Corporate governance and sustainable development: a global supply chain perspective

(How do suppliers evaluate ESG policy of corporate boards or regarding the reverse mirror)

*From a traditional business model and its ESG determinants to buyers - suppliers relations within global supply chains and their ESG determinants*

Traditionally, corporate governance and sustainable development is featured in the business model of the company as whole and its ESG determinants. It is well known that most academic publications on corporate governance are challenged by “insider issues” - shareholders, some stakeholders, board members. Corporate governance and international business operations are not on the research agenda. The G20/OECD Principles for corporate governance (2015), Basel standards for corporate governance for banks offer some recommendations for corporate governance and international business activities of listed companies and banks.

The developments on the global arena in the last decade led to broader perspective of the evaluation of the ESG policy of companies. Gradually an important component of the international relations of the companies - their suppliers within global supply chains, is on the radar of evaluation of the above policy. Today global supply chains are an established and recognized component within corporate governance and the sustainable development policy of the companies (Supply chain sustainability sec.ed., UN Global Compact, 2015 NY. p5) The companies that refer to GRI disclose information concerning global supply chains.

Special attention is given to ESG standards that buyers - TNC have to comply in their relations with their foreign suppliers. It is well known that all over the world international institutions, strategic partnerships of business and NGOs set ESG standards. Their effectiveness is questionable: “”, the ineffectiveness of private standards to achieve social upgrading has led to calls for synergistic governance through the cooperation of private, public and social actors, both global and local. (Lee, J. Global value Chains, rising power firms and economic and social upgrading, Critical perspectives on international business, Vol.11, Issues 3-4, July 2015,)
It is noteworthy to mention, that scandals in certain Asian countries have revealed that listed companies from developed economies have underestimated certain ESG standards in their relations with their first, second or third tier suppliers. Standards as mentioned above do exist, but deviations from the standards are not exceptions to the fact. International institutions, NGOs, some listed companies have initiated measures for improving social and environmental practices within their relationships with suppliers, accordingly.

Gradually ESG issues and compliance with the standards are being addressed by the board members. From the perspective of good corporate governance, sustainable development issues are not only at the discretion of the management. Sustainable development is a duty of board members. Compliance with ESG norms/standards is also about compliance with ESG within global supply chains. The leaders of the companies—such as board members—have to be leaders in the ESG, including in their international business relations. “Executives should clearly articulate the company’s vision and approach to supply chain sustainability with concrete milestones and metrics. Written and oral communication from executives will help align business managers’ and supply chain management professionals’ priorities with these milestones and emphasize the importance of sustainability as a way of doing business. Executives and the Board of Directors should also regularly review progress against supply chain sustainability goals. This senior level oversight will help to hold people throughout the company accountable. (Supply chain sustainability, sec.ed., UN Global Compact, 2015. NY p.51)

**Corporate governance, supply chains and sustainable development: are we satisfied with the accepted methods for evaluation of sustainability policy?**

The message is clear: good practice requires compliance with ESG norms within relations of the buyers with their international partners, including suppliers. The business community, regulators, consultants and academia measure and evaluate the results of compliance by using sustainability reporting (GRI, Integrative Reporting) various indices etc. The traditional approach for evaluating ESG policy of corporate boards of listed companies employs quantitative methods (indices, scorecards) and qualitative methods (ESG disclosure reports). ESG indices remain the most popular sustainability instrument among exchanges, with 38 of 82 exchanges providing them. FTSE Russell, Standard & Poor’s, Stoxx, Thomson Reuters evaluate ESG contribution of listed
companies (WIR. 2017, UNCTAD G). It deals with “outbound approach”. Some findings in our university research project have determined a decision to look for ESG policy of listed companies in a different way. In the course of the examination of good practices, missing drawbacks in terms of sustainability of global supply chains were discovered: the annual non-financial disclosure of some big buyers from developed economies do not include non-compliance with ESG norms in their relations with suppliers in emerging economies. The case under discussion concerned the violation of human rights and labor safety. One has to underline again that GRI standards require disclosure of compliance or non-compliance by the buyer with ESG norms within a global supply chain. This accident was not mentioned in the sustainability report.

We decided to shift our studies on ESG from the corporate policies, conduct of corporate boards to the suppliers. We decided to use the “reverse mirror” approach or inbound approach to examine ESG issues in corporate governance of listed companies.

*Corporate governance and ESG: the global supply chain perspective - the case of the automotive sector in Bulgaria*

Is the approach reliable? What is the rationale? My colleagues and I conducted two separate researches employing outbound and inbound approaches. In our questionnaires, we used GRI-G4 questions. Our first research targeted different sectors - national and international¹. We narrowed down our second research to one sector - the automotive sector in Bulgaria.

What did we discover?

According to CLEPA (the European association of automotive suppliers) there are more than 3000 automotive suppliers in EU member countries, with 5mln employees and turnover of more than EUR 600 bln. In Bulgaria there are more than a hundred companies that deliver components to big multinationals from the automotive sectors. The majority of local suppliers (first, second and third tier) are independent local and foreign companies, although subsidiaries of international first tier suppliers function as well. Irrespective of certain difficulties in the field research, the findings show the following:

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¹ We addressed our questionnaires to the members of previous meetings of the IFC Vienna practice group. The results - zero
Foreign buyers are not interested in the environmental and social policies of local suppliers. The social and environmental impact of the suppliers within the local community is not an interest as well.

Foreign buyers do not embed in their contracts with the suppliers requirements about compliance with ESG standards.

Local suppliers comply with the legally established norms about air pollution, the protection of soil and water and the management of the waste.

How have we interpreted the above findings: buyers rely on local legislation and they do not go beyond. We did not manage to contact the procurement offices of foreign buyers and their boards. We tried to discover evidence in their annual reports and we interviewed the representative offices of big multinationals - European and Asian. Despite the fact that we received similar answers, we did not include them in our analysis. Our research proved the importance of the holistic approach when evaluating sustainable development policy of listed companies. Reverse mirror is not a research method only. It is another tool for evaluating the effectiveness of sustainable framework of corporate governance.