



# Support Your SME Suppliers

UN Photo/Martine Perret

**The United Nations Global Compact calls upon companies to support their small- and medium-sized enterprise (SME) suppliers to incorporate sustainability in their strategies and operations.**

## Why support your SME suppliers?

SMEs exist in most companies' supply chains particularly at the sub-tier levels, from local farmers in the food and agriculture industry, to small-scale miners in the IT and automotive industries. In addition, companies are increasingly sourcing from SMEs as part of their policies to diversify their supply chains, generate innovation and provide access to new products. Due to lack of financial and technical resources, capabilities, expertise and understanding of sustainability issues SME suppliers can sometimes bring significant risk to a company's supply chain and to the environment where it operates.<sup>1</sup> Extending corporate sustainability strategies through the supply chain requires commitment and a growing number of Global Compact participants are stepping up their efforts to support their suppliers in meeting sustainability standards.<sup>2</sup>

<sup>1</sup> Pedersen, E. (2009) "The many and the few: rounding up the SMEs that manage CSR in the supply chain", *Supply Chain Management: An International Journal*, Vol 14(2) pp. 109 -116.

<sup>2</sup> UN Global Compact (2015) Guide to Corporate Sustainability, <https://www.unglobalcompact.org/library/1151>



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**Supporting SME suppliers to incorporate sustainability is not only the right thing to do; it also makes good business sense.**

## **BENEFITS TO YOUR BUSINESS:**

- **ENSURE COMPLIANCE WITH STANDARDS.** Larger companies can better ensure supplier compliance when introducing new codes and monitoring and auditing programmes by communicating the company's expectations on their SME suppliers, and by providing guidance on how to comply with the new standard. Additionally, companies can work to harmonize existing standards into unified standards and audits. The convergence of standards could help SMEs with compliance requirements, increase transparency and reduce costs significantly for all parties involved.

- **REDUCE RISK.** Supporting the company's SME suppliers can help manage risk throughout the supply chain. The company will have access to a more stable base of potential suppliers, and it could result in improved quality of supply and security over raw materials. With a wider partnership base, companies can better monitor the sustainability of their supply chain. It might result in increased information-sharing in turn leading to improved transparency and visibility.

- **REDUCE COSTS.** Large company support could increase trust between SME suppliers and their stakeholders, including employees, which in turn could increase SME suppliers' productivity due to stronger loyalty, and reduced absenteeism and error rates. Long-term relationships with the company's SME suppliers can also bring stability and trust, resulting in the reduction of administration costs. Companies could also benefit from a possible decline in transport and logistics costs if working with local SME suppliers as well as reduced costs in terms of social auditing.

- **CREATE A STABLE BUSINESS ENVIRONMENT.** Companies can benefit from a more stable business environment by the strengthening of local economies. Supporting SME suppliers can have broader positive impacts on the local community and economy as it may also help raise standards of other local suppliers and businesses.

- **IMPROVE REPUTATION AND LICENSE TO OPERATE.** Supporting SME suppliers permits companies to build stronger relationships with local communities where the company is operating. It can generate stakeholder goodwill and have a positive effect on the company's reputation. It could also lead to further integration and improved market access.

- **ACCESS TO EXPERTISE, INNOVATION AND LOCAL KNOWLEDGE.** Supporting SME suppliers could grant companies access to suppliers' local expertise, innovation and knowledge. By building a stronger relationship with its SME suppliers companies can increase knowledge-sharing with its supply chain. This could lead to benefits in terms of increased yields, productivity and quality.

## **What Steps can my Company Take?**

This Call to Action outlines practical steps companies can take to engage with their SME suppliers. The recommended steps summarized below are based on the Global Compact Management Model, a flexible framework for continuous improvement for the mainstreaming of the Global Compact principles into strategies and operations. The steps described below as well as the steps included here for "how to support your SME suppliers" are not linear. Rather they represent complementary actions that companies can take in order to achieve more sustainable supply chains, by supporting their SME suppliers.

### **COMMIT**

- Develop the business case by understanding the landscape and business drivers.
- Establish a vision and objectives for supply chain sustainability.
- Establish sustainability expectations for the supply chain.

### **ASSESS**

- Determine the scope of efforts focusing primarily on areas where there is the greatest actual and potential risk of adverse impact on people, environment and governance.

