

Can conducting a social LCA helps meeting major social responsibility standards requirements?

Catherine Benoît Norris¹, Gregory A. Norris²

¹ *Harvard Extension school, New Earth (USA)*

² *Harvard School of Public Health, New Earth (USA)*

1. Abstract

There are a number of influential social responsibility standards and regulations that were published in the recent years (eg. UN Guiding principles on Business and Human Rights, ISO 26000, GRI G4, California Transparency Act, Dodd-Frank act section on conflict minerals). One characteristic of these standards and regulations is to require or incentivize companies to assess and report about their supply chains risks and impacts. Many organizations are assessing and deciding about which tools and processes they will use to meet the new criteria.

Social Life Cycle Assessment is a technique developed to make operational the assessment of supply chains social impacts (UNEP-SETAC, 2009). There is a need to specify and explain how and to what extent Social LCA can help organizations fulfill standards and regulations requirements. In this paper, we will present the sections of these standards and regulations which refer to supply chains and discuss how Social LCA can be applied to support organizations in the assessment and reporting of their supply chains social risks, impacts and benefits. We will illustrate the discussion with an example.

2. CSR context

The Guidelines for Social Life Cycle Assessment (UNEP-SETAC, 2009) has positioned Social LCA as a tool for Corporate Social Responsibility (CSR). Indeed Social LCA applies a framework to assess social sustainability dimensions within the sphere of a company's product life cycles. Capron and Quairel-Lanoizelée (Capron et Quairel-Lanoizelée, 2004) considers that CSR is defined as the appropriation and implementation of the logics and principles of sustainable development to the business domain. Many consider CSR key distinguishing feature as the voluntary nature of the initiatives companies undertake in its name (Blowfield and Frynas, 2005). Accordingly, a vast number of voluntary standards and initiatives were developed or launched in the past decade (eg. ISO 26000, Global Reporting Initiative). However, we

are also beginning to see the rise of new governmental regulations that strengthen the pressure on companies to act in regard to supply chains social responsibility issues may they concern humans or workers rights.

Even though the division of production in multiple international steps is probably the most significant change in international trade of the past 40 years (Robertson et al., 2009), the question of supply chain social responsibility is still relatively new (Brammer et al., 2011). Starting from the 1990's with the work of scholars and activists such as Dara O'Rourke (O'Rourke, D. 1997) global attention was drawn on the plight of apparel and footwear workers in developing countries and the inequalities in wealth distribution. To address criticisms, brands turned to increased social auditing and monitoring. 20 years later, NGO's, auditing organizations, trade unions and Intergovernmental organizations reports unprecedented number of non-compliance in supply chains (eg. Impactt, 2014, Clean Clothes Campaign 2005, AFL-CIO, 2013). Now, it is also a fact that globalization has never been as intense as it now is with the World Economic Forum documenting a steep raise in intermediary inputs international trade (WEF, 2012). Even when recognizing the surge in globalized inputs, the ineffectiveness of traditional or even "improved" social auditing practices in resolving social compliance issues is no more disputed (Locke, 2014). This exacerbates the need to understand better supply chains social impacts and develop new strategies to fully respect human and worker rights.

One way that CSR can be viewed as highly influential is by its success in institutionalizing (at least within Fortune 1000 companies) stakeholder management. Stakeholder theory emerged in 1984 as a new conceptual framework for management and establishes that stakeholders have legitimate interests in corporate, and more broadly, organizations activities (Freeman, 2004). CSR voluntary nature and stakeholder theory have historically gone hand in hand. As a consequence most voluntary standards are or were developed within multi-stakeholder initiatives or international initiatives involving extensive stakeholder consultations. Thus we have three moving pieces to our puzzle, the intensification of globalization, the multiplication of social impacts (both positive and negative) and the recognition of stakeholders' legitimacy.

3. Voluntary Standards requirements

In this paper we will review how some of the most prominent voluntary standards suggest that companies deal with and report on supply chains social sustainability. There are two voluntary standards that are especially influential: the United Nations Business and Human Rights Framework and the Global Reporting Initiative (GRI) G4. A number of other standards and sustainability rating schemes would also be relevant to include and add to this analysis such as ISO 26 000 but the scope and influence of the two above is motivating the choice.

Guiding Principles on Business and Human Rights

Former Special Representative of the United Nations Secretary-General, Professor John Ruggie, developed the UN Business and Human Rights framework over 6 years. The development has included in-depth research; extensive consultations with businesses, Governments, civil society, affected individuals and communities, lawyers, investors and other stakeholders; and the practical road-testing of proposals.

