

Compendium Paper

New Corporate Procurement Strategy on Trade in Goods and Services in APEC Region - Supply Chain Options with CSR Perspective

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Executive Summary

This paper summarizes the findings of a joint project implemented under the auspices of the Capacity Building Network of the APEC Working Group on Human Resources Development (hereafter HRD-CBN) and sets out the resulting implications for APEC. The objective of the project was to gather information on best practices in the APEC region in the area of corporate social responsibility (CSR), specifically as they relate to the application of CSR principles to supply chain management.

In an earlier HRD-CBN project conducted in 2005, 29 experts from 14 economies contributed background papers that together examined the state of CSR in the region. These experts concluded that APEC should focus the next phase of its work specifically on the supply chain dimensions of CSR. A kick-off workshop for the current project was held at the Asian Forum on Corporate Social Responsibility (AFCSR) in Manila in September 2006, where it was decided to solicit written case studies from experts in APEC member economies highlighting practical aspects of the introduction of CSR considerations and/or the strengthening of its practices in the context of international supply chains.

The 14 cases submitted provide a rich body of interesting experiences related to the application of CSR principles and practices in the context of the management of global supply chains. The cases address a variety of situations in both developed and developing APEC member economies, including global procurement and supply, brand protection and enhancement, and the associated management of risks, working conditions and environmental stewardship. Cases dealt both with the experiences of individual businesses and with broader capacity building initiatives at the industry and sector level. A number of important cross cutting themes emerged from the cases including risk management; the links between CSR and good management—especially total quality management; the distinctions between global and local supply chains; the connection with global standards and technical barriers to trade; the critical importance of capacity building; and the foundational role of open communication built on trust and respect.

A number of implications emerge from the cases both for the APEC process of regional dialogue and economic cooperation and for the consideration of individual APEC member governments. These include the following:

1. Increased complexity in production and distribution systems have created new sources of risk for all stakeholders.
2. Companies are embracing CSR as a framework for global supply chain management.
3. Capacity building is key.
4. Governments have key facilitating roles both at the level of regional cooperation and within individual APEC economies.

Introduction

The purpose of this compendium paper is to summarize the findings and synthesize the policy implications of a joint project implemented under the auspices of the Capacity Building Network of the APEC Human Resources Development Working Group (hereafter HRD-CBN). Japan, represented by the Institute for International Studies and Training (IIST), agreed to serve as the overseer of the project

The objective of the project was to gather information on good practices in the APEC region in the area of corporate social responsibility (CSR), specifically as they relate to the application of CSR principles to supply chain management. The context is the growing use of complex, cross-border production systems, typically under the stewardship of a large trans-national company, but often involving as suppliers enterprises of varying sizes and international business experience, and with differing degrees of management sophistication. The intention is to use the information generated on emerging good practices to develop a set of potential policy recommendations that could guide APEC member economies as they strive to provide an environment that would enable large multinationals and the small and medium-sized enterprises (SMEs) alike to develop their capacities to address the challenges that global and regionally-integrated production systems create in a liberalized trade and investment environment.

Specifically the project aims to achieve the following:

- To identify ways in which integrated supply chains affect the business practices of different parts of the APEC region, particularly issues related to the interaction between multinational enterprises and local suppliers in the context of CSR.
- To develop cases to address those issues by providing examples of good practice through which management capabilities might develop in line with emerging CSR practices.
- To disseminate the lessons learned from the collection of case studies, so that the experiences and perspectives, as well as their implications, might be shared among APEC members.

Rationale for the Project

As has been the case elsewhere, the process of global economic integration has profoundly altered the nature of production in the Asia-Pacific region, aided both by the reduction in barriers to trade and by an accelerating pace of cross-border trade and investment. While these trends indicate that considerable progress has been made towards achieving the Bogor goals of liberalized trade and investment in the Asia-Pacific region, the development of more integrated systems of production has also brought with them new challenges for both business managers and public policy-makers. Increased competition both within the APEC region and worldwide has created enormous incentives to lower cost of production and make more efficient use of available resources. Corporations are addressing these issues by diversifying their procurement sources and by outsourcing some of the production of goods and services, often managing entire supply chain as an integral part of the process. The trends to cross border integration of production systems has affected not only trade in goods but also trade in services, such as financial services, information technology, electronic commerce and logistics. These developments promise to facilitate further cross-border sourcing of materials and services, which will in turn increase international trade, raise living standards and reduce poverty.

But while participation in a global supply chain creates new opportunities for business, and potential benefits for consumers and entire societies, the processes also create new challenges both for business managers and public policy-makers. Companies must comply with international rules and standards, which exist to protect human health and safety, the environment and other

matters of public interest. But the complexities of the compliance process have increased markedly as a result of cross-border production systems under which managers have diminished direct control over what happens on the factory floor, and where businesses may be operating in new and different cultural environments.

The challenges have been amplified by the growing pressure for business to take into account their CSR, that is, to be accountable for the consequences of their actions on society.¹ With the rise in interest in CSR, businesses find their actions scrutinized by multitudes of stakeholders. Viewed from the perspective of local suppliers who are not familiar with the normal international practices of business, CSR can be likened to a non-tariff barrier to trade, akin to a technical barrier in its potential impact. That CSR could act as an impediment would be particularly the case for the small and medium-sized industries operating within a larger global supply chain. On the other hand, consumers in importing economies are legitimately concerned with the health, environment, and ethical dimensions of how the products they purchase are produced, just as their governments have the responsibility to take matters to protect population health and the environment.

