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TECHNICAL PAPER

THE UNIDO APPROACH TO SUSTAINABLE SUPPLIER DEVELOPMENT

promoting CSR for SMEs in a global supply chain context



UNITED NATIONS
INDUSTRIAL DEVELOPMENT ORGANIZATION

THE UNIDO APPROACH TO SUSTAINABLE SUPPLIER DEVELOPMENT

promoting CSR for SMEs in a global supply chain context

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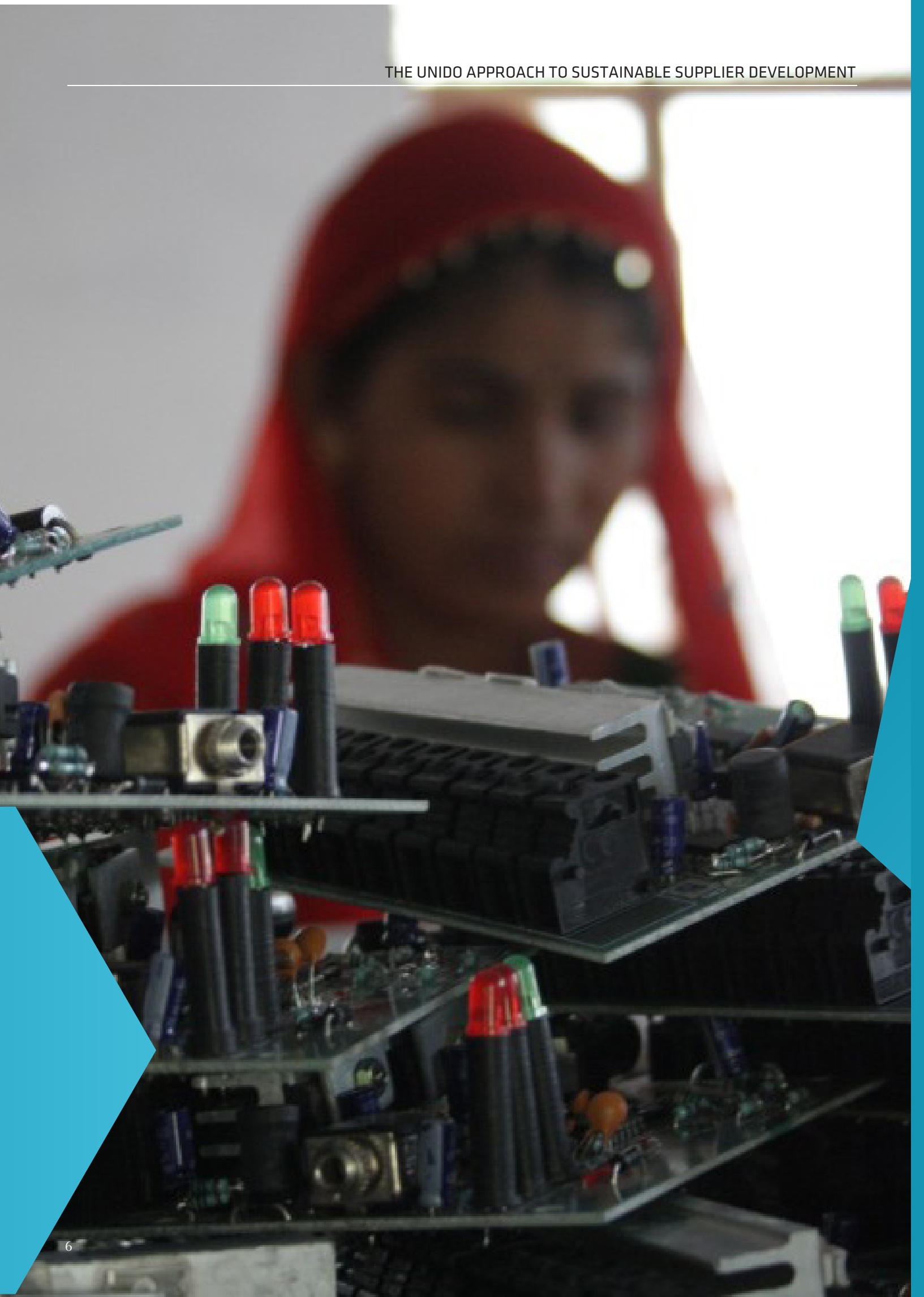
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LIST OF ACRONYMS

BMO – Business Membership Organization
 CSR – Corporate Social Responsibility
 EU – European Union
 GFSI – Global Food Safety Initiative
 GSCP – Global Social Compliance Programme
 ISO – International Standards Organization
 MNC – multinational corporation
 PQD – price, quality and delivery
 REAP – Responsible Entrepreneurs Achievement Programme
 SMEs – small and medium-sized enterprises
 UNIDO – United Nations Industrial Development Organization



CSR AND GLOBAL SUPPLY CHAINS

CONTEXT

The implementation of CSR practices has long been considered the realm of large companies and globally operating multinational corporations (MNCs), which responded to a “pull effect”, i.e. pressures by governments and consumers to address pollution and environmental degradation, inadequate working conditions in production, sourcing and delivery processes, or human rights abuses.

Nevertheless, there is a growing interest and need to look at the entire value chain from primary production to consumption and disposal and specifically to those small and medium-sized enterprises (SMEs) and agri-businesses supplying raw materials, semi-processed or consumer goods and services to many MNCs.¹

From this perspective, sustainability criteria play an increasingly important part in the supplier selection processes and sourcing decisions in addition to the more traditional price, quality and delivery (PQD) variables and offer opportunities to increase the shared value created at every point in the value chain for every product and in every region.

Furthermore, the issue of inclusiveness, i.e. the integration of “less-developed businesses” into “formal” supply chains, is increasingly being considered to assess large corporations’ commitment to contribute to society while pursuing their legitimate business objectives.

The integration and inclusiveness process, leading to the establishment of solid business linkages between buyers and suppliers, must be aligned to CSR objectives and actions.

If both “pull” and “push” effects are effectively leveraged, with the latter referring to the motivation of SMEs to engage in responsible business behavior because of their close ties to and embeddedness in their respective social contexts and localities, supply chains can be rendered more efficient, new business opportunities can be tapped and increased incomes for less developed SMEs be generated.

This should, in turn, lead to a positive impact on the livelihoods of producers, workers and the families behind these enterprises and increase the availability of safer, higher quality and more affordable and sustainable products for consumers.

To unleash these potential benefits, however, comprehensive solutions and adequate support to allow for responsible and sustainable sourcing to take place have to be provided.

This is because in many cases, CSR and sustainability-related buyer requirements are to be met by suppliers, often located in developing countries, transition economies and emerging markets, that lack capacity and resources to transform their operations and management systems accordingly.

This is where UNIDO acts to provide effective win-win solutions. How to engage SMEs in the CSR debate, how to adapt CSR implementation and reporting requirements to their own particular circumstances and how to support SMEs in adopting more responsible business practices are questions that UNIDO has pursued over the past years in its technical assistance programmes.²

Specifically, UNIDO fosters developing countries’ production and supply capacities through upgrading and clustering of suppliers. Collective and individual actions to improve management, quality, safety, production and sustainability practices of SMEs along global supply chains is at the core of UNIDO’s mandate and technical cooperation programme.

The ongoing application and continuous improvement of relevant technical assistance tools, in particular those related to CSR capacity building at the level of SMEs and sustainable supplier development in partnership with MNCs and clusters of SMEs and agri-businesses, should allow UNIDO to scale up its approach and increase the impact on sustainable growth in the developing world.

¹Sustainable Supply Chains, The Global Compact/UNIDO, Vienna, 2005.

²For more information in this regard, consider for instance also: tools available from the UN Global Compact, the European Commission’s 2006 Report on “Opportunity and Responsibility: How to help more small businesses to integrate social and environmental issues into what they do”, an SME Guide from the Global Reporting Initiative, the International Finance Corporation, etc.



HOW TO PROMOTE CSR AT THE LEVEL OF SMEs?

With CSR mainly focused on and driven by large corporations, most of the available practices, tools and approaches suit the needs of these larger players. For a tool or particular approach to be of relevance to the SME community, it has to be tailored to their particular contexts and the limitations they face.