The United Nations Human Rights Council endorsed the Guiding in 2011 hence establishing the Guiding Principles as the global standard of practice that is now expected of all States and businesses with regard to business and human rights. While they do not by themselves constitute a legally binding document, the Guiding Principles elaborate on the implications of existing standards and practices for States and businesses, and include points covered variously in international and domestic law (United Nations, 2012). The Guiding Principles were developed to put into operation the “Protect, Respect and Remedy” Framework presented by the Special Representative to the United Nations in 2008. This three-pillar Framework consists of:

- The State duty to protect human rights
- The corporate responsibility to respect human rights
- The need for greater access to remedy for victims of business-related abuse.

One of the key aspects of the Guiding Principles is its focus on due diligence. Human rights due diligence is defined by the Guiding Principles as – a business’s ongoing processes for assessing its actual and potential human rights impact, integrating and acting upon its findings, tracking its responses and communicating how its impact is addressed (United Nations, 2012). Human rights due diligence should cover adverse impact that the business may cause or contribute to through its own activities, or which may be directly linked to its operations, products or services by a business relationships. Consequently, these activities and business relationships set the scope of human rights due diligence.

The Guiding Principles describe three basic ways by which enterprises can be involved in adverse human rights impact:

- (a) Enterprises may cause the impact through their own activities;
- (b) Enterprises may contribute to the impact through their own activities—either directly or through some outside entity (Government, business or other);
- (c) Enterprises may neither cause nor contribute to the impact, but be involved because the impact is caused by an entity with which it has a business relationship and is linked to its own operations, products or services.

Each of these three basic scenarios has different implications for the nature of an enterprise’s responsibilities. It is understood that for multi-tiered and complex value chains where companies entertain thousands of suppliers even in their first

tier, it is very challenging to assess every individual business relationship. However, according to the Guiding Principles, this does not reduce companies' responsibility to respect human rights. Hence, not knowing about human rights abuses linked to its operations, products or services is unlikely by itself to satisfy key stakeholders, and may be challenged in a legal context (United Nations, 2012).

If due diligence on every individual relationship is impossible, The Guiding Principles explains that "business enterprises should identify general areas where the risk of adverse human rights impacts is most significant, whether due to certain suppliers' or clients' operating context, the particular operations, products or services involved, or other relevant considerations, and prioritize these for human rights due diligence" (United Nations, 2012). This would include, for example, agricultural products sourced from suppliers in an area known for child labour; security services provided by contractors or forces in areas of conflict or weak governance and rule of law etc.

GRI G4

Created in 1997 by the US based non-profits CERES and Tellus Institute, with the support of the United Nations Environment Programme (UNEP), the Global Reporting Initiative (GRI) is an organisation promoting "sustainability reporting as a way for organizations to become more sustainable" (globalreporting.org). GRI is mostly known for the reporting framework it developed: a holistic set of economic, social and environmental indicators. The fourth generation of the reporting Guidelines was published in 2013. The Global Reporting Initiative considers that: "A sustainability report conveys disclosures on an organization's impacts – be they positive or negative – on the environment, society and the economy. In doing so, sustainability reporting makes abstract issues tangible and concrete, thereby assisting in understanding and managing the effects of sustainability developments on the organization's activities and strategy"(GRI G4, 2013).

At the core of preparing a G4 sustainability report is a focus on the process of identifying Material Aspects. G4 defines Material Aspects as issues "that reflect the organization's significant economic, environmental and social impacts" and incentivizes reporting organisations to only provide information on those aspects. Therefore, with G4, GRI simultaneously try to limit the issues reported on and enlarge the scope of the value chain for which reporting is desirable. Organisations are encouraged to conduct a "materiality assessment" to identify the significant sustainability impact and the value chain links they should be focusing on regardless of whether those impacts are within direct control. Whether companies have a good understanding of their value chain sustainability impacts or need to build this exercise into their strategy, materiality assessments are a step forward helping companies to make sense of the bigger picture of sustainability performance across all their activities.

The GRI's understanding of material aspects similarly narrows the universe of issues that a company reports on to those most critical to both the company and its stakeholders. On the other hand, with materiality at the center the "boundary attributes or scope"

of the material issues are becoming more fluid. This means that companies must not only consider what, but where an issue is relevant across the organization and its value chain (which sites, subsidiaries, countries, suppliers, products, etc.). It also means that a company may report a different boundary for different issues. For example, child labor could only be reported on from the perspective of the supply chain or specific buying categories or geographies in the supply chain, while greenhouse gas emissions could be reported on from the perspective of the company-owned fleet or the downstream impacts associated with product use. GRI G4 requires a section of the company sustainability report to provide a description of key impacts, risks, and opportunities, as defined by national laws and relevant internationally recognized standards.