The State of CSR in the Asia-Pacific Region

One of the APEC projects recently carried out under the auspices of HRD-CBN looked at issues of risk management from the perspective of the emerging need to strengthen CSR in APEC economies. In the earlier project, 29 experts from 14 economies contributed background papers that together examined the current state of CSR in the region. The collection of papers was published in late 2005.² The rationale for focusing specifically on the application of CSR to supply chain management in the current project can be understood in the context of the findings of this earlier report, which are briefly summarized below.³

To begin, in looking at the state of CSR practice across APEC economies, the context matters, especially the degree of integration into the global economy and the overall level of development. Nonetheless, throughout the APEC region the understanding of CSR is gradually moving from philanthropy to a broader set of activities, emphasizing engagement with stakeholders, and it is being integrated into the core strategy of the organization.

For fundamental changes in how business is conducted to occur, several conditions are required. “[T]here must be a clear ‘business case’, articulating the benefits of CSR”; buy-in by top management; [and] tools to make CSR operational and measure its benefits.⁴ That said, CSR has also evolved in response to profound external forces, including meeting legal and regulatory obligations; responding to opinion leaders and broader public; and demand for higher standards of accountability. General strengthening of environmental practices has been a key driver of CSR in most economies.

¹ The appropriate accountability of business in society remains a matter of some debate, of course, and the point of view is sometimes expressed that business should be concerned primarily about the returns it generates for its owners, i.e. for creating shareholder value, with governments through appropriate public policies being responsible for providing the regulatory frameworks that respect the interests of other stakeholders. While the respective roles of stakeholders can be legitimately debated, at a practical level, a consensus has emerged in economies around the world that businesses need to pay close attention to the consequences of their actions for society as a whole, and that doing so is simply good management.

² *Corporate Social Responsibility in the APEC Region: Current Status and Implications* APEC #205-HR-01.2 (APEC Human Resources Capacity Building Working Group for the APEC Secretariat, December 2005).

³ For further details please see Chapter 1 of the report *Corporate Social Responsibility in the APEC Region: Current Status and Implications*, a synthesis of the main findings of the cases, which provides the background an context and outlines the implications for the future APEC work plan.

⁴ *Ibid.*

There is need to assure appropriate labor standards throughout the supply chain, and demands are being made to integrate suppliers into the overall management of CSR. Managerial capacities within the SME sector are being strengthened, while larger companies “are increasingly turning to partnerships with other stakeholders including both government and non-government organizations (NGOs).”⁵

In developed APEC member economies the emphasis has been on “environmental stewardship and environmental management practices, which have played central role in the evolution of CSR.” There is a strong and active civil society in some economies, “which has provided a major impetus to CSR.” The management of supply chains has been an “important driver of CSR, often in response to well-articulated consumer concerns or activism.” And there are strong traditions of community outreach that goes beyond pure charity or philanthropy, as well as increasing engagement in strategic partnership with local stakeholders for mutual benefit.⁶ In these developed economies the challenges include the appropriate responses to globalization, the identification and addressing of gaps in CSR practices, the development of common standards of good practice throughout the supply chain, and assuring exemplary corporate behaviour worldwide.

In developing APEC economies the experience has been different. Multinational enterprises are playing a role in “importing” good CSR practices, which are then emulated by the local corporate community. The initial step is going beyond compliance with local laws and applying global standards. Good environmental management practices and engaging in community outreach are also identified “as important components supporting the transfer of good practice.”⁷

Strong incentives exist for exporters to adopt appropriate practices to access markets or to attract overseas investment. Consequently, “export-oriented industries are reacting to heightened performance expectations on factors such as human rights, labor practices, environmental practices, and food safety by embracing the practice of CSR.”⁸

Developing economies typically “have weaker regulatory frameworks and more limited capacity to enforce legislation.” Thus, for developing APEC economies the key challenges are “to raise awareness of CSR; to build capacity within existing institutions that can drive the adoption of CSR; to make the case to the local business community to adopt CSR; and to transfer competencies to individual companies.”⁹

Rationale for Focusing on CSR in Global Supply Chains

While there was scope for many follow-up activities to the earlier project, it was the view of the experts in assessing these factors in terms of their significance that APEC should focus the next phase of its work specifically on the supply chain dimensions of CSR “APEC is at the centre of the global production systems” and “...global production is a principal point of tension in the CSR debate.” “Global supply chains provide a concrete focus for addressing many of the generic issues in CSR, such as building the business case.” “CSR can be a facilitator of improved trade performance, or, if implemented poorly or not at all, it could adversely affect trade performance.”¹⁰

⁶ *Op cit* p 4.

⁷ *Ibid.*

⁸ *Ibid.*

⁹ *Ibid.*

¹⁰ *Op cit* p 6.

CSR as practiced by the large multinationals will impact organizations throughout its supply chain including (and in particular) its small and medium-sized enterprises (SMEs) that comprise its suppliers and sub-contractors. Thus even local-market oriented SMEs will have to understand the concepts of CSR and be prepared to manage their business in a responsible manner.

