obtained mainly from company websites and media reports; and (2) internal company documents detailing corporate policies and practices. To preserve anonymity, rather than being explicitly reported these documents were used only to inform the analysis.

Following data coding, data analysis, and integration, the report was developed and drafted to completion.

The conduct of this study included the following limitations: time constraints; respective company willingness to participate; depth of access granted; and the necessity of relying on the information provided without corroboration through non-governmental organization (NGO) or trade union

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<sup>2</sup> In the case of Company B it was not possible to find a food supplier based outside of Australia and in the Asia-Pacific region, so we interviewed a leatherwear supplier whose supplies came from India. This was deemed analogous to meat for human consumption implying the ill-treatment of animals (cattle) in the supply chain.

interviews. A degree of bias was introduced, furthermore, where the researchers relied on the company to select supplier interviewees, which might have obscured some social and environmental issues. Participant companies were also selective in the examples and illustrations they provided, frequently drawing on the example of forced and child labour in the Thai shrimp supply chain. This may have been due to the widely publicized nature of the subject, as well as a company's preconceived ideas of what the ILO wanted.

### 1.3 The food sector in the Asia-Pacific region: A comparative perspective

Contemporary GSCs are of particular importance in terms of employment. This reflects the growth of employment in firms involved in these chains and their relative significance regarding the supply of workers. Out of 40 countries for which data is available and to which the ILO methodology is applicable, 453 million people were employed in GSCs in 2013, compared with 296 million in 1995 (ILO, 2015a:p.132).<sup>3</sup> GSCs have also been found to be a large contributor to women's employment. "Overall, almost 190 million women were found to be working in GSC-related jobs in the 40 countries for which estimates were available" (ILO, 2015a:p.135). This reflects the growth of sectors where employers tend to prefer employing women, for example in garments, electronics, and consumer services.

This section briefly sets key features of the food sector in the Asia-Pacific region in context, seeking to better understand its implications and importance for employment as well as for economic growth in the wider context of GSCs.

#### **Employment**

The size of the agricultural labour force, which has begun to decline in the Asia-Pacific region, is relevant to food supply chains. It is predicted that, by 2050, 63 per cent of the region's population will live in urban areas, compared to 53.7 per cent in 2011. Currently the East Asian subregion is the most urbanized, with 75 per cent of the population living in urban areas. More knowledge and capital-intensive techniques will be required to serve the region's food and agricultural needs (FAO, 2014:p.3–5). Bhutan, Cambodia, India, and Viet Nam are four countries with more than half their labour force employed in agricultural activities (FAO,2014:p.14). In contrast, in 2010 the Organisation for Economic Co-operation and Development (OECD) countries employed just between 3 and 6 per cent of the labour force in agricultural activities. Across the Asia-Pacific region, the agricultural workforce is predominantly female; in food and drink manufacturing, where an estimated 22 million people (2008) are employed, 40 per cent are women working mainly in fish, vegetable, and fruit processing (ILO, 2015).

Analyses of agri-food supply chains need more data on the informal economy, where food production tends to be concentrated. Worldwide, 450 million workers are employed in agriculture, and over 60 per cent of these workers are in poverty (Oxfam,2013:p.9). Among farmers, limited land and water and mono-culture production contribute to poverty. While these issues are important in understanding the context of GSC relating to food, their examination lies beyond the scope of this report. Overall, agriculture and food and drink manufacturing remain important sectors for the region in terms of employment (including employment of women), and are sometimes characterized by informal work and the additional vulnerability this brings. Social and economic upgrading in this sector, through better value chain governance among other things, could improve working conditions and livelihoods outcomes for many.

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<sup>3</sup> In the ILO analysis, GSCs were defined as "demand-supply relationships that arise from the fragmentation of production across borders, where different tasks of a production process are performed in two or more countries" (ILO 2015a: 132).

## Economic growth and trade flows

Regional economic growth over the past decade has been paralleled by declines in agricultural contribution to GDP in most countries. Value-added from agriculture relative to GDP ranged from a high of 26 per cent, for the Pacific Islands, to a low of around 2 per cent for the developed countries in the region.

Factors such as trade liberalization, changing diets, population growth, and urbanization have led to increases in international trade in agricultural and food products, with agri-food exports from low- and middle-income countries, including those in the Asia-Pacific region, on the rise (Schwarz et al, 2015). Today, food exports are unprecedentedly high, and interregional trade has been growing. In 2008, more than half of the region's food exports were interregional (FAO, 2014:p.92). Australia, China, India, Indonesia, Malaysia, and Thailand are among the top food exporting countries in Asia and the Pacific. Countries such as China, India, Indonesia, Japan, the Republic of Korea, and Malaysia are also among the top food importing countries. In 2011, overall, Asia imported food to the value of US\$203 billion and exported food to the value of \$142 billion (FAO,2014:p.10).

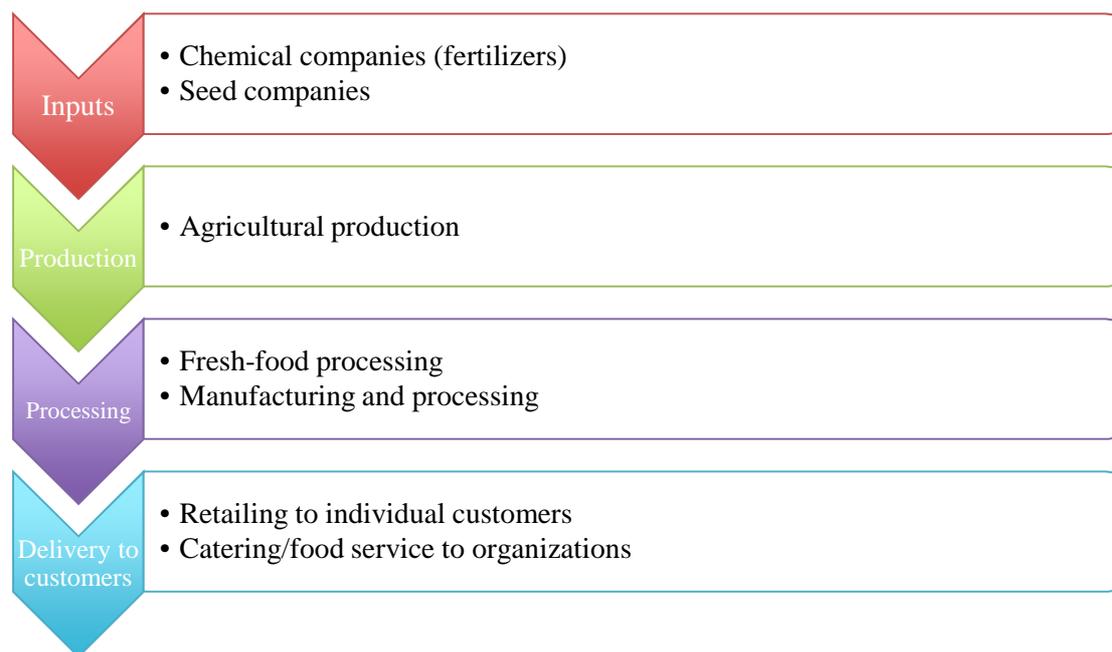
Where food and agri-business supply chains were previously characterized by independent actors (local farmers selling in local markets), they have moved towards more complex, globally interconnected systems. Demand and supply are no longer limited to national or regional boundaries, with even fresh produce (perishable goods) moving internationally (FAO, 2007:p.3). Trade liberalization and cost reductions, plus improvements in information and communications technologies, have led to an era of globally dispersed supply chains, where companies are effectively encouraged to fragment and disperse production. GSCs are both a consequence of, and reliant on, reduced trade barriers. However, trade liberalization for agricultural goods has been slower than that for manufactured products. Tariffs and protectionism remain an issue in this sector (OECD et al., 2013:p.15–16), given that agriculture remains one of the most protected sectors in advanced economies, where farmers, for economic, social, and political reasons, are supported by means of protection mechanisms such as quotas. Even where trade barriers have been reduced, food safety regulations have become regarded as a new form of trade protectionism. Because of insurmountable compliance costs, sometimes under the guise of consumer protection, this kind of non-tariff barrier inhibits participation in GSCs among emerging economies. Further international cooperation and supportive regulatory frameworks are necessary to ensure better application of trade barriers (Love and Lattimore, 2009:p.62-63).

Trade is inextricably linked to national development as countries enhance their positions in the global economy (Gereffi et al., 2005:p.79). The share of value-added trade accounted for by developing countries has increased to over 40 per cent (UNCTAD, 2013). This is relevant for South and South-East Asia, where a large proportion of global food supply originates, often involving GSCs dominated by lead firms in developed countries (Humphrey and Schmitz, 2001:p.1). Overall, trade has important consequences for Asia-Pacific countries in terms of employment opportunities and potential for poverty reduction in a region where so much of the population remains dependent on agriculture.

### 1.4 Food supply chain structure and power

The GSC perspective on the food industry links agriculture to downstream activities in what is referred to as the agri-food business (De Backer and Miroudot, 2013:p.16). Specific supply chains exist for each food item. To avoid having this complexity cloud clear presentation of the issues, however, this report refers to food chains in general. As indicated in figure 1, the food supply chain consists of connections between the agricultural, food processing, and distribution sectors. And, as explained in the following sections, the degree of market power held by the different firms through the chains also varies from product to product, and influences the nature of the relationships between the entities (Bukeviciute et al., 2009:p.4).

Figure 1 Generalized stages of agri-business chain



Adapted from Humphrey and Memedovic (2006:p.31).

Various commodities are produced within the agricultural sector, including livestock, grains, fruits, and vegetables. These products require such inputs as fertilizer and water. From there, the produce moves to the food-processing sector, where fruit and vegetables may be cut and dried, grains refined, and livestock slaughtered. Products are processed to varying degrees before being packaged and distributed, the distribution sector comprising both wholesale and retail sales. Overall, food supply chains are heterogeneous in terms of their inputs, processing, and packaging (Bukeviciute et al., 2009:p.4).

Many developing and emerging economies are involved in relatively long agri-food supply chains (De Backer and Miroudot, 2013:p.18). In general, the respective roles of developed and developing countries in global food production are not formally established. Proximity to final consumer markets and to specific input suppliers are the most critical factors. It is possible to find either developed or developing countries both in upstream and downstream supply chain activities (De Backer and Miroudot, 2013:p.18–20).

A key feature of GSCs today is that growing concern over accountability for food quality has led to greater coordination among firms. A series of food scares, presented in table 1, received global media attention and thereby heightened consumer concern, which increased pressure on companies to strive for traceability, quality, and labelling standards (ILO, 2007:p.8; Vorley and Fox, 2004:p.13).

Table 1 Food health and safety scares, 1987–2015

Year	Product scare	Country affected
1987–88	Beef hormone scare.	Italy/EU
1988	Poultry salmonella outbreak.	UK
1989	Growth regulator scare for apples,	US
1993	E. coli outbreak in fast-food hamburger.	US
1996	Brain-wasting disease linked to bovine spongiform encephalopathy (BSE).	UK
1996–1997	Microbiological contamination – berries.	US, Canada
1995–1997	Avian flu spreads to humans.	Hong Kong (China), Taiwan (China)
1997	Frozen shrimps (Bangladesh) food safety and quality. <sup>4</sup>	EU
1999	Dioxin in animal feed.	Belgium
2000	Large-scale food poisoning – dairy.	Japan
2001	Contaminated olive oil.	Spain
2004	Oysters from Republic of Korea and Japan Norovirus contamination of oysters. <sup>5</sup>	Australia
2008	Contaminated milk products (baby food). <sup>6</sup>	China and EU
2008	Malaysian seafood failed to meet hygiene standards. <sup>7</sup>	EU
2011	Indian honey contaminated with lead. <sup>8</sup>	EU
2015	Berries from China and Chile packaged in Australia contaminated with hepatitis A. <sup>9</sup>	Australia
2015	Instant Noodles from India non-compliance with Australia and New Zealand Food Standards code. <sup>10</sup>	Australia

Adapted from Jaffee (2005:p16)

Product liability systems and consumer protection legislation are providing more incentives to producers and retailers to deliver safer and better quality products (Henson and Caswell, 1999:p.590).

