



Small, Smart and Sustainable

Experiences of SME Reporting in Global Supply Chains



This document is available for free download on www.globalreporting.org





About GRI's Research and Development Publication Series

GRI's world class research and development program supports a commitment to continuous improvement by investigating challenging issues around reporting and innovating new ways to apply the GRI Reporting Framework in conjunction with other standards.

Publications in the GRI Research and Development Series are presented in three categories:



Topics

Research and implications on reporting related to subject such as biodiversity and gender



Reporting Practices

Tracking reporting practices and implementation, and assessing future scenarios.



Tools

Guidance for using the GRI Reporting Framework in combination with other standards

*This document 'Small, Smart and Sustainable' falls under the **Reporting Practices** category.*

Copyright

This document is copyright-protected by Stichting Global Reporting Initiative (GRI). The reproduction and distribution of this document for information is permitted without prior permission from GRI. However, neither this document nor any extract from it may be reproduced, stored, translated, or transferred in any form or by any means (electronic, mechanical, photocopies, recorded, or otherwise) for any other purpose without prior written permission from GRI.

Global Reporting Initiative, the Global Reporting Initiative logo, Sustainability Reporting Guidelines, and GRI are trademarks of the Global Reporting Initiative.

© 2008 GRI

ISBN number: 978-90-8866-014-6

Acknowledgements



The Global Reporting Initiative

The Global Reporting Initiative™ (GRI) is a multi-stakeholder non-profit organization that develops and publishes guidelines for reporting on economic, environmental, and social performance ('sustainability performance'). The GRI's Sustainability Reporting Guidelines had been used by over 1000 organizations worldwide, with many more organizations considering them informally during the preparation of their public reports. The guidelines are developed through a unique multi-stakeholder consultative process involving representatives from reporting organizations and report information users from around the world. First published in 2000 and then revised in 2002, the guidelines have now entered their third generation, referred to as the GRI G3 Guidelines which were released in October 2006.

Authors:

Leontien Plugge,
GRI SME and Supply Chain Program Manager
Joris Wiemer, GRI Research Officer

Contributions:

Nelmara Arbex, GRI Learning Services Director
Ásthildur Rutten-Hjaltadóttir,
Publications Manager GRI Learning Services

Text Reviser:

Carinne Allinson

Designer:

Tuuli Sauren,
INSPIRIT International Communications,
The Sustainable Design and Promotion group,
Brussels, Belgium



The Federal Ministry for Economic Cooperation and Development (BMZ) was established in 1961 because of the growing importance of development cooperation and the growing complexity in this field of work. The BMZ draws up the German government's development policy guidelines and long-term development cooperation strategies and defines the rules by which they are put into practice. The Ministry is guided by the United Nations Millennium Development Goals, which stand for the ambitious aim to halve the proportion of people in the world living in extreme poverty by 2015.



GTZ is an international cooperation enterprise for sustainable development with worldwide operations. The federally owned Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH supports the German Government in achieving its development policy objectives. It provides viable, forward-looking solutions for political, economic, ecological and social development in a globalized world. Working under difficult conditions, GTZ promotes complex reforms and change processes. Its corporate objective is to improve people's living conditions on a sustainable basis.



Table of Contents

Executive Summary	4
Part 1: How the Project Was Envisioned	5
1.1 Introduction	5
1.2 Motivational Background of the Project	5
1.3 Objectives of the Project	7
1.4 Participants of the Project	8
1.5 Implementation Plan of the Project	9
Part 2: What Has Been Done So Far	12
2.1 Chile (Telecommunications - Telefónica)	12
2.1.1 The Reporting Process	12
2.2 India (Automotive - Daimler)	14
2.2.1 The Reporting Process	15
2.3 South Africa (Apparel and Footwear - Puma)	17
2.3.1 The Reporting Process	17
2.4 China, Thailand, Turkey (Retail – Otto Group)	19
2.4.1 The Reporting Process	19
Part 3: Initial Feedback	24
3.1 SME Suppliers	24
3.2 MNEs	27
Part 4: Conclusions	29
4.1 Added Value Seen by Suppliers	29
4.2 Added Value Seen by MNEs	30
4.3 How Can Reporting by Suppliers Add More Value for SMEs and MNEs?	31
4.3.1 Specialized Training Process	31
4.3.2 Enabling Environments for Reporting by SME Suppliers in Emerging Economies	33
4.3.3 Targeted and Simple Publications	33
4.4 Final Note	34
Annex	35

Executive Summary

This resource document aims to provide an answer to the question:

What is the added value of the sustainability reporting process for SME suppliers in emerging economies and their multinational buyers?

It does this by examining and sharing experiences from over a year of the *Transparency in the Supply Chain project*, a joint project by the Global Reporting Initiative (GRI) and Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH, which is implementing the PPP-program on behalf of the German Federal Ministry for Economic Development and Cooperation (BMZ). The project works with both Multinational Enterprises (MNEs) and their Small and Medium Enterprise (SME) suppliers in global supply chains to explore how sustainability reporting by SME suppliers can enhance understanding of sustainability performance and transparency in the supply chain. The instruments for building up the necessary competencies and capacities in SMEs included: three workshops, individual consultations between MNEs and SMEs, expert support by GRI, and specialized regional consultants providing training based on a specifically designed training methodology.

For the SMEs involved, the main benefits of reporting experienced during the first year of the project were:

- Achieving competitive advantage and leadership
- Improving internal processes and setting goals
- Enhancing reputation, achieving trust and respect

For the MNEs, reporting created indirect benefits. It raised awareness and improved sustainability management and performance of their participating suppliers. Reporting created ownership and responsibility on the suppliers' side. However, it will depend on further development of the concept whether it can become truly useful for MNEs to actively encourage or support reporting by suppliers.

Improvements that can be made to the process are:

- Create an accessible and focused training process
- Create an enabling environment for reporting by SME suppliers in emerging economies
- Prepare targeted and simple publications

The reports produced by the suppliers are powerful tools for suppliers to communicate externally what they do, what standards they comply with and what their vision is. The project has been relatively successful so far, ten SME suppliers have finalized a sustainability report and they indicated that they hope to produce another report within one or two years. GRI expects to collect more feedback during the second year of the project and explore opportunities to increase the number of SME suppliers that report. This project will be a main input into the future of the GRI SME and Supply Chain program. GRI will aim to facilitate specialized SME supplier training and try to enhance enabling environments for reporting by SMEs. The project will also result in the publication of a new GRI Learning Publication.

Part 1:

How the Project Was Envisioned

1.1 Introduction

The aim of this paper is to share the experiences and lessons learned while implementing reporting processes with twelve small and medium-sized suppliers (SMEs) of four European multinational enterprises (MNEs) in emerging economies. These experiences and lessons learned were obtained over the past year during the Transparency in the Supply Chain public-private partnership project (“the project”) of the Global Reporting Initiative (GRI) and Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH, which is implementing the PPP-program on behalf of the German Federal Ministry for Economic Development and Cooperation (BMZ). The two-year project started in June 2006 and will conclude in November 2008 (see Figure 3. Project timeline). The main focus of the project is to create transparency in the supply chain by implementing the practice of GRI sustainability reporting by suppliers in global supply chains of European multinationals. The suppliers’ reports were produced during 2007; this document is part of the second-year activities and analyzes the outcomes.

The main question to be addressed in this document is:

What is the added value of the sustainability reporting process for SME suppliers in emerging economies and their multinational buyers?

In order to answer this question, feedback was collected for over a year throughout the project from all project participants—namely, consultants, suppliers, MNEs and GTZ representatives—as well as from external experts, through telephone interviews, online questionnaires, meetings, workshops and conferences¹. This, in combination with the experiences of and lessons learned by the GRI Secretariat staff involved, forms the basis of this document.

The structure of the document is designed to give an overview of the project design and

¹ See Annex for an overview of interviews, meetings and conferences.

implementation in four roughly chronological sections. The four sections are:

1. How the Project Was Envisioned – provides the background to and motivation for the project, introduces the different participants and their roles, as well as the project implementation plan.
2. What Has Been Done So Far – gives a detailed overview of the different reporting processes by SMEs in the different regions, including their own ideas and comments and those of the consultants involved.
3. Initial Feedback – summarizes the feedback received and discussions that took place at the project’s mid-term conference, where MNEs, SMEs and other project participants discussed their views and experiences.
4. Conclusions – provides tentative conclusions for both follow-up to the project and supply chain and SME reporting in general, based on this pilot project.

1.2 Motivational Background of the Project

SMEs are an important and at times underestimated contributor to the world economy. These companies might be individually small in size, but the cumulative impacts of SMEs are clearly substantial. According to the United Nations Industrial Development Organization (UNIDO), SMEs make up more than 90 percent of businesses worldwide and on average account for 50 percent of Gross Domestic Product (GDP) of all countries and for 60 percent of their employment.² This fact has led to a growing awareness of SMEs’ significant impact on not only the world economy, but also the global environment and society.

One of the characteristics of current economic globalization is that large companies increasingly

² Forstater, M., MacGillivray, A. and Raynard, P. in cooperation with the UNIDO Private Sector Development Branch, *Responsible Trade and market Access: Opportunities or Obstacles for SMEs in Developing Countries?* (2006), Vienna, Austria: United Nations Industrial Development Organization (UNIDO), p.12.



contract suppliers in emerging economies either to manufacture their components and/or products or to provide services to their (local) operations.³ These suppliers often produce the bulk of the components and services that go into a final product sold under an MNE's brand. Suppliers are often SMEs, or sub-contract SMEs, in emerging economies. Nowadays most of the economic, environmental and social impacts of MNEs occur through their supply chain and a significant proportion occurs through SMEs in those chains.

There is a growing trend in the sustainability movement to increasingly focus on SMEs and not just on the MNEs as part of the solution to create a more sustainable world; both are part of a holistic solution.⁴ This same trend can be seen when looking at sustainability reporting. In the past it was mainly MNEs that reported but in 2007, for instance, there were over eighty GRI-based sustainability reports created by SMEs from all different parts of the world through GRI projects alone.⁵

GRI and GTZ acknowledged this trend and initiated a joint project to work with both MNEs and their SME suppliers in global supply chains to explore how sustainability reporting by SME suppliers can enhance understanding of sustainability performance and transparency in the supply chain.

GTZ was interested to explore whether sustainability reporting could catalyze sustainable development and sustainability management in suppliers. Specifically, GTZ's motives were to:

- Create an environment for managing change towards corporate responsibility in individual companies and whole supply chains;

- Initiate a starting point for SME sustainability reporting in emerging economies with a pilot project in this field, in order to incorporate the experiences of this project—assuming successful implementation—into further supply chain related activities of GTZ.

GRI's motives for initiating and supervising this project were to:

- Collect feedback on the use of the GRI Guidelines as well as *The GRI sustainability reporting cycle: A handbook for small and not-so-small organizations*⁶ ("the SME Handbook");
- Explore different approaches to SME training. The main question was *how* to best build a bridge between the end result (a sustainability report) and the process of understanding, measuring, improving, and reporting sustainability performance by SME suppliers;
- Facilitate a proactive dialogue between MNEs and suppliers on reporting and create a blue print for supply chain reporting; and
- Create sustainability reporting based learning opportunities for MNEs and SMEs.

GRI and GTZ invited MNE (leaders in the sustainability reporting practice) to take part in this project and each MNE invited three of their suppliers to take part. The four participating MNEs, Daimler, Otto Group, Puma and Telefónica Group, identified sustainable supply chain management and transparency in the supply chains as a key challenge in their global markets. The motives mentioned by MNEs for participating in the project were primarily to:

- Establish best practice regarding supply chain reporting;
- Develop a mentoring partnership role towards suppliers;
- Raise awareness with suppliers on sustainability issues and trigger integration of sustainability practices into suppliers' businesses;
- Create an understanding of the business case for reporting; and

³ See for instance: Dicken, P., "Chapter 8: 'Webs of Enterprise': The Geography of Transnational Production Networks" in *Global Shift: Reshaping the Global Economic Map in the 21st Century*, 4th Ed. (March 2004), London, UK: Sage Publications Ltd., pp. 238-273.

⁴ See for example http://ec.europa.eu/enterprise/sme/competitive_en.htm for the European Union's initiatives in this area or the World Resources Institute's New Ventures project (<http://www.new-ventures.org/?IDsecao=1>) focusing on socially responsible investment in green SMEs. Furthermore, as of March 2007, 46.85% of UN Global Compact signatories were SMEs—see UNIDO, *Report on SMEs and the United Nations Global Compact* (2007), http://www.unido.org/file-storage/download?file_id=66321. Accessed: 22 April 2008.

