Changing behaviours to seek a better outcome for economies and societies

The Centre for Business in Society

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WHY THE BUSINESS CASE FOR SUSTAINABILITY MATTERS

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This paper explores the need to explore the business case for sustainability within the context of the global standards and certifications industry. A wide range of standards and certifications provide assurance around the sustainability of business practices usually via an audit-based process whose primary goal is to establish whether a business is compliant against a core set of criteria. This compliance-based approach is increasingly coming under criticism as it is not seen to facilitate improvements in overall performance. Drawing upon research conducted in the horticultural sector in South Africa, this paper outlines some of the shortcomings of the compliance-based approach and then considers how things can be done better by developing models which focus upon Continuous Improvement in performance.

Wider debates within the certification and standards field are reflected upon and a holistic model is proposed, which shifts the emphasis to performance rather than compliance. The paper concludes by stating the imperative for research to be an integral component of the Continuous Improvement process. Such research can elucidate the relationships between specific business practices and sustainable outcomes. This is important for ensuring that training and support offered to businesses are appropriately targeted and for enabling better business planning. Furthermore, research can demonstrate the benefits to business of specific sustainable practices. In this way the business case for sustainability can be articulated and the notion that sustainability is a ‘luxury’ can be dispelled.
Abstract
This paper explores the need to explore the business case for sustainability within the context of the global standards and certifications industry. A wide range of standards and certifications provide assurance around the sustainability of business practices usually via an audit-based process whose primary goal is to establish whether a business is compliant against a core set of criteria. This compliance-based approach is increasingly coming under criticism as it is not seen to facilitate improvements in overall performance. Drawing upon research conducted in the horticultural sector in South Africa, this paper outlines some of the shortcomings of the compliance-based approach and then considers how things can be done better by developing models which focus upon Continuous Improvement in performance.

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Introduction
This paper provides a brief exploration of the need to explore the business case for sustainability in one specific realm – that of the global standards and certification industry. A wide array of standards and certifications are currently applied within supply chains across a range of industries and sectors. These standards and certifications are embedded within an influential organisational super-structure with global reach dominated by Western Europe and North America. There is increasing disquiet about the lack of broader impact produced by many of these standards and certifications. Their application

Key points:
1) Changes are needed in the way the global standards and certifications industry operates.
2) There needs to be a shift away from audits and compliance towards approaches that drive Continuous Improvement.
3) Sustainability is integral to Continuous Improvement.
4) Research must be a core component of new approaches in order to drive Continuous Improvement.
5) Such research will be instrumental in identifying the Business Case for sustainable practices.
6) Clear exposition of the Business Case is critical for achieving stakeholder buy-in for new approaches to standards and certification delivery.

1 See this link for examples of standards and certifications employed widely in the global garment industry: http://www.fabricoftheworld.com/an-overview-of-common-sustainable-garment-certifications-and-standards/
is usually based around an audit-based assurance process whose primary goal is to establish whether a business is compliant against a basic set of criteria, for example, whether statutory health and safety features are in place. This process does not fit within a broader system which drives more far-reaching improvement. As critics often state, ‘weighing a pig does not make it fatter’ – in other words, doing an audit does not make a factory a safer, better place to work or encourage a farm to adopt more environmentally progressive ways of farming. In this paper we will look at the problems inherent in the current standards and certification paradigm and then consider how things can be done better by developing models which focus on driving continuous improvement. Inherent in these models is an imperative for targeted research which explores the business case for implementing sustainability practices.

The Growth of the Standards and Certifications Industry
During the last four decades there has been a profound shift in production geographies leading to the spread of Global Value Chains connecting producers in the global south with consumers in the global north. This process has been associated with an array of benefits at a range of scales, from the individual consumer benefitting from a wider range of cheaper goods, through to national finance ministries enjoying increased foreign exchange earnings. However, darker sides have also been evident, such as evidence of widespread exploitation and abuse of workers and multiple environmental issues. As awareness of these problems grew and it became clear that national governments were unable to regulate their home industries effectively, so pressure for external action arose. A result has been the growth of a plethora of standards and certifications which seek to assure that production sites, such as clothing factories, fruit farms and mines, are complying with basic social (‘ethical’) and environmental standards.