4 James C. Cato and S. Subasinge: Case study – The shrimp export industry in Bangladesh. Brief 9 of 17, Food Safety in Food Security and Food Trade (20/20 Vision, 2003). Available at: <http://ageconsearch.umn.edu/bitstream/16555/1/fo031009.pdf>. (accessed 2 Dec. 2015).

5 Australian Government (Department of Agriculture): “Restrictions on the importation of oysters from the Republic of Korea and specified marine areas of Hiroshima Prefecture, Japan”. Imported Food Notice 52/04 (2004). Available at: [http://www.agriculture.gov.au/style%20library/images/daff/\\_data/assets/pdf/0014/112604/ifn52-04.pdf](http://www.agriculture.gov.au/style%20library/images/daff/_data/assets/pdf/0014/112604/ifn52-04.pdf). (accessed 2 Dec. 2015).

3 Angela Balakrishnan and agencies: “EU bans all baby food imports from China” (The Guardian, 26 September 2008). Available at: <http://www.theguardian.com/uk/2008/sep/26/foodsafety.china>. (accessed 2 Dec. 2015).

6 Associated Press (AP): “Malaysia suspends seafood

exports to EU to avoid ban” (Jakarta Post, 19 June 2008) Available at: <http://www.thejakartapost.com/news/2008/06/19/malaysia-suspends-seafood-exports-eu-avoid-ban.html>.

7 Cato and Subasinge op. cit. (accessed 2 Dec. 2015).

8 Press Trust of India (PTI): “EU bans import of Indian honey, ComMin to try to resolve issue” (Times of India, 18 June 2010). Available at: [http://articles.economictimes.indiatimes.com/2010-06-18/news/27616249\\_1\\_honey-eu-bans-import-chinese-imports](http://articles.economictimes.indiatimes.com/2010-06-18/news/27616249_1_honey-eu-bans-import-chinese-imports). (accessed 2 Dec. 2015).

9 Australian Associated Press: “More frozen berries recalled in Australia after hepatitis A contamination scare” (The Guardian, 15 February 2015). Available at: <http://www.theguardian.com/society/2015/feb/15/frozen-berries-linked-hepatitis-a-pulled-off-australian-shelves>. (accessed 2 Dec. 2015).

10 Australian Government (Department of Agriculture and Water Resources): “Targeted border intervention of Maggi noodles from India” (11 June 2015). Imported food notices IFN 14-15. Available at: <http://www.agriculture.gov.au/import/food/notices/ifn-14-15>. (accessed 2 Dec. 2015).

In addition, the agri-food supply chain is associated with food safety, environmental, and labour standards issues, as well as ethical challenges such as animal welfare, genetically-modified foods, and food wastage (Maloni and Brown, 2006). Thus, food manufacturers and retailers “are prime targets for public concern over perceived supply chain CSR deficiencies” (Maloni and Brown, 2006: p.44). As such, they are concerned with minimizing reputational and operational risks arising from the above issues. The need for reputation protection and due diligence has probably been enhanced by the increase in own-brand products sold by retailers who then assume sole responsibility for these brands (Lawrence, 2005).

Food safety concerns and scares have encouraged lead firms to exercise a high level of formal control over food processes covered by food-standard guidelines and safety regulations. Lead firms now often ask their suppliers for food safety guarantees, large-volume supplies, and delivery speed and reliability (Humphrey and Memedovic, 2006:p.4–5).

Private regulation through process standards certification and codes of conduct (COCs) are related to a broader trend towards traceability. “Farm-to-fork” monitoring of supply chains reflects increased awareness of consumer health and well-being requirements, and demands information regarding the sources of various inputs into the final product. This has focused renewed attention on labour and environmental conditions and inspired a keener interest in sustainable production. Increased certification requirements and social auditing in relation to COCs has meant additional costs for suppliers, who generally pay for these activities (Humphrey and Memedovic, 2006:p.26–27).

As suggested earlier, lead firms tend to dominate food GSCs. A lead firm may account for more than 60 per cent of a supplier’s business, usually a small or medium-sized firm (SME). The relative significance of the SME for the lead retailer, on the other hand, may amount to less than 0.005 per cent (Hartmann, 2011:p.313–314). This imbalance means that retailers are able to exercise power over suppliers in the form of price control, COCs, and quality and performance demands. This transfers operational, labour, and environmental risks to the supplier. To retain valued high-volume orders, suppliers are strongly encouraged to reduce costs while maintaining quality and punctual deliveries. In response, suppliers often seek to maintain profitability, particularly in the fresh fruit and vegetable sector, by increasing their use of flexible labour (Best and Mamic, 2008:p.22).

Retailer consolidation in home markets and global expansion, combined with limited growth in developed country food markets, are causing retailers to seek economies of scale. In the UK, for example, five supermarket giants that between them account for about 70 per cent of the grocery market control the consumer food retail market. This increasing concentration has resulted in an unprecedented ability to exert power through the supply chain (ILO, 2007:p.11). A similar concentration has occurred among food manufacturers. Many once-independent small companies are now owned by MNEs such as Nestle, Unilever, and Kellogg (Oxfam, 2013:p.8). Consequently, consumers find it difficult to identify the name behind the brand, thereby increasing the firms’ bargaining power with respect to their suppliers.

### 1.5 Social and environmental issues in food supply chains

The greater and growing number of people involved in the industry, both consumers and employees, suggests that a focus on CSR issues in food supply chains is overdue. Eight areas commonly addressed by CSR initiatives have been identified as warranting attention (Maloni and Brown, 2006): health and safety; labour and human rights; procurement; fair trade; community; the environment; animal welfare; and biotechnology. Considerations of brand and company reputation also play a key role, since social and environmental elements ultimately become associated with the product itself, the producing companies, and the supply chain inputs.

Minimum government standards provide a baseline for consumer health and safety, rather than a means by which firms may obtain competitive advantage through product differentiation based on health claims (e.g. non-genetically modified or organic foods). Private standards, on the other hand, are being

used for this purpose, differentiating retailers in terms of labour and environmental practices and animal welfare (e.g. free-range animal products and dolphin-friendly tuna). Private regulation, mainly in the form of company COCs, often refer to international standards (e.g. ILO Conventions) and national legislation, but are less well developed in the food sector than they are in garments and electronics (Locke, 2013; Distelhorst et al., 2014). In addition, some parts of the food sector (e.g. small, informal suppliers) remain beyond the scope of regulatory mechanisms. The mere existence of a COC, furthermore, does not mean it is enforced. Suppliers in some countries allegedly employ corrupt practices (e.g. keeping two sets of social audit books and bribing auditors) and, as noted earlier, relevant legislation is often not implemented effectively (Gereffi and Mayer 2010:p.7).

Social or labour provisions are becoming increasingly important for trade. In 1990, labour provisions in trade agreements were almost non-existent. By 2009 there were approximately 37 conditional and promotional bilateral and regional trade agreements that included labour provisions (Ebert and Posthuma, 2011:p.6), increasing to around 74 agreements in 2014. Thus, governments are becoming more aware that compliance with labour standards in GSCs is necessary if suppliers are to prosper and buyers are to continue to source from key sectors in the country.

Private regulation of GSCs may be viewed as a defence against “the race to the bottom” in labour and environmental standards. But they do also have the potential to introduce and disseminate best-practice combinations of technical and social upgrading for suppliers (Distelhorst et al., 2014). This occurs when lead firms enter into long-term relationships with suppliers, working with them to introduce new production and human resource management techniques. This form of innovation may also be supported by governments and international organizations, as demonstrated by the ILO Sustaining Competitive and Responsible Enterprises (SCORE)<sup>11</sup> and Better Work<sup>12</sup> programmes. In this way, superior factory practices may be introduced into countries with limited knowledge of alternative production techniques, occupational health and safety (OSH), skill building, and environmental regulation or protection (OECD et al., 2013:p.26).

## 2. Sector- and firm-level CSR challenges in food supply chains

Responsibility for social and environmental impacts, according to some observers, lies with both governmental and other institutional actors – i.e. for CSR to function properly as a voluntary, enterprise-driven initiative, various governmental and other institutional actors should support such activities, and the following conditions should obtain (Matten and Moon, 2008:p.406).

- a market in which companies can respond to incentives;
- governmental and legal institutions that guarantee, define, and administer the market and act on behalf of society to address instances of market failure;
- regulatory institutions that are not dominated by companies; and
- a civil society that expresses the society’s values to which government and companies respond.

These conditions rarely prevail in developing and emerging countries. In the Asia-Pacific region, with some exceptions – e.g. Australia, New Zealand, and Singapore – trade unions are weak. Countries in the region with low union density and very limited collective bargaining include Malaysia, 7.6 per cent union density (2007); Thailand, 1.4 per cent (2007); and Viet Nam, 14.6 per cent (2011). In the latter case, there is only one government-controlled union federation and no collective bargaining. In addition, as noted earlier, agriculture is often linked with precarious seasonal work, making it difficult for farm workers to organize. Low-skilled food processing, for its part, is often undertaken by migrant

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<sup>11</sup> More details available at: <http://www.ilo.org/empent/Projects/score/lang--en/index.htm>. (accessed 5 Dec. 2015).

<sup>12</sup> More details available at: <http://betterwork.org/global>. (accessed 5 Dec. 2015).

workers who may be especially reticent to oppose employers due to concerns about formal employment status or due to lack of awareness or information regarding their labour rights.

Responsibility for upholding CSR standards falls mainly on the lead firms. Furthermore, these enterprises tend to support regulations according to perceptions of the extent to which failure to do so would damage company reputation and operation. This usually means that regulation is focused on first-tier suppliers (e.g. food processors or wholesalers/agents), leaving regulation of suppliers lower down the chain to suppliers in the tier just above, or more likely, leaving them entirely unregulated (Welford and Frost, 2006).

## 2.1 Global supply chains and opportunities for social and economic upgrading

Economic and social upgrading are multi-faceted, highly complex processes (Rossi et al., 2014).

- Economic upgrading is achieved as firms, countries, or regions move into higher-value activities within GSCs to enjoy greater benefits from participating in global production (Gereffi, 2005).
- Social upgrading may be conceived as entailing improvements in the entitlements and rights of workers, enhancing the quality of their employment by promoting decent work and respect for labour standards. It refers to improved economic and social features including wages, working conditions, economic rights, gender equality, and economic security (Milberg and Winkler, 2011).

In practice, social upgrading tends to lag behind economic upgrading (Gereffi and Lee, 2014), and social gains are not necessarily accompanied by economic gains (Barrientos et al., 2011:p.7). Upgrading sometimes relies mainly on the low-road strategy of cutting labour costs. Jobs thereby created are often low-paid, informal positions undertaken in undesirable conditions (Damodaranb, 2010). Research shows that labour conditions are consistently better among permanent workers in the cluster context. Temporary and casual workers are excluded from social upgrading, and play a buffering role for factories wishing to remain cost competitive and flexible in terms of last-minute changes in orders, which results in segmented social upgrading even within the same cluster (Suresh, 2010).

Suppliers' labour strategies in response to coping with commercial pressures can vary between a "low road" involving economic and social downgrading, a "high road" involving economic and social upgrading, as well as mixed approaches. Those taking a low-road approach by worsening labour conditions risk losing out on quality. Those taking a high-road approach by improving wages and labour conditions risk losing out on price competitiveness.  
(Barrientos et al., 2011:p.15)

Thus, local upgrading opportunities vary not only with the way GSCs are governed, but also with the competencies available to local suppliers, including the extent of informed cooperation provided by employees. In theory, if not much in practice, lead firms in food supply chains can play an important role in shaping the pressures on suppliers and helping them to respond in productive ways.