As opposed to larger firms, SMEs have more limited financial, human and time resources as well as inflexible cost structures and short-term planning horizons; they are usually owner managed; and they tend to be strongly embedded in their respective contexts and localities. Likewise, they are also more informally organized and display less rigid, but also less standardized, internal structures and processes for their operations.

Interestingly, the constraints experienced by SMEs do not imply a reduced disposition to engage in responsible business practices or a lack of interest in CSR – quite the opposite. SMEs generally appear to be rather active in this area, i.e., there is also a “push effect” for CSR at the level of SMEs. Empirical experience points to the fact that responsible behaviour by SMEs stems from a conviction that enterprises have an important role to play in the communities in which they operate and form strong inter-connections with it. Jenkins (2004) notes in this regard that “the overwhelming motivating factor for

SMEs to engage in CSR is not external pressure but an internal drive to ‘doing the right thing’ or ‘putting something back’”. Along similar lines, Murillo and Lozano (2006) emphasize the values of the SME founder or manager as an important motivation for involving their companies in the CSR realm.³ Finally, a review of “enterprise social responsibility” practices carried out by UNIDO in a range of industrial clusters in Ecuador, India and Senegal shows that even the smallest enterprises contribute a percentage of their turnover to important local social and environmental causes.⁴

At the same time, however, the scope and substance of SMEs’ CSR engagement might differ quite substantially from that of the larger corporations and their own specific CSR-related requirements along the supply chain. On the one hand, CSR activities often lack a strategic focus, in the sense that they are not aligned with or make a contribution to achieving a company’s core business objectives. As Panfil and Sachdeva (2008) note, many SME founders feel a moral obligation to engage in philanthropic activities in their surrounding communities, but these rarely have a transformative effect on company operations and production processes. On the other, SMEs rarely seem to report on or publicize their CSR engagement, which has led to the coining of the term “silent CSR”.⁵

³Baden et al. (2009) also cite numerous other studies with a particular focus on the UK and European context that provide evidence on the nature and motivation of SMEs’ CSR practices.

⁴Many of these cannot be called strategic CSR activities, but would rather fall under the heading of philanthropy. See Panfil and Sachdeva (2008), UNIDO.

⁵See Jenkins (2006).

The Responsible Entrepreneurs Achievement Programme (REAP)

In recognition of the particular circumstances of SMEs in developing countries, the starting point for UNIDO's work is the understanding of CSR as a strategic business concept or the "business case" for CSR. Leaving aside questions relating to what firms "should" and "could" do beyond their principal objective of maximizing profits, an economic justification for CSR paves the way for "doing well by doing good". Accordingly, if better working conditions and reduced absenteeism or accident rates can enhance productivity and if the more efficient use of resources such as water and electricity and a reduction of rework, rejected products and waste lead to cost reductions, then competitiveness and social and environmental sustainability objectives can go hand in hand.⁶

With a strong background and expertise in the areas of industrial development, productivity improvement and production process enhancement, UNIDO considers the application of continuous improvement techniques, such as 5S⁷, of fundamental importance to realizing this "business case" and as a prerequisite for addressing social and environmental aspects in a meaningful and efficient manner.

Experience related to the implementation of technical assistance projects has clearly demonstrated that companies that find it difficult to keep their accounts, employees, shopfloor and other organizational aspects in order and well arranged will most likely also be unable to address social and environmental considerations in a structured way.

UNIDO has thus built its CSR work – as captured by the Responsible Entrepreneurs Achievement Programme (REAP) – on the "Triple-Bottom-Line Approach" (TBL), which looks at company performance from economic, social and environmental perspective and seeks to align private enterprises with the goal of sustainable

development by providing a more comprehensive set of working objectives than just profit alone.

Through a network of trained and qualified CSR experts, REAP provides a structured capacity-building approach and supports the implementation of CSR principles in identified priority areas for the SMEs.

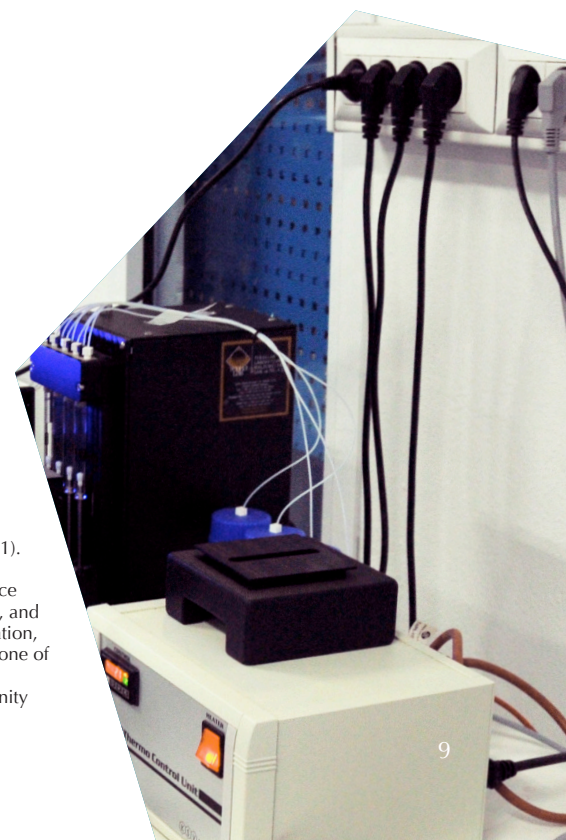
It emphasizes efficiency and sustainability enhancements looking inside SME operations⁸ and seeks to build the capacity of each SME participating in the programme to improve its basic CSR performance to then be able to engage with external CSR requirements and decide on which particular standards, codes of conduct, etc. it would seek compliance with. As such, it differs from an approach that focuses on compliance with particular standards of relevance to the CSR agenda, such as ISO 14001 or SA 8000.

In view of the predominantly "silent" nature of CSR as practiced by SMEs, REAP also places a strong emphasis on a self-assessment approach, equipping SMEs with the tools (software and related skills) to analyze, measure and benchmark company performance in the economic/financial, social and environmental domains, and provides guidance on documenting and reporting on related improvements.

⁶For more detailed examples and arguments along these lines, see Kitzmüller (2008) and Hartmann (2011).

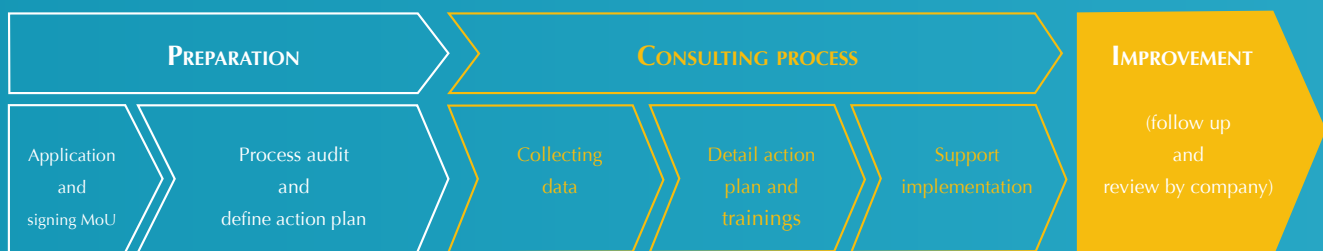
⁷5S is the name of a workplace organization method that was developed in Japan and uses a list of five Japanese words: seiri, seiton, seiso, seiketsu, and shitsuke. The list describes how to organize a work space for efficiency and effectiveness by identifying and storing the items used, maintaining the area and items, and sustaining the new order. The decision-making process usually comes from a dialogue about standardization, which builds understanding among employees of how they should do the work. 5S was first heard of as one of the techniques that enabled what was then termed "Just in Time Manufacturing". (Wikipedia)

⁸ISO 26000 also emphasizes the company-external perspective with a focus on stakeholder and community engagement, which REAP, in its original form, does not address.