In the horticultural sector producers have become accustomed to complying with an array of standards and certifications required by their customers, i.e. retailers. Such standards and certifications ensure that producers are meeting certain standards of performance in relation to food safety, agricultural practices, environment outcomes and ethical impacts. Many of these standards, such as Global G.A.P. which assures agricultural practices, are only known within the business world whilst others, such as Fairtrade and Rainforest Alliance, speak explicitly to the end consumers’ concerns about equity and environmental protection. An entire global industry has grown up in the last two decades developing, applying and auditing these standards.

The sheer scale of the standards and certification industry is immense. Many dozens of standards exist, assured by a global army of auditors allied to firms such as SAI-Global, Partner Africa and Bureau Veritas to name but a few. More than 230,000 SMETA (SEDEX Members Ethical Trade Audit) audits have been conducted worldwide across a range of productive sectors, whilst the overall cost of audits across the globe in 2011 was estimated at £80 million. For many European and North America firms, especially in the retail sector, standards and certifications are critical to their business models as they provide some level of assurance that reasonable ethical and environmental conditions exist within their supply chains, especially in high-risk developing world countries.
The Audit Burden – is it worth it?

For producers these standards are often seen as a burden, both in terms of the time taken to ensure that systems are in place to pass the audit and also due to the costs incurred in preparation and paying for the audit itself. Furthermore, individual producers may have to undergo several overlapping audits in one year as each of their markets may, for example, require different variants of a social audit. Audit fatigue is a frequently cited problem for producers. Furthermore, the audit burden may be overly burdensome for more marginal producers who go out of business, usually to be swallowed up by larger firms who benefit from economies of scale.

Yet there exists considerable unease about the real impacts of the auditing based-approach which is inherent to the application of standards and certifications. Fundamental questions are being asked as to whether auditing really can provide the levels of assurance that are expected by consumers. The answers in many cases is that compliance-based auditing can only provide certain levels of assurance within specific realms. For example, health and safety and food safety criteria are relatively straightforward to measure and assess, but more complex features of workplaces are almost impossible to gauge during an audit site visit. How can an auditor produce a fair and accurate assessment of workers’ ability to practice freedom of association, for example?

There are concerns in some quarters regarding the *modus operandi* of the standards and certifications industry and the reliance on audits as the primary tool for assurance. Bigger questions are being asked as to the impacts of these compliance systems upon different aspects of business performance. Whilst there is a reasonable degree of agreement that the application of standards has at least raised awareness of issues, such as worker health and safety, there is little evidence to indicate that the auditing system itself makes a significant contribution to embedding better practices within business cultures. Worse than that is a sense that the audit compliance culture distracts focus and resources away from more progressive shifts in business practice. Further, the coercive way that audits, and associated costs, are imposed upon suppliers leads to a form of resentment against all external input. The net result is a widespread sentiment that the only significant benefit of audits is to ensure access to certain markets.

- ‘There should be a process of continuous improvement – intelligence and a desire to move things forward.’
- ‘We need to be thinking longer term, beyond compliance. This isn’t enough for sustainable change.’
- ‘We want economic growth, job creation and to grow wealth – compliance alone won’t take us there.’
- ‘It’s time to make a shift – from audit reliance to actual continual improvements. Shift to a more robust measure of business performance and success and sustainability into the future. A shift to real transformation of the people who work for us and AWAY from mere compliance.’
- ‘Audit systems don’t seem to be working towards sustainability - so what’s next for lasting change?’
- ‘We focus far too much on audits, because of the threat of loss of income. We should be focusing on sustainable implementation and fair treatment; not just painting the front wall - to look right.’
- ‘The Audit systems need to be supported by knowledge transfer (extension service) in order to make a difference on the farm.’

The quotes in Box 1 above, provided by stakeholders in the South African horticulture sector, are indicative of the sense of frustration that the compliance culture has generated for those within the industry. Quite simply, a compliance focus has distracted energy and resources from critical, underpinning issues that need to be confronted. The respondents point to the tendency for audits to encourage businesses to ‘paint the (metaphorical) front wall’, which will be subject to the most scrutiny by the auditors rather than address deeper, more meaningful issues that will not be tackled via an audit. Instead the focus should be on continuous improvement in performance amongst a range of indicators within sites of production.