## 2.2 Employment characteristics

Participation in GSCs shapes local labour markets, reallocating resources away from less productive activities to more productive ones. The mix of skills required depends on the product and lead-firm strategy. Agriculture, the basis of food supply, is mainly unskilled (Shepherd, 2013:p.6–7), thus workers in these chains, who are often migrants, tend to be poorly paid and experience poor working conditions, including informal and often only seasonal employment (Maloni and Brown, 2006:p.43). Workers in some countries may benefit from participation in GSCs, but others may be displaced by competition resulting in declining wages and unemployment (OECD et al., 2013:p.22). Thus GSCs need to be complemented by labour market and social policies that provide for skills development and unemployment benefits to assist workers adversely affected by changes in demand for their labour.

Women – valued in agriculture for their dexterity and low labour costs – may be especially vulnerable to precarious employment (Barrientos, 2001:p.84). Examples include women in the deciduous fruit sector in Chile and South Africa (Barrientos, 2001) and in the tomato export industry in Senegal, which show a large discrepancy between the number of females in permanent positions (also associated with higher wages) and their participation in the more flexible, seasonal workforce (IFAD, 2010:p.166). Within the Asia-Pacific region, Fair Food, an international NGO, has highlighted substandard labour practices in the sourcing of pineapples in the Philippines, where more than 75 per cent of workers are temporary, contributing to job insecurity and vulnerability. Much of the canned pineapple is exported to European and US supermarkets, while fresh pineapples are traded intra regionally with Japan and the Republic of Korea (Fair Food, 2015). The onion export industry in India provides another example, where many young, both female migrant workers and child labourers from the border regions, are seasonally employed in onion packing. Research shows that, for many reasons, these workers are unable to lobby for better wages and working conditions (Singh, 2013:p.180).

Low pay and inferior working conditions are not confined to developing and emerging countries. A recent documentary in Australia found that migrant workers in the vegetable and poultry industry supplying large retailers were routinely “abused, harassed and assaulted” (ABC News, 2015). In developed countries such as the UK, furthermore, migrant workers are employed in the low-paid, seasonal food-processing sector (James and Lloyd, 2008).

### 2.3 Rights at work

Child labour, common in the informal economy, is concentrated in agriculture, services, and small-scale manufacturing (Kolk and Van Tulder, 2002). Globally, 60 per cent of child labourers work in agriculture, which is one of the most dangerous sectors in terms of work-related fatalities, non-fatal accidents, and occupational diseases (ILO, 2015a). Examples of child labour in agriculture include those reported on Israeli farms in the West Bank, where children as young as 11 years old are working a full workday (Human Rights Watch, 2015). Child labour also appears in the palm oil industry in Indonesia and Malaysia and the rice sector in India (USDOL-ILAB, 2014).

Manufacturing brand companies such as Unilever have been linked to forced labour in tea and coffee, and Nestle has been associated with child labour in cocoa. In 2011, Nestle discovered numerous instances of child and forced labour in its cocoa supply chain (Oxfam, 2013:p12). Following NGO pressure, the company agreed to an investigation by the Fair Labour Association, which subsequently assisted in implementing an action plan designed to improve conditions and regulate suppliers by requiring regular auditing (Fair Labour Association, 2015). Forced labour and human trafficking has also been identified in the Thai fishing and shrimp industry. According to a British *Guardian* newspaper investigation in June 2014,<sup>13</sup> Charoen Pokphand Foods (CP Foods), the world’s largest prawn farmer, was procuring fish meal from suppliers that using forced labour to operate their fishing boats. Major retailers such as Walmart, Carrefour, CostCo, and Tesco were reported to be reportedly buyers of CP Foods. Further investigations by the Associated Press an American news wire service have also linked the use of forced labour to Thai Union Frozen and Stavis Seafoods.<sup>14</sup> In addition, according to a recent US Trafficking in Persons report (USDOS, 2015), Thailand has been downgraded to Tier 3, the highest risk level. Countries in the region on the Tier 2 Watch List<sup>15</sup> include Cambodia, China, the Lao People’s Democratic Republic, Malaysia, Pakistan, Papua New Guinea, Sri Lanka, and Timor-Leste.

The UK and the US have both enacted laws to improve supply chain governance of the eradication of forced labour. The UK Modern Slavery Act 2015, which was to come into full force in October 2015, requires companies earning over a certain threshold to prepare a human trafficking and slavery report

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<sup>13</sup> Details available at: <http://www.theguardian.com/global-development/2014/jun/10/supermarket-prawns-thailand-produced-slave-labour>. (accessed 25 Nov. 2015)

<sup>14</sup> Details available at: <http://bigstory.ap.org/article/98053222a73e4b5dab9fb81a116d5854/ap-investigation-slavery-taints-global-supply-seafood>. (accessed 25 Nov. 2015)

<sup>15</sup> The Tier 2 Watch List comprises companies that do not fully comply with Trafficking Victims Protection Act (TVPA) minimum standards, but which are making progress. While the absolute number of victims is still increasing, there is failure to provide evidence of increased efforts to reduce or eliminate such practices.

for each financial year for its own business and for its supply chains (UK Government, 2015). Under the US California Transparency in Supply Chains Act (2010), every company with revenue over a certain threshold must publicly declare efforts to ensure that its direct supply chains activities are free from human trafficking and forced labour. Each company must also indicate to what extent it verifies its supply chain; audits suppliers; requires direct suppliers to ensure products are not produced by forced labour; provides training to relevant staff; and maintains internal accountability. Currently there are lawsuits pending against Nestle and Mars for failing to disclose forced labour in their pet-food supply chains, and against CostCo for failing to inform consumers that shrimp was produced by forced labour (Urbina, 2015).

## 2.4 Social dialogue and capacity for representation

Since much work in food supply chains is insecure, and workers lack union representation, they are exposed to considerable OSH risks and other labour rights violations. Regulatory restrictions, employer opposition, and weak unions are common reasons for low levels of unionization and participation (Best and Mamic, 2008). Private regulation may have fostered higher child- and forced-labour standards, COCs have had little impact on the right to collective bargaining and freedom of association. One study reports that rhetoric regarding trade union rights is not translated into reality, auditors are unable to detect violations, and suppliers have limited incentives to comply with code requirements on freedom of association and collective bargaining (Egels-Zanden and Merk, 2013). Other researchers found that COCs have had little impact on facilitating freedom of association and the right to collective bargaining on suppliers' sites, or on improving labour conditions where sites are already unionized (Barrientos and Smith, 2007:p.723). While pay and conditions may improve, workers' representation rights tend to remain untouched (Lee et al., 2011:p.4).

## 2.5 Environmental challenges in food supply chains

Environmental risks include loss of biodiversity, deforestation, desertification, water scarcity, erosion, pollution, and land scarcity. Increasingly, land is being replaced with crops such as sugar, soy, and oil palm, either for production of bio-fuels or to supply global food and beverage companies.

A common strategy in addressing some environmental risks is to minimize geographical distance between production and consumption by sourcing products locally. Benefits of local sourcing include reduction in transportation pollution; reduced packaging; support for small-scale agriculture providing employment and income for local farmers and workers; all of which contributes in turn to food security. Various social movements – e.g. Locavore,<sup>16</sup> Slow Food,<sup>17</sup> and Farm to Fork<sup>18</sup> – have encouraged local production and increased consumer awareness and concern for environmental, health, and social aspects of food consumption. Other related movements include efforts to decrease the amount of chemicals such as pesticides in the growing and production of food by shifting towards organic produce.

Climate change has added to farmer vulnerability. Extreme weather conditions have resulted in large fluctuations in supply as crops are harmed and farmers struggle to maintain healthy crops and livestock. Unsustainable use of land, including the destruction of biodiverse lands for the cultivation of crops such as soy or palm oil, continue to fuel climate change and contribute to land degradation. At the same time, climate change threatens resource availability. For example, rice farmers in Thailand face continuing threats from climate change and natural disasters, as well as rising input costs leading to large price fluctuations. Given that almost one-third of the increase in greenhouse gases between 1900 and 2008 can be attributed to agricultural activities, changes in land use and agricultural transport are needed to ensure sustainable food production (Oxfam, 2013:p.14).

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<sup>16</sup> Locavore is a term used to describe a person interested in eating foods that are locally produced.

<sup>17</sup> Slow Food is a global movement focused on preserving local food culture and traditions. More details available at: <http://www.slowfood.com>. (accessed 25 Nov. 2015)

<sup>18</sup> Farm to Fork or Farm to Table are both widely used to refer to initiatives that promote greater understanding of where food originates, largely for health concerns including public knowledge of what ingredients commercial foods incorporate.

Policy-makers and researchers have also shown that social and environmental challenges are interlinked (Gerrefi and Lee, 2012). Pressure to cater to demand by producing large volumes of monoculture crops creates pressure points throughout the supply chain. For instance, filling large orders under time and cost pressures tends to increase working hours and use of child labour. The following case studies highlight some of these interlinkages and demonstrate the need for coherent and integrated solutions if sustainability is to be the end goal.

## 3. Company CSR challenges: A comparative analysis

### 3.1 Global retail context

Retailing has traditionally been location specific, but over the past decade, due to economic slowdowns in Europe and the US, food retailers have been seeking foreign markets. Despite a global economic slowdown, emerging retail markets, particularly in the Asia-Pacific region, have experienced revenue growth. This can be attributed to relatively buoyant economies; increasing foreign direct investment in retailing; growing middle classes; and relatively young populations. By 2011, 23.8 per cent of the top 250 composite retail firms' revenue was generated in foreign markets (Deloitte, 2013:p.15). This tendency has been strongest among the largest ten global retail firms, whose foreign revenue exceeds that of the remaining largest 250 taken together. On the other hand, the share of revenue generated by the largest 250 retailers that operate only domestically has decreased to 38 per cent (Deloitte, 2013:p.15). Retailers thus are establishing an increasingly significant global footprint both as organizations and in relation to their supply chains.

### 3.2 Home country characteristics: The Australian, French, and United Kingdom retail sectors

#### **Australia**

There are 140,000 retail businesses in Australia, accounting for 4.1 per cent of GDP and 10.7 per cent of employment. In recent years, retail sales growth has declined but remains relatively robust as the economy continues to grow. Competition is particularly intense in the light of new multinational entrants and the growth of online retailing. Grocery retailing accounts for the greatest revenue. The industry is highly concentrated, dominated by a few firms. In general the retail industry operates with low profit margins (profit as a percentage of revenue). Overall, the margin was 5.3 per cent in 2009–2010, whereas the average among other industries was about 11.1 per cent. Overall, it remains a labour intensive industry with a mainly young, relatively low-skilled workforce (EIU, 2015a).

#### **France**

Retail sales volumes in France declined by 0.3 and 0.4 per cent in 2013 and 2014, respectively. The outlook is relatively weak, given the economy's slow pace of recovery and other demographic factors, including an ageing population. Four companies dominate the retail sector, with Carrefour, the leading company, accounting for 22.1 per cent of the French grocery market (EIU, 2015c). Profit margins among French firms have been squeezed in response to the introduction of discount retailers such as Aldi. In 2014, average profit margins were as low as 3 per cent, declining from a peak of 6 per cent (EIU, 2015a).

#### **United Kingdom**

An estimated 539,000 retail businesses account for 8 per cent of gross value added in the UK economy. The sector employs about 2.9 million people, or about 10 per cent of the workforce. Retail sales have

grown in the last five years, and are expected to continue to grow over the next five years. Online retail sales account for about 11.7 per cent of total retail sales, making the UK one of the largest online retail markets per capita in the world. The UK grocery market is highly concentrated, with four leading companies accounting for 73 per cent of the market (EIU, 2015b). Average profit margins for grocery retailers have remained low at 5.2 per cent in 2012 and 2013 (Food Navigator, 2014).

The food service sector is the fourth largest consumer market. Key trends within the food services sector include an emphasis on local sourcing, sustainability, and healthy eating (Food Service Consultant Society International, 2012). This is reflected in the growth of organic, fair-trade, and other ethically labelled products, which comprised 8.5 per cent of household food sales in 2012. Non-residential catering is the largest food sector in the UK, accounting for 48 per cent of the total (excluding agriculture). In 2013, 23 countries together accounted for 90 per cent of UK food supply. Slightly over half of this (53 per cent) was supplied from within the UK (UK Department for Environment, Food and Rural Affairs, 2014). As of September 2014, women comprised 57 per cent of employees in food retailing and 52 per cent in non-residential catering. Men accounted for 66 per cent of employees and 69 per cent of hours worked in food manufacturing.