Appropriate standards of CSR performance are taken up in ISO discussions, and other international fora concerned with certification. But given the emergent globally and regionally integrated production systems, there is a clear need for business executives themselves to understand the implications of applying the principles of CSR in the context of their supply chain management. Just as the strength of a metal chain is determined by its weakest link, to be effective, CSR must be practiced at least to an acceptable standard throughout the supply chain. Without effective ways to transmit the appropriate values and cascade good management practices throughout the supply chain, international businesses will face major impediments to overall performance. On the other hand, if CSR is made more effective throughout the supply chain, the overall production system is strengthened, with greater confidence in the emerging suppliers. Thus, strengthening CSR throughout the supply chain will be a critical element to facilitating trade and investment, in both goods and services.

Background on the Cases

Overview

The 14 cases (see **Table 1**) together provide a rich body of interesting experiences related to the application of CSR principles and practices in the context of the management of global supply chains. Cases address a variety of situations in both developed and developing APEC member economies, including global procurement and supply, brand protection and enhancement, and the associated management of risks, working conditions and environmental stewardship. Cases dealt both with the experiences of individual businesses and with broader capacity building initiative at the industry and sector level. A number of important cross cutting themes emerged from the cases that will be amplified in the synthesis paper, for example, risk management; the links between CSR and good management—especially total quality management; the distinctions between global and local supply chains; the connection with global standards and technical barriers to trade; the critical importance of capacity building; and the foundational role of open communication built on trust and respect, among others.

Here are the highlights of the cases, organized alphabetically by economy.

Canada: Global Retail Supply Chains Managed by the Hudson's Bay Company

CSR within the supply chain has been discussed extensively in Canada. Consumers have demanded that major retailers such as the Hudson's Bay Company (hereafter HBC) carefully select and audit suppliers to ensure adherence to global standards. For HBC, CSR principles determine the policies and procedures used to manage global supply chains in order to avoid exploitation of workers. In addition to CSR policies focused on the elimination of suppliers with unacceptable labor practices, the Hudson's Bay Company's definition of CSR includes environmental responsibility, such as energy efficiency and waste reduction, efficient transportation and efficient practices related to building and operating retail stores.

HBC has set up a Social Responsibility Program and an Ethical Sourcing Program that includes an in-house Code of Vendor Conduct with stringent Vendor Prioritization, and Conduct

Verification Policies. In this way, HBC seeks to ensure it only does business with suppliers that support and align with its own social responsibility goals. In the process, it is helping to promote business practices within its supply chains that reflect an acceptable definition of CSR.

Chile: CSR in Fresh Fruit Supply Chain

Fruit exports play an important role in the development of Chile's economy. Working conditions in small fruit producers and exporters are heavily influenced by the buyers from major northern hemisphere economies where consumers desire more sustainable-sourced products. In order to maintain a share of these lucrative developed-economy markets Chilean fruit producers and exporters alike have found it necessary to improve their own environmental practices as part of the efforts of large retailers to "green up" their supply chains. "ChileGAP" (which stands for "Good Agriculture Practices") aims to strengthen social and environmental performance in Chilean agriculture in order to satisfy the requirements of global buyers. Such a fundamental change in business mindset requires both time and effort. Challenges and problems have had to be faced and overcome through both public and private initiatives.

China: CSR and the Supply Chain in Changyu Pioneer Wine Co. Ltd

The concept of CSR is emerging in China, with enterprises at different stages of understanding and implementation. Changyu Pioneer Wine Co. Ltd is now enjoying rapid growth and is becoming a major player in the wine industry, built on strong brand recognition both in China and abroad. Vintage grape planters, sales agencies, importers and exporters constitute the critical parts of its supply chain, but also pose key challenges for Changyu as it defines and implements its corporate social responsibilities.

Changyu's internationalization strategy reflects this. Measures were taken not only to protect planters' benefits but also to secure the provision of quality vintage grapes to the company, including technical support from experts to the planters, and establishing long-term purchasing contracts. At the same time Changyu has organized its production processes consistent with global quality standards. With the establishment of four branded chateaus, Changyu has gained increasing recognition at home and abroad.

Indonesia: Greening the Supply Chain and Beyond

Asia-Pacific Resources Holdings International (APRIL) is a paper producer whose main production operations is in Riau Province. There is a perception in the global market that majority of the Indonesian companies are ignorant of or choose to ignore their social and environmental responsibilities, but at APRIL CSR is an integral part of the business strategy where stakeholder engagement is taken seriously.

While the prospects for pulp and paper business are very good, APRIL is conscious of increasing customer concern about sustainability. In markets with a commitment to environmental responsibility, customers are particularly concerned that appropriate standards be met by their suppliers. The company believes that its commitment to sustainability will provide a competitive edge.

The perception of overseas buyers regarding Indonesian environmental practice is a key challenge that APRIL is addressing directly by demonstrating that it is serious about greening the supply chain. Since APRIL also believes that sustainability is the key to its long term profitability, it has imposed strict requirements toward its suppliers, by using a tracking system to combat illegal logging.

Japan: How a Sporting Goods Company has Successfully Engaged with International Non-Governmental Organizations

Two major issues in global supply chain management are obtaining support from internal stakeholders (e.g. management, shareholders, employees, factory managers, and trading partners) for CSR initiatives and developing trust-based relations with stakeholders outside the company, including international organizations, non-governmental organizations (NGOs), unions, competitors, and the media. In the case of ASICS, a Japanese sportswear company, both efforts broke new ground. While CSR concerns have become critical for most companies in Japan over the past several years, they have been seldom treated as core strategic management themes. But ASICS incorporated CSR issues into its core management strategies and the CSR team played a central role in the integration.