⁵ See <http://www.globalreporting.org/CurrentPriorities/Small-erEnterprises/SmeReports.htm> for an overview of all SME GRI reporters over the past year and a half, including reports where available.

⁶ See <http://www.globalreporting.org/Learning/LearningPublications/SMEhandbook/SMEhandbook.htm> for more information on the SME Handbook and how to obtain it.

- Increase engagement and encourage reporting practices of their suppliers.

One of the main desired outcomes of the project was to produce supplier reports. The assumption, based on GRI's experience and reporting reality, was that suppliers in emerging economies, especially SMEs, face big barriers when it comes to understanding and proactively managing sustainability issues. Apart from financial shortcomings, SMEs very often do not have access to the necessary qualified personnel, technical resources or specialized consultants and are often not experienced in building relationships with different stakeholders. As a result, practices such as sustainability reporting are not very common among SMEs in emerging economies.

These challenges can be overcome by collaboration across the chain. Most suppliers were initially motivated to participate in the project as a relationship-building exercise with their clients. The GRI/GTZ project was designed to create a way to provide SME suppliers in emerging economies with access to technical resources and learning opportunities to complete a reporting process in 2007.

1.3 Objectives of the Project

The project aimed to build reporting capacities for SME suppliers of European MNEs in emerging economies and thereby to help the SMEs to create more transparency regarding their social, economic and environmental impacts.

Concretely, the project's objective was to enable suppliers to:

- Understand sustainability concepts;
- Start measuring sustainability performance;
- Use reporting as a catalyst for change within their organizations; and
- Report on their sustainability performance.

For GRI, the project marked the worldwide commencement of field research on SME sustainability reporting in a supply chain context. The project provided the SMEs with access to technical and human resources as well as learning

opportunities, while securing a feasible reporting process. The intended benefits for both MNEs as well as suppliers producing sustainability reports within the supply chain would be:

- Improving economic, environmental and social performance of both MNEs and suppliers in the supply chain;
- Facilitating understanding of sustainability concepts;
- Improving and strengthening relationships and forming transparent partnerships, based on an understanding of mutual challenges;
- Creating learning opportunities for the managers involved;
- Improving risk management related to sustainability issues; and
- Increasing competitive advantage and reputation.

The reporting capacities created in the participating companies by the project were aimed at enabling the suppliers to run future reporting cycles without external assistance. Although the scope of the project was limited, the intention was that suppliers would be able to function as reporting frontrunners and best practice companies in their local business communities, thus making a larger contribution to responsible business practices. For some of the MNE supply chain leaders the project could create a possible model of how to stimulate and engage other key suppliers in a similar way.

The experiences gained in this project have generated valuable feedback on GRI's Reporting Framework and the SME Handbook. It will help update GRI's supporting publications or inspire new ones.



1.4 Participants of the Project

There were six groups of actors in this project, each with a different role. For an overview of the specific participants, please see Figure 1.

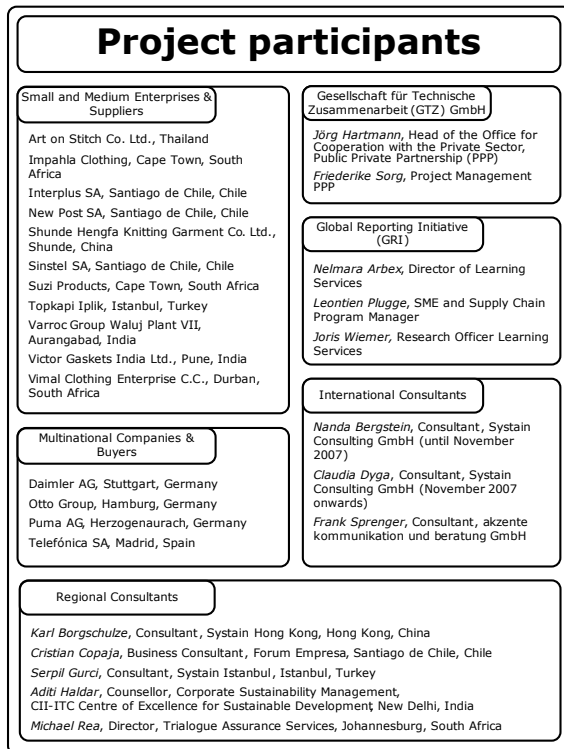


Figure 1. Overview of project participants

GTZ

GTZ was the primary funder and co-initiator of the project. GTZ hosted the steering committee meetings and mid-term conference. GTZ

also explored possibilities to incorporate the experiences of this project—assuming successful implementation—into further supply chain related activities of GTZ.

GRI

GRI, as co-initiator, had the role of supervising and facilitating the project. GRI also analysed feedback gathered during the project and made this feedback publicly available through the internet and publications.

MNEs

The multinational participants extended the invitation for transparency and sustainability reporting within the supply chain to their suppliers, providing motivation for them to join. They helped create understanding about shared sustainability issues and sustainable supply chain management and expressed their sustainability requirements and commitment.

SME Suppliers

The suppliers provided insight into their business environments and their views on whether, and how, they could contribute to creating a more sustainable world. They received training in creating a sustainability report and provided feedback on their reporting process and the project.

International Consultants

Akzente kommunikation und beratung and Systain (referred to as “international consultants” in the context of the project) helped create the systematic framework for the training process and collected and processed feedback on the reporting process from the regional consultants.

Regional Consultants

Regional consultants were based locally and gave training using the methodology developed for the project and coached the suppliers through the nine-month reporting process. They translated sustainability reporting concepts for the suppliers, planned the reporting processes and provided the necessary insight into sectoral and local sustainability issues and cultural differences.

During the first year of the project a project Steering Committee, consisting of representatives from GTZ, GRI, MNEs and the international consultants, met twice to discuss and decide the set up and strategy of project process. All actors in the project met at a first mid-term conference in Eschborn, Germany in February 2008 and will meet again at the concluding conference in November 2008 to share experiences and results.

For an overview of how the different participants of the project relate, see figure 2.

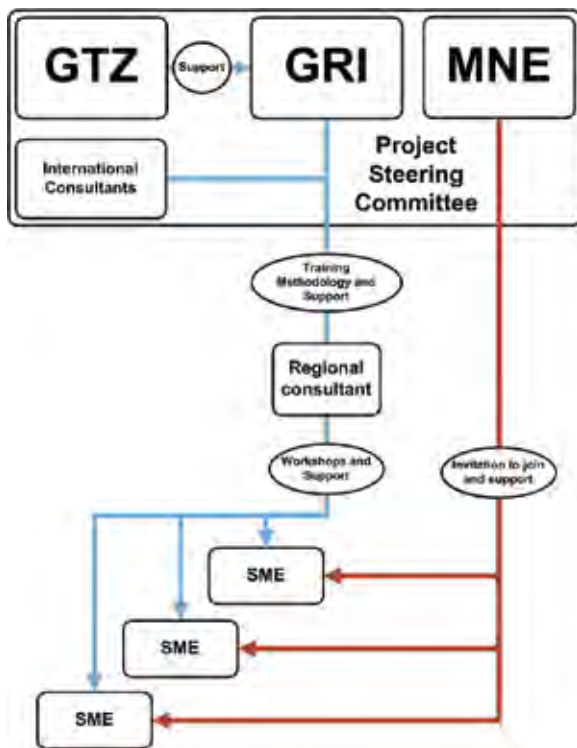


Figure 2. Overview of the relationships in the project

1.5 Implementation Plan of the Project

The two-year project is divided into four main phases: preparation, training and reporting process, and gathering feedback. The final results of the project will be presented in the autumn of 2008. For a timeline of the project, see Figure 3.

The identification of suitable participating European companies by GRI formed the first step of the project. Daimler AG (formerly DaimlerChrysler), Otto Group and Telefónica SA committed in December 2006. Puma AG joined in March 2007. The companies committed themselves to contribute additional funding to the project and to go through one cycle of sustainability reporting with their SME suppliers in emerging economies. Suppliers were invited by their clients to join the project at the start of 2007.

At the first steering committee meeting the details of the project were explained to the multinationals

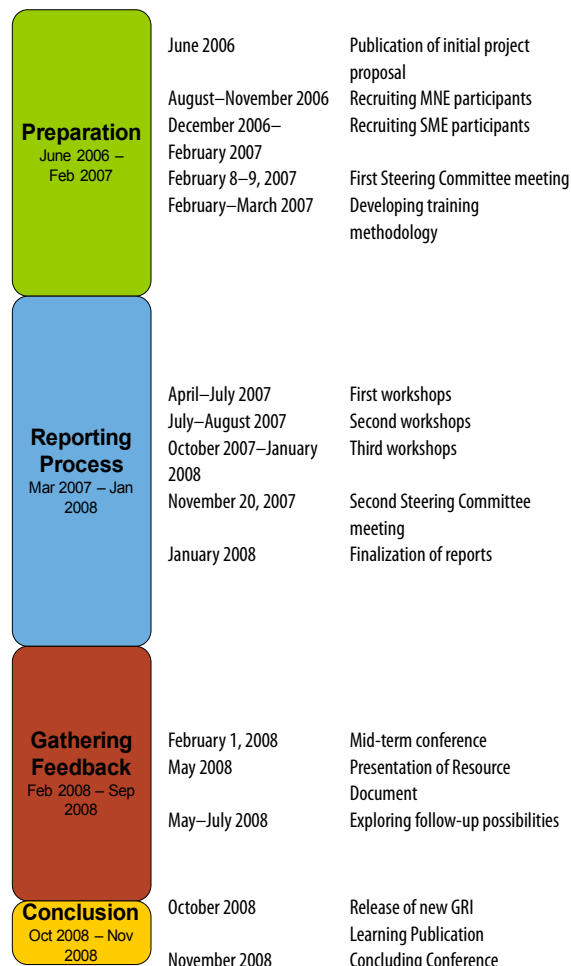


Figure 3. Project timeline

and the roles clarified. Based on the outcomes of this meeting GRI, in collaboration with international consultants, created a generic supplier training methodology to be implemented in three workshops during 2007. Actual training was provided by regional consultants familiar with the specific cultural and sectoral needs of the suppliers. The training methodology followed the five-step approach of the SME Handbook: namely **prepare, connect, define, monitor** and **report**. It was based on five guiding principles (see Figure 4.) and tailored to the development and knowledge level of the individual suppliers regarding sustainability and reporting in general.

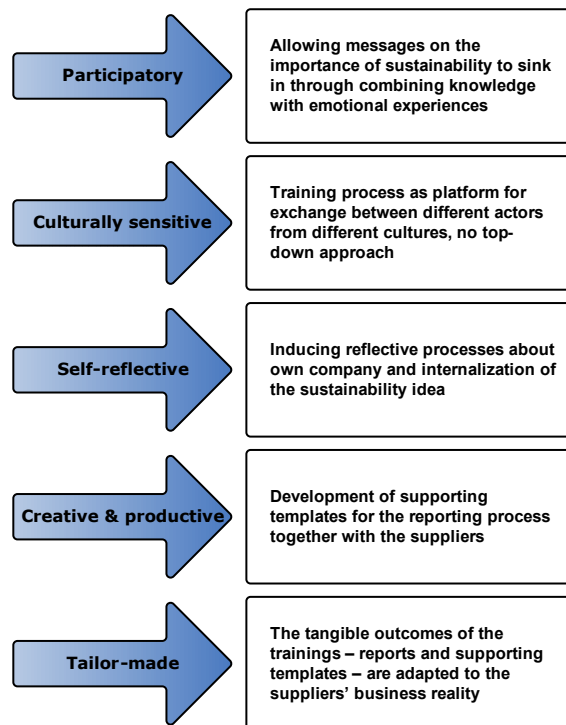


Figure 4. Guiding Principles for Training

The instruments for building up the necessary competencies and capacities included: three workshops, individual consultations between MNEs and SMEs, expert support by GRI, and specialized regional consultants. Additionally, a dedicated platform on the GRI portal was created to provide participating SME suppliers with access to technical resources as well as learning opportunities, both during and after the project.⁷ The platform was also intended as an exchange forum for discussion and experience for SMEs from all over the world.