THE RESPONSIBLE ENTREPRENEURS

REAP COUNSELLING PROCESS



ACHIEVEMENT PROGRAMME (REAP)

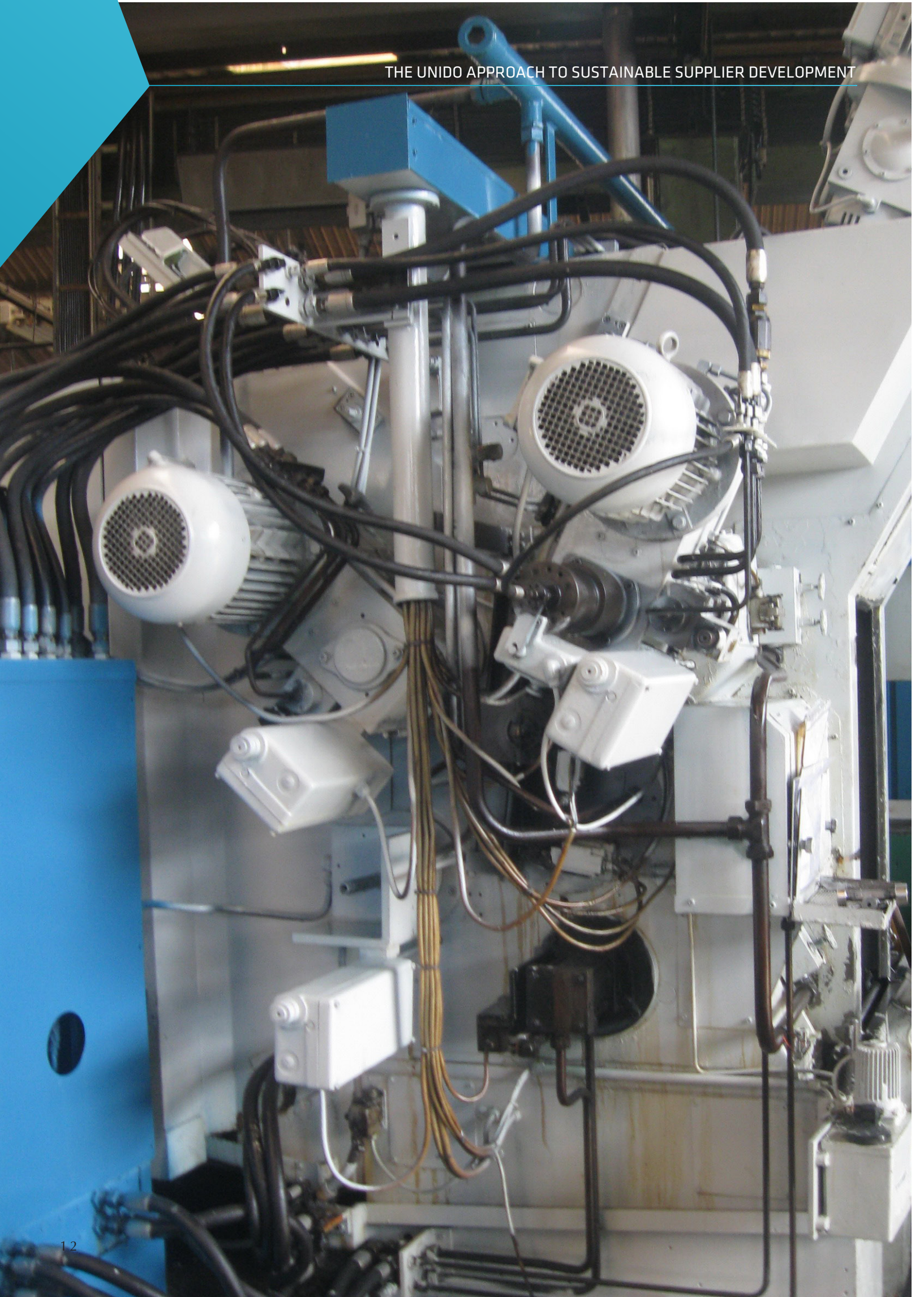
THE PROGRAMME

UNIDO's Responsible Entrepreneurs Achievement Programme (REAP), is a comprehensive methodology to support manufacturing SMEs in developing countries to implement CSR with the help of experts or "Counselors" trained by the Organization. These typically assist selected SMEs over a period of between 6-12 months to implement the most relevant CSR topics.

Based on the ten principles of the UN Global Compact, the REAP methodology consists of step-by-step issue guides for selected CSR topics (e.g. occupational health and safety, environmental management, waste treatment, water usage, labour standards and human rights, anti-corruption, etc.), which support the incorporation of these issues into a company's business processes. REAP focuses purely on company-internal CSR issues – topics such as community involvement or external stakeholder engagement are not included in this methodology - and is based on a lean manufacturing (5S) approach. Experience has shown that in the case of a large number of SMEs operating in developing country-contexts, CSR can be more easily comprehended when it initially addresses issues that are directly linked to the production process and the shop-floor.

Beyond the consideration of specific CSR issues and structured guidance on their implementation, REAP features an analytical software that can be used to gather, process, evaluate and report data to track progress on CSR implementation. This can be seen as first step in the process of meeting various social and environmental reporting requirements brought forward by governments, buyers and consumers.

For further information, please refer to www.unido.org/reap



LESSONS LEARNED FROM REAP TECHNICAL ASSISTANCE PROJECTS

In its technical assistance projects employing REAP, UNIDO specifically targets the enterprise (micro) and institutional (meso) levels.⁹ Assistance at the micro-level typically involves direct support to groups of companies belonging to the same region, cluster or sector.

Due to limited outreach and scaling opportunities, micro-level assistance is usually provided on a pilot basis to demonstrate the business case for CSR and to develop appropriate case studies for a diversity of SMEs and sectors for dissemination purposes.

At the meso-level and often linked with micro-level technical assistance, UNIDO strengthens the capacity of business support and advisory institutions (public or private) that aim at expanding their service portfolio and strengthening their institutional capacity to foster the uptake of CSR practices by the SMEs (often in a cluster, sector, region or supply chain-specific context) by training and certifying institutional representatives as REAP Counselors.

Following the piloting of REAP in four countries in Southeast Asia and the subsequent expansion to Central, South and Eastern Europe, detailed case studies documenting the beneficial impact of CSR implementation at the level of SMEs were developed. Based on direct coaching and shopfloor interventions, participating SMEs were upgraded and progress in the economic, social and environmental domains tracked over time, strongly suggesting that the TBL approach works in the context of smaller firms in developing countries and transition economies.

The projects also helped to build the capacity of local institutions, such as the Croatian Cleaner Production Centre and other CSR-related actors in the mentioned regions, to provide CSR-related counseling services to SMEs and to disseminate responsible business practices to the wider SME community.

Overall, the projects implemented helped to demonstrate that the characteristics of a possible “business case” for CSR are no different for SMEs than for larger corporations. Carefully implemented and appropriately adapted, responsible business practices can yield important business benefits, including enhanced productivity and a greater capacity to innovate, improved morale among workers, managers and in the communities within which the SMEs are embedded, as well as an overall improvement in competitiveness. Direct follow-up with the SME community by UNIDO project managers also confirmed the general interest of SMEs in and dedication to engaging in more responsible business practices.

Despite these successful experiences, however, the business case argument has not turned out to be a powerful enough selling proposition for REAP counseling services for several reasons.

Depending on the sector, context or level of each SME to start with, the motivation to engage in CSR implementation according to REAP can be reduced by the fact that the achievement of cost savings is not immediate, but may take more than the suggested 6-9 months of counseling to be realized.

While much of this can be explained by the general constraints SMEs face, it also implies that longer term solutions, and related to this longer term public or private support to promote responsible business behavior among SMEs, may be required.

The expectation of a more direct reward through access to new markets has also only rarely been matched by reality. While REAP was developed with the ambition of enabling SMEs to market and position themselves in a global supply chain context and to signal their readiness to engage with CSR-related buyer requirements above and beyond PQD variables, efforts to link SMEs with potential buyers have not been undertaken in a systematic manner.