### 3.3 Lead retailers: Business-to-consumer and business-to-business

The study examined the respective supply chain features of the firms categorized as business-to-consumer (B2C) and business-to-business (B2B) firms. These included two B2C firms based in Australia as well as a B2B firm based in the UK and another in France (see table 2).

Table 2 Features of the four case study firms

Business-to-consumer retailers		Business-to-business retailers	
Company A	Company B	Company C	Company D
Large, diversified retail public company with stores throughout Australia; +100,000 employees and +520 suppliers including own-brand.	Diversified retail, foreign-owned public company with stores throughout Australia; 7,000 employees (2014) and +1,000 suppliers that include own-brand.	UK multinational construction and services firm; +75,000 employees; +5,000 (UK) suppliers; customers include private and public organizations.	French MNE food services and facilities management firm; 300,000 employees.; +90,000 suppliers (worldwide); customers include private and public organizations.

Note: Revenue figures been have excluded because of exchange rate issues and for reasons of confidentiality.

The two B2C firms were not direct competitors, since they catered mainly to different customer segments. Competition between the B2B firms, on the other hand, was limited by differences in geographical focus – each was more prominent in different countries. Company C indirectly sourced over 1,000 food products from many suppliers within and outside the UK. The firm had a direct relationship with a small number of intermediaries, the most important of which was an international food service supplier, hereafter referred to as Supplier C, which accounted for around 80 per cent of Company C’s UK food purchases. The fourth lead firm, referred to as Company D, was a much larger firm and more dispersed in terms of markets, its largest being North America, which accounted for 38 per cent of revenue.

Two common features of the four firms was that, although food comprised a large proportion of their sales value, they had diversified into other products or services, and these firms were large by international standards. Company B was something of an exception in being more diversified regarding products, and in appearing to be relatively small, but this firm was a subsidiary of a larger company. Only one of the firms (Company A) did not operate internationally.

### 3.3.1 Business-to-consumer retailers

#### 3.3.1.1 CSR in lead firms' corporate strategy and structure

##### **Company A**

Following a corporate merger several years ago, there was a change in Company A's corporate board and a new chief executive officer (CEO) was appointed. Profitability was no longer the sole objective; stakeholder satisfaction became more important, including development of long-standing relationships with acceptable suppliers. Reputational risk was now a prime motive, as management sought to prevent its large marketing expenditures from being undermined by media criticism arising from sub-standard supplier practices. This pressure was exacerbated by intensified price-based retailer competition that led domestic suppliers to publicly voice their concern about unfair buyer-supplier contracts. This problem was subsequently settled in the courts and by the enactment of a voluntary retailer-supplier COC administered by a government council.<sup>19</sup> Meanwhile, commercial details of supplier contracts were regarded as matters lying outside the CSR manager's jurisdiction. The CSR manager's staff consisted of only one direct report and employment of temporary employees for specific projects, and the CSR manager reported to a manager with responsibility for food quality and safety, whose approximately 50 employees were mainly concerned with food quality. In turn, this manager reported to an executive-level manager who coordinated merchandizing, food quality, and CSR.

##### **Company B**

Sustainability was part of the firm's brand proposition and one of several strategic corporate pillars. This reflected changes in senior management with support from the parent company. Supply chain standards were viewed mainly as a reputation risk. However the firm was moving from a defensive strategy of limiting adverse publicity that might arise from association with factories that undermined international standards to one of strengthening customer attraction and loyalty by demonstrating CSR leadership. Hence the new strategy of partnering with suppliers, employees, and the industry to understand and mitigate the consequences of external sourcing. The firm had only recently started on this journey with the appointment of a CSR manager who reported to a manager responsible for sustainability, employee engagement, and safety who in turn reported to an executive-level manager responsible for human resources. The CSR manager had two direct reports currently employed on a temporary basis.

#### 3.3.1.2 Supplier relations and processes

##### **Company A**

Prior to the new board and CEO taking charge, relationships with suppliers were mainly transactional. Merchandizing managers were not encouraged to go beyond short-term profit margin, quality, and delivery considerations. As noted earlier, this approach had led to supplier problems. Senior management therefore decided on a new strategy, seeking longer-term relationships based on mutual understanding, trust, and support. Signalling this change, the firm initiated a competitive innovation scheme for suppliers to fund process or product improvements that would benefit both the supplier and Company A.

Management distinguished between suppliers as being from either high- or low-risk countries. Product categories were also assessed according to risk.

Risk, however, has both objective and subjective dimensions. Objective risk is the probability of a particular standard not being met. Research and media reports provide evidence to support such judgements. Subjective risk, on the other hand, is the probability that sub-standard practices relating to

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<sup>19</sup> More details available at: <https://www.accc.gov.au/business/industry-codes/food-and-grocery-code-of-conduct#the-code>. (accessed 12 Nov. 2015)

various practices – in this case child labour in Thailand – are likely to be reported in the media. Supplier requirements vary according to assessments based on the above risk considerations.

Suppliers in OECD countries are generally regarded as low risk compared to their counterparts in the African, Asian, and Middle Eastern regions. All suppliers are required to formally endorse the firm's ethical sourcing and food safety policies, and this follows a detailed due diligence examination of first-tier supplier sites prior to authorization as a possible supplier to the company. In high-risk countries, third-party audit clearance or certification is required.

Thus, after concluding a commercial contract, Company A required suppliers in high-risk countries — and, occasionally, suppliers based in low-risk countries responsible for a high-risk product — to provide, on a one- or two-yearly basis, audit or certification evidence from a recognized auditing organization that the company's ethical sourcing policy was being upheld. Suppliers were given an opportunity to help resolve problems identified in audits within a specific time frame.

Management regarded compliance as the prime method of mitigating labour and environmental risks in the company's supply chains. One innovation had been to extend food quality team members' competencies to include labour and environmental standards, so that visits to suppliers could include appraisals and suggestions for improving these standards. This was complemented by an avoidance strategy based on media reports. For example, information concerning forced labour in Malaysia and Singapore prompted the ethical sourcing manager to organize training workshops for suppliers in those countries explaining the need to avoid such practices. Such attention was also intended to promote closer inter-firm relations. According to the ethical sourcing manager:

[The training initiative] showed them we weren't a faceless retailer but rather a company that really cared for our suppliers and our relationship with them.

– Ethical sourcing manager, Company A

### **Examples of supplier-firm relationships at Company A**

This section looks at two products: bakery items that included bread and cakes, 90 per cent of which were locally sourced in Australia; and pineapples that were sourced and processed in Thailand.

Bakery products, including bread and cakes, were supplied by over 100 firms throughout Australia. The items were divided into various categories for each of which a merchandizing manager was responsible for drawing up and administering the contract. This was followed by due diligence inspections by Company A's technical experts and formal acceptance of standards by the supplier. The merchandizing managers were supported by a team of food quality experts responsible for ensuring food safety and assisting the managers with informed decisions. Long-term, relational relationships were preferred to transactional relationships. Referring to the former, the merchandising manager said the following:

We have a great understanding of each other's businesses and what we can do is play to each other's strengths... This is beneficial because they are likely to be suppliers that really understand our requirements, and we understand what their abilities are and their requirements, and through teamwork we can foster initiatives that drive both [our] agendas forward.

– Merchandising manager, Company A

Commenting on transactional relationships, the same manager noted this:

We do have some transactional suppliers, where there is no interest for either party to look more long term... There is no challenge or opportunity to improve each other's business going forward. We are more limited in those relationships.

– Merchandising manager, Company A

Ethical issues, for their part, arose as proactive rather than operational issues. This was because bakery products were overwhelmingly local in origin, and there was a belief that compliance was guaranteed by the force of Australian regulations and supplier commitment to the company's COC. Proactive measures were undertaken in accordance with Company A's current initiatives, which included fostering nutritious living, caring for the environment, and treating animals humanely. The company had been working with the Australian Government on star ratings based on health criteria for food, and

encouraged suppliers to demonstrate social responsibility by becoming certified in areas such as packaging, animal testing, and labour standards.

Pineapples were sourced via an agent in Thailand. This agent employed about 20 mainly technical workers, and sourced several products for Company A. With pineapples, the agent contracted a supplier of canned pineapple who had contracts with Thai farmers to produce for Supplier A. The agent had long-term relationships with both Company A (20 years) and the supplier. The agent was responsible for selecting suppliers in South-East Asia, ensuring they met Company A's ethical and quality standards, and, subject to Company A's agreement, took care of pricing, processing, and delivery. The product, particularly with a new one, was sometimes sent to Company A for assessment prior to pricing and conclusion of a contract with the supplier.

Neither the agent nor the supplier had an explicit CSR policy, with each following various retailers' standards. The agent required an annual auditor's report of the pineapple canning and packaging factories operated by the supplier, and might seek corrective action before proceeding with an order. Both agent and supplier considered CSR to be important. Managers from both firms said this was because increasing media attention was exerting pressure on retailers to ensure satisfactory standards. And environmental sustainability was expected to become more salient as retailers sought predictable future food supplies. Consequently, the supplier had recently initiated a pilot project to promote good agricultural practices among farmers.<sup>20</sup>

The canning factories – two in this case, both based in Thailand and each employing about 1,000 mainly migrant female workers – were expected to conform to national labour laws and Business Social Compliance Initiative (BSCI)<sup>21</sup> standards (similar to Company A's), including membership of Supplier Ethical Data Exchange (SEDEX).<sup>22</sup> Factory audit reports were forwarded to Company A, which might send representatives to the factories, accompanied by the supplier, to discuss issues directly with the managers. Two types of problem could occur: material contamination affecting food safety, e.g. pineapples contaminated with nitrides; and labour standards issues. Excessive overtime hours was a typical potential issue in pineapple canning factories. Pineapple canning is seasonal, so managers were interested in maximizing short-term profits while workers were often keen to work long hours to maximize earnings when the factory was operating. This usually meant working longer overtime hours than stipulated in the company COC, but, within the limits of Thai law, that allowed for a 48-hour work week together with an additional 36 hours of overtime. This might have contravened Company A's code – which referred to compliance with local law or industry standards, whichever provided greater protection – but the code was not enforced.<sup>23</sup>

The supplier maintained relationships with about 300 farmers, who produced pineapples mainly using family labour. According to the supplier, retailers such as Company A had not requested details of labour and environmental standards pertaining to the farms, so they remained uninformed about actual labour and environmental practices.

### **Company B**

Company B had not audited suppliers over the past decade. Management instead relied on suppliers to uphold a COC that had recently been strengthened.<sup>24</sup> A merchandizing manager explained:

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20 The scheme involved 33 farmers who received training in sustainable agricultural and labour practices. They were asked to record their use of chemicals, incorporate the Good Agricultural Practice (GAP) code, and follow internationally acceptable labour practices. To limit labour shortages, farmers received a subsidy for employing workers on the farm. GAP addressed environmental, economic, and social sustainability at the farm level to promote safe food production.

21 BSCI is a multi-stakeholder initiative aimed at improving working conditions in supplying factories and farms by providing a single COC and implementation system, allowing members to share information and collectively address labour issues. More information is available at: <http://www.bsci-intl.org/content/what-we-do-0>.

22 SEDEX aims to improve social and environmental supply chain compliance by allowing members to share supplier information on labour standards, health and safety, the environment, and business ethics. More information is available at: [www.sedexglobal.com](http://www.sedexglobal.com). (accessed 5 Nov. 2015)

23 Alternatively, "industry standards" might be interpreted as standards prevailing in the pineapple processing industry in Thailand, thereby legitimizing working up to 76 hours per week.

