

# Ethics and Sustainability – ‘The Silver Lining’ of Supply Chains

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## *Abstract*

*In a world facing huge business challenges, companies have to change the traditional business model and shift towards business models which embed sustainability and ethics. It is a difficult task, given the globalized economy, with highly-interconnected companies, which undertake serious efforts to ensure the sustainability of their actions and supply chains. It is the more difficult to perform this task, as making the business sustainable disadvantages companies from developed countries, in comparison with the supplier companies from less developed countries, which do not have the same pressure, and do not provide the same levels of sustainability and transparency. Sustainability requires higher financial, material and human efforts, reason for which several companies, although wanting to be socially responsible find it extremely difficult. In this paper we analyse the sustainability issues faced by the first twelve companies, ranked by the Gartner Supply Chain Top 25 from 2016 for their supply chain management efforts, and based on the material issues we find at supply chain level, we will propose a supply chain-adapted materiality matrix.*

**Keywords:** *business ethics, corporate social responsibility, sustainability, supply chains, sustainable innovation*

**JEL classification:** M14, Q01

## **Introduction**

“Every cloud has a silver lining”... Maybe even the business world... However, what’s the level of optimism we can exhibit when referring to the business world? This is question we are forced to ask ourselves, in a world where the difference between essence and appearance is higher than ever before. The consequences of companies’ actions have huge consequences, which surpass all borders, in this globalized era of highly interconnected supply chains.

Therefore, it is harder to distinguish the moral content of human and companies’ actions. On the one hand, companies face issues perpetrating internationally, not only in their countries of origin, affecting various stakeholders and environments, and on the other hand, the same companies are praised for their sustainable businesses, whereas their actions gain ethic substance.

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In today's world, complex supply chains represent the foundation of the business world and, most of the time can be 'cloudy', non-transparent. The concepts of ethics and sustainability are questioned and, the trend is, they must also gain substance and be publicly available to all interested parties. The question which still requires an answer is: where does the substance emerge from - a moral outburst or is it triggered by the massive scandals most of the companies' supply chains underwent over the last few years.

The fact is, nowadays, companies follow a complex ethical pattern, where corporate responsibility and sustainability become mandatory, at industry level. More so, companies have reporting standards for these specific issues. The prevalence of sustainability reporting is a fact, but even with all the reporting, companies still face numerous issues.

The expectations of both community (Frynas, 2009) and public institutions (European Commission, 2016) is an increased awareness on social and environmental issues, on the impact they have on society, and if they are correctly, unbiasedly reported. Evidently, since these issues affect society at a general level, they are subject to media inquiries and reports. According to a study performed by Garcia-Sanchez and his colleagues (Garcia-Sanchez et al., 2014), the media can pose a certain pressure on organizations, influencing sustainability reporting. More so, media, in its quality, as the fourth power in a state, can change social norms and reputation, by appealing to basic human feelings like shame and distress, feelings which appear when the media uses its strategy of unveiling certain tedious truths, in contradiction with the generally accepted norms, by 'naming and shaming' (Jansson, 2013).

In this paper, we will analyse the issues reported at the level of the supply chains of the first twelve companies, ranked by the Gartner Supply Chain Top 25, 2016, for their supply chain management efforts. Given the common components of the supply chain and issues, we will build a supply chain-specific materiality matrix for these twelve companies, to see which of the analysed companies has a greater impact on stakeholders.

## **1. Sustainability, CSR and the Materiality Matrix**

Nowadays, sustainable supply chain management is becoming mandatory at industry level, as businesses and their supply chains must concentrate on "Planet, People and Profit" – the pillars of the new metric for supply chains – namely, sustainability. The management strategy of sustainable supply chain management, appreciated by businesses, society and governments, concentrates on the economic, social and environmental aims at supply chain level (Srivastava, S.K., 2010). However unfortunately, evidence shows, companies still obscure part of the truth from the public eye, when it comes to the sustainability of their supply chains.

Two strategists (Littlejohns, K., Woodall, T., 2014), experts in 'Sustainability Communications' pointed out the emergence of a new trend in sustainability reporting, started in 2014, which focuses more on: disclosure and metrics of the supply chains, a detailed materiality analysis, improved stakeholder engagement, a growing number of

integrated reports, and the strategic use of social media in companies' reporting activities. The greatest highlight is on the supply chains, as consumers became more and more aware of its implications, after major scandals, covered intensely by the media. Although, not all supply chain issues can disappear, with the help of improved disclosure policies (encouraged also by the G4 guidelines), in the matter of supply chain practices, it helps companies strengthen their brands loyalty and increases their reputational value. Companies must acknowledge and be transparent about the footprint their activities leave, as more and more consumers want to know the constituent parts of the products they consume, and whether these parts are produced, supplied and delivered to them in a sustainable manner (Littlejohns, K., Woodall, T., 2014).