Regarding external stakeholders, ASICS faced a unique challenge from international NGOs. Oxfam, Amnesty and Global Union Organizations were actively engaging with the business sector in the aftermath of the sweatshop scandals that had adversely affected companies such as Nike. When the *Play Fair at the Olympics* campaign approached the company in 2003 ASICS was responsive and moved quickly to engage with the international campaign. Creating trust was a key success factor for engaging with both the internal and external stakeholders. Since the launch of a CSR team at ASICS in June 2004, the focus has been on creating environments where stakeholders can share necessary information and on how to integrate CSR into the core management values of the company.

Japan: Establishing a Greener Supply Chain at Fujitsu Limited

Fujitsu Limited, one of Japan's leading electronics and information technology (IT) companies, has recently strengthened the environmental aspects of its supply chain management through its CSR Procurement Guidelines, based on its CSR philosophy, known as The Fujitsu Way. A European Union directive has prompted Fujitsu to revise its Green Procurement Direction. According to the latest revision of the Green Procurement Direction in March 2007, suppliers are required to establish an Environmental Management System (EMS), comply with regulations for specified chemical substances, and implement a Chemical Substances Management System (CMS).

Most of Fujitsu's suppliers have been located in the Asia-Pacific region. Fujitsu has established an Environment Management Center (EMC) in Chinese Taipei, which has responsibilities of green supply chain management, especially in China and Chinese Taipei. Fujitsu was the first Japanese company to place such an independent audit office for green procurement overseas. Since green procurement was neither well understood nor popular at that time, EMC had to communicate with the suppliers patiently to make them understand the requirements, to overcome the gap between what suppliers said and what they did, and to communicate unambiguously, using words as "order," and not "recommendation," as would be the case in Japan. Alpha Network, a Fujitsu major supplier, was initially scored a "C" rank by EMC auditing, below a satisfactory performance. Since then it has aggressively established its own robust chemical substances management system, and has received certification from its major customers in addition to Fujitsu.

Japan: Supply Chain Management at Fuji Xerox of Shenzhen

Fuji Xerox (FX) was under pressure to come up with an effective plan for ethical sourcing. Before requesting its suppliers to comply with its CSR requirements FX had to verify that its own factories met the CSR requirements that ethical sourcing would require of the suppliers. There

would not be problems within FX's manufacturing sites in Japan, but since more than 70 % of the manufacturing was taking place in China, the manager responsible decided to survey the CSR management practices of FX factories in China. The survey did not identify any critical CSR problems at the facility in Shenzhen (FXSZ), where environmental management was at a high level. However, an interview with the General Manager did indicate some challenges with labor management relations, a situation that was quite common in the labor market environment that prevailed in southern China. Despite good remuneration, worker turnover rate was high, leading to inefficient skills training. As a consequence continuous skills improvement was not possible, and training costs were wasted, hindering product quality. After consulting with a local NGO specializing in labor issues, lack of communication among workers, line managers and the staff was identified as one of the fundamental causes of the problems. The recommended response was to implement communication training for FXSZ workers. The resulting communication and human relations training program was a great success, as the pilot program was replicated for all 4000 workers within three months.

Mexico: Implementing Corporate Social Responsibility in Small and Medium Suppliers

CEMEX is one of the most dynamic and profitable global enterprises in its industry, being the largest cement producer in Mexico and the third largest in the world. Its success can be linked to its deep commitment to community and sustainable development. CEMEX has worked diligently towards building a corporate behavior that not only ensures returns to its shareholders, but also to respond to societal and environmental concerns and values, making CSR an important part of its business strategy.

Large company influence can be an effective means to motivate SMEs to implement CSR measures. In 2006, CEMEX decided to participate in a pilot Mexican program with nine other “keystone” firms in order to support implementation of CSR measures among 10 of its SME collaborators.

Throughout this process CEMEX maintained an excellent rapport with its stakeholders, who shared a high opinion of the company. The majority of the SMEs participating in the project were CEMEX distributors that considered themselves as part of a large network. The participating suppliers were also aware of CEMEX's interest to increase value-added aspects of their activities. It was not surprising then that CEMEX offered its SMEs support with additional consultancy beyond those offered by the pilot project in critical areas such as: the business code of conduct elaboration and the development of health and safety activities.

Corporate Social Responsibility in an International Supply Chain Lead from New Zealand

ABS Logistics helped a New Zealand manufacturer, Woodward Laundry Products, contract a portion of its manufacturing to a Chinese firm named Conghua Metals Company, with the assistance of Hayden International Sourcing—a North American sourcing company. In spite of the generally low level of visibility in New Zealand of human rights and labor abuses by contract manufacturers in many low-cost labor economies, ABS Logistics persisted in not only developing its own CSR policy in this area; the logistics firm also convinced Woodward Laundry Products (the customer) to institute a similar policy. Then these two firms required similar policies and compliance on the part of Hayden International and Conghua Metals (the supplier).

Good practices included having a written CSR policy, inculcating employees with the meaning and application of the policy, persuading both customers and suppliers to also comply with the policy, and putting in place methods to ensure continued compliance by all parties. But the most

important characteristic of an effective CSR policy was the *will* of the firms involved to make sure everyone lives up to it.