24 Company A's code required adherence to the Ethical Trading Initiative's base code, including compliance by foreign and migrant workers with Immigration and labour laws where they were employed

In the contract there are basically broad requirements about ethical sourcing, not to the degree that we are now introducing... So the buyers feel that once they had supplier that they [the supplier] will do the necessary due diligence. Our buyers work very hard, they travel a lot, they don't have time to check [conformity to Company B's code]. It is a trust thing, and a lot of suppliers have been dealing with [Company B] for a long time...  
– Merchandiser, Company B

To the time of this study, Company B had not attracted criticism in the mass media concerning the firm's labour or environmental standards. But the company had received a low score in a widely publicized NGO report on CSR, and sought (successfully) to improve its rating over the preceding two years.

The CSR manager distinguished between own-brand and brand products. The latter were typically large marketers or food processors with whom contracts were signed that stipulated adherence to Company B's COC. These brands usually had their own codes, which were similar to those of Company B, and were trusted to uphold these standards among their suppliers. This also applied to agents, many of whom had been contracting with Company B for more than ten years. Smaller brands and own-brand suppliers were considered higher risk. The amount of attention they received depends on an emerging strategy based on supplier mapping and a risk analysis that included the country where the supplier was located, and a factory score based on a survey administered by Company B. This determined the number of visits by Company B's CSR personnel and whether a third-party audit was required. The task was made easier by the fact that fewer than 200 suppliers accounted for around three-quarters of the firm's total revenue. Company B's policy was to develop close, durable relationships with suppliers; some suppliers, however, had been reluctant to change and submit themselves to CSR scrutiny. This was leading to contract reassessments. Acknowledging the need for CSR to become securely embedded in Company B's culture, the CSR manager had succeeded in introducing ethical sourcing into the merchandizing managers' training programme.

### **An example of supplier-firm relationships at Company B**

A leather products supplier who had been supplying Company B for more than 20 years claimed that the key to a successful business relationship was recognizing and then accommodating buyers' and suppliers' points of view. According to the manager of Supplier B, key ingredients of success included a "holistic view" plus attitudes of "fairness for all" and "trust". These features required "correct information and openness". This did not mean that all the business relationships were relational. The interviewee explained that some of the products were fashion items available only for a short period. These were sold, mainly to small boutiques, on a transactional basis. Other product specifications arose from discussions with key retailers. The company then designed and ordered customized products that mainly constituted own-brand goods sold by retailers such as Company B. In short, this supplier was a designer-intermediary, and not the leather products manufacturer, which was one link down the chain and with which Company B had no relationship and about which it knew little.

The leather used in these products was sourced from several factories in India. Supplier B had had business dealings with the managers of these factories for nearly 20 years. The manager visited the factories twice a year to place and discuss orders. Relationships with the factory managers were such that the manager was able to go into the factories and observe work processes. The manager claimed that Company B's labour and environmental standards were being met in these factories. This was based on observations during factory visits, and because these factories supplied large, highly reputable UK retailers who conducted regular audits as part of their normal procedures. Supplier B's orders were very small by comparison, but the manager claimed these firms provided good service. Two reasons accounted for this: (1) the company always paid promptly, a practice valued by the factory owners; and (2) over the years the manager had become acquainted with the local community, and was contributing to a community project that generated local employment. This demonstrated social commitment that distinguished the company from most other buyers.

These first-tier manufacturers appeared to uphold international standards, but it was unlikely that was true farther down the chain. When asked about the sourcing of leather, the interviewee stated that it was "by-product", i.e. that the cattle were slaughtered for meat, and that the leather was a by-product of this

process. According to Supplier B's senior manager, it was impossible to learn more about the slaughtering process or the source of the animals:

The tanneries are no-go areas. I'm not sure who is employed there, maybe low-caste Hindus. Whenever I raise the issue of the conditions in the tanneries with the managers, no one wants to continue the conversation. It's very difficult to go further than that.

– Manager, Supplier B

### 3.3.1.3 Pressures for change

#### Company A

This firm was focused on delivering low-cost, good-quality food to customers under intense competitive conditions and in a context of slow economic growth and less than full employment. Hence the firm's efficiency-oriented, high-volume, low-margin business model. However, management realized that adverse publicity concerning food and the conditions under which it was produced or processed was a sensitive issue, one that might damage customer relations and profitability. According to one of Company A's senior managers:

When you look at some of the recent issues about food fraud, or contamination, it is becoming more and more important to understand where your products are coming from. So there is a general trend within the global food industry toward greater awareness of sourcing and the ingredients that are going into your product. We are kicking off a big project that will hold all of our product ingredients, critical control points from a manufacturing point of view, and audit standards including food safety, and ethical sustainability.

– Senior manager, Company A

The firm felt a growing pressure for traceability,<sup>25</sup> which, according to that same manager, could be achieved by the firm working with suppliers on a long-term basis, obtaining detailed information from them regarding the supply chain, and encouraging these suppliers to apply similar standards to suppliers below them in the chain.

#### Company B

Management viewed CSR as a broad tendency that was clearly evident in Europe and the US, one that had come late to Australia. Nevertheless, NGOs and social and mass media had raised public awareness of consumption-related ethics. This included purchasing garments sourced from countries with poor labour standards; buying food that failed to meet Australian safety standards (see table 1); export of live sheep and cattle that were ill-treated during and after transport overseas; and imports from, or relations with, countries where forced labour and human trafficking was prevalent. As noted earlier, there had also been recent media exposés of underpayment of migrant workers in the agricultural sector and, more recently, in retail franchise stores.<sup>26</sup> This trend in public awareness was viewed more as an opportunity than a threat. As noted earlier, Company B's management had come to regard ethical sourcing, and sustainability more generally, as a key dimension of the firm's corporate strategy. This was reflected in policy changes supported by increased resources directed to realizing the company's objective of CSR leadership in Australia. However, management saw obstacles that still needed clearing to move ahead. These included an excessive number of suppliers relative to sales value; information systems that did not contribute to supply chain transparency; and limited integration of ethical sourcing and sustainability values among merchandizing and other managers.

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<sup>25</sup> Traceability refers to the ability to use records to track the supply back to its origins.

<sup>26</sup> More details available at: <http://www.abc.net.au/4corners/stories/2015/08/30/4301164.htm> and <http://www.theguardian.com/business/2015/aug/29/7-eleven-chain-allegedly-pays-some-staff-in-australian-stores-just-10-per-hour>. (accessed 14 Sep. 2015).

### 3.3.2 Business-to-business retailers

#### 3.3.2.1 CSR in lead firms' corporate strategy and structure

##### **Company C**

Over the previous ten years, and reflecting its foundation in the construction sector, Company C has been concerned with environmental issues, particularly materials and water wastage. Over time this concern had broadened to include social issues. In 2012, the adoption of sustainability as a key corporate objective, one championed by a senior manager, provided new momentum.

Progress with sustainability was reported annually in a separate, publicly available report, and there was an online learning package available for informing and motivating staff. CSR was conceived mainly in terms of measurable targets that included employee health and safety, water consumption, construction waste, carbon emissions, and employee volunteering. Although Ethical Trading Initiative (ETI)-related labour standards<sup>27</sup> were mandatory for suppliers, no specific targets for improvement were included in the corporate sustainability strategy.

Sustainability was viewed as critical to mitigating the following risks: (1) reputation, arising from provision of services to government facilities including hospitals and schools; (2) health and safety, which might adversely affect customers and employees; (3) workers' pay and conditions associated with construction projects in the Middle East, where labour standards are often problematic; and (4) the environment, where climate change and natural disasters were likely to pose a challenge.

The company structure supporting this policy included a senior manager who coordinated activities in support of sustainability, including responsibility for the annual report. This individual reported to the chief financial officer (CFO), whose roles included integration, assessment, and improvement of the company's performance, both financial and non-financial. A senior procurement manager supported the sustainability effort, offering strategic advice and developing plans to further the firm's sustainable buying capacity in the facilities management division. The senior procurement manager worked closely with procurement managers to facilitate specific projects, for example launching, with counterparts in other companies, a supply-chain sustainability school to teach and advance supply chain practices.

The firm's approach to CSR included sustainability metrics for senior managers as part of their key performance indicators (KPIs). Procurement managers, meanwhile, had at least one measurable sustainability goal among the five outcomes they were expected to achieve. Interviewees at Supplier C agreed that sustainability had become part of the firm's corporate culture, distinguishing it from most of its competitors. According to a manager at Supplier C:

[Company C] is amongst the more focused companies regarding sustainability. They are very proactive...they are quite unusual because to them it is almost a core activity.

On the other hand, Company C interviewees were careful to point out that much remained to be accomplished, despite the fact the company had already been recognized by a rating agency as among the UK's CSR leaders.

##### **Company D**

The firm's current mission is to "improve the quality of daily life for employees and people we serve", with a focus on local sourcing and community development. According to company interviewees, the founding vision, when the firm was established back in the 1960s, included CSR. In 2009, however, a formal CSR strategy was introduced together with a governance structure, detailed national plans, and procedures and tools for implementation and assessment. That strategy has included four priority themes: health and wellness; the environment; local communities; and being a responsible employer. A total of 18 commitments are subsumed under these priority areas. A baseline study was conducted in

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<sup>27</sup> ETI is an alliance of companies, trade unions, and NGOs that promotes respect for workers' rights, allowing them to jointly address complex supply-chain issues, including implementation of a labour COC. More information is available at: <http://www.ethicaltrade.org/>. (accessed 12 Sep 2015).

2009, and annual surveys are run to measure progress with respect to those 18 commitments. About 1,000 part-time CSR “champions” have been designated across the company to motivate colleagues to assist in achieving the commitments referred to above and to share information. In addition, managers and buyers (procurement personnel) are provided with regularly updated toolkits to inform and manage interaction with suppliers concerning supplier COCs and key social and environmental issues.

A CSR department at the group level comprises about ten people. The department is headed by a vice-president for sustainable development, who reports directly to the executive committee. Members of this department interact with colleagues in other departments at headquarters, regional, and country levels. Key contact people for the CSR department are placed within the regional supply management teams, divided in each case between food and non-food products. At the country level, this structure is reproduced with a food safety department focusing on CSR-related issues such as traceability and observance of labour and environmental standards.

### 3.3.2.2 Supply chain relations and processes

#### **Company C**

Supplier C had been a supplier to Company C for more than five years, during which time the value of purchases had grown by over 100 per cent annually. Both Company C and Supplier C favoured a long-term, trust-based relationship characterized by open, candid communication. This was pursued at two levels: at quarterly meetings between the senior manager responsible for sustainable purchasing and his counterpart at Supplier C; and more frequent meetings between Company C’s procurement managers and their Supplier C sales and technical teams.

Company C’s managers claimed they relied on Supplier C to maintain the labour and environmental standards stipulated in their formal purchasing agreement. But whether suppliers were actually upholding these standards remained an open question. This depended on Supplier C’s procedures and the suppliers farther down the chain (see below). Trust was key, since Company C managers reported that purchases by the firm amounted to less than 2 per cent of the value of Supplier C’s total annual food supply, so they viewed Company C as having little commercial leverage. According to Supplier C’s sustainability manager, however, Company C was ranked at the forefront among B2B firms regarding future trends, so the firm was more influential than its purchasing power might suggest. Indeed, Supplier C was currently positioning itself, in a manner similar to Company C, towards the front of the movement towards sustainability. The rationale for this was fourfold: (1) to satisfy customers, for example Company C, that prioritized sustainability; (2) to manage resources and costs more effectively; (3) to attract potential employees; and (4) to establish a competitive advantage based on a distinctive sustainability platform.

According to a Supplier C’s sales manager, the firm supplied a range of branded and own-brand products to Company C. With branded products, the brand-owner was responsible for implementing and monitoring labour and environmental standards set by Company C. There were some exceptions, for example where a supplier only had Safe and Local Supplier Approval (SALSA)<sup>28</sup> rather than British Retail Consortium (BRC) accreditation.<sup>29</sup> Where possible, the firm encouraged supplier certification such as Fairtrade<sup>30</sup> or Red Tractor,<sup>31</sup> and promoted sustainable supply chain schemes such as Marine

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28 SALSA is an accreditation for food safety standards aimed at smaller suppliers who supply locally. More information is available at: <http://www.salsafood.co.uk/index.php>. (accessed 14 Sep. 2015).