The three workshops based on the five-step structure of the SME Handbook were planned as follows:

Workshop 1 – Prepare, Connect

Goals:

- creating commitment to the project;
- self-assessing current sustainability performance;

- developing of an action plan; and
- defining stakeholders to be contacted.

The first workshop laid the groundwork for the rest of the project. Whenever possible, the international consultant, MNE representative and a GRI representative were present at these workshops to introduce the actors and emphasize the importance of the project. The first workshop brought the suppliers in a region together to facilitate peer-to-peer engagement whenever possible.

Workshop 2 – Define, Monitor

Goals:

- defining a corporate responsibility strategy;
- setting priorities and defining action points;
- defining reporting strategy; and
- defining roles within the company (i.e., who does what).

The second workshop was an individual workshop for each supplier with a regional consultant and was designed to set them on a clear path for measuring the material indicators.

Workshop 3 – Report

Goals:

- presenting draft reports;
- understanding strong and weak points of the reports;
- understanding and dealing with problems that arose during the reporting process;
- finalizing the report; and
- dealing with technical aspects of publishing the report.

The third workshop was envisioned as an opportunity to share the positive and the negative aspects of the reporting process, as well as allowing for group review of the draft versions of the reports and to make final improvements. Suppliers were expected to finalize the reports after this last meeting.

In addition to these workshops, the regional consultants were asked to meet with the suppliers on an individual basis to get acquainted in a more

⁷ See <http://www.globalreporting.org/CurrentPriorities/Supply-Chain/Country+pages/> for the pages dedicated to the project.

informal setting before the first workshop. The workshops themselves were intended to be as interactive as possible, including role-play and group exercises to stimulate active learning by the participants.

Seven reports were finalized by the end of 2007 and feedback was discussed at the mid-term conference in February 2008. This feedback on the reporting process and the reports was an

important foundation for this resource document. The feedback on this resource document will be considered when developing a new GRI Learning Publication, which will be designed specifically for SMEs that are part of global supply chains in emerging economies. The aim is to release this new publication in the autumn of 2008. This would roughly coincide with the concluding conference of the entire project and the finalization of the second reporting cycle of some of the suppliers.



Part 2:

What Has Been Done So Far

This section provides an overview of the reporting process of the SME supplier participants. After general information on the participating MNEs and SMEs of a sector or region, the reporting process is described following the five-step approach of the SME Handbook (**prepare, connect, define, monitor and report**).

2.1 Chile (Telecommunications—Telefónica)

Telefónica Group is a telecommunications company with headquarters in Spain with a turnover of close to € 53 billion in 2006. It has 233,000 employees in 23 countries of operation. Aside from the Czech Republic, Germany, Ireland, Spain and the UK, Telefónica has a presence in almost all Latin American countries and Brazil.⁸

Before the start of the project, Telefónica Chile held a CSR (Corporate Social Responsibility) Workshop, March 26–29 2007 in Santiago de Chile in Chile. From the ten SMEs that attended this meeting, six expressed interest in joining the project. Three of these were eventually invited to join: Interplus SA, NewPost SA and Sinstel SA. Each of them completed a sustainability report by November 2007.

Interplus is a small IT services company that offers systems integration services to the Chilean domestic market. Interplus employs 48 individuals including engineers, technicians and administration. It has an annual turnover of approximately € 585,000.

NewPost is a distribution and logistics company operating in Chile. The company has 121 employees and a network of 1,500 couriers across Chile. It has an annual turnover of more than € 1.6 million.

Sinstel is an integrated telecommunications management services company with 37 employees, including nine partners. Annual turnover is over

€ 1.1 million. Sinstel has sporadically operated in other Latin-American countries but has no permanent representation outside of Chile.

2.1.1 The Reporting Process

During the first workshop in Chile the companies indicated that they saw the relevance of sustainability reporting, to enhance their partnership with their buyers, but they did not see its direct value. For them, the relevance was emphasized by the presence of representatives from both Telefónica Chile, as well as from the head office in Spain. The representatives of the SMEs indicated that they readily understood the structure of the training and that the way it was structured helped them. The second round of workshops consisted of a group evaluation as well as one-on-one sessions to deal with each individual company's issues. The final workshop allowed for a group review of the draft reports as scheduled.



Picture 1: MNE, supplier and consultant discussing sustainability concepts, Chile (Photograph by Leontien Plugge, 2007)

Prepare

The initial challenge the companies faced was primarily unfamiliarity with thinking about sustainability and transparency, both inside the company and among external stakeholders. As Nicolas Kipreos, Director of Sinstel put it:

⁸ Telefónica SA, *Corporate Responsibility Report 2006* (2007), p. 7.

"[T]he initial task is sensitizing people, so they have a consensus of what CSR [sustainability] is within the company, and also the adaptation process that the company takes in relation to CSR. As what was already there does not apply any more, you have to have an introductory stage to the CSR process. This is where the changes in company objectives are made clear, as the ones today aren't the same as the ones previously used."

According to the regional consultant, thinking about sustainability is still not common in Chile and typical suppliers and clients would not always be familiar with the concept of a company thinking about these issues and writing them up in a report. Generally, Chilean companies are described as hesitant to disclose their internal workings. However, the consultants were surprised at the frankness and openness the participating suppliers displayed in front of them.

Generally, the highest level managers of the companies attended the workshops throughout the project. This could be interpreted as a reflection of their commitment to the project. According to Jaime Díaz, Director of NewPost, the companies' own motives were an important aspect of the process. A contractual obligation would in many ways have been easier, but the voluntary nature added to the value of the exercise, in his opinion.

Connect

Stakeholder engagement was mentioned as one of the big challenges of the reporting process. Generally, stakeholders were not only unfamiliar with sustainability, but also with stakeholder engagement and dialogue as envisioned by the GRI Guidelines. As Jaime Díaz mentioned, there were credibility issues as well. Stakeholders found it difficult to believe the company would genuinely listen to their feedback on the company's performance. Eventually NewPost settled on using their call centers and personnel to call stakeholders with questionnaires in order to gain sufficient responses. Stakeholder engagement was the only process that caused some delay in overall progress.

Communicating with suppliers regarding sustainability issues was particularly difficult. Nicolas Kipreos highlighted the dilemma of dealing with suppliers about their internal issues: how could a small company like theirs, he argued, ask to see a supplier's internal operations without intruding, especially in a way that would not compromise future business relationships with them? Creating external awareness of sustainability is therefore as important as creating internal consensus.

Define

There seemed to be a tendency in the Chilean suppliers to identify key stakeholders through internal meetings and to identify material issues based purely on stakeholder dialogue. The companies would forgo internal materiality processes. For instance, NewPost identified their material issues by asking different stakeholders how they saw the contribution of the company to sustainability development. The challenge was how to pose the questions to the different stakeholders, both external and internal, in a way that would help determine material topics to report on. NewPost helped the different stakeholders to understand the sustainability-related questions posed. They included the results of their stakeholder dialogue, including material issues defined by those different stakeholders, in their report.⁹ Sinstel also made the expectations and interests of their stakeholders their most material issues. They created a multidisciplinary and balanced working group supervised by the managing director. The working group translated the feedback into the aspects that the company ought to measure.

Monitor

Data gathering and indicator measurement was relatively easy for the Chilean suppliers when it concerned legally required data, which was typically already available. However, in for example Interplus, their social and environmental data existed only as supplements to their financial figures. Reporting required establishing a data management system for economic, environmental and social data of the companies.

⁹ NewPost, *Reporte de Sostenibilidad* (2007), p.4.



All the companies also stated that there were increases in production costs without immediate returns. Starting the reporting process made the national expansion of NewPost 20-30% more expensive, for instance. The shareholders were eventually convinced by the argument that they would have needed to make these investments in their growing organization sooner or later. They anticipated that sustainability and transparency would become more and more of an issue for their clients.

Report

Generally the three suppliers came to see the value of reporting beyond their direct relations to Telefónica. Nicolas Kipreos, writes the following in Sinstel's report:

*"Sustainability represents a way to understand business from a perspective of reciprocity, trust and solidarity. It implies a change and opening up to a new mode of seeing and doing business. Sustainability is not a technique to achieve status as a special business, it is "the" way of being a business in a society that requires competitiveness and solidarity at the same time."*¹⁰

Overall, the Chilean companies described reporting as something that they would never have thought of themselves. In that respect, as Jaime Díaz indicated during the conference, they are grateful to Telefónica for inviting them to participate in this project. It allowed them to identify where there is room for improvement in their companies and it is something they will continue to do and develop, despite the effort involved.

The companies indicated that the reporting process triggered what they characterize as important changes within their organizations. NewPost was in the process of rapidly expanding their area of service to cover the entire country. The sustainability report allowed them to consolidate their vision and embed sustainability into the growing company. Interplus found that reporting allowed them to focus sustainability efforts by setting specific targets. It really drew in the

entire company in establishing a vision for the organization.

The companies expressed the concern that although clients increasingly stress the importance of issues such as sustainability reporting, they do not allow the costs to be calculated into suppliers' prices. This has forced the companies to utilize resources better. When asked whether they would continue to report after the project, they all confirmed they would. NewPost argued that the big investments to do so had already been made and that it would make sense to continue. Not to do so would be a loss and instead they wished to reap the benefits of their investment. Monica Díaz of Interplus mentioned it was not so much a question of whether to continue but how, i.e. deciding which resources could and would be allocated.

2.2 India (Automotive—Daimler)

Daimler, formerly DaimlerChrysler, is an automotive company based in Stuttgart, Germany. It is known for brands such as Mercedes, Smart and Maybach. 2007 saw the de-merger of the company into its constituent entities, Daimler AG and Chrysler LLC. Daimler remained committed to the project. The company employed around 272,000 people worldwide as at 31 December 2007 and saw a turnover of € 99 billion in 2007.

Daimler invited three companies near Pune and Aurangabad in India to participate in the project. These companies are in fact suppliers of Daimler India. One of the companies decided to withdraw from the project after the first workshop. The other two, Varroc Engineering and Victor Gaskets, successfully produced draft reports.

Varroc Engineering Pvt. Ltd is part of Varroc Group, comprising various metal, electrical and polymer production companies. Of Varroc Engineering, one unit, Walluj Plant VII (WP VII), was the focus of the project and produced a sustainability report. WP VII was established in 2005 and focuses on producing engine valves and cold and warm forged components. In 2007, about 330 people worked there and it had an estimated turnover of just over € 10 million.

¹⁰ Sinstel, *Reporte responsabilidad Corporativa 2006-2007* (2007), p. 5.

Victor Gaskets India Ltd. is part of Anand Group, which comprises various automotive components manufacturing companies. Victor Gaskets' main product category is gaskets for combustion engines. In the 2006-2007 financial year, its turnover was approximately € 5.1 million and it employed 152 people.

2.2.1 The Reporting Process

All three Indian companies participated in the first meeting in Pune, 24–25 April 2007. Eventually two companies signed the Terms of Reference to join the project and one declined to do so. This company was actually the first to confirm participation in the project but was faced with a big wave of employee turnover, which especially affected the department of management systems, who would have led the initiative within the company. Thus they were forced to decline participation.



Picture 2: Brainstorming on sustainability impacts, India (Photograph by Leontien Plugge, 2007)

Prepare

The first workshop was hosted by DaimlerChrysler India at their head office. The discussion was held at a very conceptual and philosophical level and the participants demonstrated an awareness of global sustainability issues such as global warming and water shortage, as well as health and safety challenges.

The participants in the workshops were not the most senior decision-makers in the company.

One of the main questions that arose during the discussions was how to familiarize employees in their factories with sustainability and create buy-in from top management, including those of the Corporate Groups. The representatives specifically wanted to hear the cut and dry business case for reporting. The suppliers' representatives themselves saw a clear role for DaimlerChrysler India to make sustainability reporting important to management. The companies also understood the value it could have for them. As Victor Gaskets mentioned, for instance, they hoped to improve their competitive position through pro-active management of sustainability issues. Likewise, Varroc Engineering started small management projects for environmental issues during the reporting period.

Connect

Both companies were unfamiliar with publishing external communication and engaging external stakeholders in dialogue. Victor Gaskets' key stakeholder groups were identified as employees, customers and suppliers. Varroc Engineering also counted government, society and investors among their stakeholders. Generally, the companies found stakeholder engagement challenging. According to the regional consultant, Dr. Aditi Halder, one of the issues was that it was not clear to the companies what value they could derive from the stakeholder engagement process. This was especially true for external stakeholder engagement.