Enhancing SMEs’ basic CSR performance and achieving cost reductions may also not be enough to enter into a lasting relationship with buyers. While improved responsible competitiveness and cost savings on the part of SMEs are certainly welcome, the actual investment required (in terms of financial and human resources) to clearly demonstrate responsible behavior, e.g. by obtaining a certificate of compliance against relevant standards, such as ISO 9001, ISO 14001 or SA 8000¹⁰, and/or by participating in different auditing schemes to comply with the specificities of buyer codes of conduct, is beyond the reach of smaller companies.¹¹

It should also be noted that REAP has so far largely been applied at the level of individual SMEs, as a result of which a scaling up of support has been limited.

A more supply chain-oriented intervention or counseling programme built around a longer term engagement with relevant public and/or private partners could help to build systematic linkages, increase the outreach to a critical mass of clustered SMEs and ultimately lead to an overall stronger CSR impact.

⁹For more detailed information about UNIDO’s CSR Programme, including at the macro level, please also refer to <http://www.unido.org/csr>.

¹⁰ISO 26000 offers guidance on socially responsible behaviour and possible actions; as it does not contain specific requirements, however, it is not certifiable - in contrast to ISO management system standards. More generally, ISO 26000 encourages organizations to identify/select those recommendations those where the organization could/should engage in contributions to society. It further encourages reporting on actions taken.

¹¹The actual ability/readiness of SMEs to engage with such requirements may be further hampered by a lack of strong coordination between and alignment of buyers’ procurement (focusing on PQD) and compliance departments (upholding CSR requirements) and their decision making criteria.

LEVERAGING SUPPLY CHAIN LINKAGES TO FACILITATE COMPLIANCE WITH PRODUCT SAFETY AND TRACEABILITY REQUIREMENTS: THE UNIDO-METRO PARTNERSHIP

UNIDO's expertise and experience in supporting supplier development across a broad range of industrial sectors provides interesting insights into how larger group of SMEs can enhance their performance through more direct contact and longer term engagement with buyers in a supply chain context and thus also improve their business prospects. A technical assistance project implemented by UNIDO in food supply chains serves as a case in point and provides relevant lessons for developing a supply chain-focused and market access-oriented approach to promote responsible business behavior.

Centered on the importance of food safety and traceability in an era of "supermarketization", UNIDO has forged a partnership with the METRO Group, one of the world largest retailers, in the context of the Consumer Goods Forum's Global Food Safety Initiative (GFSI) to help SME suppliers take advantage of new opportunities arising from the global expansion of supermarkets, and particularly so in their own national markets.¹²

This partnership with the METRO Group and the GFSI initiative started off motivated by an acute concern of large retailers and manufacturers with the development of capable local suppliers to provide a wide range of safe fresh and processed food products to their customers. As many of these organizations adopted different standards and certification schemes, the GFSI established a benchmarking process so that compliance with one of the standards was accepted by the others. As a result, pressure on suppliers to comply with differing food safety standards in order to be accepted and supply different buyers should be reduced.

In addition, the GFSI set out a harmonized capacity building programme for food safety for small and/or less developed businesses that could provide the know-how to implement effective food safety management systems on the basis of a systematic continuous improvement process: the "Global Markets Protocol", which is directly aligned to the GFSI objectives of the elimination of duplication and cost in the supply chain.¹³

UNIDO was directly involved in the development of the GFSI Global Markets Protocol itself and contributed by bringing in its experience in upgrading food industries in developing countries. This allowed, on the one hand, to raise awareness about the specific needs and features of the less developed businesses in the developing countries, and, on the other hand, to develop relevant internal and local expertise and training materials.

The METRO Group, as an active member of the GFSI, had particular interest in this initiative due to the wide diversity of its operations and business objectives.

With over 2,100 outlets in 33 countries in Europe, Africa and Asia selling a wide range of food products, in particular fresh food products, in addition to non-food products, METRO is highly reliant on local sourcing as a strategic pillar of its procurement policy.¹⁴ In turn, UNIDO's expertise in SME capacity building and supplier development in many of METRO's target markets in developing countries, emerging markets and transition economies, was considered highly relevant to broker linkages and partnerships between SMEs and large retailers and to help these SMEs to comprehensively address productivity, quality, quantity, and safety-related concerns of their products and to thus gain lasting access to new markets.

Based on a mutual interest in piloting the systems and procedures stipulated by the Global Markets Protocol with particular reference to knowledge transfer to developing country suppliers, the relationship between UNIDO and METRO Group was soon formalized and led to the joint implementation of a pilot project in Egypt to integrate local SMEs into METRO's supply chains.¹⁵

The results of this project were then fed into the development process and enabled the finalization and approval of the Protocol in 2011.

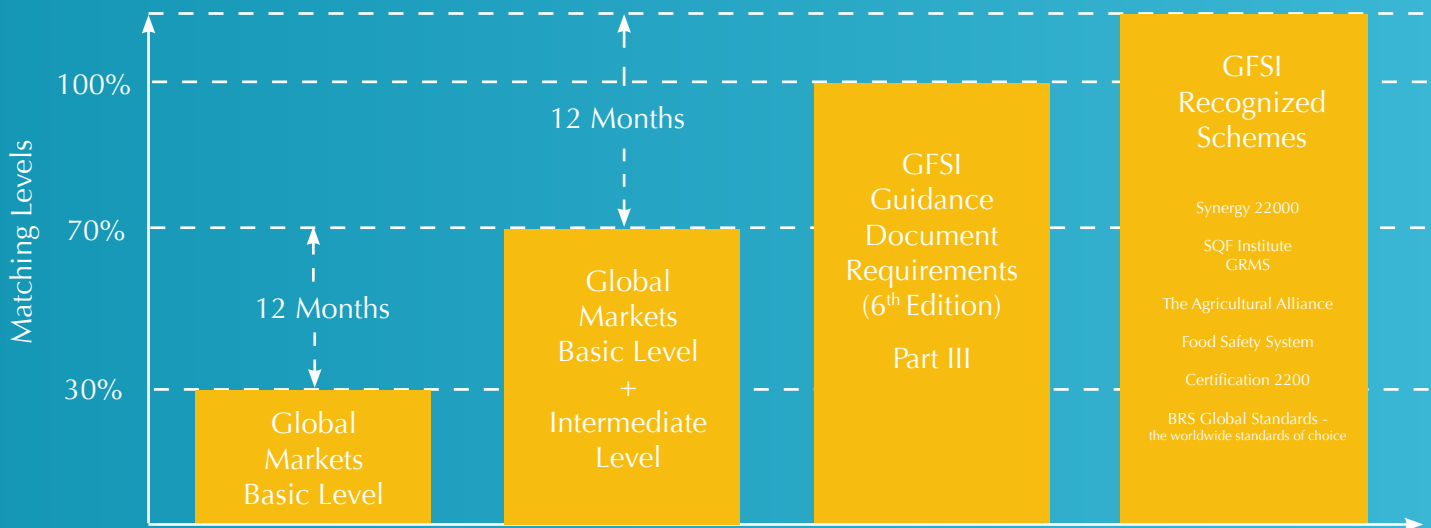
¹²The GFSI is a non-profit making foundation, created under and governed by Belgian law, and is part of the CGF, a global trade body representing a large number of multinational and national retail and manufacturing organizations. More specifically, the CGF has a membership of 650 retailers, manufacturers and service providers across 70 countries and the membership have combined sales of EUR 2.1 trillion, therefore being highly influential, but more importantly representing the market for suppliers in emerging economies. For more information, please refer to <http://www.theconsumergoodsforum.com/> and <http://www.mygfsi.com/>.

¹³More information is available on the following website: <http://www.mygfsi.com/structure-and-governance/gfsi-technical-committee/gfsi-global-markets-working-group/gfsi-gm.html>

¹⁴For more information, please refer to <http://www.metrogroup.de/internet/site/metrogroup/node/9280/Len/index.html>.

¹⁵A formal partnership between UNIDO and METRO Group was formed December 2009 and the pilot trials had a considerable impact on the finalization of the GFSI Global Markets Initiative. Based on these successes, a second Agreement was signed in September 2011 to extend the co-operation between UNIDO and METRO

THE GFSI GLOBAL MARKETS CAPACITY BUILDING PROGRAMME PROTOCOL



The protocol has been developed under the Global Food Safety Initiative (GFSI). It provides guidance for assessment (of suppliers) against the Basic and Intermediate Level food safety requirements to attain the goal of reaching full certification to a GFSI recognized scheme.

