analysis

Making the leap into a sustainable new year?

January 2015

A new year, a fresh start... but how many organisations will boast new resolutions? Ethical Performance talks to key industry players about what they believe will be the prime sustainability issues in 2015

There is an exciting unanimity among key players in the ethical movement about what 2015 will bring. This is the year that inequality will top the agendas.

“The time is now ripe for change,” says Oxfam’s Ethical Trade Manager Rachel Wilshaw, “The everyday problems of inequality are increasing and as the bottom 40% grow increasingly worse off economies can’t grow because they lack consumers.”

Indeed, even as Oxfam was launching its new campaign Even It Up: Time to End Extreme Inequality at the end of last year, the ILO was warning that wages are lagging behind productivity, and the OECD that ‘trickle down economics’ is holding back economic growth, while in the UK the government was debating its modern anti-slavery bill and the Archbishop of Canterbury condemning hunger in the UK.

Wilshaw hopes that 2015 will be the year when big business finally “gets” inequality. “Businesses have made progress over the past years but there is still a gap between policy and reality,” she says, identifying inadequate minimum wages, pushing costs and risk down the supply chain and a lack of collective bargaining as the three key barriers to a living wage. “Our job this year is to help business understand the difference between their stated ethical policies and what is happening on the ground.”

“2014 saw clear indicators that inequality is coming up the agenda,” agrees Forum for the Future’s ceo Sally Uren, “including but not limited to, Picketty’s ‘Capital in the 21st Century’, Standard and Poors reporting that inequality is damaging the US economy, and food banks becoming an increasing feature of everyday life in the UK. And that’s not to mention the inequality hidden deep in global supply chains.”

“As the the election draws nearer, the growth in inequality is likely to come even more into focus, with the role that corporations play coming under the spotlight,” confirms GoodCorporation director, Leo Martin. “Particular emphasis is already being given to fair tax agenda and remuneration. Businesses are beginning to respond to this with Chelsea FC recently adopting the Living Wage and Lloyds publishing its pay ratios. We expect to see more companies taking a position in these areas.”

Consumer sensitivity
Indeed, with the gap between rich and poor increasing in the developed world – the average UK ceo earns some 131 times the salary of their average employee – consumers’ are increasingly sensitive to inequality issues.

“Big corporations like to use the line that appealing to consumers’ conscience is illusory,” says Oxfam’s Wilshaw, “That shoppers may say they are willing to pay more but won’t when they reach the store.

“However, a report by KPMG in June 2014 showed that 52% of consumers would pay more if the money went direct to employees down the supply chain and that 40%

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would not hesitate to shop elsewhere if they knew a retailer was not paying a living wage. Only 13% said this would not alter their habits. This is a significant finding."

And this good news is backed up by the experience of the Institute of Business Ethics (IBE), the Ethical Trade Initiative (ETI) and Reddy's Responsible Trade Worldwide (RTW) Assessment team.

The IBE has surveyed the British public on their opinion of business behaviour since 2003 and tax avoidance and executive pay continue to be the top issues which the public think business needs to address, says research director Simon Webley.

"It's an interesting time right now, with consumers increasingly calling for better information about the products and services they use," agrees ETI Director Peter McAllister. "They're asking brands and retailers to tell them about the working conditions within their supply chains, and what's being done to help improve the lives of workers."

"Consumer awareness of how our goods are produced is very much on the rise," confirms Reddy's RTW business development manager Rebecca Taylor. "Since catastrophes such as the Rana Plaza tragedy and the horse meat sandal in 2013 alone we have begun to see everyday shoppers acting with their conscience, making a move towards more responsible and informed purchasing decisions."

So while tackling inequality still needs a good push from legislators, there is hope that 2015 will see consumers' heightened concerns forcing ethical behaviour to be engrained into the business model rather than being merely a matter of compliance.

"Compliance programmes used to focus on the potential 'bad guys'," says the IBE's Webley. "But we are seeing more thoughtful communication and training programmes being developed, less focussed on compliance and more on applying ethical values.

"This more positive approach will be a vital tool in encouraging middle managers to engage with ethics programmes and champion values with their teams and there is evidence more companies are using ethical values as a means of evaluating employee performance, so bonuses are awarded for how business is done, not just on making the numbers."

"We can no longer firefight the issues and rely on compliance alone," agrees RTW's Taylor. "Over the past 15 years industry have sought to facilitate change through audit and compliance measures, which are not wrong, but we're failing to identify the root cause of fundamental issues within our supply chains.

"Many existing assessments and audit tools create an environment of fear, and the validity of the data is often questionable. The key to transparency is in accessing the worker voice – tapping into those who experience the reality of the conditions each day."

A continued gallop towards an era of ultra-transparency is how Forum for the Future's Uren puts it. "Our digital age offers huge opportunities for bringing the producer to the consumer. We'll see more QR codes on fresh food, telling a story of provenance, as well as more social media connecting the grower with the consumer, often across thousands of miles.

"The digital explosion means there really is nowhere to hide, which for some may seem a threat, but for others, companies like Tesla who have opened up their IP, is an opportunity."

Behaviour change
Mireya Alvarez, Impact Investment Analyst at the ethical investment company Nesta also sees grounds for hope. "Over the last few years we have seen changes in the way people behave and more importantly in the way people consume. This has in turn led many businesses to change their behaviour. Many large corporations are choosing to ingrain impact and ethics in their core business model and not something which is just a 'nice to have' add-on."

But there is still a danger that financial services companies will swamp themselves with rules and adopt a tick-box approach to show compliance rather than take the messages on board and implement significant culture change, warns GoodCorporation's Martin. "We hope that the recommendations of the Banking Standards Review Council will lead to real changes in behaviour.

"If 2014 was the year of the whistleblower," he continues, "we expect 2015 to be the year in which companies start to evaluate and report on their whistleblowing arrangements."

Stephen Howard, ceo of Business in the Community believes that If business is going to rebuild trust and inspire the belief of the public, then it must be more transparent in how it communicates its value and purpose. "Crucially I think we will see a shift from brands 'telling' their stakeholder to engaging them in causes that tackle key issues that are fundamental to the purpose of their businesses."

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Ceo of the global Corporate Governance Group Achilles, Adrian Chamberlain, also expects that amid mounting pressure from governments, consumers and shareholders in 2015 pressure groups will continue to name and shame companies which fail to fulfil their human rights responsibilities.

And this will extend to small and medium sized enterprises, he warns. “2014 saw a swathe of national, regional and international laws which mean businesses face even more serious consequences if they fail to act in an ethical, environmental or social responsible way.

“These new laws and regulations – such as reporting on the use of conflict minerals – will require businesses to provide a much higher level of detail from deep within their supply chain. This will mean that SMEs will have to step up and show their support and commitment to helping buying organisations improve sustainability.”

If Chamberlain has a dream, however, it is that businesses would learn the wisdom of collaborating. “Businesses spend about $60bn each year to manage information about suppliers,” he says. “Millions of businesses are asking suppliers to provide the same information repeatedly. Companies could save at least half that amount if companies in the same industry worked together to agree common requirements of suppliers, including those related to corporate social responsibility measures.”

“What we hope to see moving forward,” concludes the ETI’s McAllister, “is a level playing field where all brands and retailers are clear about what they must do to protect and respect workers’ rights in global supply chains.”

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