Victor Gaskets' parent company, Anand Group, actively dealt with challenges such as motivation and nurturing the talent of its employees. Employees were identified as one of the top three stakeholder groups by both companies. Victor Gaskets perceived that reporting had helped to involve all employees in the company and educate them about sustainability. Varroc Engineering reported that they provide ample training and skills management for employees to build human capital and also take on a substantial number of apprentices each year. Nonetheless, employee turnover will make retaining reporting skills within the company a challenge.



Define

The main sustainability concerns for the Indian companies were health and safety issues, water usage, waste management, energy consumption and raw materials. In the automotive sector the risks in first tier suppliers are identified as environmental and health and safety issues, as the employees are typically highly educated and well-paid.

Health and safety issues related to fumes as well as the heavy machinery that was operated in the factory halls. The companies were already managing these issues when they started their sustainability report. Staff received training on these issues and machinery was adjusted in-factory to increase safety.

Two of the main environmental issues both companies mentioned in their reports were the dropping water table in their regions and waste management. The reports describe how they are currently managing their water resources as well as the related risk of chemical spillages and the management of factory waste. Varroc Engineering made changes to their waste handling management and installed a treatment plant during the reporting period.

The companies are growing businesses and they are also seeking to be more energy efficient, both for the environmental and economic benefits. For instance, Varroc Engineering installed ventilation in the halls which is wind-driven and heavy machinery automatically switches off when unattended.

The companies also identified their main inputs, steel and rare metals, as finite resources. Although they have implemented efficiency measures to reduce wasted material, something which has a direct economic benefit, they do not foresee their inputs changing in the near future. However, as Mr. Shankar, Vice President, of Victor Gaskets mentions in an interview, measuring sustainability impacts and reporting on them has drawn their attention to this issue more acutely:

"...more so in our case, since we use a lot of raw materials and we know that more than 50% of our materials are sold back as scrap. This [reporting] has shown a new focus; we have known it for fifteen, twenty, thirty years, I would say, but I think the focus we are putting on the consumption of materials has gone to a new level now. And I think it is all for the good."

On the other hand, not all initiatives were successful. For instance, an initiative to use recycled packaging material for their products was rejected by some customers as the quality was not good enough.

Monitor

The main concern both companies had was the impact of reporting and monitoring on resources within the company. Varroc Engineering indicated constraints on skilled personnel to monitor, analyze and create the text for the reports. Victor Gaskets also acknowledged that drawing on the time of managers who operate on the shop floor in a lean operation such as theirs is very difficult. As Mr. Shankar stated in an interview: "While we have this in our hearts, it does not come out in day-to-day operational management." It should be noted, however, that the reporting teams of Varroc Engineering and Victor Gaskets consisted of twelve and eight individuals respectively in the companies, making them comparatively large.

Report

Although the companies recognized sustainability issues, they were also apprehensive about the repercussions of publishing a report for a general public. However, for Mr. Shankar, reporting helped reinforce the conviction that they are on the right path with their existing thinking about company strategy. In many ways, sustainability issues had already been of concern to the company, although they did not identify them as such: "We at Anand Group have looked at sustainability without really defining it under the category of sustainability." Both factories intended to continue reporting and they foresaw themselves as being better able to manage their time when the reporting period is longer.

2.3 South Africa (Apparel and Footwear—Puma)

Puma is an apparel and footwear company based in Germany. Puma had 9,204 employees at the end of 2007 and an annual turnover of almost € 2.4 billion during that year. Puma sells globally and sources from suppliers all around the world, although mainly the Far East. The majority of Puma's suppliers could be categorized as either small or medium-sized companies. Puma has several suppliers in South Africa, three of which were invited to join the project. One withdrew from the project after the first workshop. The other two, Impahla Clothing and Vimal Clothing, have successfully produced a sustainability report; a third company, Suzi Products, which joined the project at a later stage, started working on producing its report in February 2008.

Impahla Clothing is a South Africa-based SME or Qualified Small Enterprise (QSE) as defined by the South African government.¹¹ Impahla employed just under 100 employees at the end of 2007 and produced garments for the local, African, as well as the international, market. They supply various international brands, amongst which are Puma, New Balance and Adidas.

Vimal Clothing recently passed the 35 million Rand annual turnover mark and therefore could technically no longer be qualified as QSE according to South African Government definitions. Vimal had 526 employees at the end of 2007. Vimal is currently producing garments for corporations such as Adidas, Puma, Nike, Reebok and the Foschini Group.

2.3.1 The Reporting Process

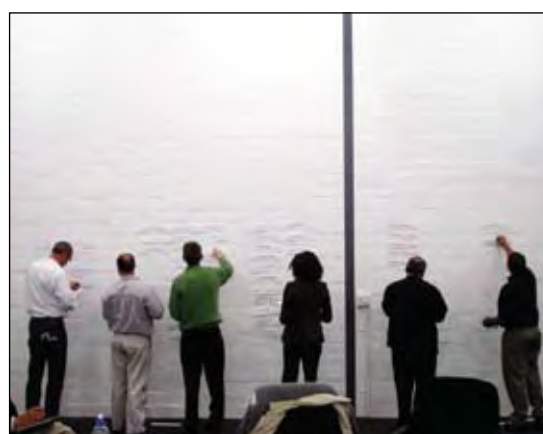
Of the three companies initially invited by Puma to join the project, two continued after the first workshop. The third withdrew citing among other things that they did not see their supplies to Puma as significant enough. From the start there has been a strong commitment from Impahla and Vimal because their owner/managers were directly involved in the process rather than more junior

¹¹ A QSE has an annual turnover between five and thirty-five million Rand, which converts to between approximately € 425,000 and € 3,000,000.

personnel. In September 2007, Suzi Products was identified as a suitable candidate to also produce a report. Unfortunately, this meant that they could not follow the same reporting trajectory as Impahla and Vimal, even though the project in South Africa started later, with the first workshop only taking place in July 2007.

Prepare

From the start it was clear there were several restrictions on the companies' abilities to produce reports. These restrictions related mainly to skills, time and familiarity with the concepts. The nature of the factories as small or medium-sized garment producers forces them to run lean businesses. This and the lack of personnel skilled to write a sustainability report made it difficult for the factories to find the necessary internal resources to produce the report. This was the case despite substantial help from Michael Rea, the regional consultant in South Africa. Even during the face-to-face coaching sessions, the regional consultant sometimes experienced interruptions because of urgent factory-related issues that needed attention from the owners/managers on the spot.



Picture 3: Prioritizing stakeholders, South Africa
(Photo by Leontien Plugge 2007)

Connect

All three companies were unfamiliar with sustainability reporting related concepts, such as stakeholder engagement or the jargon of communicating social and environmental issues,



especially to factory employees. The approach the regional consultant took was often to strike up a conversation with employees. He would then explain the concepts and identify issues as they came up and provide them with the appropriate “label” to be included in the report. Likewise, external stakeholder engagement was often done in the form of an analysis of pre-existing demands of buyers, such as their codes of conduct and compliance requirements. The priorities would be derived from these documents instead of direct engagement.

Define

As the regional consultant identified, these SMEs, being non-listed, did not have boards or shareholders looking over their shoulders, so the report was a unique opportunity for self-analysis. As both Impahla and Vimal mentioned:

“The value of this report may not lie within these pages, but rather within the many lessons we learned while pulling this information together.”¹²

The most important benefit Impahla and Vimal identified out of the process was identifying data that could be managed to improve the running of the business. It provided Vimal the opportunity to reconsider the bonus structure in order to better motivate employees. Generally, Vimal made changes to become more accessible to employees, improving labor-management relations and interactions. Both companies committed to reducing solid waste and to continue to monitor electricity and water consumption and to manage the use of these resources.

Monitor

Due to the time restrictions and a lack of corporate writing skills in the companies, the regional consultant made a substantial contribution to the data gathering and writing of the reports. The sponsored consultancy offered by the project may on the one hand have been necessary in order to educate the companies on measuring and sustainability reporting, yet it may unintentionally

also have led to consultant’s time to be undervalued on the ground. Operational issues tended to take priority over reporting even when the consultant was making or scheduled to make a site visit.

The general manager of Impahla, William Hughes, was frequently required to help with regular production-related work, especially as the Operations Manager had recently resigned due to the company’s relocation. This departure and the relocation made the reporting period especially busy. These issues could be seen as indicative of some of the challenges smaller companies face when considering sustainability reporting. Impahla and Vimal continuously emphasized their commitment to producing a report and did not cite financial restrictions as barriers. They almost exclusively referred to the “time costs” as opposed to “money costs”. One of the solutions to this time issue found during the project was committing some Saturdays to working on the report.

Report

Whether the companies would be able to produce a sustainability report independently or be able to update their current reports depends on the priority it would be given in their business. The companies identified the need to be able to differentiate their companies from their competitors, especially internationally. However, they did emphasize that their clients would also have to make sustainability initiatives a more important issue for it to become more commonplace.

Nevertheless, the reports were an opportunity to communicate policy and legal adherence to important South African law and priorities. Both companies emphasized their African pride and translated this into local sourcing policies. Furthermore, the reports address such issues as equal opportunity for employees, showing developments in the distribution between white, black and colored employees, as well as male and female. The reports also address important health and safety issues, such as managing the threat of HIV/AIDS. With the help of the regional consultant, both companies found a destination for their larger off-cuts, donating them to rural

¹² Impahla Clothing, *Impahla Clothing Sustainability Report 2007* (2008), p. 2. Vimal Clothing, *Vimal Clothing Sustainability Report 2007* (2008), p. 2.

economic development projects, frequently with a high HIV/AIDS prevalence rate, who were able to manufacture clothes and other items out of the off-cuts.

The companies saw the reporting process as an opportunity and valuable contribution to their businesses, as Vimal's owner, Nayan Kalidas, writes in their report:

*"We knew that our success over the past 26 years has been based on our ability to focus on being 'a good company', but we never had an occasion to understand that our customer and employee-centric approaches to surviving in a highly competitive market were of interest to people other than ourselves. The reporting process has therefore helped us understand how well we have been doing, while allowing us a unique opportunity to consider whether the business as a whole, or specific components within it, could be improved."*¹³

The companies indicated they would produce another report or update the current report. Impahla mentioned they would be actively sharing the report with their other clients and seeking their feedback. Michael Rea also emphasized his take on the value of reporting for these types of companies, saying that such a report "wasn't an advert, it was about answering questions that people want answered before they ask them." Similar to other regions, the South African companies identified reporting not so much as a gesture towards their client, Puma, but as an exercise that will help their businesses in general.

2.4 China, Thailand, Turkey (Retail—Otto Group)

The Otto Group is a globally active retail and service group based in Hamburg, Germany, with a turnover of € 15.25 billion in the financial year 2006-2007 and approximately 53,000 employees. Otto Group has suppliers in China (including Hong Kong), India, Bangladesh, Turkey, Vietnam, Pakistan, Indonesia, Thailand, Mauritius, Bulgaria and the United Arab Emirates, amongst other countries. Of their relationship with their suppliers, they say:

*"We develop relationships with our suppliers that are fair and based on trust. We commit ourselves to business activities that are environmentally friendly and socially responsible, and refuse to accept destructive effects on the natural world or inhumane working conditions."*¹⁴

The three participating Otto Group suppliers were spread over three countries, namely China, Thailand and Turkey. This led to one-on-one workshops for the different participants in these regions.

Shunde Hengfa Knitting Garment Co. Ltd is a traditional family-run factory is a cut and sew factory in the Longjiang District in China with women's lingerie as their main product. They are part of the Hong Kong-based Wan Fat Group and have over 200 employees. Their turnover was around € 600,000 for the reporting period (January–October 2007).

Art on Stitch Co. Ltd. (AOS) is a medium-sized family-owned Thai business that produces knitwear. AOS has approximately 350 employees and an annual turnover of € 2.2 million.

Topkapi Iplik is a Turkish yarn spinning company with 516 employees and three plants and a knitting mill located in Hadimkoy (Istanbul) owned by the Akinci family.

2.4.1 The Reporting Process

The training of all three Otto suppliers consisted of individual meetings between the regional consultant and the reporting team. The envisioned three individual workshops for the Otto suppliers did not work out. The regional consultants had monthly contact visits with the suppliers to help them with the reporting process. Most of the regional consultants felt that these short monthly updates (2-3 hours) helped the responsible persons within the SMEs to focus on the reporting process and make time to do this. The training with Topkapi was conducted by a Turkish regional consultant who visited them monthly and contacted them on a weekly basis by phone.