“Amanco for a Better Peru”

Customers look for brands that present a socially-responsible relationship with the immediate community, the broader society and environment. For this reason, many organizations have realized the importance of integrating CSR into their strategic planning. This is the case of Amanco, the Latin American leader in the tube systems business and in construction systems in Central America. Although the company operates in a difficult economic environment in almost all the region’s markets Amanco is a worldwide leader in introducing CSR into its operations.

The success that Amanco had achieved has been built on the socially responsible actions that the company has taken. One key tool has been the Sustainability Scorecard with five dimensions: financial, clients, process and technology, social and environmental, and human resources.

The program *“Amanco por un Perú Mejor”* (Amanco for a better Peru), was initiated in 2004 with the objective of enlisting all of the organization’s employees to be ambassadors for the promotion of CSR, by promulgating the concepts to interested and committed people who in turn interact with their own communities. The program has three pillars (progress, health and attitude) and each of them has been developed through strategic alliances with civil society and government organizations.

Several lessons emerge from this case. Amanco’s focus is on people and it genuinely wants its employees to be the face of the company. While clients value social responsibility, they also want good quality products, competitive prices, opportune deliveries and excellent customer service. The way to engage clients and suppliers with the responsible vision of the company is through communication and dialogue.

Peru: FORZA’s Minority Inclusion Program

FORZA SA, which offers Corporate Security Services, has developed an inclusion program for people with disabilities, one of several CSR activities by the company’s Social Responsibility Association. The program offers positions as operators in the Information and Control Center – CIC. Because FORZA is a service company, its employees are an important part of the “inputs” as well as key stakeholders. Thus its “Different Abilities” Program applies CSR within the supply chain by offering people with disabilities the opportunity to develop themselves and grow professionally.

Worldwide there are 600 million people with some kind of disability, and in Peru there are over three million people with disabilities, 75% of whom do not work. FORZA is aware of its role as a socially responsible company and is committed to the creation of more equal opportunities and worthy employment. Peru has a long way to go to becoming a truly inclusive society, but this initiative will hasten the process. It demonstrates the potential of people with disabilities and builds awareness that tolerance and respect for the diversity are fundamental for our accomplishment as human beings.

Singapore: NTUC FairPrice Cooperative Ltd

NTUC FairPrice Cooperative Ltd, a leading Singapore retailer, is known to be a “supermarket with social conscience.” Its supply chain activities focus on developing effective strategies for

improving product quality and safety through working closely with suppliers on implementing standards and good CSR practices.

As Singapore imports 95% of its vegetables, and FairPrice 80%, sellers need to ensure that the vegetables are safe for consumption and supply is ample. FairPrice invested in a fresh food distribution center in 2002 to enhance its ability to turn stock faster and maintain freshness. The Good Agricultural Practices for Vegetable Farming (GAP-VF) certification ensures that local suppliers meet the standard but the certification does not cover imports. FairPrice encourages them to operate to a similar standard. The standard applied to organic vegetables is even higher. FairPrice works with Agrifood Technologies Pte Ltd to develop an in-house certification program to provide assurance of the integrity of the organic produce.

FairPrice participates in the Pekan Baru project, an Indonesian and Singapore Governments collaboration, as the sole importer of the vegetables produced from the farms in Pekan Baru. Technology on cold chain management has been transferred allowing the vegetables to maintain their freshness quality over more than 20 hours in transit. FairPrice provides work and income for more than 500 farmers and many operators along the supply chain. FairPrice purchases 50 tons of vegetables per week from Pekan Baru.

Thailand: Somboon Group (SBG)

With over 1,700 employees, Somboon Group (SBG) is a Thai conglomerate that plays a major role in the automotive parts industry. The company was established over 60 years ago as an automobile parts distributor and expanded to automobile parts manufacturing with the advanced technological know-how from Japanese partners. It was the first Thai company to manufacture springs for the automotive industry with more than 45 years of experience. SBG's subsidiaries have received several quality awards from automotive manufacturers including Quality Award (Zero Defect) from Mitsubishi Motor (Thailand), Toyota Production System, Quality Control Cycle Award, and Quality Assurance Award from Hino in 2006.

Mr Somboon Kitaphanich, SBG's founder, believes that the company's success is dependent on its employees' contributions and he ensures that they are paid reasonably and fairly, and that their family members are well housed and in good health. Mr Somboon has looked after his employees and their family members as if they were of his own kin. CSR was second nature to him before the concept became widely accepted as good management. The current management team continues the tradition of treating its employees well that was established by the company's founder. Employee turnover at SBG is very low and there are no labor unions.

SBG understands that success in today's environment depends on effective cooperation throughout the supply chain. SBG aims to be a highly valued partner in increasing its customers' satisfaction and responsibility to society and the environment.

SBG also considers social and environmental benefits to be an integral part of the company's successful operation. SBG encourages employees to become involved in charitable activities as ways of giving back to society. It sponsors various independent social programs through a volunteer group that performs charitable works and community service. As a result, SBG is not only recognized by its business partners as adding value, but it also enjoys an excellent reputation among the Thai public and government sectors.

BITIS in Viet Nam

Given Viet Nam's rapid integration into the global economy and recent accession to the WTO, Vietnamese enterprises are finding new ways to do business in a more sustainable and competitive manner. BITIS has successfully developed its brand reputation and market presence supported by good CSR practices, in particular as it relates to its role in global supply chains. BITIS has strong focus on environmental responsibility and human resources practices while entering into partnerships with foreign companies.