The two concepts are omnipresent in the business world, depicting the companies' attempt to gain a profound human feature, uncharacteristic to an immaterial, commercial and juridical person, namely responsibility...responsibility towards its employees, to its clients, to its suppliers, to community, to the environment...to a large range of stakeholders affected directly and/or indirectly by the companies' actions.

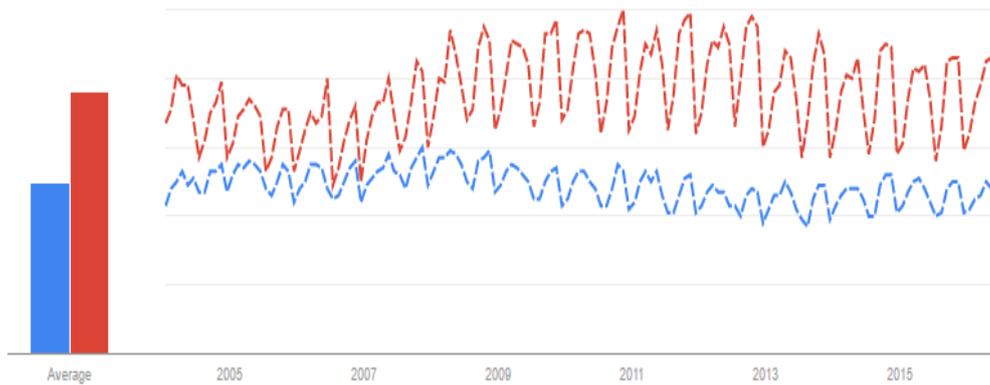
Quinn (Quinn, 2002) sees the corporate social responsibility as a concept which surpasses the mere concept of charity, reaching issues like human rights, environmental protection, fair competition, equal opportunities, and also the interdependencies between organizations and society.

CSR is a summarizing concept to Blowfield and Frynas (Blowfield and Frynas, 2005), according to which companies have multiple responsibilities for:

- the impact on society and the natural environment,
- the behaviour of the third parties they work with (within their supply chains),
- the relationships with society as a whole, adding commercial or societal value.

D'Amato and colleagues (D'Amato et al., 2009) consider the concepts of sustainability and corporate responsibility as synonymous, addressing stakeholder management, business ethics, global corporate citizenship and corporate social performance in link with Elkington's triple bottom line – with its economic, social and environmental dimensions. The companies must focus on the triple bottom line and corporate citizenship, think beyond economic prosperity, about the impact their actions have on their stakeholders, locally and globally.

The concepts of sustainability and corporate social responsibility are of constant interest to many, including the media, which covered all the companies' actions, in a positive, but also in a negative manner. A Google Trends chart (Figure1), shows the interest towards sustainability and corporate social responsibility, over the 2005-2015 timeframe.



**Figure 1 Interest towards the CSR (blue) and sustainability (red) concepts**

Source: Google Trends

Given this interest towards sustainability and corporate social responsibility, companies acknowledged the importance of transparency and started releasing both sustainability and CSR reports. One important factor for these types of reports, according to Garcia-Sanchez and his colleagues (Garcia-Sanchez et al., 2014), is the media, as it is the most commonly used communication channel, for those multinational companies wishing to express their responsibility and sustainability. Those companies' CSR and sustainability actions are scrutinized and given more attention by the media and by the public, due to their global impact, affecting many stakeholders along their supply chain, fact which increases the pressure felt by companies from certain industries (Toppinen, Korhonen-Kurki, 2013).

Companies increased the level of reporting over the last few years, as the community's concern towards the organisations' environmental performance grew, also with the help of the media, covering issues from this field of interest (Brown, Deegan, 1998).

Lately, the media focused its attention on sustainability and CSR issues connected especially to the multinational companies' supply chains, a field of complex issues, affecting a huge number of international stakeholders. It is probably, one of the reasons, why Gartner Inc., a research company, which conducts yearly analyses of the global supply chain leaders (Fortune Global 500 and Forbes Global 2000 companies) from certain industries (retail and distribution and manufacturing) and their best practices, as of 2016, included in their supply chain ranking, two reformed components:

- a business performance one – which comprises of the past public financial performance and CSR data (recognizing a key dimension of leadership, namely managing an ethical and sustainable supply chain). For their financial analysis, the Gartner company has introduced a general revenue threshold of 12\$ billion last year.