¹³ Vimal Clothing, *Vimal Clothing Sustainability Report 2007* (2008), p. 1.

¹⁴ Otto, *Facts (&) Figures for the 2006/07 financial year* (2007), p. 2.



*Picture 3: First workshop of the project with Shunde Hengfa Knitting Garment Company, China
(Photograph by Hayley Wong, 2007)*

Prepare

Shunde Hengfa identified that sustainability was a very new topic to SMEs in their country. They had just finalized their Business Social Compliance Initiative (BSCI)¹⁵ certification process for the first time in 2007. AOS was more familiar with sustainability issues through implementing the BSCI standard and the Thai standard for social responsibility since 1993. They have comprehensive social management systems in place and saw the report as a way to present their BSCI implementation and their participation in the Productivity Improvement Programme of the Thai Government. Topkapi was the most advanced supplier of all suppliers of the project regarding sustainability topics. They have ISO 14001 and SA8000 certification and are the first certified organic yarn producer in Turkey.

The regional consultant needed to provide the initial motivation for Shunde Hengfa to actively engage in the reporting process. Shunde was initially critical of implementing the project as they had never been asked by any of their customers to create a sustainability report. Their trust relationship with Otto and the regional consultant helped in taking the first step. As the regional consultant put it:

“[At] the end of the day we were not facing any resistance to talk about their overtime requirements, for instance, based on their trust that we support them in a way that does not create a bad or negative image for them and support them [in] finding solutions.”

AOS indicated right at the beginning of the project that even though they were joining because of the invitation of the Otto Group, they had a strong commitment to improve their sustainability performance and therefore saw the importance of sustainability reporting.

Topkapi began the project “deeply convinced that the economic development of our enterprise must be in accordance with our ecological and social environment.”¹⁶ They realized that sustainability issues were becoming factors influencing customer behavior and re-organized their company strategy, from a marketing-orientated strategy to a sustainable marketing concept. As Topkapi Board member Seher Akinci mentioned during the kick-off meeting: “As pioneer supplier in social and environmental management, it is our aim to also be a leader in sustainability reporting and first Turkish reporter.”

Connect

AOS recognized their influence on the community when they built a new factory and created economic activity in the region. “We see it as our responsibility to remain active in this area and involved, as much as possible, in the development of the area so that the community can prosper with us.” Because of this view it was relatively easy for AOS to conduct external stakeholder engagement. The report described that top management plays an active role in the local village council, meetings with local government and trade association. Mr. Seantad Chareyalerpongs, the Executive Director, holds monthly meetings with all factory employees. Translation is provided during these meetings for migrant workers and anonymous suggestion boxes are available.

¹⁵ See <http://www.bsci-eu.org/content.php> for more information on BSCI certification.

¹⁶ Topkapi Iplik, *Sustainability Report '07* (2008), p. 9.

For Topkapi, many of the concepts of the reporting process, such as stakeholder engagement, were not completely new to the company, but they had a hard time recognizing the concepts. As described in their report: “The reporting process helped us to reflect on the impact we have on the people we are in contact with through our daily business.”¹⁷ Topkapi visited municipal government bodies, local companies, and community leaders, talked to all their employees in group discussions, and involved customers through email-questionnaires or phone interviews in order to get their feedback.

Shunde’s two main stakeholder groups were its employees, whom they engage regularly in labor management meetings, and their clients, particularly Otto.

The biggest challenges with the reporting process and the training for all three Otto suppliers was the language barrier. In the beginning many questions remained unanswered by the suppliers until the regional consultants found out that this did not mean that they did not have answers, but that they did not understand the questions. The terminology used in the training is very different from the English the staff understands—if they understand English at all—and often there is no real translation available. “Stakeholder engagement” was the most difficult terminology to explain, especially in China.

In Turkey they also experienced language barriers when talking to their foreign buyers about the reporting process through questionnaires and emails, which caused delays in feedback from these buyers.

Define

The most material issues for Shunde Hengfa were issues regarding their employees. They were coping with a shortage of labor in the region and therefore employee satisfaction and the retaining of skilled workers—most of the work is carried out manually—was considered vital to the company. Shunde has written openly in their report on the issue of overtime and their use of the BCSI standard as the way to address this issue:

“Gradually we have managed to keep our overtime hours in line with the legal limit, though peak seasons are still a challenge. It is our key priority to further control this issue.”¹⁸

The second challenge Shunde addressed through the reporting process was enhancing their dialogue with their workers as part of the stakeholder engagement process. Shunde identified the biggest challenge during their reporting process as the identification of stakeholders. Part of the reason for this was that they had difficulty understanding the concept, just as they had difficulties understanding the concept of “sustainability” or “materiality”. These terminologies are not the norm in the Chinese cultural and political climate, but the ideas behind them were understood once the regional consultants had explained them.

The key challenges defined by AOS were water pollution and climate change. AOS used recycled water from their washing unit to irrigate their orchid garden. This originally “small green project” is turning out to be so successful that now AOS is considering exporting orchids as a secondary business.

AOS chooses suppliers and subcontractors based on selection criteria of which one is compliance with social responsibility and environmental standards. According to AOS, one of their main contributions to sustainable development is the fact that they are planning to offer co-operation and assistance directly to their suppliers and subcontractors in order to help them improve their social and environmental standards as well.

Topkapi defined their reporting priorities and material impacts around stakeholder feedback as well as on their assessment of the impacts that their growth target of 24 percent will create. They designed their report around the demands and needs of their different stakeholder groups.

¹⁷ Topkapi Iplik, *Sustainability Report '07* (2008), p. 12.

¹⁸ Shunde Hengfa Knitting Garment Co. Ltd., *Sustainability Report of Shunde Hengfa Knitting Garment Co. Ltd. 2007* (2008), p. 12.



Picture 4: Defining stakeholders, Turkey
(Photograph by Leontien Plugge, 2007)

Monitor

Mr. Hugo Lui, Assistant to the Managing Director of Shunde Hengfa and person responsible for the reporting process, stated that “Systematic collection of data, analysis of the data and being transparent about the data gives our middle management a comprehensive understanding of the operation process of our factory.” It helped tie the factory together and set priorities.

To AOS, the reporting process was a useful step-by-step approach towards creating a report, although its biggest contribution was measuring and the management it allowed. As Seantad explained: “Measuring is important, but more important is the fact that it enables to set targets and improve. The setting of targets helped all employees work towards common goals.”

Topkapi integrated the measuring and monitoring practice into the company’s operations, stating in their report that they “will set monthly and yearly targets to specific indicators as of January 2008.”¹⁹

Report

The Shunde Hengfa’s report covered a period of six months (June–December 2007) and the company is planning to bring out a second report in two years’ time. The supplier felt comfortable slowly building

up reporting practices and capabilities. They chose a small number of GRI indicators to comply with level C reporting of the G3 Guidelines. The report was produced in Chinese and English in order to reach both local and international readers. A positive aspect of the report was that it formulated goals for the next five years as an end note, such as reducing waste by using an auto plotting machine and offering more skills training courses.

The AOS report covered a period of eight months (April–December 2007) and they plan to report on a yearly basis. They intend to share their report with other possible buyers and with their peers. One of the outcomes of the project was that AOS initiated and organized a meeting for the Thai Business Association of Garment Exporters. They wanted to share their experiences with reporting and open a dialogue about how reporting could help other Thai garment manufacturers increase their competitive advantage and therefore that of the Thai garment market as a whole.

Topkapi’s report covered the period January to September 2007 and they self-declared a level B. The company plans to report every two years.

Overall, the reporting process has helped the suppliers become aware of the additional aspects of doing business—not just price and quality. It showed them where they stood, what they need to measure and improve. “Besides paying attention to quality and technology, and with the fast development of globalization, we realize the importance of being a socially responsible enterprise in order to stay competitive in the market.”²⁰

According to Karl Borgschultze in China, “Convincing SMEs to measure is easier than convincing them to communicate; it is easier to sell the internal benefits than the external in the beginning.” In Turkey it was the other way around. There they saw the end product as most valuable and a way to explain their way of doing business to the rest of the world.

¹⁹ Topkapi Iplik, *Sustainability Report 2007* (2008), p. 5.

²⁰ Liu Yue Quan, Managing Director, Shunde Hengfa, *Sustainability Report of Shunde Hengfa Knitting Garment Co. Ltd. 2007* (2007), p. 2.

A common problem for the Otto Group suppliers was a lack of employees capable of writing the actual report. Some relatively small suppliers, unlike many large companies, might not have specific people working on communication. Sometimes the people in charge of the operating or production process also needed to write parts of the report. In China, Turkey and Thailand this meant that the regional consultants also coached employees on how to write down their findings in a report.

In addition, it seemed to be difficult for the suppliers to put the report in the right context as Ms. Bergstein (international consultant) stated. The reflective part of the reporting process—what do all these measurements mean?—is often not part of the existing company culture and is something totally new for the suppliers.



Part 3:

Initial Feedback

The mid-term conference took place on 1 February 2008. It brought together six suppliers, representatives from the Four MNEs, all international and regional consultants, and representatives of GTZ and GRI to discuss the experiences and results of the project.²¹ The central objective of the conference was to receive the participants' inputs on the research question which this resource document addresses:

What is the added value of the sustainability reporting process for SME suppliers in emerging economies and their multinational buyers?

The practical piloting of supplier reporting was successful, with ten reports being produced out of the twelve original suppliers participating and one report that will come out mid 2008. The secondary objective of the mid-term conference was to elicit how suppliers, buyers and GRI can create an enabling environment to build up supplier reporting in the future.

In order to satisfactorily address these issues, the suppliers were asked to prepare answers to the following questions:

- 1. What did you see as the most positive and most negative aspects of your reporting experience?*
- 2. Which aspects did you find easy to report on and which did you find difficult to report on?*
- 3. What did you expect from your report beforehand and what changes did it prompt within your organization?*

A final question, designed to elicit concrete tips for improvement of the training methodology and procedure, was asked during the conference itself:

- 4. What do you need to continue your reporting cycle or what would others need to get started (in the way of e.g. a manual or training)?*

²¹ The six suppliers attending were: Impahla Clothing, NewPost S.A., Suzi Products, Tokpapi Iplik, Varroc Group, Vimal Clothing Enterprise C.C.

This question intended to capture reporting from the suppliers' perspective and how to continue reporting without the support that the pilot project offered. It also tried to elicit what opportunities the suppliers saw to persuade their peers or SMEs around the world to take up reporting.

Buyers were asked to prepare answers to the following questions:

- 1. What were your expectations at the start of the project? How do they compare to the results as seen by your organization?*
- 2. How useful is it to work more closely with suppliers?*

And asked to answer this question during the conference:

- 3. What does your organization see as the next steps towards extending reporting in the supply chain?*

This question was designed to encourage the buyers to think of ways that they could support sustainability reporting by their suppliers.

The following results are the outcomes of discussions during the conference. Generally, most findings summarized here were mentioned by two or more of the participants, although some notable contributions and insights from individual participants are also included.

3.1 SME Suppliers

- 1. What did you see as the most positive and most negative aspects of your reporting experience?*

The most positive aspects of the reporting process mentioned were:

Improvement of management systems

For many of the SMEs the reporting process, with the consultant's help, was the first sustainability management exercise they had ever done. The selecting and measuring of indicators forced them

to develop various management systems. They got a better insight into their organization and it helped in communicating important company information and priorities to middle management and the work floor. By taking the time to take a good look at their organization the companies could more easily identify problems, which helped them manage sustainability issues. For example, after reviewing contracts, one of the Chilean companies found that their only female manager was in fact being paid less than her male counterparts. This was immediately rectified. One of the South African SMEs aligned their production figures with actual deliveries, rather than measure what came off the line. This provided more accurate efficiency and production loss figures.

Stakeholder engagement (internal and external)

Starting to actively engage with stakeholders or restoring relationships with them was seen as a positive outcome of the process. The dialogue gave the companies a better sense of their identity. In South Africa, for instance, the stakeholder dialogue reinforced their links with their local community. The interaction between management and employees improved as the employees were involved in the reporting process as stakeholders or contributors. The reporting process often turned into a project that touched everyone in the company and taught them something about the company.