How do we go ‘Beyond Compliance’?
Despite these concerns being identified and raised by campaign groups, advocacy NGOs and academics for many years, the audit-focused approach to standards and certifications remains firmly embedded. However, debates are increasingly being had about what the ‘beyond audit’ or ‘beyond compliance’ landscape might look like. For example, the 2017 and 2018 Sedex Conferences, arguably the standards industry’s most influential annual gathering, have focused upon the topics of ‘Continuous Improvement’ and ‘Defining Beyond Compliance’.
Figure 1 (below), taken from a presentation by the Sedex CEO Jonathan Ivelaw-Chapman at the 2018 Sedex Conference, illustrates an improved situation whereby the process does not end with compliance but instead moves into a more reflective phase focusing upon capacity building, ongoing monitoring and improvement. This then leads into the next round of audits in which the producer should perform better. A strength of this model is that it recognises the linkage between improved sustainability practice and the ‘business case’ (see below). A significant weakness however is that the audit compliance process is still central to the system. Furthermore, it is not clear whose role it is to drive the Beyond Compliance aspect of the model, nor is there any sense of the institutional arrangements required for this to fit seamlessly with the compliance aspects. Innovative critics argue that audits will always have a role to play in terms of ensuring that systems where compliance can be readily checked, such as health and safety (are the relevant signs on the wall or not?) are in place AND being enacted. But the limits of audits should also be recognised and different more intelligent systems are required to support producers in taking their businesses forward.

Figure 1: Sedex Stages of Maturity Model

Adapted from presentation given by Johnathan Ivelaw-Chapman at Sedex Global Conference 2018
So, what might these ‘more intelligent systems’ look like in practice? A more progressive approach puts the emphasis upon improvement rather than compliance. So, rather than asking whether a farm pays the minimum wage to its staff (the compliance approach), a **continuous improvement** approach would focus on progress towards a living wage, promotion opportunities and upskilling. A compliance approach would check whether agro-chemicals are legal and that systems are in place to store and dispose of them properly. A continuous improvement approach would look for ways of reducing total chemical usage, whilst maintaining or even increasing yields. In order for this approach to be successful there needs to be research undertaken in order to better understand the types of intervention that can contribute to continuous improvement and to measure their impact. For example, what happens on a farm that pays living wages, provides a range of training opportunities for its workers and creates promotion opportunities? What happens to key business metrics such as productivity, profitability, absenteeism and staff turnover? Does the business become more resilient? In others words, there is a need to investigate the business case. If research can demonstrate that interventions that promote sustainable/ethical practices are actually improving mainstream business metrics then this would be a game changer for the whole way that the standards and certifications industry operates. For producers and suppliers there would be significant incentives for engaging in certification programmes as there would be demonstrable outcomes for their business.

**Sustainability Improvement Models**

Improvement Models, such as those being trialled by retailers Tesco and Sainsbury in their South African horticultural supply chains, represent an attempt to move beyond the compliance approach and implement systems which support Continuous Improvement. Such embryonic models, which have many similarities with the ‘Farming for the Future’ programme (see below), require producers to record their progress against a series of metrics (such as carbon footprints; staff turnover and so forth) in order to facilitate a more progressive, sustainability-driven approach. The broader process within which these models sit is still evolving. Ideally, the eventual system will take a form similar to Figure 2 below which captures the key components of a dynamic drive towards continuous improvement. Analysis of improvement model data and associated research into best practice can inform more targeted training which in turn will enable producers to implement improved practices leading to improved outcomes which will be reflected in the data entered into the improvement model capture systems. Audit maintains a role in this approach, but is no longer the main focus.

**Figure 2:**

- **Research & data analysis** → **Training** → **Implementation** → **Improved outcomes**

  **Site of production**
  Farms, factories...

  **Improvement Models and verification tools**
Box 2: Examples of direct links between Continuous Improvement, sustainability outcomes and the Business Case.

1) Leading South African retailer Woolworths have been engaged in a programme called Farming for the Future (FFF) for nearly ten years. The programme is run in conjunction with a consultancy called EnviroScientific. FFF is based upon scientific principles and its primary goal is to help producers to improve. The programme does make use of auditors but their role is less about measuring compliance than analysing data, such as soil chemistry and providing feedback to producers with recommendations for improvements. FFF adds value to farming operations and there is ample evidence that the process helps generate continuous improvement which can be seen in terms of greater productivity and cost savings. For example, reductions in fertiliser applications. It generally takes three years to start seeing measurable improvements. The result is better quality crops, with reduced environmental impact and a better shelf-life all of which contributes to greater sustainability. FFF is an integral component of the relationship between Woolworths and its horticultural suppliers.