The development of BITIS has been closely associated with the "Doi Moi" [opening up] of Viet Nam over the last 20 years. Its experience, exemplified by its "doing good and doing well" strategy, demonstrates the key role that the private sector has played in economic growth and overall development

Key Themes

As noted the 14 cases spanned a wide variety of sectors, types of organizations and business environments. The social, cultural and economic contexts also varied, reflecting the diversity of the make-up of APEC's membership. Despite this, it was striking that a number of key themes recurred throughout the cases. These cross-cutting themes were also consistent with the key conclusions of two meetings held in Japan over the course of the project, a symposium in Sendai and a workshop in Tokyo.

Understanding the Risks is the First Step towards Mitigating Them

The identification and mitigation of risk are central motivators for the focus on CSR in supply chain management. Indeed, in many instances described in the cases firms adopted a proactive strategy, built on CSR principles, when faced with new pressures in the marketplace. Recognizing that if they failed to act themselves governments might impose new regulations on their behaviour, firms voluntarily positioned themselves on the cutting edge of prevailing business practice, often educating their stakeholders and/or developing the marketplace as a consequence.

For businesses in developed economies both the maintenance of product safety and quality and the protection of brand reputation were key considerations, the latter very much driven by emerging trends in public opinion. Importers and distributors of consumer products such as the Hudson's Bay Company in Canada and NTUC FairPrice Cooperative Ltd in Singapore were anxious to ensure that they purchased from known and reliable suppliers. ASICS of Japan learned of the growing influence of international NGOs firsthand, when it was falsely accused of buying from sweatshops, and the company responded by clarifying the facts and subsequently developed an excellent cooperative relationship with the same organizations that had originally voiced the concern.

The reciprocal risk is being shut out of lucrative markets by failure to meet acceptable standards. This is the key motivation for adopting a formal program of Good Agricultural Practice (GAP), at the heart of the experience of Chile's fruit producers, but also important to FairPrice Cooperative's work with its Indonesian produce suppliers. APRIL of Indonesia understands the critical importance of demonstrating its commitment to sustainable forestry practices, while in China the Changyu Pioneer Wine Co. knows that securing a reliable supply of high quality grapes was critical to the development of its brand.

The need to formalize the process of identifying, measuring and mitigating risk is common to developed and developing economies alike. Managing by fact, measuring performance systematically and analyzing the causes of deviations from accepted standards are commonly employed techniques.

CSR Is about Good Management, Especially Total Quality Management

In this sense, many of the case studies demonstrate that good CSR practice begins with good management. In some economies CSR is viewed as a recent development, externally imposed. But as a number of the cases clearly demonstrate, a commitment to good practices has its origins in deeply-held values among company principals. For example in Thailand, the Somboon Group's commitment to environmental stewardship, as well as its involvement in the communities in which it operates, are the direct result of the beliefs of its founder. Similarly the investment in employment diversity in Peru's FORZA is a manifestation of how the company's top management sees its role within society. Similar comments can be made of BITIS in Viet Nam, while in Indonesia APRIL's responsible forestry practices are based on environmental principles, as well as an enlightened sense of business interests.

In short, while CSR does challenge traditional precepts of how businesses relate to their key stakeholders, it does not necessarily represent a radical shift in how companies should be managed. Quite the contrary, CSR stresses good management policies and practices.

This is not to suggest that such good management is the norm everywhere, and in many developing economies both the business environment and current organizational capacities work against achieving this ideal. It is clear that the effective implementation of CSR is dependent on the managerial capacity of the organization. In particular, sustained success depends on having an understanding of and belief in the principles of total quality management. As such competencies required include not only the ability to develop standards, measure deviations in performance and continually improve outcomes, but also to support activities to increase the knowledge and skills of the work force and develop strategic alignment to ensure the commitment of each member of the team to achieving the enterprise's goals. In a number of the cases studied intermediaries of various types including industry associations, academic institutions, and business services-providing companies played important roles in the strengthening of management systems and practices. Examples included adopting global standards to fit local conditions and management capacity building programs for SMEs. Achieving such goals would be difficult for a single organization to achieve on its own.

Global Supply Chains Add Complexity

The emergence of global supply chains has introduced considerable complexity, including managing at greater distances, addressing the challenges of cross-cultural communication, and coping with incomplete information. But while these factors must be recognized and the risks they impose must be mitigated, they do not fundamentally change the nature of how the underlying business processes are to be designed, controlled and audited.

Thus Japan's Fujitsu, a sophisticated trans-national enterprise developed the Fujitsu Way to articulate its corporate goals and values, and to provide a framework for the alignment of all facets of corporate and business unit management. Nonetheless, Fujitsu has recently successfully addressed new challenges as it implemented a green procurement policy for offshore operations in Chinese Taipei. Similarly, Woodward Laundry Products of New Zealand, a successful and well-managed enterprise serving the New Zealand and Australian markets, had no prior experience in addressing issues of labor conditions in outsourced manufacturing, but was able to develop

appropriate policies and controls with the assistance of a specialist logistics firm with considerable experience in sourcing from China.

Global Standards Versus Technical Barriers to Trade

The symbiotic, albeit double-edged, relationships between the development of global standards, on the one hand, and the facilitation of trade and investment, on the other are well illustrated by the cases. Defining clear expectations of performance can support increased trade and investment, assure consumer protection, and promote environmental stewardship and human rights in the producing economies. But it is critical that standards be transparent, measurable and scientifically-based. The possibility was noted in some of the cases, particularly those documenting the experience of developing economies, that externally-imposed standards may become new barriers to trade driven by protectionist motives. It is worth noting that in several instances cited in the cases the emergent global standards are being driven from economies outside APEC, notably those in the European Union.