29 The BRC Global Standard covers food safety and quality management aimed at adopting good manufacturing processes.

30 Fairtrade sets out international economic, social, and environmental standards aiming to provide a better outcome for workers and farmers. More information is available at: <http://www.fairtrade.net/361.html>. (accessed 9 Sep. 2015).

31 Red Tractor is a farm and quality assurance scheme aimed at defining good agricultural practices and improving food labelling. More information is available at: <http://www.redtractor.org.uk>. (accessed 9 Sep. 2015).

Stewardship Council<sup>32</sup> and British Lion eggs<sup>33</sup>. In terms of visibility farther down the supply chain, Supplier C relied on their tier-one suppliers to monitor their tier-two and subsequent tier suppliers.

Supplier C's supply chain guidelines included the following: (1) where possible, build and develop long-term and direct relationships with suppliers; (2) comply with ETI and ILO labour standards; (3) work to realistic lead times when forecasting and planning production; and (4) try to ensure suppliers are paid correctly and on time.

With Supplier C's own-brand products, ethical control processes included a clear approval process and some monitoring extending back to the raw material stage. The company occasionally assisted with implementing standards improvements at key suppliers. Supplier C used a risk assessment tool to decide whether and how often an audit might be needed. With own-brand products, generally the prospective supplier completed a survey and an audit was conducted prior to production and again at the time of first production. An annual re-approval process, including discussions with the buying team, served as ongoing monitoring. Key monitoring issues included ethical trading (e.g. ETI code), environmental sustainability, and some specific industry-related issues. For own-brand suppliers, Supplier C's quality assurance team audited factories and conducted regular assessments – for low risk, every two to three years, and for high risk every year. Audits were usually announced, but might be unannounced, depending on how serious a given issue might be, or where on-going issues had not been rectified.

### **Company D**

Managers explained that 80 per cent of the company's food sourcing came from local producers, which was the main reason Company D continued to emphasize local community development in its CSR strategy. This feature also highlighted the importance of decentralized (country level) management of supply relationships. Long-term, trustful ties were preferred even though the firm might start off with six-month contracts in some cases. One manager claimed that, in addition to developing mutual understanding, an advantage of long-term relations was avoidance of high transaction costs associated with frequent change of supplier. Although the company did not engage in explicit training, managers referred to toolkits (that included videos, charts and documents) made available to buyers and suppliers to raise awareness of the company's approach to various CSR issues, including the COC, sustainable palm oil, and animal welfare.

Regarding supply chain regulation, managers distinguished between non-food (especially uniforms) and food contracts. Food safety took precedence over labour and environmental standards, which were regulated mainly by third-party certifications and trust that suppliers would implement the firm's COC. This was substantiated by details provided by the CEO of one of Company D's Asian food suppliers, who purchased and aggregated food supplies prior to dispatching to Company D: (1) the initial contract required acceptance of Company D's COC covering various labour and environmental standards; (2) little attention was accorded COC compliance during annual audits of the supplier's finances; (3) the contract included such supplier accreditations as ISO 18000s and Hazard Analysis Critical Control Point (HACCP); and (4) in Thailand, this supplier's quality manager visited food suppliers down the chain to ensure labour and environmental standards were being upheld according to Company D requirements.

Food regulation differed from relations with uniform suppliers, where Company D had global contracts with a five suppliers requiring adherence to the company COC and selective auditing of the down-chain suppliers to these firms. Audits were based on an internally developed instrument adapted from the firm's COC. For these audits Company D ranked non-compliance issues including issues considered zero-tolerance that would result in termination of the supply contract. Monthly CSR review calls were scheduled with supplier factories that were in the process of resolving problems. This ensured the supplier was strictly complying with the required CSR improvements.

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<sup>32</sup> Marine Stewardship Council is a certification and labelling programme to promote a sustainable seafood industry.

<sup>33</sup> A UK assurance scheme aimed at certifying eggs as local, meeting animal welfare standards and safety standards. More information is available at: <https://www.egginfo.co.uk>. (accessed 9 Sep. 2015).

Management intended to introduce a similar compliance system into food supply chains, beginning with a pilot project focusing on fish, seafood, fresh fruit, and vegetables where there was evidence of high risk regarding labour and environmental standards. Managers acknowledged the difficulties associated with food. One interviewee noted that "...risks are usually at the field [agriculture] level but they can be anywhere along the supply chain;" another noted that "you don't need to go far to find human rights abuses in agriculture... US tomato pickers in Florida and Spain some years ago, also in Northern Africa, there have been cases of very poor living and working conditions."

### 3.3.2.3 Pressures for change

#### **Company C**

Because catering services accounted for a large and growing proportion of revenues, mitigation of reputational and operational risks were important to management. This external pressure was compounded by management having set themselves sustainability objectives that were also motivated by the goal of sustaining their position among the UK's leading firms in implementing sustainable practices. This was complemented by internal pressure to pay most attention to those CSR aspects that were measurable. In contrast to the firm's annual environmental objectives, for example, relating to water usage, construction waste, and total carbon emissions, there were no measurable objectives relating to labour standards.

#### **Company D**

Like Company C, Company D did not merely respond to pressures of change; instead, these were anticipated by the firm's CSR detailed strategy, implementation plans, and specific commitments for mitigating the most likely risks to the company's reputation and operations. According to a European quality manager, food safety remained of paramount concern among consumers, while social compliance, including animal welfare, was rising in importance. Both could threaten reputational risk, which the European quality manager claimed was higher in a B2B company like Company D than it was among food retailers. This was because catering is virtually all own-brand, and risk falls solely on the firm that owns the brand. Both food safety and ethical sourcing pointed to traceability requirements, thereby encouraging Company C to pay more attention to supply chain details and satisfactory standards along the supply chain. As a senior manager for sustainability emphasized, having strong relations with local suppliers facilitated information sharing, which was crucial to developing and implementing the firm's CSR policies.

The quality manager referred to above noted that customer attitudes varied between countries, and the respective risks needed to be assessed within specific national contexts. This manager claimed that European customers perceived social issues as somehow being restricted to the developing world, thereby ignoring possible labour rights abuses in their own countries. Differences regarding animal welfare were also apparent: compared to most other European countries, French consumers were much less concerned about this issue.

### 3.3.3 Challenges relating to labour and the environment across business-to-business and business-to-consumer retailing

Challenges posed by the institutionalization of labour and environmental standards among suppliers for lead firms are considered here in the light of extant systems of regulation, which, as noted earlier, rely mainly on private regulatory mechanisms. The following section looks at implications for workers and other stakeholders.

Differences between problems relating to labour and environmental standards are noted, but certain common challenges may be grouped under the following four categories: structural, socio-political, organizational, and processual.

**Structural challenges** involve four characteristic features of food supply chains: length, complexity, invisibility, and ambiguity. As noted in this and in previous sections, a lead firm's many food supply chains extend across several tiers including agents, intermediaries, and producers. This is only part of the story, as further links lie downstream in the chain – including the development, manufacturing, and marketing of inputs (e.g. fertilizers and grain), elements that lie beyond the scope of this study.

Processed food is more complex than fresh produce, given that it may include many ingredients from different sources. Supply chain length and complexity militate against transparency and traceability – hence the problem of invisibility beyond the first-tier supplier. In none of the cases did any lead firm manager claim comprehensive knowledge of their supply chain; indeed, in all companies managers acknowledged potential labour standard violations beyond the first-tier supplier, particularly in high-risk product lines in developing countries, examples being the fishing industry; fresh fruit and vegetable chains; and the meat industry. Regulatory complexity represents another layer, one overlying product-related complexity. The cases revealed an emphasis on food safety and consumer health, motivated mainly by the risk of reputational damage to the company. Food safety regulation is itself complicated, manifested as firm standards based on national legislation and multilateral, international protocols. Compared with labour and environmental standards, food quality standards and resourcing in support of compliance with national law are considerable. Arguably, labour and environmental standards are crowded out, evidenced, for example, by the relatively limited number of dedicated personnel devoted to ethical sourcing.

This observation, supported by the case study evidence, highlights a visibility problem: food safety violations have an immediate impact, and are likely to be reported in the local mass and social media. On the other hand, labour standard infringements among food producers are less visible to a lead firm's consumers, particularly regarding overseas suppliers in developing countries. Visibility is weakened further with respect to environmental issues such as air and water pollution and materials wastage, unless such damage reaches exceptionally high levels by local standards, thereby attracting NGO and/or media attention. A second problem concerns ambiguous responsibility for labour and environmental standards among suppliers. The cases show that lead firms assume responsibility for standard-setting, but suppliers shoulder implementation, typically via social audits. Yet the standards refer to local legislation, and some lead firms make an effort to disseminate ethical sourcing values to suppliers and intermediaries, in effect encouraging them to assume responsibility for maintaining standards. These processes lead to ambiguous responsibility for standards, encouraging stakeholders to believe that standards are being upheld. Recall the extent to which, reportedly, “trust” was relied on as a basis for maintaining standards.

**Socio-political challenges** reflect the societal context in which the lead firm is embedded. Important factors in this respect include the roles of stakeholders such as unions, NGOs, investment analysts, and the media in influencing lead firm behaviour vis-à-vis labour and environmental standards in their supply chains. Typically, such influences are exercised through problem identification and subsequent dissemination of information through social and mass media. Lead firms may not know that unions or NGOs have links with counterpart organizations in countries where their suppliers are located. Neither is it easy to predict whether a story of sub-standard practice will be uploaded into the social media and “go viral”, eventually being taken up by the mass media. Firms are now analysing and responding to social media comments and, in at least one of our cases (Company B), the ethical sourcing manager has regular meetings with NGOs to share information and gauge opinion regarding future plans. The longer-term aim is to develop relationships such that NGOs will act to resolve supply problems quietly, rather than using such incidents to publicly shame the firm and damage its reputation.

**Organizational challenges** refer to how influential CSR may be in a given corporation, including how much resourcing is directed to its support. Our cases show that CSR or sustainability was prioritized by senior management. In the two B2B cases, sustainability was part of the corporate strategy, while one of the B2C companies was beginning to implement the firm's CSR plans. At both B2B firms, environmental standards and other objectives (e.g. community development, at Company D) appeared

to take precedence over labour standards, in part because these were more easily measured, and perhaps also because they yielded greater financial return or reputational advantage. Furthermore, CSR influence seemed to be limited by the fact that, in all but one case (Company C), CSR was not included in line managers' KPIs. To achieve their goals, CSR managers – judging from the number of managers responsible for ethical sourcing managers in each of four case study firms – had to develop relationships with managers in key positions, particularly since resources were limited.

**Processual challenges** refer to the processes involved in upholding labour and environmental standards. Three points are worth noting here. (1) How limited are these processes in any given case? For example, Company D was relying on annual third-party certification to indicate food supplier compliance, in contrast to the more detailed and systematic auditing programme the company introduced to assess uniform (non-food) suppliers. Company A, meanwhile, relied mainly on third-party certification on an annual or two-yearly basis, while Company B had only recently started to develop a risk analysis process intended to identify suppliers that warranted auditing by the newly created CSR team. Finally, the evidence shows how Company C depended on its main supplier, Supplier C, to maintain the firm's COC standards. (2) The compliance process mainly depends on negative sanctions, i.e. conform or there will be adverse consequences. This highlights the absence of explicit positive inducements. In other words, the underlying motives are unlikely to shape positive outcomes or an enabling CSR culture. (3) All four case firms approached standards through the lens of risk. This raised two issues: (a) a philosophical question as to whether these firms were truly concerned with CSR; if they were, this would suggest prioritizing social commitment as a corporate value rather than as a hedge against reputational damage and subsequent possible financial loss. and (b) the extent to which the risk analysis tools used by these firms were valid, i.e. whether their use rendered firms more likely to predict sub-standard environmental and labour practices.

