NRI DEVELOPMENT PROGRAMME

POLICY BRIEF

SUSTAINABLE TRADE AND RESPONSIBLE BUSINESS

# Evaluation Issues in Responsible Business and Sustainable Supply Chain Evaluation:

## Gaps, Challenges, and Implications

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**KEY MESSAGES**

- There is a major evidence gap on the effectiveness and impact of Responsible Business Initiatives - organisations which seek to effect change in corporate policies, practices and the impacts on suppliers, workers, communities and environments. The lack of evidence on their combined contribution is problematic, but unsurprising due to the prevailing lack of transparency in global supply chains.
- More evidence generation and scrutiny are required, not least as such organisations frequently receive public funding and occupy policy space, potentially marginalizing alternative strategies, but also to learn what works. RBIs are evolving in nature. More RBIs are now employing strategies which exert pressure on companies to act more responsibly, strategies which seek to shape expectations and societal norms of 'good' or 'purpose-driven business' (ideas-based strategies), as well as the more traditional ones that enable business to improve. The fundamental challenge, especially with enabling strategies, is that they rely on a weak business case to incentivize businesses to act voluntarily.
- Future evidence generation should focus on identifying which strategies work and which are not successful. Further, it should concentrate on more critical linkages in the steps towards change, such as purchasing practices, rather than public policies and corporate self-reporting. Key outcome indicators such as living wages should be covered. Studies should also move beyond corporate cases, to sectoral and industry-wide assessments. Independent evaluation is needed, alongside worker driven monitoring. However, transparency and access challenges will continue.
- The broader evidence signals that RBIs are not making enough progress, even if some leading companies are innovating and showing leadership. Mandatory due diligence requires certain companies to implement due diligence, which includes assessment of risks to people, mitigating actions, monitoring and remedy, and represents a step forward, but reform of global supply chains may turn out to be a never-ending story, and energy should instead be focused on identifying more transformative solutions and regenerative, place-based economic development.

## The evidence gap, and why it matters.

Irresponsible business behaviour in supply chains leads to human rights abuses and environmental damage. The private sector is widely viewed as being critically important for achieving the Sustainable Development Goals (SDGs), because of the social, economic, and environmental impacts that their activities have around the world (Better Business, Better World, 2017). Leading companies are seeking to align their business practices with the SDGs, often with donor support. However, there is a major gap in evidence on their actual contribution.

Internally, many companies are already innovating on sustainability to a greater or lesser degree. Some make strategic changes with respect to sustainability performance, but the competitive pressures of globalized value chains remain very strong. Hence, becoming more responsible is not a straightforward task for brands and retailers. This is especially the case for those in mainstream and/or highly competitive markets or involved with south-south trade and expansion of Asian markets, where attention to sustainability issues and market demand for sustainable products and companies is less pronounced and more uneven. Responsible Business Initiatives or RBIs – organisations which seek to influence corporate practice towards greater responsibility and more sustainable outcomes – often receive public funds. But how effective are they?

The evidence base on voluntary sustainability standards' effectiveness and impact is strengthening, but these represent one type of sustainable supply chain initiative. Little evidence exists on the efficacy of a growing plethora of Responsible Business Initiatives (RBIs) which focus on business sustainability at the entire corporate level. Some are more mature having been around for many years (e.g. corporate codes and auditing), others are more recent (e.g. sectoral multi-stakeholder initiatives, supplier capacity strengthening approaches, benchmarking initiatives, mobilizing investors). But quality evidence and rigorous synthesis is generally very thin across the board.

## Why is there an evidence gap?

There has been limited scrutiny of the effectiveness and impact of RBIs – either by RBIs themselves, academia or the wider public. This is perhaps due to a lack of understanding and capacity, and because such organisations work in a challenging context, seeking to influence companies that are often more powerful, with limited leverage. Further, the reach of the target companies is global and the supply chains complex and opaque. The lack of transparency in most global supply chains creates a challenging level of opacity and stakeholder interviews suggest that some companies do not want to look too hard because of what might be found in these supply chains (Nelson, Martin-Ortega and Flint, 2020).