The Global Market Protocol is implemented through “A capacity building programme for small and/ or less developed businesses that will develop effective food safety management systems through a systematic continuous improvement process.”

On a practical level, it sets out an overview of how to register for the programme, which documents are to be used at which stage of the process, and the steps which involve certification bodies or assessment service providers. The protocol should be used as an indicative user guide in relation to the following four key phases of the

Global Markets Capacity Building Programme:

- ♦ **Self Assessment:** A self-assessment by the business against Basic and/or Intermediate Level Checklist to allow the business to decide its entry level to the programme. Subject to the outcome of the self-assessment, the business should pass to either phase 2 (Basic Level Assessment), phase 3 (Intermediate Level Assessment), or phase 4 (certification against a GFSI recognized scheme).
- ♦ **Assessment with Assessment Provider:**
 Basic Level: An unaccredited assessment of a business is carried out against the requirements specified in the Basic Level Checklist. The technical requirements at this level are comprised of 30% of the key elements of the GFSI Guidance Document, including Food Safety Systems, Good Manufacturing/Agricultural Practices and Control of Food Hazards
- ♦ **Assessment with Assessment Provider:**
 Intermediate level: An unaccredited assessment of a business is carried out against Intermediate Level Checklist, which include at the Basic Level requirements, a further 40% of the GFSI Guidance Document elements, and the Codex Alimentarius Standard CAC/ RCP1-1969 Rev 4-2003.
- ♦ **Certification against a GFSI recognized scheme:** The official accredited certification against one of the GFSI recognized schemes.

The project, which was implemented to support building the supplier base in Egypt in view of the opening of two stores, was successful. With a the upgrading of a cluster of over 100 food manufacturers and over 800 farms, it proved the effectiveness of the GFSI Global Markets Protocol as well as the opportunity created for SMEs to integrate into profitable and sustainable supply chains. Based on the success in Egypt, similar programmes have been implemented in Russia and India with the METRO Group, through the training, assessment and mentoring of suppliers. In 2012/13, a new programme has been initiated in Malaysia in partnership with the biggest Japanese retailer, AEON.

	Egypt	India	Russia
Implementing Party	National Institution (non-profit)	Metro Staff	Individual Consultants
Scope	Basic and Intermediate	Basic	Basic
Number of Suppliers	18 Basic 25 Intermediate	10	22
Duration of Basic	3 Months	5 Months	8 Months
Upscaling	100 Suppliers	Ongoing Discussions	20 Suppliers

In all cases, there were significant improvements made to food safety systems, productivity and resource efficiency of those suppliers involved in the pilot trials, with the METRO Group proactively promoting the programme to ensure the involvement of other suppliers once the pilot trails had been completed. Quantitative assessment of individuals' knowledge gained through the training and mentoring showed a significant increase; and site assessments within the pilot trials typically showed a 70% pass rate from an initial 30% pass rate (assessed prior to the project's starting date). Both factors are directly linked to the effectiveness of training and mentoring through UNIDO-trained staff.

The "business model" employed for the partnership with the METRO Group, described below, also shows that for a supplier development programme to be successful and sustainable, a structured way of engaging and facilitating cooperation among a broad range of stakeholders, buyers, suppliers, local institutions, NGOs, local communities, donors and international organizations as well as the specification of their respective contributions will be required.

Main Activity	Resource/Funding
Development/adaptation of training packages, assessment tools, translation	UNIDO, donors, national/international experts
Local Capacity Building and Training of Trainers	UNIDO, donors, national/international experts Buyer (Logistics, HR)
Pilot implementation (training, assessment, mentoring/coaching, upgrading...)	Cost Sharing UNIDO, donors, national/international experts, Buyer, local, institution/schemes
Roll-out	Buyer, suppliers and local institutions/schemes under UNIDO's technical guidance
CSR projects for local communities	Buyers/NGOs/suppliers

LEVERAGING SUPPLY CHAIN LINKAGES TO FACILITATE CSR IMPLEMENTATION AT THE LEVEL OF SME SUPPLIERS

As already noted earlier, larger buyers increasingly specify their own CSR-related requirements - in addition to PQD variables and similar to the issues of food safety and traceability just discussed - that are either a prerequisite for SMEs to tender as suppliers or a critical element to be considered in the overall purchasing decision. Evidence that the supply chain pressures towards CSR are becoming the reality is increasing. Dlott et al. (2006) and Hartmann (2011) note that CSR-related threats and opportunities are now extending beyond larger players to entire firm networks and supply chains. Ciliberti et al. (2008) go further by emphasizing that SMEs supplying goods and services to their buyers need to comply with their very specific CSR-related procurement requirements or otherwise risk exclusion from these supply chains.¹⁶ That supply chain linkages are a relative effective means to promote CSR engagement by SMEs has also been confirmed by current research. Starcher (2005), for instance, notes that “supply chain pressures are proving to be a more powerful force for social and environmental change than local regulation”, while Studer et al. (2008) rank different incentives to promote environmental change among SMEs in Hong Kong and conclude that supply chain pressures are likely to provide a stronger incentive for SMEs to engage in environmentally responsible behavior than, e.g., fiscal incentives, employee pressures or voluntary agreements struck at different levels.¹⁷

Being a relatively effective means to promote SMEs’ engagement with CSR principles does not mean however that such behaviour on the part of SMEs comes easy. While the relevance and impact of supply chain pressures as a key driver of CSR implementation (and compliance) is likely to vary from industry to industry, in those sectors where the costs to switch from one supplier to the other are relatively low and when retailers are producing under their own brand (emergence of “private labels”), supply chain pressures for CSR are going to be very real. As pointed out above, the requirements placed on SME suppliers to demonstrate responsible behaviour, e.g. the adoption of environmental and social management systems and/or participation in different auditing schemes, may even represent insurmountable obstacles to otherwise capable suppliers and thus, without adequate support, effectively exclude them from profitable market and growth opportunities.

As in the case of the UNIDO-METRO pilot project, a relevant approach to promote CSR performance among suppliers will have to place a strong emphasis on “building up the supplier’s own capacity of handling CSR issues”¹⁸, and with a continuous improvement philosophy at its core to enable as many SMEs as possible to improve their skills and capacities even when their starting position is very different.¹⁹

Recent projects using REAP have also placed a more direct and explicit emphasis on its application in a supply chain context. Instead of a focus on demonstrating SMEs’ general readiness to engage with CSR-related buyer requirements, REAP’s technical content and counseling elements are aligned with the CSR requirements of a specific buyer, groups of buyers or buyer clusters. Project interventions in Vietnam build the capacity of sector-specific associations to build capacity through REAP on ISO 26000 and to help SMEs comply with specific CSR-related buyer requirements to ultimately access the EU market. In Turkey, SME textile producers and textile clusters are supported through REAP counseling to comply with a comprehensive set of CSR requirements of global buyers. Additional project concepts building on direct cooperation with global buyers in other sectors, including in the electronics industry and with a focus on automotive components production, are also being developed.

REAP APPLICATION IN A SUPPLY CHAIN CONTEXT: THE TURKISH TEXTILE INDUSTRY

In the framework of the “Development and the Private Sector” Window of the Millennium Development Goals Achievement Fund Project, UNIDO provides CSR-related technical assistance to the Turkish textile industry. As this is a sector where CSR and private standards are indispensable for doing business and enter into global supply chains, UNIDO initiated a constructive dialogue with key market players such as Marks & Spencer, Nike, Otto, H&M and Li & Fung to develop a support programme for SME suppliers based on the REAP methodology. UNIDO is currently carrying out capacity building activities jointly with these brands in currently existing as well as potential future clusters of suppliers. In this process, staff members of the CSR departments of the buyers actively participate in REAP trainings.

¹⁶See Ciliberti et al. (2008) and Dlott et al. (2006).

¹⁷See Starcher (2005) and Studer et al (2008). Both sources have been quoted by Baden et al. (2009); see in particular p. 430 ff. for further reference.

¹⁸See Ciliberti et al. (2008), p. 1580.