## 4. Governance for decent work in supply chains

Since GSCs often extend beyond two or more countries, and involve lead firms and suppliers at different levels, there is generally no single entity responsible for labour and environmental standards. In practice, responsibility may be apportioned according to relative extraction of value along the chain. Even if lead firms could be held more accountable by this reckoning, however, no legal requirement underpins such implicit responsibility, and such firms have no authority to enforce their views on suppliers beyond moral suasion and economic threats. Ultimately, supply chain regulation must be a collective affair.

Regulation in supply chains can seek to secure minimum labour and environmental standards. The ideal of decent work, however, implies seeking improvement or upgrading of employment and job quality beyond socially acceptable minima, including provisions for addressing unemployment arising from change (as noted earlier). Achieving these objectives depends on forging consensus, not only with respect to: (1) the dimensions that should be included in these standards, but also regarding; (2) a definition of minimum standards; and (3) whether or not to restrict regulation to the pursuit of these standards or whether to seek improvement. The latter goal requires: (1) a consensus regarding goals; and (2) a strategy for upgrading employment and work. These issues are difficult to resolve. Addressing them effectively may entail limiting the scope of measures, at least initially, e.g. by proceeding on a sectoral basis, and developing appropriate and acceptable discussion forums and procedures.

### A framework for analysis

Several regulatory dimensions need to be distinguished. First, it is necessary to extend and refine the distinction between private (corporate) and public (government) regulation, which, as noted earlier, can operate at a variety of levels. There is also civil regulation, that is, regulation by one or more societal

stakeholders including NGOs and trade unions. This form of regulation is typically multilateral or, as it is more commonly described, multi-stakeholder, i.e. collective, involving different types of participating organizations. Examples include ETI and Fairtrade. This form of regulatory institution differs from collective, unilateral forums such as BSCI, SEDEX, and the Alliance for Bangladesh Worker Safety,<sup>34</sup> which are dominated by a particular interest group, usually buyers and/or suppliers. A further distinction may be made between the outcomes of regulation and the processes or practices employed to achieve them.

Some forms of regulation may be better suited to achieve particular objectives than others. For example, public regulation has the authority of the state and can be legitimately enforced, and can help to establish and maintain minimum standards within a nation state. And, if states agree, it may be possible to enforce international standards via state commitment to international Conventions. On the other hand, professional interest groups and NGOs may be usefully able to apply detailed knowledge of food safety, health, and environmental degradation to setting standards. In such cases, a multilateral approach endorsed by nation states and supply chain stakeholders (employers, trade unions, and NGOs) would be more appropriate.

Each of these forms of regulation – public, private, and civil – are considered in turn, examining their contribution to the current regulation of food supply chains and concluding with some observations about possible contributions for the future.

#### 4.1 Public governance: The role of governments and international organizations

Private regulation tends to dominate discussions of supply chain regulation, even though public governance has an important role to play. Observers have offered four reasons for this: (1) private COCs refer suppliers back to national laws; (2) only national governments can enforce regulation; (3) corporations may wilfully neglect particular labour standards judged to operate against management's interests, e.g. those regarding worker representation and collective bargaining; and (4) suppliers in competitive industries may have an incentive not to comply, leaving government as the only appropriate enforcement mechanism (Mayer and Gereffi, 2010:p.19).

As noted earlier, managers tend to assume that labour standards, in particular, are prescribed in legislation and effectively implemented by governments in developed countries, whereas in emerging and developing countries this is unlikely. Trust in the state, however, has been shown to be unwarranted, especially regarding migrant workers. Furthermore, governments in developed countries have increasingly favoured neo-liberal policies that include labour market deregulation, in effect rendering workers more vulnerable to employer exploitation. In developing countries, on the other hand, governments either lack the resources or competence to enforce legislation, or else turn a blind eye in favour of attracting foreign investment. The upshot is that, with some exceptions, conventional public regulation in the form of statute law cannot be relied upon to deliver minimum labour standards.

Recalling earlier observations on the growth of international trade agreements that include labour standards clauses, however, this may provide an important motivational lever that developed country governments can use to encourage relevant employers to support labour and environmental standards. Success depends on meeting the following six conditions: (1) employers need to understand the requirements of standards in an agreement; (2) union representatives need to learn the process of filing submissions so that non-compliance can be reported; (3) governments need to develop the capacity to enforce labour laws – cooperative activities between the signatory countries can facilitate this, for example, by training labour department inspectors; (4) standards assessments should be regular, rigorous, and widely communicated to all stakeholders; (5) governments should partner with relevant experts or institutions to provide technical support for firms attempting to meet or upgrade standards;

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<sup>34</sup> The Alliance for Bangladesh Worker Safety is an initiative that provides apparel and retail companies with opportunities to collaborate on solutions for better working conditions in the Bangladeshi garment industry.

and (6) non-compliance penalty clauses should be clearly articulated and implemented in ways that encourage future commitment (US GAO, 2014).

Following the lead taken with regard to food safety and quality, by supporting international institutions national governments can also play a significant role in creating and disseminating labour and environmental standards.<sup>35</sup> United Nations organizations including the World Trade Organization (WTO), the World Health Organization (WHO), and the Food and Agricultural Organization (FAO) have laid the foundation for standardizing food safety regulations internationally and removing trade barriers (Burlingame and Pinero, 2007). In addition, some national public agencies have created standards for specific types of products, for example the use of US Food and Drug Administration standards for some products sold by US supermarket chains and the application of Global Partnership for Safe and Sustainable Agriculture (EUREPGAP) standards by suppliers of some fresh produce and meat products in developing country markets (Henson and Reardon, 2005:p.247).

#### 4.2 Private governance: The role of lead firms

Rapid development of private regulation has been due to three factors: (1) the concentration of GSC production sites in Asia, particularly in garments and electronics; (2) weak public regulation in developing and emerging countries in Asia; and (3) NGO pressure on lead firms in developed countries to assume responsibility for socially unacceptable labour and environmental standards. Major footwear and apparel firms have taken the lead, developing and implementing codes of practice and, in some cases (e.g. Nike), working with suppliers to upgrade technology and standards. Prominent electronics firms such as Hewlett-Packard (HP) have encouraged the development of unilateral, collective standards (Locke, 2013). Meanwhile, in 2010 the apparel sector implemented country-of-origin laws based on European and United States legislation (US Department of Commerce, 2015). This means that all garments must now be labelled according to the country of manufacture. This has not been the case with food.

As noted earlier in discussing labour and environmental regulation in food supply chains generally, and confirmed by the case studies presented herein, this is mainly based on two mechanisms: instrumental and normative compliance. (1) The instrumental mechanism takes the form of unilateral, company-specific COCs. Company A and Company D, for their parts, resort to third-party certification, requiring immediate suppliers to comply with specific standards derived from international Conventions and national legislation. Non-compliance entails sanctions, including possible contract invalidation. As discussed earlier, COCs have been relatively ineffective except when accompanied by technical and organizational support from lead firms. This suggests the need for longer-term, closer relationships between the parties. (2) It is here that normative compliance comes into play as the second mechanism. Alignment in terms of values and practices remains narrow, however, because it excludes other stakeholders, in particular workers and local communities whose members might also be customers.

Measures to strengthen the normative basis of compliance must consider including worker and community representation in the formulation, amendment, and implementation of COCs. As we see in the following section, this suggests multilateral initiatives that include civil society representation.

#### 4.3 Civil society organizations: Food safety regulation and collective, multilateral initiatives

The civil society option is often realized in terms of consultations and negotiation between stakeholder groups under the auspices of international agencies. As indicated in table 3, which summarizes some of the main vehicles for promoting and enforcing minimum food safety requirements, food safety has been a key focus. These multilateral civil agreements on standards and processes are often incorporated into

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<sup>35</sup> Food quality encompasses a wide range of issues that may be addressed by labour, environmental, and quality standards

national legislation and trade agreements, and they may form the basis of corporate COCs (Henson and Reardon, 2005:p244).

Table 3 Multilateral standards and mechanisms for promoting food safety

<b>Standard</b>	<b>Description</b>
Hazards Analysis Critical Control Points (HACCP)	System to identify and introduce measures to ensure food safety. Mandatory standard in Canada, Europe, and the US. Includes assessment product hazards; implementation of control measures; and monitoring of critical control points.
Codex Alimentarius	Collection of internationally recognized standards and guidelines regarding food production and food safety under FAO and WHO auspices. A voluntary mechanism covering food labelling; food additives; food contamination; use of pesticides; risk assessment; and food hygiene (based on HACCP system).
Sanitary and phytosanitary measures	Under the WTO, these measures allow members to impose legally binding trade measures relating to food safety, human health, animal and plant life.
Good manufacturing practices (GMP)	Provides minimum standards for food and other (e.g. drug) manufacturing, testing, and quality assurance.
Good hygiene practices (GHP)	Minimum sanitary and hygiene practices for food processors.

The food industry also includes multilateral initiatives aimed at improving labour and environmental standards associated with a small number of food categories. The most important of these are presented in table 4, below.

Table 4 Overview of collective, multilateral initiatives

Name	Type	Subsector(s) targeted	Monitoring and evaluation	Public disclosure
Ethical Trading Initiative (ETI)	Includes companies, trade unions and NGOs. All corporate members of ETI agreed to adopt the ETI Base Code that is based on ILO standards.	All industries (primary and secondary production).	Some violations of the ETI Base Code may be hard to identify, including those connected with the rights of workers to join and form trade unions, and to be free from discrimination. ETI supports training and development of alternative audit techniques.	ETI supports public disclosure but does not mandate corporate members to make their annual reports public. Members' names are listed in the website, including terminated and resigned members.
Social Accountability International (SAI)	SAI convenes key stakeholders to develop consensus-based voluntary standards, conducts cost-benefit research, accredits auditors, provides training and technical assistance, and assists firms in improving social compliance in their supply chains. SA8000 (Social Accountability 8000) is a voluntary standard for workplaces based on ILO and UN Conventions	All industries (primary and secondary production).	Every five years SAI revises the SA8000 standard to ensure its continued relevance and adoptability. This process is conducted in accordance with the International Social and Environmental Accreditation and Labelling Alliance (ISEAL) Code of Good Practice for Setting Social and Environmental Standards (the Code).	Firms that can advertise a consumer product as having been produced in an SA8000 certified facility may do so with the use of a special hangtag. Retailers can advertise that a product they sell was produced at an SA8000 facility so long as this does not imply that the product itself is SA8000 certified.
Sustainable Agriculture Initiative Platform	Food and drink industry initiative supporting the development of sustainable agriculture worldwide.	Food and drink (primary sector).	A training and knowledge-sharing initiative aimed at developing a Sustainability Performance Assessment Tool for self-assessment or external assessment of sustainable agricultural practices.	Corporate participants are disclosed on the website.
Fair Trade Certified	Third-party certification system, providing farmers with improved revenue and terms of trade.	Agriculture (primary production).	All producer organizations — whether small group, plantation, or contract producers — must be audited on-site before they can sell a Fairtrade-certified product. After certification, producer organizations are physically audited at least twice in a three-year certification cycle. In addition to the regular audits, FLOCERT <sup>36</sup> conducts regular unannounced audits.	Certified members' names are available on the certified products' website.
Food Alliance Certification	Third-party certification system used in the United States.	Agriculture (primary production).	Third-party inspectors use detailed evaluation criteria and indicators in the Food Alliance Sustainability Standards to assess whether and	Certified members' names are available on certified products website.