### **DEFINE and IMPLEMENT**

- Communicate expectations and engage with suppliers to improve performance.
- Ensure alignment and follow up internally.
- Enter into collaboration and partnerships.

### **MEASURE and COMMUNICATE**

- Track performance against goals and be transparent and report on progress.



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# How to support your SME suppliers:

**1. CREATE A DIVERSITY PLAN:** Companies are increasingly attempting to diversify their supply chain to promote human rights and have a positive impact on economic development by offering economically disadvantaged groups an equal opportunity to compete for business. For instance, principle five of the Women's Empowerment Principles encourages companies to expand their business relationships with women-owned enterprises.<sup>3</sup> Developing a Diversity Plan is useful in order to link supplier diversity with the company's mission, objectives and business strategy, and in demonstrating a clear commitment to a diversified supply chain. The Diversity Plan can include tools and educational programmes for assessing readiness and capabilities for not only growth, but for the development and implementation of sustainability programmes.

**2. ENCOURAGE SUPPLIERS TO JOIN THE GLOBAL COMPACT:** Companies should encourage their SME suppliers to join and participate actively in the Global Compact and its Local Networks around the world. Local Networks have a lot of useful resources and strategies for implementing sustainability and the Global Compact's Ten Principles. They create opportunities for multi-stakeholder engagement and collective action, and deepen the learning experience of all participants through activities and events to promote action in support of UN goals. Companies can also save costs on educating their suppliers on sustainability by promoting it collectively with other companies, for example through the Local Networks.<sup>4</sup> Some companies have asked suppliers to join the Global Compact as a condition of being their supplier. An important next step would be to check that the supplier remains an active participant by submitting their annual communication on progress (COP) to meet Global Compact requirements. The Global Compact offers a basic template for submitting the COP, which SMEs with limited resources have benefitted from.<sup>5</sup>

**3. ALIGN COMPANY PRACTICES WITH SUPPLY CHAIN POLICIES:** Ensure that company practices do not make it harder for suppliers to meet sustainability requirements. For instance, companies should provide suppliers with sufficient time and resources to satisfy orders in a way that meets sustainability requirements and expectations rather than setting targets that might prompt suppliers to cut corners, e.g. by exceeding overtime limits or outsourcing to unauthorized sub-contractors. Procurers within a company could also award suppliers who are or work with SMEs. Additionally, it is important to remember that companies should encourage SMEs to improve their sustainability standards and that suppliers should not lower their standards in order to engage with SMEs.

**4. COMMUNICATE THE COMPANY'S SUSTAINABILITY EXPECTATIONS:** Communication is paramount to ensure that SME suppliers throughout the supply chain have access to information about the sustainability requirements that they are expected to adhere to. SMEs are often part of an extended supply chain, which can cause additional communication challenges. Developing and communicating a supplier code of conduct is an important first step for informing suppliers of the company's sustainability efforts. Some organizations have also developed online portals to simplify communication with their suppliers and to share information.

**5. PARTICIPATE IN INDUSTRY COLLABORATION:** By collaborating with their peers, companies can minimize duplication of efforts and share the costs and resources required to engage with SME suppliers.<sup>6</sup> Larger companies can, for example, collaborate with peers and other stakeholder to develop new resources and frameworks for their SME suppliers. Companies can also join existing platforms to minimize the burden for SME suppliers in meeting multiple customer assessment requests.<sup>7</sup>

<sup>3</sup> More information on inclusive sourcing and its benefits, [http://www.weprinciples.org/files/attachments/Inclusive\\_Sourcing\\_Flyer-Call\\_to\\_Action\\_23\\_May\\_2013.pdf](http://www.weprinciples.org/files/attachments/Inclusive_Sourcing_Flyer-Call_to_Action_23_May_2013.pdf)

<sup>4</sup> More information about the local networks on the UN Global Compact website: <https://www.unglobalcompact.org/engage-locally>

<sup>5</sup> Find the basic template on the UN Global Compact website: [https://www.unglobalcompact.org/docs/communication\\_on\\_progress/Basic\\_COP\\_Step\\_by\\_Step\\_Guide.pdf](https://www.unglobalcompact.org/docs/communication_on_progress/Basic_COP_Step_by_Step_Guide.pdf)

<sup>6</sup> Examples of industry collaborations include Bonsucro, Electric Industry Citizenship Coalition and UTZ Certified.

<sup>7</sup> There are a number of data sharing platforms that can help collect and manage supplier information about sustainability performance. These include Sedex, EcoVadis, e-Tasc and Fair Factories Clearinghouse.