¹⁹Genier et al. (2009) provide a number of examples in a developing country context to demonstrate that the implementation of standards with the provision of adequate (public) support measures can result in more responsible behaviour along supply or value chains without compromising the participation of smaller producers and suppliers.



CSR IN GLOBAL SUPPLY CHAINS - TOWARDS A COMPREHENSIVE ASSESSMENT AND CAPACITY BUILDING APPROACH

The capacity building programme related to the GFSI Global Markets Protocol gradually qualifies suppliers to reach certification through a modular and continuous improvement pre-audit scheme and has been applied by UNIDO through the development of a competency building system involving training, assessment and mentoring of suppliers and their staff. The same model is now being expanded based on the REAP process and technical content to foster the adoption of a broader CSR approach by food and non-food suppliers (SMEs and agri-businesses) in a supply chain context. The new approach (REAP+)²⁰ will also ensure that the principle of inclusiveness is taken into account in view of specific needs and limitations of less developed suppliers to enable them to face supply

chain pressures, to promote responsible business behaviour, and to increase their bargaining power and overall operational efficiencies.

The recent broadening of the UNIDO-METRO Partnership to cover sustainability-related issues in addition to quality and safety requirements to facilitate effective market access by suppliers mirrors this expansion and is a testimony to the relevance and importance of such a step. A new partnership project is ongoing with the Japanese retailer AEON integrating food safety and sustainability support to their suppliers in Malaysia and to, later on, expand to other countries in the region.

SUSTAINABLE SUPPLIER DEVELOPMENT PROGRAMME (SSDP):

A PUBLIC-PRIVATE PARTNERSHIP TO INCREASE SAFE AND SUSTAINABLE SOURCING AND BUSINESS LINKAGES BETWEEN SUPPLIERS IN MALAYSIA AND JAPANESE RETAILERS

Following the success of pilot supplier development projects in Egypt, India, and Russia, a number of private sector companies have approached UNIDO to develop and implement a SSDP with their suppliers in emerging markets.

Funded by the Japanese Government and based on a cost-sharing scheme, UNIDO is partnering in a project with AEON, the biggest Japanese retailer, which aims at increasing safe and sustainable sourcing and business linkages between suppliers in Malaysia and AEON. Project activities are scheduled to start in January 2013. 25 AEON food suppliers will be trained on the GFSI Global Markets Protocol - Basic and Intermediate levels. Based on the result of the project, expansion to other countries in the region and other retailers and sectors is considered. AEON Malaysia plans to roll-out the project to reach 100 suppliers. Some additional funding provided by the World Bank will allow a complementary training for the experts and suppliers. In addition, the project has a component on CSR and sustainability, where the REAP+ capacity building programme will be piloted.

²⁰The REAP+ Implementation Protocol is currently under development by UNIDO experts and in consultation with the GSCP Working Group that was set up for this purpose.



MAKING PRIVATE STANDARDS WORK FOR YOU

Today, more and more enterprises in the developing world are becoming global producers. Trade liberalization provides these enterprises with opportunities for exporting their products to global markets, where they are increasingly required to comply with “private standards”. Private standards are something other than the technical regulations and national, regional or international voluntary standards that can be encountered in trading with any partner. Also known as (business) values, norms, ethics, codes, practices, guidelines, principles or morals, they focus on social, safety and environmental issues and are required by brand producers and retailers when they source their products. In turn, private standards are often demanded in response to growing concerns on the part of developed country consumers or civil society about the social and environmental conditions prevailing in countries participating in the supply chains of products that are sold into their markets.

A proactive approach

Faced with the requirement to comply with private standards, a supplier can react in one of two ways – by adopting either a reactive, or a proactive approach. The reactive approach implies that the supplier will comply with a new set of buyer demands each time it enters into a new business relationship. The proactive approach implies that suppliers adopt a more ambitious trajectory. The development of a vision and commitment is followed by the introduction of and compliance with a set of serious social and environmental standards, and ends with external verification in order to authenticate the new improved standards attained. This way, the enterprise can for instance benefit from increased competitive advantage, improved efficiency, and a wider client base.

UNIDO’s guide to private standards in the garments, footwear, and furniture sectors, [Making Private Standards Work for You](#), provides producers in these sectors, who wish to sell to major retailers and brands, with information on the complex landscape of private standards. It provides strategic guidance to enable suppliers in developing countries to make sure that private standards operate to their advantage. It should also be helpful for exporters in other sectors.

For further information, please refer to www.unido.org/privatestandards.

While the broader aspirations and individual elements of this integrated approach to gradually build capacity and to establish a relevant assessment process in the area of CSR were clear, the actual development process was not a straightforward undertaking. Unlike in the area of food safety, with clearly defined and legislative requirements in place, international CSR standards are generally voluntary in nature and have, in recent years, grown in both number and format.

As they are being developed by a number of intergovernmental and international organizations (e.g., UN, ILO and OECD), multi-stakeholder or international standards setting organizations (e.g. ISO), trade associations (Ethical Trading Initiative (ETI), Electronic Industry Citizenship Initiative (EICC), Business Social Compliance Initiative (BSCI), etc.) and individual companies (e.g., C&A, Nike, Wal-Mart), CSR standards and requirements vary considerably in format and scope, ranging from conventions or declarations to product-specific codes of practice. While efforts to harmonise these requirements are being made, their proliferation has led to confusion, inefficiencies and duplication of effort along different supply chains. As a consequence, and given the lack of knowledge and commercial experience, the situation is highly undesirable for many SMEs, in particular in developing countries.



Beyond the wide diversity of standards, there is also a major difference in relation to the way in which CSR standards and other critical buyer requirements are administered and controlled. While the latter, including food safety standards, are generally certificated by accredited third-party certification bodies, CSR standards, which includes the international guidance standard ISO 26000, are not subject to formal internationally recognized certification and accreditation systems. Therefore the way in which adoption of CSR requirements are controlled and managed varies significantly, and “a mix” of first, second and third party auditing is undertaken in accordance with customer’s specified requirements.

Due to the complexity of the CSR compliance marketplace, attempts are ongoing to bring major actors in the supply chain together to harmonize approaches.

The Global Social Compliance Programme (GSCP), a sister organization of the GFSI and also managed by the CGF, was created by, and for, global buying

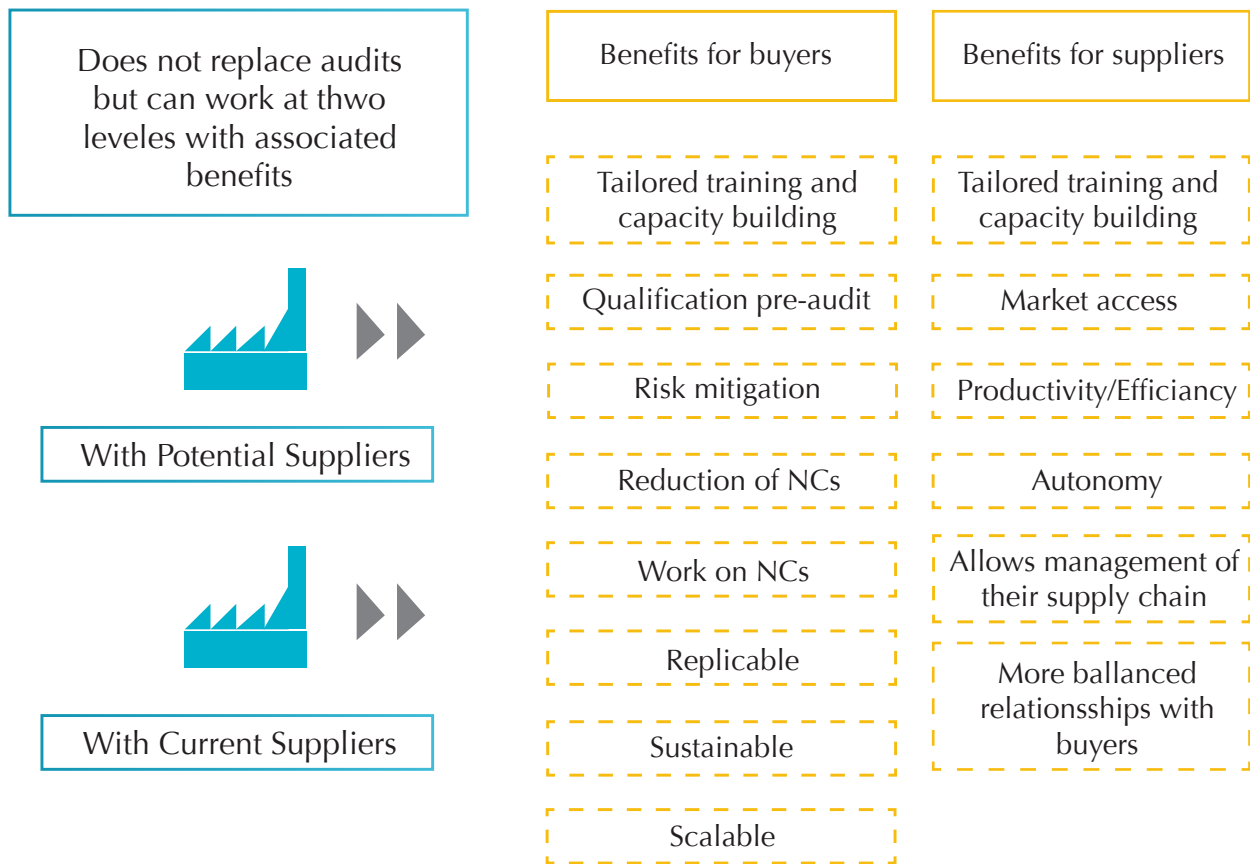
companies wanting to work collaboratively on improving the sustainability (social and environmental) of their often-shared supply base.