This section should include:

- A description of the significant economic, environmental and social impacts of the organization, and associated challenges and opportunities (including the effect on stakeholders' rights as defined by national laws and the expectations in internationally recognized standards).
- An explanation of the approach to prioritizing these challenges and opportunities.
- Key conclusions about progress in addressing these topics and related performance in the reporting period (Including an assessment of reasons for underperformance or over-performance).
- A description of the main processes in place to address performance and relevant changes.

Table 1: GRI G4 indicators reflecting this new approach to sustainability reporting

G4-LA15	Significant actual and potential negative impacts for labor practices in the supply chain and actions taken
G4-HR11	Significant actual and potential negative human rights impacts in the supply chain and actions taken
G4-SO10	Significant actual and potential negative impacts on society in the supply chain and actions taken

Table 1 presents the indicators of G4 representing this novel approach. A big potential gain with the increased importance and new approach to determining materiality is a more targeted and meaningful identification of relevant issues. One potential concern around materiality is that companies become too selective, screening out issues that they should be reporting. Deciding on a realistic list of material issues is a critical component of the G4 reporting process.

4. What S-LCA has to offer?

The two voluntary standards covered calls for companies to implement what can be considered in LCA terms a “hotspot” assessment process within their supply chains. Even though these standards apply to “a company” and not a product they still mandate for companies to investigate the most “material” or “impactful” business relationships may they be direct or indirect and identify the issues at stake as well as their locations.

Social LCA as a tool can enhance significantly the strategies currently implemented by companies or governments to fulfill these requirements. The main strategies currently applied are desk research, stakeholder surveys and materiality matrices. Because of the comprehensive scope of the Guidance Principles and G4, companies are asked to holistically understand their supply chains risk. Anyone familiar with decision analysis and the bounded rationality theory (Simon, 1996) realizes that the human brain is not designed to hold and process all the information relative to a company supply chains potential social negative impacts without help. In that sense, even well intentioned stakeholders input will skew the reality simply by not being able to hold and process such complex information. Even though supply chain due diligence and materiality assessment are now strongly emphasized, methodologies to attain the objectives sought are mostly unknown by users or at their early stage of utilization as demonstrated by a Shift report (Shift, 2012) or a Ernst & Young survey revealing that just 48 per cent of UK firms carry out due diligence on their supply chain, with 30 per cent admitting they had not carried out any checks whatsoever (Supply management, 2013). Social LCA can provide three critical dimensions to materiality assessment and due diligence summarized as methods, models and data.

Methods

Methods are needed to enable the assessment of risks and performances throughout the value chain in a comprehensive, consistent but manageable way. Through the UNEP-SETAC Guidelines for Social LCA of products and the complementary methodological sheets (UNEP-SETAC, 2013) the field of Social LCA established a framework building on the ISO 14040 and 14044 LCA standards. Through conferences, published journal articles, seminars and industry group publications (Pré, 2014), the methods are spreading, evolving and gaining in maturity.

The Life Cycle Inventory and Impact Assessment methods developed within the field of Social LCA have the potential to bring structure, credibility and consistency to due diligence process and supply chain materiality assessment.

Models

Models are needed to inform about the supply chain activities, linkages and location. While a large number of companies have still very limited information on their

suppliers (eg. facility locations), let alone second or third tiers suppliers, LCA and Social LCA models enable to by-pass this information gap by using trade or process models.

Social LCA requires geographic location information (UNEP-SETAC, 2009) motivating the use of Global Input-Output models. Multiregional IO models availability is increasing and count the World Input-Output Database (WIOD), the Global Trade Analysis Project (GTAP) derived model, Exiobase and Eora. At the present time the model available which provides the highest number of countries and sector consistency is GTAP. As the demand is increasing, process-based models are also integrating location information or seeking to hybridize with a multiregional IO model.

Data

Data are needed to support assessments by providing generic and site-specific information that will allow identifying hotspots and assessing performances. Social LCA requires its own data addressing relevant social issues. The UNEP-SETAC Guidelines on Social LCA include a flexible list of impact subcategories that cover issues mandated by most standards.

With a first comprehensive Social LCA data source, the Social Hotspots Database (Benoit Norris et al., 2013) the field of Social LCA can deliver extensive hotspots assessment at the level of the company, a company division or a product category.