Awareness of sustainability

The suppliers also got a better understanding of sustainability and the global dialogue on this topic. They became more familiar with global sustainability concerns, such as CO₂ emissions and waste, but also with their local sustainability impacts. One of the South African companies found that they could support the economic development of a community of women suffering from AIDS by providing them with off-cuts from the factory which would otherwise have been discarded. These women could use them to create and sell home-made goods.



Picture 5: Exchanging ideas at the midterm conference, Germany (Photograph by Joris Wiemer, 2008)

The most negative aspects of the reporting process identified were:

Sustainability language

The language of sustainability was unfamiliar. The jargon and phrasing was described as academic and outside the suppliers' regular experience. The regional consultants needed to provide much translation and local examples to increase understanding of the terminology.

Stakeholder engagement (internal and external)

Several suppliers, particularly in the apparel and footwear sector, indicated that internal stakeholder engagement with employees had been easy and straightforward, whereas external stakeholder engagement had been more difficult. There was a perception that stakeholders had to be educated in their roles in the dialogue. Stakeholders were sometimes not forthcoming with inputs. Some suppliers engaged with their other clients and experienced that these buyers did not consider reporting relevant for their suppliers and were content with the status quo. Some suppliers also experienced that local organizations were not used to the company coming to them and they were at times skeptical of the organization's motives.



Time involved

Generally, the suppliers found that the reporting process itself (especially the data gathering and report writing) cost quite a lot of time and the reporting process was not without cost implications. The apparel and footwear companies, for instance, all expressed their willingness to report and expressed a readiness to carry some of the costs they were confronted with. They considered the “time cost”, as opposed to the “money cost”, very high. They acknowledged the relevance of reporting, but did not seem to consider it as a direct contribution to the bottom line of their lean operations.

2. Which aspects did you find easy to report on and which did you find difficult to report on?

Indicators that were already being measured prior to the start of the project were available and easily retrievable for the reports. Material, water and energy use figures, as well as emissions, were described as being easy aspects to report on by roughly half of the suppliers, whereas the other half mentioned one or several of these topics specifically as difficult aspects of their reporting process. This is probably a reflection of whether or not specific systems needed to be set up to measure these indicators. Indicators related to the day-to-day business of factories, such as injury logs and financial data, were generally easy to come by. Conversely, accurate absenteeism and lateness figures proved hard to obtain for several of the companies. Several of the suppliers indicated that the basic data had been easy to retrieve. However, actually building management processes based on them, especially regarding social issues such as human rights and environmental issues, was more difficult.

3. What did you expect from your report beforehand and what changes did it prompt within your organization?

Most suppliers indicated they did not have a clear idea what to expect from the reporting process when they started. Expectations described here are therefore more a reflection of future expectations

than those at the beginning of the project. The suppliers indicated they hoped it would improve relations, both in frequency and quality of interactions, with internal stakeholders such as their own workers, but also with their external stakeholders. Being seen as a good corporate citizen by the surrounding community and improving relations with their clients were both mentioned as expectations. All suppliers recognized that both reporting and stakeholder engagement were public accountability exercises which might increase the expectations stakeholders have of their organizations as well as improve their reputation.

The suppliers described the impacts the reporting process had had so far in terms of heightened awareness of sustainability issues and a higher level of clarity and engagement throughout the company. Interactions with employees improved and the suppliers all got a better sense of what it is they can do to be more respected and sustainable organizations.

The reporting process in general prompted the suppliers to think about the future. Reporting has helped build the capacity for long-term strategic thinking; as one apparel and footwear company put it, they achieved: “better control, [it has become] easier to plan the factory’s future development”. Generally, the companies have found their own value in reporting, but the conference showed that the MNE buyer and supplier relationship is important in stimulating suppliers to take up reporting in the first place and to stick to it.

4. What do you need to continue your reporting cycle or what would others need to get started (in the way of e.g. a manual or training)?

It was apparent during the project that larger suppliers and suppliers already familiar with sustainability concepts found the reporting exercise easier. Generally, suppliers that were familiar with sustainability before the start of the project also most readily saw the value of reporting. Additionally, the larger suppliers were able to commit more time and resources to the reporting process. Some of the suppliers only had one or two

people able to work on the report, whereas others could dedicate a team to the process. Regardless of relative effort, most suppliers came to understand sustainability and sustainability requirements of their clients and the importance of measuring their impacts. They acknowledged that reporting is something that is potentially beneficial for their own organization beyond what it means for their relationship with their clients and/or MNE partners in this project.

The stimulus provided by the MNEs for suppliers to start reporting proved an important incentive. Making reporting directly relevant for suppliers helped them overcome the initial barrier of unfamiliarity with sustainability reporting. Interestingly, there was a clear division between the value that the SMEs came to see in reporting as the project developed (integrating personal values, “doing the right thing”) and what they still believe would be needed to convince their peers or other SMEs to start reporting (a clear business case). The suppliers saw this “ignition” of the process to be mainly a role for their MNE clients, although business associations, NGOs and media could also play an important role in this as well.

As mentioned above, in several companies the reporter was the manager and worked on the factory floor as well, which made setting time aside for the reporting process difficult. Most of the suppliers indicated they would continue to need the help of an expert to report again, although they were confident the process would take less effort during the next cycle.

Based on their and the consultants’ experiences, the SME Handbook proved sometimes too challenging as an introduction to the subject and simplified material with local examples would be better. It would help the suppliers to have a more accessible handbook, written in everyday, perhaps even culturally specific, language. Additionally, several participants also suggested a simplified version of the GRI reporting framework itself.

The suppliers indicated they were very willing to share their experiences with their peers so that the

latter might benefit from their insights and take away some of the uncertainty a large project such as reporting can create for small organizations. They expressed their willingness to become role models of how reporting can improve a business. The suppliers see reporting and sharing experiences as a way to gain an advantage by enhancing the competitiveness of the entire domestic market in the international arena, rather than just their own businesses. Some suppliers are willing to promote their reports as benchmarks for their peers. This has already been put into practice in Thailand, where Art on Stitch hosted an event for the Thai Garment Manufacturers Association and presented their report. There are some concerns that reporting may raise the bar too high for peers and in fact scare them off.

Nevertheless, suppliers agreed that the fact that they are small businesses (some of them very small) does not preclude them from focusing on sustainability issues and reporting. The suppliers also conveyed the message that it was not necessarily the outcome, the report itself, which was important for them. It had mainly been the reporting process that added value to their business. Monitoring and setting targets has helped most of the suppliers create change in their business management. They said they were committed to incrementally embedding sustainability into their business.

3.2 MNEs

1. *What were your expectations at the start of the project? How do they compare to the results as seen by your organization?*

The main focus of the MNEs in this project was to convey the relevance of sustainability issues to the suppliers, raise awareness, and get a better insight into the supply chain. They had expected to see enhanced sustainability management in the suppliers, but did not necessarily expect reports as an outcome of the project and were positively surprised by the number and quality of the reports. One company echoed one of the ambitions of the project: that of giving the suppliers the ability to



speak for themselves through a report, rather than passively responding to demands for management of certain issues, and making them more aware and stronger organizations because of it. Overall, the MNEs hoped to enhance the quality of their supply base.

These expectations were met and in some cases exceeded. Reporting not only raised awareness, but also helped to change management approaches. It has proven to be a catalyst for initiating more proactive sustainability management. The most positive outcome was that there was a high level of commitment and a strong feeling of ownership at the supplier level. The suppliers felt increasingly responsible for creating transparency in their companies beyond simple compliance.

Generally, the project was viewed as a successful corporate responsibility management capacity-building project for which the MNEs saw some possibilities for expansion and more general inclusion into their supply chain management.

2. How useful is it to work more closely with suppliers?

The MNEs assumed that the suppliers are competent and well trained enough now to continue to enhance their reporting practice in the next year on their own. MNEs saw reporting as a tool to stimulate suppliers to take ownership of and responsibility for sustainability issues rather than as part of an external demand for accountability. The report should have value to the suppliers beyond the value the MNEs attach to it.

The MNEs saw it as premature to attach concrete business incentives to the writing of reports or to use reports as a way of obtaining compliance data from suppliers. Certifications, audits and labels are at the moment more valuable from a business perspective. The MNEs did, however, indicate that

they will be inclined towards suppliers that take their own responsibilities seriously with regard to sustainability and that reporting suppliers will automatically stand out in the market. They saw this type of collaboration to create sustainability reports as something they would do with premium suppliers, which is an incentive in itself. However, the MNEs believed that the suppliers' business environments should also come to emphasize sustainability more.

3. What does your organization see as the next steps towards extending reporting in the supply chain?

The MNEs mentioned concrete steps they could take to stimulate ownership of sustainability issues by suppliers through reporting. They would be willing to attach "soft" incentives to reporting, such as recognition by e.g. citing them as best practice examples (for instance on their website). The MNEs expected suppliers to carry the burden of reporting but are committed to provide capacity-building support to advanced key (premium) suppliers to take up reporting. They expressed interest in the continuation of capacity-building, such as through experience sharing, while not offering or demanding any binding commitments from the suppliers. MNEs acknowledged they can also help by clearly formulating a systematic approach to reporting, especially: what data is relevant to them as important, but not exclusive, stakeholders. The MNEs also emphasized the importance of clear, concise guidance for the suppliers in an effort to avoid making the process too costly by adding intensive consultant support. One of the concerns, however, is the great diversity of their supply bases and different suppliers, both in type and economic and cultural context, who will each need a different type of approach to make reporting work.

Several of the companies are exploring whether and how they can integrate supplier reporting into sustainable supply chain management.

Part 4:

Conclusions

It is important to state that the SMEs in this project cannot be taken as a representative sample of SMEs around the world, despite the fact that they were diverse in size, sector and location. A clear common characteristic is that all these SMEs are part of supply chains of multinational enterprises. They compete either directly or indirectly with other similar companies all over the world.

The following conclusions are based on the extensive feedback GRI received from this small group of companies and other project participants.²² The findings agree to a large degree with similar investigations into the topic of sustainability in SMEs.²³ The feedback is based on one finalized reporting cycle, so the companies have been able to clarify the value they have derived from this cycle and to a limited extent describe the value they expect to derive in the future. Despite the small sample in time and number, the intention of these conclusions is to reveal *what the value of sustainability reporting is and can be for SMEs in global supply chains and their MNE buyers* as seen by the GRI. The lessons learned from this project will be used to implement future GRI projects regarding this topic.

4.1 Added Value Seen by Suppliers

We experienced that the main reason for SME suppliers to join this project was a request from their main client. However, the suppliers participating in this project identified the following values that they derived or hope to derive from the reporting process:

Achieve competitive advantage and leadership

Reporting is a tool for suppliers to increase their competitive advantage. Reporting opens up

opportunities for entrepreneurial businesses that have sustainable products, sustainability management processes in place and/or are willing to be transparent and accountable. This allows them to meet, or even exceed, buyers' requirements and expectations. The reports allow SMEs to communicate their performance on issues they know are important to buyers and potential new clients. Reporting helps build sustainable business relationships. As one of the regional consultants put it: "There are big opportunities out there for a supplier that can voluntarily prove that it is operating in a manner that is consistent with global ethical and environmental expectations." By extension, as some of the Thai and South African suppliers indicated, making reporting commonplace nationally in a sector has the potential to enhance the reputation and marketability of that sector in the international market.



Picture 6: Mr. Chareyalrongs of AoS, sharing his reporting experience with the Thai Business Association of Garment Exporters, Thailand (Photograph by Karl Borgschulze, 2008)

Improve internal processes and set goals

One of the biggest advantages suppliers recognize in the reporting process is the improvement of their internal management. The stakeholder engagement process gathers perspectives on the company that they often have not heard before. The monitoring process for the report triggers

²² See Annex.

²³ See, for instance, Grayson, D. and Dodd, T. "Small is Sustainable (and Beautiful!): Encouraging European Smaller Enterprises to be Sustainable" (2007) *Doughty Centre Occasional Papers*, Bedford, UK: The Doughty Centre for Corporate Responsibility, Cranfield School of Management, www.som.cranfield.ac.uk/som/research/centres/ccr/downloads/Small_is_%. Accessed: 15 March 2008.



the creation of more structured management and target setting around sustainability topics. It forces a company to think about its goals and formulate a feasible way to achieve them. Reporting helps suppliers take a good look at themselves and forces them to think about their future.