**6. SUPPLY CHAIN OPTIMIZATION:** Companies can optimize their supply chains by grouping smaller suppliers into co-operatives and possibly reducing the number of intermediaries. Alternatively, companies can work with ethical intermediaries to ensure that suppliers' interests are maintained in the sourcing process and that intermediaries are acting on behalf of the supplier. Companies can also encourage SME suppliers to join certification schemes and organizations that offer reduced fees or group certifications for SMEs.

**7. SHARE RESOURCES AND KNOWLEDGE:** Resource sharing and knowledge exchange is an important part of capacity-building efforts, to ensure that SME suppliers have the skill set and knowledge to fulfill large company's sustainability requirements. It keeps SMEs up-to-date with the latest sustainability policies and legislation, and can help SMEs become aware of their own impacts in areas such as land and labour. Resources and knowledge can be shared through educational events, case studies, webinars, reports, templates, tools and/or other guidance material.

**8. ENGAGE WITH THE SUPPLIER:** There are several ways for companies to engage with their SME suppliers, including assisting in setting and reviewing corporate sustainability goals, provide training and resources, serving as mentors or looking into sector-specific initiatives for SME suppliers to join. Given the size of most companies' supply chains, it is not always realistic to seek to offer support to all suppliers, let alone SME suppliers, in the supply chain. The company should instead attempt to map their supply chain to identify where sustainability challenges are most likely to arise, and initially prioritize supporting those SMEs that operate in areas that are at greatest risk for having an adverse impact on people, environment and governance.<sup>8</sup>

**9. TAKE ACTION TO EMPOWER WORKERS IN THE SUPPLY CHAIN:** Establishing a relationship with workers in the supply chain can help the company detect human rights violations.<sup>9</sup> This is an important part of managing risk when diversifying the company's supply chain, as human right violations are often harder to detect in SMEs. Further, SMEs are sometimes owned by marginalized groups and it is a way to empower workers, including women, in their local community. Examples of how companies can empower workers from SME suppliers include conducting human rights focused training through SME supplier networks and by setting up communication channels for workers to share concerns and assert their human rights, such as human rights hotlines.<sup>10</sup>

**10. BUILD LONG-TERM RELATIONSHIPS:** Companies that build closer relationships with its SME suppliers can more effectively provide them with support. This enables both parties to engage in mutual problem-solving, and the company to share its knowledge and expertise regarding sustainability. It also builds supplier ownership, where they integrate into their mission, strategy and decision-making the value, impact and return on investment of environmental, social and good governance conditions. Including SMEs in the company's long-term vision or in the company's business plan can help demonstrate a clear commitment by the company to engage with its SME suppliers.

**11. ENGAGE IN PUBLIC POLICY:** Businesses can play a key role in a pre-competitive context by responsibly influencing governments and calling for better enforcement of labour laws and other sustainability standards. It is also important in order to motivate governments to implement policies that promote SME development and incentivize responsible business conduct. This could be beneficial for businesses that can forge closer relationships with governments and by enhancing goodwill among stakeholders.

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<sup>8</sup> More information on "Mapping the Supply Chain" in the guide "Supply Chain Sustainability: A Practical Guide for Continuous Improvement", <https://www.unglobalcompact.org/library/205>

<sup>9</sup> It will also help the company comply with international standards such as the ILO Standards and the Guiding Principles on Business and Human Rights.

<sup>10</sup> UN Global Compact (2012) "Supporting Worker Empowerment – Including Support for Workers' Assertion of their Human Rights – In the Supply Chain" [www.unglobalcompact.org/library/951](http://www.unglobalcompact.org/library/951)



## EXAMPLES

In 2012, **Restaurantes Toks**, a Mexican food and beverage company, engaged in a pilot project with their coffee producers in Talquian, Chiapas, by providing training, capacity building and equipment to the farmers. By investing and building long-term relationships with coffee farmers in the community, the company ensured an increase in productivity and better product quality, tackled the main sustainability issues – including use of child labour – and improved worker conditions, resulting in higher salaries for the farmers and a return on investment for the company that nearly tripled its initial investment.