Example

Owens Corning, a building material company headquartered in the US was carrying an initial (first phase) due diligence process of its own operation supply chains. It collected data on operation revenues, sectors and locations which were used to create a first high-level supply chain model. Using the Social Hotspots Database, they were able to identify their most at risk operation supply chains links on each relevant issue. They were also able to calculate process contributions in order to drill-down to the production activities contributing to the highest share of the impacts. These initial results enabled them to prioritize a second phase involving more precise modeling and data collection.

5. Discussion and conclusion

With regulations implemented in the US such as the California Transparency Act, the Dodd-Frank act section on conflict minerals and the 2013 Executive order on Human Trafficking, due diligence is also becoming a compliance issue that is directly affecting business. Which such laws also being in development or under review in the UK, Switzerland, EU, Canada and beyond, there is no question whether due diligence and materiality assessments are relevant for Social LCA.

Social LCA has also specific characteristics making it a tool of choice for companies implementing such processes. While stakeholder engagement and surveys are necessary components of a materiality assessment and due diligence process, a science-based process is also needed in order to bring consistency and comprehensiveness to the results. Since its attributes are so greatly needed in the business and societal domains there are good reasons to discuss as a Social LCA community how we can make Social LCA as effective, understandable, reliable and user-friendly as it needs to be in order to be broadly utilized.

References

- AFL-CIO. 2013. Responsibility Outsourced, Social Audits, Workplace certifications and Twenty Years of Failure to Protect Worker Rights. AFL CIO, US.
- Benoît-Norris, C., Aulisio, D. and Norris, GA. 2013. The Social Hotspots Database V.2. New Earth.
- Blowfield, M. and Frynas, J.G. 2005. *International Affairs*. 81, 3, 499-513
- Brammer, S., Hojmosse S., and Millington, A. 2011. Managing Sustainable Global Supply Chains: A Systematic Review of the Body of Knowledge. Network for Business Sustainability, <http://www.nbs.net/knowledge/supply-chains>.
- Capron et Quairel-Lanoizelée. 2004. *Mythes et réalités de l'entreprise responsable, Acteurs, enjeux, stratégies*. La Découverte, Paris.
- Clean Clothes Campaign. 2005. Looking for a quick fix, How weak social auditing is keeping workers in sweatshops. Clean Clothes Campaign The Netherlands.
- Freeman, R. E. (2004). The stakeholder approach revisited. *Zeitschrift für Wirtschafts-und Unternehmensethik*, 5(3), 228-241. Retrieved from http://www.zfwu.de/fileadmin/pdf/3_2004/Freeman_HansenBodeMossmeyer.pdf
- Global Reporting Initiative G4. 2014. Retrieved from www.globalreporting.org/reporting/g4
- Impactt. Impactt's Exploitation Index. Retrieved from <http://www.impacttlimited.com/resources/resources-part-2>
- Locke, RM. 2013. *The Promise and Limits of Private Power: Promoting Labor Standards in a Global Economy*. New York, Cambridge University Press.
- O'Rourke, D. 1997. "Smoke from a Hired Gun: A Critique of Nike's Labor and Environmental Auditing in Vietnam as performed by Ernst and Young." *San Francisco: Transnational Resource Action Center*, 1997. Retrieved from <http://www.corpwatch.org/articla.php?id=966>
- Pré Consultants (Fontes, J. ed.). 2014. *Handbook for Product Social Impact assessment*. Pré Sustainability. The Netherlands.
- Robertson, Raymond and al (ed.). 2009. *Globalization, Wages and the Quality of Jobs*. The World Bank: DC. Shift.
- Simon, HA. 1996. *The Sciences of the Artificial*. Cambridge, MA: MIT Press, 3rd ed.
- Supply Chain Management. Retrieved from <http://www.supplymanagement.com/news/2013/most-companies-not-doing-due-diligence-on-supply-chain#sthash.1LNnb18T.dpuf>
- United Nations. 2012. *The Corporate Responsibility to Respect Human Rights*. United Nations, Geneva.

UNEP-SETAC (Benoit, C. and Mazjin, B, eds.). 2009. Guidelines for Social Life Cycle Assessment of Products. UNEP, Paris.

UNEP-SETAC (Benoit Norris, C. ed.). 2013. Methodological sheets for Social LCA. UNEP, Paris.

World Economic Forum. 2012. The Shifting Geography of Global Value Chains: Implications for Developing Countries and Trade Policy. WEF, Switzerland.