Enhance reputation, achieve trust and respect

Reporting allows suppliers to tell their own story, rather than merely complying to audits and standards. Reporting is a pro-active exercise. It brings suppliers closer to the global sustainability dialogue. It makes information sharing around sustainability topics easier because it provides a global language through its measurements. Understanding sustainability concepts helps connect the existing functioning of the factory to the global sustainability dialogue and terminology. Many owners of the SMEs valued that the process offered them the possibility of integrating personal ethics and values into their day-to-day business decisions. The report also allows the company to reflect its pride: pride in its workers, in its performance and in the clients it serves well, but also pride in its transparency regarding its opportunities and challenges and accountability with regard to addressing these issues.

4.2 Added Value Seen by MNEs

The value of sustainability reporting to the participating MNEs is difficult to determine based on the project outcomes.²⁴ The main outcome of the project was sustainability reports by SME suppliers, which impacted their entire organization. However, for the MNEs this project was not as important in relative terms as it was for the suppliers. For the MNEs it was a small-scale pilot project that involved a fraction of their supply base. At least part of the value of supplier reporting will derive from the systems that MNEs may put in place to encourage or enable such reporting. Sporadic reporting may make it easier to spot individual high-performance suppliers, but it will not influence the way an MNE does business.

²⁴ The value for MNEs section has been compiled from public statements in reports by companies and statements from individuals used with their permission. None of the multinationals have formally committed to any follow up to the *Transparency in the supply chain* project at this time.

MNEs do consider the performance of their supply chains part of their business. This also includes the social and environmental performance of their suppliers. This can be inferred from the MNEs' participation in a project such as *Transparency in the supply chain* as well as from statements in their sustainability reports. Regarding its environmental management, DaimlerChrysler states, for instance, that:

*"DaimlerChrysler's aim of making production operations as environmentally compatible as possible is not restricted to its own production facilities, but also applies to materials and components purchased from suppliers."*²⁵

Extending responsible practices down the supply chain is something that MNEs already actively seek to do, as Telefónica says in their report:

*"We strive to have a positive influence on the entire supply chain so that our suppliers incorporate our own corporate responsibility criteria into their actions."*²⁶

The question is, then, how effective supplier reporting can be as a tool to achieve the goals of more sustainable and transparent supply chains, that actively integrate sustainability practices.

At this time, GRI only has partial feedback and indications of how useful the MNEs find reporting as a tool, for instance, to structurally complement or even replace their current sustainable supply chain management schemes. Generally, they were impressed by the suppliers' uptake of reporting in the project, although they emphasized the exercise was mainly for the suppliers' benefit. The MNEs were positively surprised by the level of ownership, responsibility and pride shown by the SMEs in working and reporting on sustainability issues. The creation of ownership and responsibility for sustainability issues and transparency is something that the MNEs are looking for or are trying to enable in suppliers. An illustration of the MNEs' view on the role of suppliers is given by Puma's head of the

²⁵ DaimlerChrysler (Daimler), *360 Degrees – Facts on Sustainability 2007* (2007), p.40.

²⁶ Telefónica, *Corporate Responsibility Report 2006* (2007), p. 28.

S.A.F.E. program, Dr. Reiner Hengstmann, as stated in Puma's 2005/2006 sustainability report²⁷:

*"...the overall success of a company is closely linked with the principles of sustainable development. Enterprises should make decisions based not only on short-term financial and economic factors but also on the social, environmental and other consequences of their activities. (...) Factories do have to understand that following globally accepted social and environmental standards is not only beneficial for the brands whom they supply. They need to understand that it is primarily in their own best interest ..."*²⁸

The Otto Group also sees the building up of a relationship with its suppliers as the key to a healthy business relationship with responsible partners. Maren Böhm, Otto CSR representative for Asia, sees reporting being able to play a role in this:

*"I believe that this is a very useful and interesting project, not only for the suppliers but for the mutual benefit of both suppliers and buyers. My experience over the last decade and also the feedback from suppliers worldwide have led me to the conviction that systematic and trusting communication between the two parties is an essential key to successful cooperation—and as you say, this is not a one-way street but should also encourage the buyers to have more open and frequent communication with their partners, the suppliers."*²⁹

Many MNEs, especially in sectors where ethical sourcing initiatives have been practised for a while, are looking beyond the systems of control and audits and striving to enable suppliers to continuously and strategically improve their sustainability management and performance. MNEs are exploring ways to encourage suppliers to take more responsibility for improving management and performance standards. Puma states, for instance, that their capacity-building program for suppliers began with the awareness that monitoring goes

hand in hand with building up the skills and systems of supplier factories to meet Puma's compliance expectations.³⁰

Reporting has raised awareness and improved sustainability management and performance within the participating suppliers. It did create ownership and responsibility on the suppliers' side. However, it will depend on further development of the concept whether it can become truly useful for MNEs to actively encourage or support reporting in suppliers.

4.3 How Can Reporting by Suppliers Add More Value for SMEs and MNEs?

Most of the experiences in the project have been positive and in many ways the results met or exceeded expectations. The project focused on a small group of suppliers and was a time- and resource-intensive process. The biggest challenge now will be to convert this pilot program into a simpler process that can be more easily applied to a wider group of MNEs and SME suppliers. For scaling up, it will be necessary for the suppliers to come to see the benefits of reporting more readily and make the reporting process itself more self-explanatory for non-experts.

Taking into account the value reported by suppliers and MNEs, there are aspects that can improve or create new value to reporting by suppliers. GRI has identified three areas that can increase the value to reporting and enable scaling up:

1. Create an accessible and focused training process
2. Create an enabling environment for reporting
3. Prepare targeted and simple publications

4.3.1 Specialized Training Process

Tailor-made and flexible training by regional consultants played a big part in the success of this project. There are some important aspects that need to be taken into account when training SME suppliers in emerging economies on sustainability reporting:

²⁷ S.A.F.E. stands for Social Accountability and Fundamental Environmental Standards program

²⁸ Puma, *2005/2006 Sustainability Report* (2007), p. 26.

²⁹ Maren Böhm attended the first workshop in China with Shunde Hengfa.

³⁰ Puma, *2005/2006 Sustainability Report* (2007), p. 36.



Simple everyday language and clear examples

Introducing suppliers to reporting and showing them how to do it and derive value from it needs to be as simple as possible. The terminology used to explain to the SMEs the basics of sustainability and reporting makes a big difference. The language generally used in the global sustainability movement and by MNEs is not easily translatable to suppliers. The best approach when working with SMEs is to start by making them familiar with sustainability topics and language in a practical way by giving many regional examples relevant to the size, sector and location of the SME. At the first workshop or training significant attention needs to be given to clear communication on the value of sustainability and transparency by sharing best practices and reports produced by other organizations that have done it.

Trainers and coaches

Throughout the project GRI has learned that most SMEs needed external help to successfully implement a reporting process for the first time. A good trustworthy relationship between coach/trainer and SME is essential. The suppliers needed help understanding the concept of reporting, facilitating the reporting process and sticking to timescales. Therefore most regional consultants acted as trainers as well as coaches. Suppliers need one or two workshops as well as “stand-by” assistance on a regular basis (monthly or weekly) from an expert by phone, email or through individual visits. These interactions do not need to be long, but should answer all the suppliers’ questions so that they can move forward. Help could also come in the form of coaching by the MNE or business association representative.

MNE buyers’ involvement

The most important driver for SMEs to get involved with sustainability reporting is supply chain requirements from multinational companies. Consequently, the interaction between MNE and supplier in the first workshop is vital to the supplier’s commitment. Not all training cycles involved direct communication between MNE and supplier. The commitment to start the project for

both MNEs and suppliers was deepened when there was the opportunity for both actors to discuss sustainability challenges and opportunities as well as share their ideas on sustainability issues specific to their business and discuss their motivation to work on these issues. Many suppliers liked actually seeing the sustainability report of their MNE buyer as a way of learning more about the sustainability commitments of the buyer.

Peer-to-peer engagement

Peer-to-peer engagement in a workshop helps facilitate quick understanding of sustainability concepts relevant to the supplier’s business. An interactive discussion on the “why” and “how” of sustainability reporting with a group of similar companies creates a strong commitment right from the start. In an ideal situation, the suppliers will have group workshops to exchange views and ideas as well as concerns. It is also important to show suppliers at the first workshop actual sustainability reports produced by different types and sizes of organizations. This will give them an idea of what is possible and help them imagine what their own report will look like.

Flexibility training methodology

It is important to work with a training methodology that is easily adaptable to different cultural contexts.

Online training solutions not a success for suppliers

As part of the project, a web-based support system was set up to help the various SME reporters and gather their feedback. Region specific “wikis” were set up to allow GRI staff, regional consultants and SMEs to collaborate on documents, feedback and sustainability reports. A “wiki” is an easily editable webpage that tracks changes and allows easy collaboration on texts by contributors around the world.

The wikis remained completely unused throughout the project, however. One of the main reasons for this was unfamiliarity among regional consultants and SMEs with the concept and workings of the wikis. Generally, telephone calls, face-to-face

meetings and physical publications were preferred to electronic communication, either by email or through the web. This is also shown by the web-based examples that accompany the SME Handbook. These are also rarely consulted.

Generally, it is recommended to provide suppliers with as much physical support as possible in the form of a handbook which contains everything they need and to engage them face-to-face or by telephone and only sporadically through email. SMEs should primarily be allowed to use the tools that they already use in their day-to-day business, and not be asked to use new tools at the start of the reporting process.

4.3.2 Enabling Environments for Reporting by SME Suppliers in Emerging Economies

There are certain conditions that help create an enabling environment for reporting by SME suppliers.

Prior familiarity with sustainability and advanced management systems

Prior familiarity and more advanced management make reporting easier. If suppliers have been exposed to sustainability before, are familiar with the debates and already convinced of its benefits, they are much quicker to start reporting. If it is already part of their business environment, through clients, government associations or the media, they recognize it more readily and are more familiar with the terminology and concepts. Likewise, existing systems for the management of these issues will make the threshold to start reporting that much lower.

It helps if suppliers have comprehensive and sophisticated management systems already in place. The monitoring process is much easier once environmental and/or social management systems have already been integrated into a supplier's daily operations, long-term planning and other quality management systems.

Clear expectations from both supplier and MNE

Value for MNE and supplier will be higher when expectations are clear. A clear message about why an MNE supports sustainability performance and what their needs are will greatly help in communicating its relevance to suppliers as well as focusing their reporting efforts. At the same time, the MNE should be clear as to what concrete incentives (if any) they attach to reporting. A supplier would benefit greatly from the MNE actively sharing their reporting experiences, explaining what they did and why and how it has benefited them. They can also explain how the supplier "fits in".

Concepts of stakeholder and stakeholder engagement need teaching in emerging economies

Stakeholders are unfamiliar with stakeholder engagement (no one asks). If suppliers are unfamiliar with sustainability, their local stakeholders are often even more so. Just like the suppliers, they are not used to the words, debates or the practice of stakeholder engagement. As such they may prove hesitant or unsure how to respond to a supplier's requests for inputs or even distrustful of the supplier's intentions. Generally, stakeholder awareness can be improved to allow them to better recognize their stake in a company and respond to the supplier's requests in a meaningful way.

Voluntary nature reporting

A voluntary nature of the reporting process versus contractual obligation adds to the value of the reporting processes expressed by the suppliers.

4.3.3 Targeted and Simple Publications

The *GRI Sustainability Reporting cycle: A handbook for small and not-so-small organizations* formed the basis for the project training methodology. The publication was provided to the regional consultants and suppliers as guidance during their reporting process. Feedback on the handbook was unanimous regarding simplifying the supporting publications to make them more suitable for SME suppliers in emerging economies.

The recommendations were:



Reduce “sustainability jargon”

A true introductory level publication should dispense with some of the terms that have become commonplace in the global sustainability reporting movement or make sure the terms are linked to SMEs’ day-to-day experiences. Terms such as “sustainability”, “stakeholder engagement” and “materiality” are complex terms that need to be explained in a straightforward way.

Use more examples

Reporting “beginners” often cannot conceive what the end product of a reporting process will look like. The suppliers can use the examples to get a complete picture of what a sustainability report is and how much work it will entail.

Provide tools for data gathering

When measuring data that a company has never measured before, or which perhaps need to be measured in a different way, an SME would greatly benefit from suggestions how to set up the appropriate measurement system.

Translate to the local language

Managers speak English, more junior personnel often do not. In order to help spread knowledge of reporting throughout the business or a sector, a handbook needs the widest possible readership. Translation into the local language best promotes this.