- an opinion-based one – points for the expected future and potential leadership characteristics, which later combined, offer a composite score.

In accordance with the extensive research that proved mainstream investors pay attention not only to financial performance, but also to the nonfinancial one, namely the environmental, social and governance performance, Gartner Inc. introduced in 2016 (Gartner, 2016), the CSR component, because socially responsible supply chains are required by a large number of stakeholders: investors, employees, customers and the community, directly or indirectly affected by those supply chains. Therefore, companies underwent serious efforts to increase transparency and responsibility at the level of their supply chains. One of the key findings of this year was the need for a stronger focus on corporate social responsibility.

The companies' issues, reported at the level of their supply chain, represent an important part of the material issues a company is being confronted with. The Global Reporting Initiative (GRI, 2013) encouraged companies to analyse their entire value chain, upstream and downstream, in order to perform a complex materiality assessment, transcending the operational borders. This initiative came in the context of large multinational companies with complex supply chains serving different products to different countries, different customers and different markets.

According to Global reporting Initiative (GRI, 2013), materiality consists of risks and opportunities, which a company needs to focus on within its sustainability report, as these are important to the economy, society, the environment, to stakeholders and to the organization itself. AccountAbility (AccountAbility, 2006) considers material issues to be the ones affecting the company's organisational performance, whereas the materiality analysis underlines the issues impacting stakeholders and the company's business strategy.

In a study performed by Global Reporting Initiative and ROBECOSAM (GRI, ROBECOSAM, 2015), the topics mostly reported, were emissions, effluents and waste. However, there was a category of issues, which did not fall under the GRI usual categories or topics, and these were the supply chains and ethics. The results of the study performed by GRI and ROBECOSAM, which analysed the technology hardware and equipment sector found the supply chain and ethics (with their particular versions of supply chain management, sustainability and responsibility of supply chains, ethical behaviour, compliance, environmental management, management of emissions, effluents and waste) to be the mostly reported material issues, issues not covered by the standard GRI categories and aspects. The interest towards different material issues depends on the receiver of information, namely investor or reporter.

Although numerous companies are being confronted with similar sustainability factors, these factors tend to be industry-specific, applying to certain relevant industries (GRI, ROBECOSAM, 2015). In accordance with these factors, industry-specific materiality matrices can be built.

A materiality matrix embeds the company's two pillars CSR concerns, at business and societal level, whereas the business values represent favourable stakeholders behaviours (associated to investment options, purchasing intentions), and the societal values, the direct social and environmental benefits. A materiality matrix is

depicted usually in a Cartesian plane, where the X-axis records the issue's importance for the stakeholders and the Y-axis, the likelihood the issue will impact the business's success (FT Lexicon, 2016).

## 2. Data and findings

After years of performing a supply chain performance ranking, Gartner has introduced, as of 2016, a CSR component in order to better rank the supply chains. We consider this to be a sign that sustainability disclosure has gained more importance, whereas supply chains are concerned.

In accordance with the need for more transparent, sustainable supply chains, we will analyse the supply chain sustainability issues of the first 12 companies included by the Gartner research and advisory company, in the Gartner Supply Chain Top 25, 2016 (the 25 companies ranking and the 2 extra companies which made it to the Masters level). These companies were considered the best performing companies in terms of supply chain management. We will see the issues they faced over the last few years and if these issues follow a certain pattern, which we can later add to our materiality matrix.

Starting from the Gartner Supply Chain ranking, we will analyse how sustainable businesses proved to be. For this purpose, we will analyse the media coverage concerning supply chain issues (the ones that affected the ethical and sustainable dimensions) of the leader companies, over the last few years. Given the issues we will find, we will consider them to be the material issues, which will help us build, a supply chain-adapted materiality matrix.