## Evaluation of Responsible Business Initiatives

Multiple RBIs have received support under DFID's 'Responsible, Accountable and Transparent Enterprise' (RATE) Programme (2014-2020). The programme was designed to improve corporate impacts on affected poor workers, communities, and environments, especially in developing countries. The various partner RBIs (e.g. Global Reporting Initiative, UN Global Compact, World Benchmarking Alliance, B-Lab, ShareAction, Ethical Trading Initiative) received core or programmatic funding. As well as supporting peer learning, facilitating the development of organisational theories of change, and monitoring and evaluation action planning, evaluation of the programme by an NRI led team required assessment of the combined contribution of the partner intermediary organisations to desired outcomes and impacts (2016-2019).

## Evaluation challenges

There are a number of challenges involved in generating evidence on RBI effectiveness and impact:

- It is not feasible to assess the impact of the supported RBIs on large parts of global business through relatively small studies; further, individual corporate case studies would be insufficiently representative.
- Variability in company and industry characteristics, drivers, and contexts, means that a multiplicity of factors determine corporate practice. Corporate sustainability reports give some insights, but an early literature review showed that reporting is rarely easy to compare, and available evidence focuses on policies, with limited evidence on resulting change in business performance and impacts.
- Experimental studies are difficult to construct, except on a small-scale and where simple interventions can be isolated, with other conditions controlled. This is not feasible in situations of complexity.
- Theory based evaluation is a more appropriate approach, involving tracing change along a causal pathway, but conducting theory-based evaluation of RBIs is challenging, because of the

widespread lack of corporate transparency. While systematic analysis of company public policies is more feasible, going beyond this requires gaining access to internal corporate practices and decision-making to map the supply chain and trace causal linkages between corporate practices, supplier practices and ultimate impacts on the ground. Companies that are more open, have so far been ones that have a different basic ethos, meaning that they are not necessarily representative of the wider industry.

- Starting from the grassroots upwards, it is possible to conduct interviews and surveys of groups of workers and communities, but not necessarily possible to identify in which supply chains they are participating. Even if you can trace which company they work for, many suppliers supply diverse buyers. Ethical risks for workers of recriminations also exist. Overcoming such challenges may be possible through independent theory-based monitoring and evaluation, if and when transparency increases, but there is a significant cost attached.

## Conceptualizing a theory of change for Responsible Business Initiatives

Essentially, a generic RBI theory of change is this: diverse mechanisms and strategies are implemented by RBIs, leading to changes in company policies, capacity and practice, which then lead to changes in supplier capacity and practice, and to impacts on workers, communities, and environments. In a recent chapter (Nelson and Flint, 2019) we distinguish three types of mechanisms that RBIs commonly use to try and change corporate practice. *Enabling* strategies facilitate companies to have the capacity to change. *Pressure* strategies seek to pressurise companies to change; *Ideational* or 'ideas-based' strategies involve changing societal and enterprise expectations about what is 'good' business and how it can be achieved. A newer wave of initiatives is more likely to deploy pressure or ideational strategies, than solely enabling ones. The risk is that all such voluntary approaches alone, may mask inaction or de-legitimize other potentially more effective types of responses, such as hard law mechanisms, development cooperation, international trade deals, capacity strengthening and public procurement support for alternative forms of enterprise, changes in corporate governance etc. (Nelson and Flint, 2019).

## Implications of the lack of evidence

What are the implications of this lack of evidence? It is difficult to know if things are improving or even going in the right direction for individual companies, sectors, or industries in terms of outcomes for local people, communities, and environments. Evidence of cumulative impacts at the sector or industry level is missing and is weak for many sustainable landscape and sector-wide initiatives.

We piloted a study in the RATE evaluation in the Bangalore ready-made garment sector, using the Sustainable Apparel Coalition Higgs Index indicators and applying some simple qualitative scales. Initial findings were as follows: *'social performance is rated as low with no significant improvement over the past five years; environmental performance is also rated as low, but with some improvement over the past five years; some improvement in levels of support by brands for community CSR projects; and low, but improving, levels of supply chain transparency'* (Nelson and Flint, 2018 , p. iv).