To this end, these companies have worked on harmonizing existing efforts to deliver a shared, global and sustainable approach based on consensus and best practice, supported by the GSCP through the publication of a series of CSR reference documents and the development of a benchmarking or equivalence process.²¹

Given the relationship established between UNIDO, GFSI and a number of GFSI members, during the development and implementation of the capacity building programme related to the GFSI Global Markets Protocol and in view of the close links between the GFSI and the GSCP and the good working relationship with organizations such as METRO, AEON, and other CGF members, UNIDO is in a unique position to utilize its expertise and apply this to the scope of CSR, while at the same time taking advantage of an overall commitment to the harmonization of buyer requirements to create a broader impact.

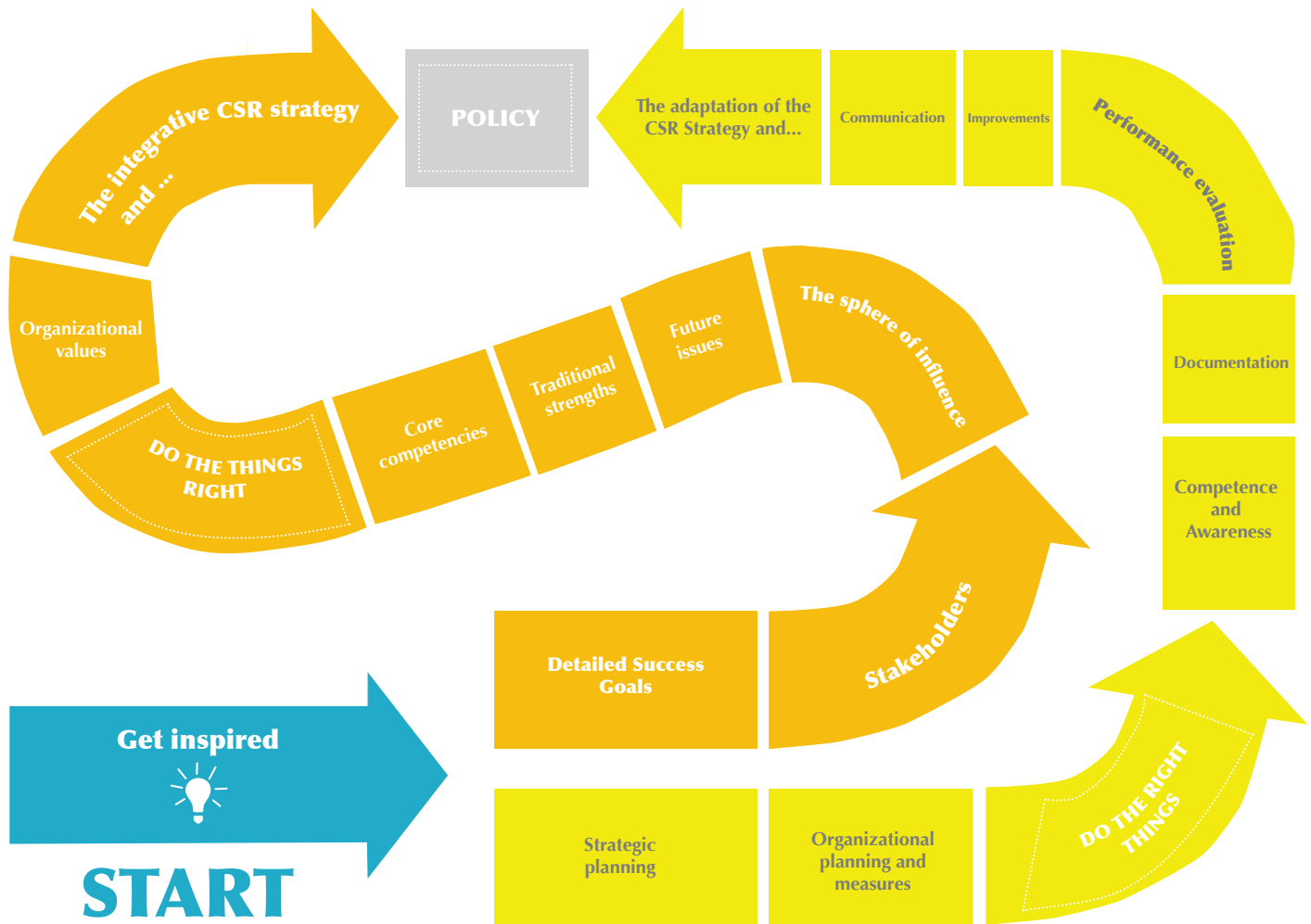
²¹See also <http://www.gscpnet.com/>

Suppliers Capacity Building through REAP+



The revised REAP+ approach to be applied by integrating suppliers and buyers, will adapt both the training package and the monitoring and reporting software and will also contain a mentoring and an assessment scheme. It will be tested through the partnership with the METRO Group in Egypt and India, as well as in the context of the new partnership with AEON in Malaysia and South-East Asia. Negotiations with MNCs such as TATA, Migros, and Marks & Spencer to qualify suppliers through REAP+ are also being pursued. UNIDO and GSCP are already cooperating on the development of the REAP+ Implementation Protocol.

As a first step, webinar sessions were held with the members of GSCP, such as Chiquita, Aucha, Li & Fung, Ahold, and IKEA to brief them on the project concept and to invite them to take active part in the GSCP Working Group that was set up with the specific objective of developing the REAP+ Implementation Protocol. The ultimate goal of this approach is to support business linkages between clusters of suppliers and GSCP members that are world leading manufacturers and retailers through a capacity building programme and pre-audit scheme for suppliers.



REAP26 - A NEW UNIDO PROGRAMME FOR ADOPTING A HOLISTIC APPROACH TO CSR

In line with a changing international perception, the understanding and scope of Social Responsibility (SR) have started to evolve from “option” to “duty”. In particular, the International Guidance Standard on Social Responsibility, ISO 26000, triggered the development of new management standards (which are applicable to all kind of organizations and businesses down to SMEs), SR tools and government policies. The European Commission initialized multi-stakeholder dialogues to adapt the “old” definition for and its position on CSR that was based on the understanding of 2001. In October 2011, the Commission published the renewed EU strategy for Corporate Social Responsibility (2011-14). This strategy opened new opportunities for the further development of CSR.