The Central Importance of Capacity Building

If CSR depends on good management practice, then it follows that the promulgation of CSR for the purpose of improving the management of global supply chains will be supported by explicit capacity building efforts. Indeed, the cases widely bolster this perspective, and provide a number of excellent examples of capacity-building initiatives, which may lend themselves to replication in somewhat similar circumstances in other APEC economies.

Systematic efforts to train suppliers to develop improved and more sustainable agricultural practices were featured in both the Chile and Singapore papers, but also were present in the Chinese case. Manufacturers in both Mexico and Peru worked to strengthen the general management competencies of downstream distributors, who were for the most part SMEs. Japanese companies strengthened the performance of offshore suppliers by insisting on strict quality standards, conducting regular audits and helping suppliers to address deficiencies. A similar approach to working with suppliers was evident in the Indonesian forestry sector, in automotive parts manufacturing in Thailand, and in footwear production in Viet Nam.

Many of these capacity building efforts were internal to the firm, but it was also striking that in a number of instances they involved formal collaboration with external agencies such as universities, international financial institutions, or trade associations. While most efforts focused on conformance to quality standards of some sort, there were instances of other, more fundamental human resource development activities. Notable in this regard for example was Fuji Xerox Shenzhen's basic communication training aimed at entry level employees with limited prior experience in the formal sector labor market. Similarly FORZA's recruitment of persons with disabilities in Peru supports basic labor force development, as well as challenge traditional views concerning diversity

Importance of Open Communication

Finally, the cases provide a number of other examples that reinforce the foundational importance of open communication to effective management. Several cases pointed out the need to ensure that key stakeholders understand the links between CSR, risk and quality assurance, on the one hand, and meeting the goals of the business, on the other. Many examples were cited of suppliers who did not understand the importance of, for example, environmentally-sound practices. They did not know what was expected of them, nor what would be the consequences of failure. Care was required to ensure the right balance between being too rigid and being unclear as to what were the expectations.

Similarly, an appropriate balance needed to be found between assisting or mediating when improved performance was needed and tolerating unacceptable outcomes.

Finally, open communication required a sophisticated understanding of the similarities and differences in the interests and perspectives of the various stakeholders. Suppliers and their customers have in common an interest in the successful management of the supply chain, but they obviously have different interests with regard to, for example, the allocation of costs and margins. Similarly businesses have different interest from NGOs though there are clearly opportunities for collaboration, as demonstrated by the ASICS experience, for example.

Implications for the APEC Process and for Member Economies

A number of implications emerge from the cases both for the APEC process of regional dialogue and economic cooperation and for the consideration of individual APEC member governments.

Increased Complexity in Production and Distribution Systems have Created New Sources of Risk for All Stakeholders

The experiences documented in the 14 cases confirm and reinforce the view that the emergence of regionally and globally-integrated production systems, and the concomitant rise of global supply chains, have created both opportunities and challenges for the world economy. On the one hand, the growth of sophisticated manufacturing networks, supported by modern transportation and communications technologies, has facilitated economic specialization and the growth of investment and trade. But with increased sophistication in procurement has come a vastly more complicated system to manage.

Beginning in developed economies, consumers have intuitively recognized the challenges and have raised concerns about potential environmental impacts, product safety and human rights. Producers in turn, have found quality assurance to be more tricky in situations where they lacked direct control over (and sometimes even full knowledge of) their suppliers. In the meantime, for governments with responsibility not only for promoting economic development but also for protecting the health and safety of their citizens, the boundaries between trade and investment policies and other aspects of global economic relations have become progressively blurred. A corollary is that these trends have reinforced the importance of providing effective “behind the border” regulatory and administrative practices, a topic to which APEC has devoted itself recently.

Companies are Embracing CSR as a Framework for Global Supply Chain Management

The cases, however, also pointed to a strong willingness on the part of companies engaged in cross-border trade and investment to enlist the concepts of CSR, both as an organizing framework and as a set of practical tools. CSR can help in identifying, managing and mitigating the risks inherent in global supply chains, in assuring the integrity of products and services and the protection of brand reputations.

In many cases the impetus for embracing CSR in the context of supply chain management has been external—responding to standards imposed from outside the APEC region and often originating within the European Union. But these pressures have been reinforced both by the deeply-held ethical principles of many enterprises in the region, and by their well-honed and

effective management systems, at the heart of which are their commitments to total quality control. Indeed, as noted, once firms recognized the emergence of new pressures in the marketplace many developed proactive strategies to get ahead of the curve.

While governments and private business alike remain concerned that the emergence of new global standards could result in their exclusion from lucrative overseas markets, they can take comfort in the fact that it is very much in the interest of their overseas partners for them to develop the capacities required to comply with global standards on a sustained basis. Thus the cases demonstrated the presence of symbiotic relationships among the stakeholders. There is great scope for mutual gains through cooperation aimed at continual improvement.

Capacity Building Is Key

The successful application of CSR principles and techniques to the management of global supply chains depends on a sustained investment in capacity building at several levels, including creating awareness of the issues; inculcating in business a commitment to contributing to broader societal goals; fostering cooperation among stakeholders; providing training and skills development; and facilitating the transfer of management systems and techniques. These cases provided ample evidence that given the right incentives business are more than willing to participate in this process actively—it is clearly in the interest of the private sector to do so, both large enterprises serving global markets and smaller companies that serve as their suppliers and/or form part of their distribution network.