In this section of this paper, we used a qualitative approach to analyse the media coverage of supply chain issues over the last few years, issues faced by the first 12 constituent companies from the 2016 Gartner Supply Chain Top 25 ranking. Further on, we will include these issues in a supply chain – sustainability specific materiality matrix for the first twelve companies, included in the 2016 Gartner Supply Chain Top 25:

**Table 1 The Gartner Supply Chain Top 25, 2016 (Gartner, 2016)**

<b>Ranking</b>	<b>Company</b>
<b>Master level</b>	Apple   P&G
<b>1.</b>	Unilever
<b>2.</b>	McDonald's
<b>3.</b>	Amazon
<b>4.</b>	Intel
<b>5.</b>	H&M
<b>6.</b>	Inditex
<b>7.</b>	Cisco Systems
<b>8.</b>	Samsung Electronics
<b>9.</b>	The Coca Cola Co.
<b>10.</b>	Nestlé

Source: Gartner, 2016

We divided the supply chain issues into five major categories (labour practices, safety problems and working conditions, child labour and exploitation, environmental pollution and conflict minerals). For each category we included the different issues we found covered by the major media publications, the years in which they were brought to the public eye and the coordinates of the articles covering each issue (see Appendix no. 1). Given the common nature of the issues, we synthesized the similar issues companies are facing:

**Table 2 Companies' supply chain issues**

No	Supply chain Issue	Companies facing similar issues	Media covered issues – material issues
1.	Labour practices	Apple, Unilever, McDonald's, H&M, Cisco Systems, Samsung Electronics, The Coca-Cola Co., Nestlé	stress at work, excessive hours, low wages, poor living conditions, unpaid work, human rights violations, labour issues, labour union right violations, gender discrimination, labour law violation
2.	Safety problems and difficult working conditions	Apple, Unilever, McDonald's, Amazon, H&M, Inditex, Samsung Electronics, The Coca-Cola Co., Nestlé	occupational illness, sweatshop conditions, harsh/ difficult, hazardous/ dangerous and unhealthy/ poor working conditions, falsified records, health and safety issues, employees exploitation, sexual abuse, forced labour
3.	Child labour and exploitation	Apple, McDonald's, H&M, Inditex, Samsung Electronics, The Coca-Cola Co., Nestlé	use of underage workforce, child exploitation, children working in dangerous conditions, child labour
4.	Environmental pollution	Apple, P&G, Unilever, McDonald's, Amazon, H&M, Inditex, Cisco Systems, Samsung Electronics, The Coca-Cola Co., Samsung Electronics, Nestlé	non-compliance with EU environmental laws, lack of environmental practices, waste management, (non)green products, high use non-renewable energy, environment - unfriendly products, environmental pollution, recycling, deforestation, climate change, biodiversity loss, destruction of animal habitat, GHG emissions, water management, unsustainable agriculture, use of non-degradable or slow degradable materials, use of genetically modified food, lack of company's environmental record, lack of sustainability or GHG (to CDP) reporting, use of genetically modified cotton, cancer-causing substances, animal testing
5.	Conflict minerals	Apple, Intel, Samsung Electronics	minerals extracted from conflict zones

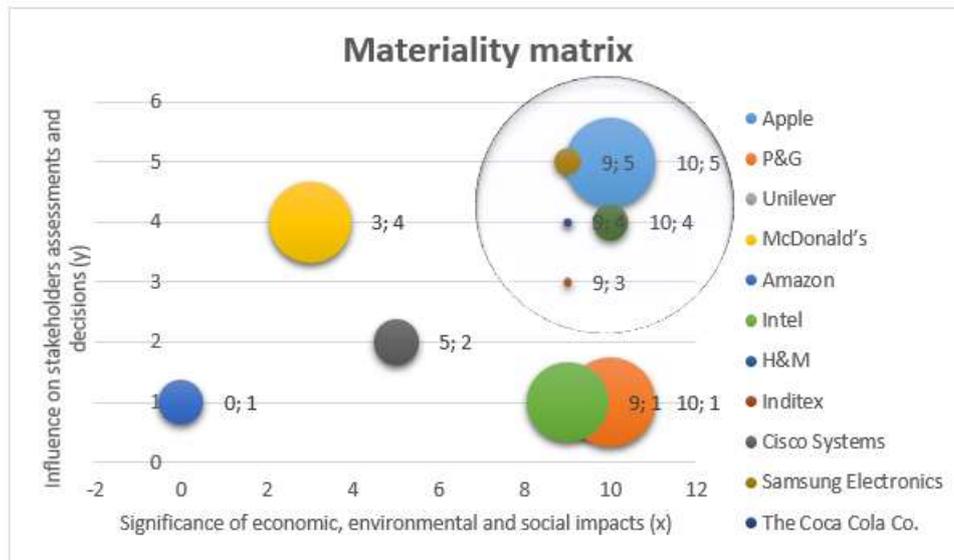
Source: media covered issues (see Appendix 1)

Each company, from the twelve companies we analysed, has one or more supply chain issues in the following categories:

- in all five categories: Apple and Samsung Electronics,
- in four categories: McDonald's, H&M, The Coca Cola Co. and Nestlé,
- in three categories: Unilever and Inditex,
- in two categories: Cisco Systems,
- in one category: P&G, Amazon and Intel.