Video resources:
   i) Farming for the Future – Improving soil and reducing water usage.
   ii) Farming for the Future – Carbon Footprinting

2) Research undertaken on a fruit farm in the Hemel en Aarde valley in South Africa’s Western Cape showed how investments into worker training and promotion opportunities could be linked to productivity improvements of 54% in 4 years. The research demonstrated how targeted capacity building aligned to re-structuring of the workforce, including the creation of new, better paid positions, had enabled the workforce to perform more productively in terms of volume and quality. A critical factor in the success of this farm has been the attitude of the farm manager whose insightful, pro-active approach generated a positive environment for progressive change to occur. A critical finding from the research was that worker training needs to be explicitly linked to career progression as this provides the enabling environment necessary for the training to be embedded in daily practices. This is important as much capacity building on South African farms takes place in isolation such that workers (and their bosses) and not able to capitalise on the investments.

The examples outlined in Box 2 above are illustrative of the benefits that more sustainable/ethical practices can bring for businesses. In the Farming for the Future example we can see how reliance on agro-chemicals has been reduced, with no negative impacts upon yields. Instead the producers are spending less on chemicals whilst reducing their impacts on the local ecosystems. The latter are not without costs themselves, chemical pollution of water supplies can be highly problematic and costly for farmers. Improved human resource management on a fruit farm has clearly paid significant dividends on the bottom line, whilst also rendering the farm more resilient in the context of a volatile political situation which can easily de-stabilise worker communities. Such case studies need to be further developed and disseminated in order to drive up standards across the industry. Retailer Improvement Models represent an important opportunity to gather and analyse data which can produce improved understandings of the impacts of sustainable practices upon horticultural enterprises. It is vital that mechanisms are put in place to enable such analysis and feedback to occur.
Such work cannot occur in isolation, strong institutional arrangements which bring together the key stakeholders need to be put in place to ensure that the flow of ideas and information encapsulated in Figure 2 are able to occur. Work is ongoing currently in South Africa to facilitate such institutional development as evidenced by the workshop, co-sponsored by Coventry University, held in Stellenbosch in March 2018 which drew together a range of stakeholders from the fruit, wine and flower sectors with the objective of driving forward an agenda focused on Continuous Improvement.

Concluding comments: the case for research
Whilst the attitudes of citizens, policy-makers and corporations to sustainability are becoming increasingly progressive, there remains a core of resistance which focuses upon the perceived financial burden of sustainable practices. There has been much talk about the ‘business case’ for sustainability. However, this has not been explored with the depth and rigour required to make a truly compelling case which could drive sustainability into mainstream business practice. High quality research is therefore key. There is an absolute imperative for grounded case studies and broader meta-studies which demonstrate precisely how specific interventions associated with sustainability impact upon business and societal metrics. Arguably the most significant contribution of such research would be to conclusively dispel the myth that being sustainable is a financial luxury, which cannot be afforded by the majority. Shifts within the standards and certifications landscape away from compliance cultures towards more research informed Continuous Improvement models represent an important opportunity to embed more sustainable practices within supply chain operations across the globe.

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The Centre for Business in Society

Through understanding the impact of organisations’ activities, behaviours and policies, our research seeks to promote responsibility and to change behaviours for the benefit of economies and societies.

The Centre for Business in Society (CBiS) is the main research hub for dedicated research staff and funded research projects in the Faculty of Business and Law at Coventry University. It is also home to half of the Faculty’s PhD community and its DBA programme. CBiS is a vibrant and collegiate research community, occupying dedicated space in the Faculty’s postgraduate and research building.

Our research teams are (a) examining sustainable production and ethical consumption, which underpin the new circular economy; (b) searching for durable and inclusive economic growth and development models, which promote new partnerships between state, economy and society; (c) exploring at the national, organisational and individual level the economic and social impacts of the financial crisis and post-financialisation, with a focus on responsible personal finance and debt; and (d) addressing the implications of the digital era and big data for business and society, notably regarding the strategy, use, privacy and security of data in organisations and society.

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http://www.coventry.ac.uk/research/areas-of-research/business-in-society/,

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