Governments Have Key Facilitating Roles

That said, there are also important roles for governments to play, both at the level of regional cooperation and within individual APEC economies. First and foremost, governments need to create enabling environments that encourage dialogue among key stakeholders including large and small business, academia, and civil society on a broad range of economic, social and environmental outcomes. Intermediaries have important roles to play in adopting global standards to local situations, facilitating the sharing of knowledge and experiences and complementing and/or coordinating efforts among the different players. Governments can take steps to encourage the development of such institutional linkages within individual member economies, and at the regional level through APEC.

Second, governments can provide incentives—not necessarily of a monetary nature—that encourage businesses to undertake socially responsible investments and celebrate good practice. Reputation is a powerful motivator in this regard. The prospect of enhancing a firm's brand makes a substantial case for demonstrating responsible behavior, whereas the risk of damaging a firm's reputation discourages socially inappropriate behaviour.

Third, governments need to continue to play their core public policy and public administration roles effectively, particularly balancing the desire to liberalize and facilitate trade and investment with the need to ensure the setting and enforcement of appropriate standard for human and animal health, product safety and the rights of citizens. Setting an appropriate balance not only services the public interest directly but also promotes an environment with incentives for responsible behaviour on the part of businesses.

Fourth, governments need to provide support for capacity building at both individual and institutional levels to increase the knowledge of and practical experience with the use of CSR tools and techniques in the management of global supply chains. While training and education of individual executives is obviously important, capacity building needs to go beyond this. The

creation of intermediaries who can champion CSR throughout business and foster networks to share information and good practice is also a key.

**Table 1:
The Cases and their Focus**

Economy	Subject Organization	Issues of Focus
Canada	Hudson's Bay Company (a well-known Canadian retailer), dealing with textile producing developing economies	<ol style="list-style-type: none"> 1. Ethical sourcing trends 2. Limitations of global sourcing initiatives for clothing supply chains 3. Building a global Ethical Sourcing Program (CSR)
Chile	Fruit Export Sector in Chile	<ol style="list-style-type: none"> 1. Market incentives for CSR 2. Changing and raising expectations from clients 3. Business association leadership 4. Raising quality standards 5. CSR promotion among SMEs of their sector 6. Partnership with government initiatives in education and training 7. Sustainability reporting
China	Chang Yu Pioneer Wine Company Limited Yantai China (Food & Beverage) in China	<ol style="list-style-type: none"> 1. Labour 2. Environment 3. Relationship with suppliers and customers
Indonesia	Asia Pacific Resources International Holdings Limited (APRIL) in Indonesia, engaged in paper pulp industry, exporting to Japan	<ol style="list-style-type: none"> 1. Environmental issues ("planet"), use of sustainable resource management and systems (e.g., pulpwood tracking system) 2. Issues related to "people" and "profit" 3. Community development and capacity building - e.g., entrepreneur support
Japan	Electronic industry. Fuji Xerox, Fuji Xerox of Shenzhen (FXSZ)	<ol style="list-style-type: none"> 1. Supplier engagement (supply chain management) 2. Capacity building of factory workers in developing economies (China)
Japan	ASICS Corporation, sporting goods producer in Japan, having operation in China	<ol style="list-style-type: none"> 1. Labor 2. Human rights 3. Developing collaborative relations with NGOs 4. Engagement of management 5. Media and negative publicity
Japan	Fujitsu in Japan and other parts of Asia (Chinese Taipei and China)	<ol style="list-style-type: none"> 1. Environment management 2. Supplier engagement through green procurement
Mexico	CEMEX (cement producer), in Mexico, piloting supplier capacity building with 10 selected SMEs	<ol style="list-style-type: none"> 1. Self-regulation 2. Labour and human rights 3. Environment 4. Social and community involvement 5. Relationship with other stakeholders 6. CSR promotion in SMEs among the value chains of larger enterprises
New Zealand	Mainfreight	<ol style="list-style-type: none"> 1. Labour and human rights in selecting and using partners in other countries

**Table 1 (Continuation):
The Cases and their Focus**

Economy	Subject Organization	Issues of Focus
Peru	Corporate Security Services / Forza S.A.	<ol style="list-style-type: none"> 1. CSR through Supply Chain 2. Minority inclusion within the organization 3. Enhancing the supply chain management
Peru	Amanco Group, Construction Equipment Sector, Peru	<ol style="list-style-type: none"> 1. Leading construction equipment maker, building capacity of suppliers, dealers and plumbers, 2. Employees acting as ambassadors
Singapore	Supply chain of NTUC FairPrice Co-operative	<ol style="list-style-type: none"> 1. Ensuring freshness and quality of imported produce
Thailand	Somboon Group of companies in the auto-parts industry in Thailand	<ol style="list-style-type: none"> 1. Enhancement of quality of employees life 2. Environmental management (clean technology) 3. Social and educational programs (anti-drug, etc.)
Viet Nam	BINH TIEN "BITIS" Company Limited (well-known footwear brand in Viet Nam)	<ol style="list-style-type: none"> 1. Role of leather and footwear industry in Viet Nam (major exporter) 2. Influence of WTO on that sector 3. Strategy to use CSR in supply chain as comparative advantage, with main focus on environment and labour practices