Based on the analysis of the Gartner Top Supply Chain 25, we found that the sustainability issues tend to be similar, and all multinational companies, which are served by complex supply chains should incorporate the ethical and sustainable dimensions, when analysing these material issues. From the analysis we found there is not one single company from this part of the ranking (the first 12 companies), which did not raise sustainability issues over the last few years, issues covered by the media, and the interesting part is that the issues are somewhat common.

Given the fact that it is a difficult task to decide which material issues are to be taken into account, when building a materiality matrix, we propose a supply chain – specific matrix having in mind the GRI/ ROBECSAM model, where the X-axis is the “significance of economic, environmental and social impacts” and the Y-axis, the “influence on stakeholders assessments and decisions”.



**Figure 2 The supply chain-adapted Materiality Matrix**  
Source: by the author

For the X-axis, we took into account the Gartner 2016 CSR scores, as the CSR actions embed multi-level impacts: economic, social and environmental. The Y-axis is built on a score, attributed in accordance with the number of categories in which the company faced supply chain issues. The number of categories in which companies

exhibited issues was considered relevant, as it had an impact on the stakeholders' decisions and assessments.

This materiality matrix shows the companies facing most of the identified material issues, namely: Apple (10;5), Nestle (10;4), Samsung Electronics (9;5), The Coca-Cola Co. (9;4). Although, all of these companies have implemented significant CSR actions, they still have a lot of reported sustainability issues, which have a high impact on stakeholders.

After analysing all the issues we feel, that the only viable solution for these supply chains is to tackle the issues and gain sustainability in all their actions, throughout innovation. Therefore, these companies should focus on their supply chains and innovate all along their supply chains, so as to diminish its footprint.

Innovation is a crucial factor for a company's survival, and, although a lot of companies try to boost their innovation activities, they neglect the factors which can contribute to this purpose (Bîzoi, C.G., Şipoş, G.L., Ionescu, A., 2014). In this case the supply chains. Multinational companies have the headquarters in countries considered to be among the innovation leaders at EU level (Bîzoi, C.G., Şipoş, G.L., 2015) and therefore, should encourage innovation throughout their entire supply chain, upstream and downstream, to compensate in a different manner the qualitative, quantitative and temporal inconsistencies (Bîzoi C.G., Şipoş G. L., 2014), and not only at the expense of their suppliers and other stakeholders.

### **Conclusions**

Our paper has analysed the different issues encountered at the level of the supply chains of the first twelve companies, constituents of the Gartner Supply Chain Top 25, from 2016. We consulted several articles covered by the written media, in which supply chain issues were reported.

We found the issues to be somewhat similar, fact which enabled us to categorize the issues we found into 5 different components: labour practices, safety problems and difficult working conditions, child labour and exploitation, environmental pollution and conflict minerals. The environmental pollution issue was the most important issue, which all of the analysed companies have dealt with over the past few years, with more or less success.

The interest towards sustainability, towards the environment is noticeable in most of the multinational companies, which induced the requirement of being environment-conscious also at the level of their suppliers, responding to people's concerns about the biosphere (Nidumolu, R., Prahalad, C.K., Rangaswami, M.R., 2009).

Defining the material issues of a company is the first step in acknowledging the footprint a business leaves in the world. Given the numerous interconnections between several companies, however, the next step is to find the material issues which affect the sustainability of the supply chain. Each supply chain has its particularities and must be analysed in connection with the stakeholders it influences.

Our supply chain – adapted materiality matrix, based on the first twelve companies from the Gartner Supply Chain Top 25, found that the most successful companies have also the greatest sustainability issues throughout their supply chains.

So far, terms like, competitiveness and profitability have been key drivers of the business world. Nowadays, however, the environment-friendly, sustainability trend is threatening the financial indicators, and promises financial benefits, but only over the long term.

Companies will have to rethink their business models, their processes, technologies, products and services, having a key concept in mind, namely, innovation; innovation, which will help companies become sustainable, as sustainability is a pre-requisite of development. In this manner, companies will promote sustainable innovation, which's results will be new products and services, with lesser impact on the environment. The traditional business approach will have to be replaced by a new paradigm, in which sustainability equals innovation (Nidumolu, R., Prahalad, C.K., Rangaswami, M.R., 2009), and we add to this formula, a mandatory component, ethical.

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## **Appendix 1– Companies’ Supply Chain Issues**



