In line with these developments and as part of its activities to promote responsible business practices among SMEs, UNIDO has developed reap26, a comprehensive approach for the integration of CSR principles that is in line with ISO 26000. reap26 consolidates a number of tools, programs and materials based on a fundamental roadmap, which is composed of three main sections:

- ♦ The PRE Section to raise awareness and create commitment by inspiration
- ♦ The POL Section to find out which things should be part in the architecture of the Policy
- ♦ The CIP Section to improve these things (Continuous Improvement Process)



The reap26 approach is aiming for a substantial change of mind and behavior following the steps Awareness, Understanding, Appreciation, Commitment, Ownership, and Integration in the Identity finally leading to a Self-learning Organization. As reap26 is commencing with the question of effectiveness (Doing the right things) before raising the issues of efficiency (Doing the things right), it supports from the very beginning the constitution of a solid foundation to built on. The lack of such fundamental considerations appears one of the reasons why so-called efficiency programs frequently fail to become an integral part of an organization's operation.

reap26 furthers the strategic integration of CSR principles through trained counselors and continuous coaching and dialogue. The CSR Adviser training and the SME counseling cover a broad range of topics and tools of relevance to ISO 26000:2010 implementation and have been adapted to local conditions, including:

- ◇ Understanding an SME's core competencies and core values
- ◇ CSR Marketplace: Quick survey on issues of concern
- ◇ The Stakeholder Approach and initial mapping
- ◇ Seven Principles for "good business"
- ◇ Building a company's CSR team

- ◇ Using the reap26 Quick Assessment tool
- ◇ Strategic steps for SMEs
- ◇ Development of a company's own policy
- ◇ Integration of such policies in the continuous improvement processes

The overall reap26 process strictly requires, as in the case of every management standard, good planning alongside a self-developed policy and has to be properly documented, measured, audited, reviewed, communicated and further improved. The certification of such a management program is executed today by e.g. Austrian Standard ONR 192500 or Portuguese Standard NP 4469.

The approach is being piloted by the project "Helping Vietnamese SMEs Adapt and Adopt Corporate Social Responsibility (CSR) for Improved Linkages with Global Supply Chains in Sustainable Production" that is implemented by UNIDO and funded by the European Commission's Switch-Asia-Program. 20 CSR advisers are now working with SMEs in particular in the apparel, footwear/leather and electronics sectors in eight key sourcing regions around Vietnam.

For further information about the Switch Asia project, please refer to <http://csr-vietnam.eu/>.

PRINCIPAL ELEMENTS OF AN ASSESSMENT/CAPACITY BUILDING APPROACH FOR CSR IN GLOBAL SUPPLY CHAINS

In line with the preceding discussion, the following elements will thus be the key cornerstones of UNIDO's REAP+ approach:

Embrace a gradual capacity building approach with a continuous improvement focus at heart - especially in the context of developing countries, local SME suppliers are likely to face numerous challenges when attempting to meet buyer requirements, including a lack of mentorship and skills transfer opportunities, communication and information gaps, and a lack of awareness and information about relevant support and development opportunities.

To ensure that the capacity of a wider group of SMEs is built and buyers do not merely select among a group of very capable suppliers based on a limited set of key performance indicators (KPIs), an approach composed of specialized training and assessment processes at different levels (e.g. basic, intermediate, and advanced) will be adopted.

The levels should be agreed upon with the buyer based on a sound risk analysis while enabling SMEs to go through different stages of skills and capacity development that are consistent with their actual abilities and disposition. At the end of each level and based on their results against different performance criteria, suppliers can demonstrate their ability to qualify for relevant market access and/or continued support.

In some cases, and depending on the specific market context, a supplier may be able to supply a specific product or a specific market after passing the basic or intermediate level, and then, depending on the supplier's aspirations and capacities, move on to the next level, which may be linked with a different kind of product and/or wider market access.

Develop broad-based partnerships for responsible supply chain development and promote appropriate and feasible cost sharing among different partners – in order to develop the capacity of suppliers in the area of CSR and, in particular, to ensure a better distribution of the costs and benefits of CSR implementation along the supply chain, additional resources in terms of money,

expertise and coordination will be required that have not been forthcoming in traditional supply chain contexts.

Related to the point made above about the importance of effective capacity building in such a process, public and civil society actors can be particularly active CSR advocates and ensure that markets deliver the most appropriate incentives and support to promote responsible business behaviour.

As the UNIDO-METRO Partnership experience has shown, local and international as well as public and private actors can make relevant technical, financial and organizational contributions based on their “competitive” advantage and thus set in motion an overall competitiveness and sustainability improvement process with benefits to be obtained that go beyond a single corporation and even supply chain.

International Organizations such as UNIDO can play a useful role in structuring and coordinating such collaborative processes and broker effective linkages among a multitude of different actors.

Contextualize the capacity building, coordination and partnership approach to the supply chain, industry and country or region under consideration – as confirmed by the recent UNIDO experiences in Turkey and with METRO, planned interventions and the provision of technical assistance have to be tailored to local specificities and ensure consistency with existing supply chain governance structures and power relationships.

Moreover, it has been pointed out on various occasions that “cultural differences are the main obstacle to the diffusion of CSR in developing countries”.²²

Ethical values associated with CSR have to be applied with due consideration given to local traditions, customs and circumstances to avoid defensive attitudes among the suppliers against an exclusively “Western” or buyer-driven agenda that is being imposed on them without perceptible positive impact at the local level.²³

²²See Ciliberti et al. (2009), p. 1586.

24 ²³Indeed, Baden et al (2009), Panfil and Sachdeva (2008) and Murillo and Lozano (2006) find that CSR as practiced by many developing country SMEs (which may not be strategic CSR in a strict sense) differs or would differ quite substantially from that prescribed by larger corporations or their buyers.



Encourage engagement with initiatives aimed at the harmonization of buyer CSR requirements – in view of the proliferation of CSR-related standards and buyer requirements, a supply chain –focused approach to building CSR capacity should not be limited to the promotion of requirements that are specific to one supply chain in particular, but rather seek ways of harmonizing requirements across buyers and facilitating compliance across a broad range of SME suppliers.

The GFSI and the GSCP are good practice examples of such harmonization initiatives with a focus on the food and retail industry. In addition, the facilitation of linkages between buyer clusters and supplier/seller clusters provides an interesting way forward to support sustainable sourcing initiatives from UNIDO's point of view.

Promote networking among SMEs in a supply chain context – to ensure that SMEs increase their own capacity and bargaining power, better linkages and networking among suppliers participating in a capacity building programme and between these and the wider SME community will be required. This could also enable them to influence CSR requirements and the way in which CSR requirements are coordinated with PQD requirements to avoid “greenwashing”.²⁴ Networking among SMEs can also ensure that costs are shared in a more sustainable manner and strengthen the relevance and impact of CSR implementation at the local level.

A clustering approach for enhanced outreach and scaling up can furthermore be promoted through collaboration with local Business Membership Organizations (BMOs) as well as through upgrading and mentoring programmes organized together with the lead firms and complemented by harmonization initiatives at the buyer level.²⁵

Based on these different elements, the REAP+ approach will provide a Public-Private Partnership framework for bringing MNCs, (clusters of) SMEs and other key actors along supply chains together to realize a combined push-pull effect and thus to facilitate inclusive and sustainable supplier development and responsible sourcing. It will incorporate technical support related to a wider CSR agenda, i.e. covering social responsibility, environmental management, product safety and quality standards, as well as production and resource efficiency²⁶ and allow SME suppliers to build on established best practices to meet market demands and to develop their business in a systematic and growth-oriented manner. REAP+ also foresees the building up of local capacities of suppliers to provide CSR-based training, counseling and other support services to replicate and further extend the approach, while at the same time measuring their productivity.

²⁴Several studies stress the fact that although buyers purport to select suppliers on the basis of compliance with a broad and comprehensive set of indicators, actual purchases are still being made on the basis of (a limited set of) classical PQD variables. CSR requirements then appear to have merely been put in place to protect buyers from reputational risks stemming from unethical behaviour on the part of suppliers. Moreover, if these CSR requirements are not effectively policed, mock compliance or “greenwashing” may result without an actual impact on supplier performance and enhanced sustainability.

²⁵See also Hartmann (2011), p. 314.

²⁶This is in line with the original REAP approach, but also integrating product safety and quality standards as per the UNIDO-Metro model.

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