More studies of this kind are needed – independent in nature, taking in the bigger picture and looking at social, environmental, and economic dimensions, but combined with more extensive empirical data. Change is coming; there are emerging monitoring frameworks to guide individual companies or multi-stakeholder area or landscape-based approaches, but it is uncertain how far the evidence generated will be independent. There are also risks that the framing of initiatives and their evaluation, prioritizes business perspectives and market values, over and above those of local people and communities, or intrinsic environmental values.

## What is success for RBIs?

Different RBIs have differing pathways and goals. But it is important to ask what is the end goal of supply chain sustainability interventions and responsible business, individually and combined, and how do we know if they have been successful? Very often, corporate, and responsible business rhetoric is highly positive, showcasing positive examples of progress and change. However, there is a disconnect when wider evidence is reviewed, (e.g. trends in violence against human rights defenders, the lack of progress on climate change mitigation etc.).

The COVID-19 crisis has thrown into sharp relief the different responses from companies to their supply chains, some positive and some highly alarming, e.g. some mainstream apparel companies cancelled payments to suppliers in Bangladesh for orders that had already been manufactured. Poor purchasing practices drive human rights abuses in supply chains, so the late cancellation of all orders will likely leave thousands of workers unpaid and without sick pay, even if governments step in with some measures to support suppliers.

### Global value chain reform or transformation?

Interest and progress on legal interventions has grown recently, as a potentially stronger mechanism for changing corporate practice. An example is mandatory human rights due diligence (HRDD), such as the French Duty of Vigilance Law. Such regulatory requirements are a critically important step forward for reforming supply chains and may also encourage or force some companies to change their underlying business models. But they are not 'silver bullets' - there is ample scope for poor implementation, for masking inaction, of potential exclusionary risks for disadvantaged workers and farmers in the global South (see Nelson, Martin-Ortega, Flint, forthcoming).

Making HRDD work requires, amongst other things, independent worker and community driven monitoring on a very large scale across industries, public investment in independent environmental monitoring, strong commitment from governments for enforcement and policy coherence (e.g. integration in public procurement) and a strong civil society to hold companies to account. The competitive pressures which incentivise unsustainable and irresponsible business behaviours in the currently globalized economy, should not be under-estimated.

The question arises, should evaluation compare company performance with last years' efforts, or that of peers, or instead have a future focus, asking 'Where do we (humanity) need enterprises, sectors and economies to reach and by when?; 'Where are we now'; and 'How best can we close the gap?' Such a focus will help to identify the combined sets of levers needed (mandatory, voluntary, reform-orientated, and more transformative in nature). Some corporate focused initiatives already focus on the future (see Future Fit Business Benchmark, a strategic management tool to help companies think about where they need to get to, https://futurefitbusiness.org). Realistically, many companies will find it difficult to achieve this on a voluntary basis because it means a thorough re-design of business models.

The ultimate end goal must be to transition towards economies that fit within environmental planetary boundaries and internationally recognized social goals. in the meantime, more evidence on what works to reform global supply chains is needed from a sustainable development perspective.

Future evidence on voluntary RBIs should focus less on corporate policies, and more on key, monitorable practices and behaviours, (e.g. defined company purchasing practices), but this requires much more transparency of supply chains. More focus on sectors and industries is needed, in addition to individual companies. Expanded national datasets are needed on actual outcomes in the supply chain (e.g. decent work, community empowerment, environmental indicators). Instead of focusing only on more visible, easy to measure issues, such as building safety, harder indicators should be tackled, such as living wages and incomes, which are key to the observance of human rights. Independent evidence is sorely needed, given the propensity of corporate actors to overstate or selectively report on performance. Giving voice to those affected, needs stronger support, through worker- and community-driven monitoring and in evaluation efforts.

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For more publications see the NRI Sustainable Trade and Responsible Business Programme Website: *https://www.nri.org/development-programmes/sustainable-trade-and-responsible-business/publications#theme-4-responsible-business-and-global-value-chains*.

### Key References

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