<sup>36</sup> More information available at: [www.flocert.net](http://www.flocert.net).

			how desired management outcomes are being achieved.	
UTZ Certified	Third-party certification system. To achieve UTZ certification, producers must comply with the economic, social and environmental criteria set out in the COCs.	Agriculture: coffee, cocoa, and tea (primary production).	The UTZ traceability system, the Good Inside Portal (GIP), is one of the world's leading traceability systems.  Recently, UTZ commissions independent impact (baseline) studies on various commodities: cocoa in Ghana and Ivory Coast, tea in Malawi and Kenya, and coffee in Viet Nam. To ensure compliance with COC criteria, producers are checked annually by independent auditors.	Certified members' names are available on the website and on certified products.
Roundtable on Sustainable Palm Oil (RSPO)	NGO brings together stakeholders from the seven sectors of the palm oil industry: oil palm producers, processors or traders, consumer goods manufacturers, retailers, banks/investors, and environmental and social NGOs to develop and implement global standards for sustainable palm oil. RSPO has developed a set of environmental and social criteria that companies must comply with to produce Certified Sustainable Palm Oil (CSPO).	Palm oil (primary production).	Only by being RSPO-certified by an independent auditor approved by the RSPO can producers claim that they produce, use and/or sell sustainable palm oil.	RSPO member names are publicly available on the website.
GreenPalm	GreenPalm operates the RSPO (Roundtable on Sustainable Palm Oil) Book and Claim supply chain option. Certificate trading programme that allows manufacturers and retailers to purchase GreenPalm certificates from an RSPO-certified palm oil grower to offset each tonne of palm oil or palm kernel oil they use. RSPO-certified palm oil growers can convert their certified tonnage into certificates; each tonne converts to one GreenPalm certificate.	Palm oil used for processing (secondary production).	Members who redeem more than 500 certificates and all retailers making claims will automatically be audited by an approved RSPO supply chain certifying body.	Suspended members' names are publicly disclosed on the website. Names of both registered certificate owners and redeemed certificate owners are available on the website.

GLOBALG.A.P.	Global Good Agricultural Practice, an internationally recognized third-party standard for farm production, achieved through collaboration with industry experts, producers and retailers around the globe.	Agriculture and farming (primary production).	Work with more than 1,700 trained inspectors and auditors working for 136 accredited certification bodies to perform independent third-party producer audits and issue certificates. A National Interpretation Guideline (NIG) is a document that provides guidance on how to implement GLOBALG.A.P. Control Points and Compliance Criteria at a national level. All accredited certification bodies have adopted NIG in their auditing and certification activities.	The GLOBALG.A.P. Standard is a business-to-business certificate and not a consumer label. However, consumers can verify whether the products they buy are GLOBALG.A.P. certified on the packaging of several products.
Roundtable on Responsible Soy	Global standard for promoting responsible production, processing and trading of soy.	Soy (production and chain of custody).	There are eight recognized certification bodies that are able to conduct audits necessary for obtaining certification.	Members names are available on the website.
Global Roundtable for Sustainable Beef	Standard for promoting dialogue to improve the beef value chain.	Beef (production, processing and retail).	Membership as opposed to certification based.	Founding members names are available on the website.

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The initiatives outlined in table 4 confer additional advantages on buyers and suppliers. By standardizing “good practices” and specifying appropriate monitoring processes, required standards are more surely observed and audit duplication is avoided (which occurs when suppliers must satisfy the standards of multiple buyers). Lead food retailers have been relatively slow to pursue the multi-stakeholder regulatory approach for five reasons: (1) the individual, unilateral option (corporate COCs) was already well established, and firms preferred to emulate their peers; (2) a unilateral approach entails individual firm control over the procedure; (3) if a collective response was seen as desirable, firms preferred to exclude potential critics such as unions and NGOs; (4) in some countries, intense competition between retailers made collaboration more difficult; and (5) with the exception of particular products (e.g. coffee, tea, and palm oil), unions and NGOs have lacked the power to persuade firms to adopt this path.

#### 4.3 Regulatory experimentation as the best way forward

There is no simple solution to regulating supply chains. Conditions vary according to product, country, firms, and stakeholders. Clearly, public regulation needs to be improved, and one way to do this is via trade agreements accompanied by cooperative activities focusing on capacity building of domestic labour institutions (ILO, 2013b). Where this proves ineffective in some circumstances, multilateral, collective initiatives would seem to be the best way forward. Multilateral initiatives might also more surely motivate upgrading of standards over time (e.g. SA8000 is currently undergoing revision). On the other hand, individual lead firms and suppliers may prefer to pursue a partnership approach with another supply chain member as part of an agreed, targeted programme of technological and organizational change. In sum, experimentation combining different forms of regulation may provide the answer to both minimum standard setting and improvements in processes and outcomes.

## Conclusions

This study has focused on food GSCs, particularly with regard to the Asia-Pacific region. Food represents a vital necessity, a means of sustaining health and well-being, and a contributor to individual identity. Increasingly, local food markets supplied by small farmers have been replaced by GSCs dominated by lead retailers, mainly based in developed and emerging economies. In any case, people employed in food supply chains span developing and developed countries, performing mainly low-paid, insecure, semi-skilled work. A large proportion of these workers are women. It is therefore important to understand the features and dynamics of food GSCs, including how they are governed, so that problems can be identified and improvements made that benefit both participant firms and workers.

Based on an extensive literature review and four case studies, this analysis has shown that food GSCs share the following features:

- They extend from inputs such as seeds and fertilizer at one end of the chain to retail food products at the other.
- Such chains are heterogeneous, reflecting wide ranges of food products that include both processed and unprocessed items.
- Food is especially sensitive to consumer safety concerns, encouraging international food quality standards, national legislation, and detailed procedures at the firm level that often require greater supply traceability.
- Large, mainly multinational retailers that either supply consumers or other organizations (B2C or B2B companies, respectively) are the chief architects of food GSCs, whose suppliers can vary from small-scale specialist providers to large-scale intermediaries or direct producers.
- While participation in GSCs presents the potential for social and economic upgrading via technical innovation, this report has uncovered little evidence of this happening in practice.

The limited role played by lead firms in fostering supplier innovation is related to their role in GSC governance. Case study evidence suggests that these companies are mainly concerned with mitigating reputational risk arising from food quality failures and, to a lesser extent, risks arising from suppliers' sub-standard labour and environmental practices. This is consistent with a sustainability logic that views corporate practice in terms of risks that can and should be mitigated. Private regulation in the form of COCs and social auditing reflects the limited influence of public regulation, mainly pertaining to suppliers based in developing economies. It also indicates the weakness of NGO, union, and shareholder pressures to implement civil regulation. This contrasts with issues of food safety, where collective, multilateral standards play a significant regulatory role.

The case studies reveal that the private regulation pursued by lead retailers is restricted to first-tier suppliers, and this usually varies according to the firm's risk assessment. Typically, suppliers in developing countries are deemed higher risk, and are therefore more regulated. Such regulation often takes the form of more frequent (annual) requirements for third-party certification based on COC auditing. Although such practices may be subject to abuse, retailers place a high degree of trust in suppliers' stated commitment to standards. This "light touch" private regulation is reflected in low levels of lead firm resourcing for CSR departments, compared to the resources they typically direct to units concerned with food quality.

### **What do these findings suggest for advancing the ILO decent work agenda?**

Assuming that the case studies discussed in this report represent the practices of more progressive lead retailers, there is clearly much work to do in improving the quality of work and working conditions among suppliers. Given intense global competition, however, there is little incentive for lead firms to encourage economic and social upgrading among their suppliers. Consequently, public policy intervention is needed. Governments, assisted by ILO, need to consider encouraging innovation both through the medium of international trade agreements and via discrete public policy initiatives. The latter measures can advance the ILO decent work agenda by offering financial support and training for technical innovation as a basis for improving labour and environmental standards.

Regarding international trade agreements, ILO and WTO should collaborate in encouraging states to implement and enforce clauses that uphold more stringent standards in their domestic labour law. These clauses should enable national governments to assess and report on their implementation. In addition, governments should seek to amend corporate governance legislation to include requirements for firms to report on any activity relating to clauses referred to in trade agreements. This legislation would include provisions for government assessment and remediation, as well as penalties for infringement. More generally, this legislation should require lead firms to identify and describe their principal supply chains and annually report the results of policies aimed at upholding and improving labour standards. This would be set out in an updated ILO-model code based on multilateral, collective decision-making (see below) that could be incorporated into firms' COCs. Processes could also be established to publicly acknowledge and encourage firms that are taking positive action in implementing changes.

Regarding discrete initiatives, governments should consider working with private sector consultants and unions to formulate public policies that encourage the development of best-practice supplier models that can be emulated by other suppliers. Such analyses could be made publicly available upon condition of firm anonymity. This initiative should also address barriers faced by firms wishing to join food GSCs. These include transportation costs and delays, certification costs, access to finance, labour skill deficits, and transport infrastructure problems (OECD/WTO, 2013). Finally, such government initiatives should encourage lead retailer participation by making public support for suppliers conditional on retailers sharing some of the upgrading costs.

Working with national governments, ILO could play a leading role in encouraging multilateral, collective agreements on labour and environmental standards. Just as firms have agreed to standardized food safety obligations, the same could be achieved with labour and environmental standards. This would mean developing and implementing a collaboration model, perhaps using the experience of some

leading not-for-profit organizations such as the International Standards Organization (ISO), which periodically revises its standards.

A separate but related issue that requires public intervention is the very limited role currently played by NGOs and trade unions in food supply chain governance. These organizations are potentially important as participants in agreements and as guardians of standards. ILO should consider identifying significant GSCs in the food industry in several developing countries, and then encourage social dialogue with a view to upholding and improving supplier standards.

Finally, this study indicates the need for more detailed information and analysis regarding food GSCs. The following are among the key questions that need to be addressed:

- Are workers employed in supplier units that are part of one or more GSCs better off than workers employed in comparable units in local chains?
- How does work and employment in tier-two production units compare with that in tier-one suppliers?
- How do chain governance and standards vary within different food categories, e.g. with unprocessed versus processed products?
- Incorporating additional voices such as those of NGOs and trade unions in research, furthermore, will contribute to a more robust understanding of how different actors within the broader context can work together to achieve better outcomes.

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# Appendix 1 List of interviewees

List of interviews			
	Company	Position	Location
<b>Company A</b>			
1	Company A	Ethical sourcing manager	Australia
2	Company A	Responsible sourcing and quality manager	Australia
3	Agent	Buying agent	Thailand
4		Account manager	
5	Supplier A	Director	Thailand
<b>Company B</b>			
6	Company B	Ethical sourcing manager	Australia
7	Company B	Manager of social responsibility and sustainability	Australia
8	Company B	Private label manager	Australia
9	Supplier B	CEO	Australia
<b>Company C</b>			
10	Company C	Senior buyer of for catering services – Facilities Management Division	UK
11	Company C	Sustainable procurement manager – Facilities Management Division	UK
12	Company C	Group sustainability manager	UK
13	Supplier C	Head of sustainability	UK
14	Supplier C	Product technical manager	UK
<b>Company D</b>			
15	Company D	Group head of sustainability	France
16	Company D	Director sustainable supplies and metrics and performance	France
17	Company D	Quality manager, group supply management	France
18	Company D	Director, supply management for South-East Asia	Singapore
19	Supplier D	CEO	Singapore

## Global supply chains in the food industry: Insights from the Asia-Pacific region

Increasingly, local food markets supplied by small farmers are being replaced by global supply chains (GSCs) dominated by lead retailers, most of them based in developed countries. Workers employed by suppliers often work in low-paid, insecure and only semi-skilled jobs. To stimulate improvements in participant firm productivity, thereby promoting decent work, it is important to understand the salient features and dynamics of food GSCs, including how these are governed. This research has focused on food GSCs, particularly with regard to the Asia-Pacific region, and has found these supply chains to be extended, heterogeneous, and sensitive to consumer safety concerns. While participation in GSCs offers the potential for social and economic upgrading, in practice there is little evidence of this occurring. Case studies of four lead retailers highlight a preoccupation with mitigating reputational risk arising from food quality failures and, to a lesser extent, risks arising from suppliers' sub-standard labour and environmental practices. Risks are mitigated through lead retailer enforcement of process standards regarding food quality and private regulation of first-tier suppliers, often based on third-party certification and auditing for labour and environmental standards. The report concludes by considering the implications of these and related findings for the ILO Decent Work Agenda. The focus is on public interventions designed to facilitate improved standards, and participation by stakeholders in the design and regulation of such interventions.

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