4.4 Final Note

Reporting can be a tool to stimulate and enhance sustainability and transparency in the supply chain. Reporting will allow for identification of best practice among suppliers. It will not be useful for struggling SMEs, but will benefit companies that are already ahead of the pack and are working on sustainability issues or are familiar with some of the concepts. As Sybille Duncker the representative of the Otto Group said: ‘Reporting by SME suppliers in emerging economies might be best taken up by key

suppliers in emerging economies that want to be leaders/prime movers’.

GRI learned that SME suppliers face some challenges when reporting. SMEs often have different priorities in different stages of business growth and maturity. The SMEs also acknowledged that there are additional costs related to extra staff hours or data gathering systems when implementing a reporting process. However, with the right training by regional consultants and an initial incentive provided by an MNE buyer, suppliers take ownership and responsibility for improving sustainability performance and reporting. MNEs have the unique ability both to make suppliers more familiar with reporting and to provide incentives and initial motivation to start reporting. The value for MNEs will become clearer if they can articulate their desire for reports and how they will use them. This will provide focus and input for the suppliers, making reporting both easier and more valuable to them. Reporting by suppliers creates a ‘shared responsibility’ of management of sustainability performance.

The reports produced by the suppliers were a powerful tool for suppliers to communicate externally what they do, what standards they comply with and their vision. The project has been relatively successful so far, ten SME suppliers have finalized a sustainability report and they indicated that they hope to produce another report within one or two years. GRI expects to collect more feedback during the second year of the project and explore opportunities to increase the number of SME suppliers reporting. The project will be the main input into the future of the GRI SME and Supply Chain program. GRI will facilitate specialized SME supplier training in different emerging economies and will try to enhance enabling environments for reporting by SMEs. The project will also result in the publication of a new GRI Learning Publication in the fall of 2008.

Annex

This document is based on the following notes, recordings and written feedback.

Sustainability Reports

Publication year in brackets.

Art on Stitch Co., Ltd., *Sustainability Report of Art on Stitch Co., Ltd. 2007* (2008)

DaimlerChrysler, *360 Degrees – FACTS on Sustainability 2007* (2007)

Impahla Clothing, *Impahla Clothing Sustainability Report 2007* (2008)

Interplus S.A., *Reporte de Sostenibilidad 2007* (2007)

NewPost S.A., *Reporte de Sostenibilidad 2007* (2007)

Otto, *Facts (&) Figures for the 2006/07 financial year* (2007)

Otto Group, *Annual Report 2006/07* (2007)

Puma, *2005/2006 Sustainability Report* (2007)

Shunde Hengfa Knitting Garment Co. Ltd., *Sustainability Report of Shunde Hengfa Knitting Garment Co. Ltd. 2007* (2008)

Sinstel, *Reporte de Sostenibilidad Corporativa 2006-2007* (2007)

Telefónica S A., *Corporate Responsibility Report 2006* (2007)

Topkapi Iplik, *Sustainability Report 2007* (2008)

Varroc Engineering Pvt. Ltd., *Varroc Engineering Pvt. Ltd. Sustainability Report 2006-07* (October 2007 Draft)

Victor Gaskets India Ltd., *Victor Gaskets India Limited Sustainability Report 2007* (October 2007 Draft)

Vimal Clothing, *Vimal Clothing Sustainability Report 2007* (2008)

Interviews

An “” marks those responses that were provided in writing.*

Feedback from regional consultants regarding their experiences, conducted by GRI staff:

Interview with Nanda Bergstein, Sustain Consultant, on project experiences in Turkey – 1 October 2007

Interview with Nanda Bergstein and Serpil Gurci, Sustain Consultants, on project experiences in Turkey – 2 October 2007

Interview with Karl Borgschulze, Sustain Consultant, on project experiences in China and Thailand – 20 September 2007

Interview with Cristian Copaja and Pablo Frederick, Forum Empresa Consultants, on project experiences in Chile – 25 September 2007

Interview with Aditi Haldar, CII-ITC Centre for Excellence for Sustainable Development Consultant, on project experiences in India – 17 April 2008*

Interview with Michael Rea, Trialogue Assurance Services Consultant, on project experiences in South Africa – 1 November 2007

Feedback from suppliers through video interview, interviewer mentioned:

Interview with William Hughes, Owner, Impahla Clothing*

Video interview with Seantad Chareyalrongs, Executive Director, Art on Stitch, by Karl Borgschulze, Sustain Consultant

Video interview with Jaime Díaz, Director, NewPost, Monica Díaz, Advisor to the Managing Director, Interplus and Nicolas Kipreos, Executive Director, Sinstel by Cristian Copaja, Forum Empresa Consultant

Video interview with Hugo Liu, Assistant to the Managing Director, Shunde Hengfa Knitting Garment Co., by Hayley Wong, Sustain Consultant

Video interview with M. S. Shankar, COO and Vice President, Dilip Palve, Deputy General Manager, Sharad Burgute, Assistant Manager for HR, Rahul Rudrawar, Assistant Manager for Production Development, Victor Gaskets India Limited by Aditi Haldar, CII-ITC Centre for Excellence for Sustainable Development Consultant

Video interview with Raj. K. Srivastava, Deputy General Manager, Varroc Engineering Waluj Plant VII by Aditi Haldar, CII-ITC Centre for Excellence for Sustainable Development Consultant

Video interview with Seyhan Yilmaz, Marketing Director, Topkapi Iplik, by himself

Meetings

Mid-term conference, 1 February 2008, attended by:

- Nelmara Arbex, Director of Learning Services, GRI
- Michael Arretz, Owner, Sustain Consulting GmbH
- Sabine Brändel, GP&S/Pcom, Daimler AG
- Cristian Copaja, Business Consultant, Forum Empresa
- Jaime Díaz Martini, Director of New Post
- Sibylle Duncker, Referentin, Umwelt- und Gesellschaftspolitik, Otto Group



- *Claudia Dyga*, Consultant, Sustain Consulting GmbH
- *Serpil Gurci*, Consultant, Sustain Istanbul
- *Aditi Haldar*, Counsellor, Corporate Sustainability Management, CII-ITC Centre of Excellence for Sustainable Development
- *Jörg Hartmann*, Head of the Office for Cooperation with the Private Sector, Public Private Partnership (PPP), GTZ
- *Wolfram Heger*, Senior Manager, Corporate Social Responsibility, External Affairs & Public Policy Stuttgart (EAPP), Daimler AG
- *William Hughes*, Owner, Impahla Clothing
- *Nayan Kalidas*, Owner, Vimal Clothing
- *Susana Martí Pascual del Pobil*, Gerente Responsabilidad Corporativa, Telefónica S.A.
- *Greg McDowell*, Owner, Suzi Products
- *Héctor Narváez Pérez*, Associate Manager for Commerce and Operations, NewPost
- *Leontien Plugge*, SME and Supply Chain Program Manager, GRI
- *Michael Rea*, Director, Trialogue Assurance Services
- *Anja Rucker*, Consultant, akzente kommunikation und beratung
- *Umesh Salokhe*, Manager, Quality Systems, Varroc Engineering Waluj Plant VII
- *Stefan Seidel*, Environmental and Social Affairs Manager Europe, Middle East & Africa PUMA AG
- *Friederike Sorg*, Project management PPP, GTZ
- *Frank Sprenger*, Consultant, akzente kommunikation und beratung
- *Joris Wiemer*, Research Officer, Learning Services, GRI
- *Seyhan Yilmaz*, Marketing Manager, Topkapi Iplik

Steering Committee Meeting 1, 9 February 2007, attended by:

- *Michael Arretz*, Owner, Sustain Consulting GmbH
- *Nanda Bergstein*, Consultant, Sustain Consulting GmbH
- *Sibylle Duncker*, Referentin, Umwelt- und Gesellschaftspolitik, Otto Group

- *Claudia Dyga*, Consultant, Sustain Consulting GmbH
- *Jörg Hartmann*, Head of the Office for Cooperation with the Private Sector, Public Private Partnership (PPP), GTZ
- *Wolfram Heger*, Senior Manager, Corporate Social Responsibility, External Affairs & Public Policy Stuttgart (EAPP), Daimler AG
- *Susana Martí Pascual del Pobil*, Gerente Responsabilidad Corporativa, Telefónica S.A.
- *Leontien Plugge*, SME and Supply Chain Program Manager, GRI
- *Stefan Seidel*, Environmental and Social Affairs Manager Europe, Middle East & Africa PUMA AG
- *Friederike Sorg*, Project management PPP, GTZ
- *Frank Sprenger*, Consultant, akzente kommunikation und beratung
- *Joris Wiemer*, Research Officer, Learning Services, GRI

Steering Committee Meeting 2, 20 November 2007, attended by:

- *Michael Arretz*, Owner, Sustain Consulting GmbH
- *Nanda Bergstein*, Consultant, Sustain Consulting GmbH
- *Sabine Braun*, Owner, akzente kommunikation und beratung
- *Sibylle Duncker*, Referentin, Umwelt- und Gesellschaftspolitik, Otto Group
- *Jörg Hartmann*, Head of the Office for Cooperation with the Private Sector, Public Private Partnership (PPP), GTZ
- *Wolfram Heger*, Senior Manager, Corporate Social Responsibility, External Affairs & Public Policy Stuttgart (EAPP), Daimler AG
- *Susana Martí Pascual del Pobil*, Gerente Responsabilidad Corporativa, Telefónica S.A.
- *Leontien Plugge*, SME and Supply Chain Program Manager, GRI
- *Friederike Sorg*, Project management PPP, GTZ
- *Frank Sprenger*, Consultant, akzente kommunikation und beratung

Visit Reports

Chile

Visit Report Workshop 1, 22-23 May 2007 by Cristian Copaja, Forum Empresa Consultant

Visit Report Workshop 2, 20, 21, 28 June 2007, individual meetings, 26, Group Meeting by Cristian Copaja, Forum Empresa Consultant

China

Visit Report Workshop 1, 19 April 2007, by Karl Borgschulze, Systain Consultant

Visit Report Workshop 2, 12 June 2007, by Hayley Wong, Systain Consultant

Visit Report Workshop 3, 17 September 2007, by Hayley Wong, Systain Consultant

India

Visit Report Workshop 1, 9 July 2007, Aditi Haldar, CII-ITC Centre for Excellence for Sustainable Development Consultant

Visit Report Workshop 2, 24-25, 27-28 August 2007, Aditi Haldar, CII-ITC Centre for Excellence for Sustainable Development Consultant

South Africa

Visit Report Workshop 1, 19 July 2007, Michael Rea, Trialogue Assurance Services Consultant

Thailand

Visit Report Workshop 1, 2 April 2007, by Karl Borgschulze, Systain Consultant

Visit Report Workshop 2, 25 June 2007 by Karl Borgschulze, Systain Consultant

Turkey

Visit Report Workshop 1, 14-15 June 2007 by Serpil Gurci, Systain Consultant

Visit Report Workshop 2, 8 August 2007 by Serpil Gurci, Systain Consultant

Sources

Dicken, P. *Global Shift: Reshaping the Global Economic Map in the 21st Century*, 4th Ed. (March 2004), London, UK: Sage Publications Ltd.

Forstater, M., MacGillivray, A. and Raynard, P. in cooperation with the UNIDO Private Sector Development Branch, *Responsible Trade and Market Access: Opportunities or Obstacles for SMEs in Developing Countries?* (2006), Vienna, Austria: United Nations Industrial Development Organization (UNIDO).

Grayson, D. and Dodd, T. "Small is Sustainable (and Beautiful!): Encouraging European Smaller Enterprises to be Sustainable" (2007) *Doughty Centre Occasional Papers*, Bedford, UK: The Doughty Centre for Corporate Responsibility, Cranfield School of Management, [www.som.cranfield.ac.uk/som/research/centres/ccr/downloads/Small is %](http://www.som.cranfield.ac.uk/som/research/centres/ccr/downloads/Small_is_%). Accessed: 15 March 2008.

UNIDO, *Report on SMEs and the United Nations Global Compact* (2007) http://www.unido.org/file-storage/download?file_id=66321. Accessed: 22 April 2008.



Global Reporting Initiative

PO Box 10039
1001 EA Amsterdam
The Netherlands

Tel: +31 (0) 20 531 00 00

Fax: +31 (0) 20 531 00 31

www.globalreporting.org