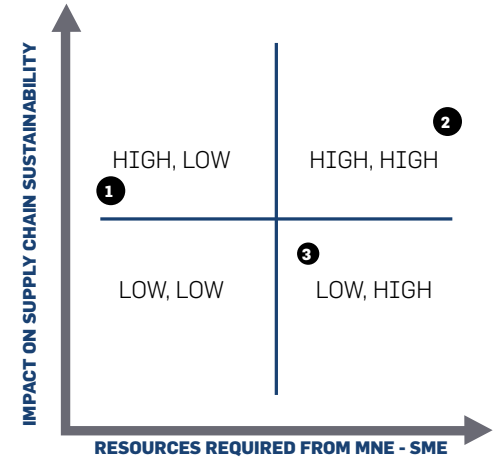
The **Global Compact Local Networks** are clusters of participants who come together to advance the Global Compact and its principles within a particular geographic context. The networks offer platforms for companies to share information and knowledge.

- The Local Network in Japan has held workshops designed to understand the diversity of SMEs and to help larger companies develop resources that better cater to SMEs.
- The Italian Local Network has hosted webinar series designed to assist SMEs participating in the Global Compact in reporting. The webinars also offered a platform for SMEs to ask questions and discuss solutions among each other.
- In Singapore, the Local Network collaborated with the Chamber of Commerce & Industry on hosting an event for SMEs to help them understand the initial steps for "going green" and methods to implement sustainability efforts.
- The Spain Local Network has worked in partnerships with larger companies to reinforce their commitment to sustainability and the Global Compact principles throughout the supply chain. The collaboration includes in-person and online training sessions, access to a reporting platform to assist suppliers in drafting and submitting their annual COP, and access to consultations with a corporate sustainability specialist to address specific issues.

**The European Commission** offers sector specific roundtable discussions, workshops and panel discussions for SMEs. These sector based meetings are especially useful for identifying key sustainability issues in addition to improving resource sharing. Sector-specific events may also help large companies to better understand the needs of each individual sector. Additionally, the European Commission publishes guides which feature awareness exercises on cost reduction; such readily available tools can be invaluable resources to SMEs as one of the key barriers for SMEs attempting to address sustainability is resource constraints.

### Determine Appropriate Action

A company may need to prioritize suitable action for supporting their SME suppliers. This could be based on an assessment of the impact that different steps would have on the company's supply chain, as well as what resources are required.



● SIZE OF BUBBLE = SCALABILITY

- 1 CREATE A DIVERSITY PLAN
- 2 ENCOURAGE TO JOIN UNGC
- 3 SHARE RESOURCES...

*This graph is an example only. The impact and required resources will depend on individual supply chains and SME composition.*



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Some companies, like **Hewlett-Packard** (HP), an American multinational information technology company, have recognized the importance of engaging with SMEs to promote higher environmental and social standards. HP has created several objectives to gain further insight into this topic and to help SME suppliers, including generating knowledge and resources to assist SMEs in improving environmental and social standards, the creation of social and environmental capacity-building and training opportunities for participating SMEs, and the development of guidelines for multinationals to provide to their SMEs. In the UK, HP's commitment also includes supporting the government's programme to help SMEs.

As mentioned above, SME suppliers can sometimes benefit from reduced membership fees or grants when joining certification schemes or industry organizations. **Fairtrade International** has created a fund to help small farmers' organizations pay for their Fairtrade certification. Small farmers' organizations are eligible for a grant if they are applying for initial Fairtrade certification, but lack sufficient financial resources to pay the full certification fee. Similarly, the **Forest Stewardship Council** (FSC) offer group certification, which is a cost-effective tool available to help SME forest businesses become FSC-certified.



Gennadiy Ratushenko/World Bank

## Resource List

### A Guide to Human Rights Due Diligence in Global Supply Chains

<http://etiskhandel.no/Artikler/10080.html>

### CSR Handbook for Small and Medium Enterprises

<http://cauxroundtable.org/index.cfm?&menuid=104&parentid=16>

### ILO Helpdesk

<http://www.ilo.org/empent/areas/business-helpdesk/lang-en/index.html>

### Inclusive Sourcing

[http://www.weprinciples.org/files/attachments/Inclusive\\_Sourcing\\_Flyer-Call\\_to\\_Action\\_23\\_May\\_2013.pdf](http://www.weprinciples.org/files/attachments/Inclusive_Sourcing_Flyer-Call_to_Action_23_May_2013.pdf)

### My Business and Human Rights - A practical guide to human rights for small and medium-sized enterprises

[http://ec.europa.eu/enterprise/policies/sustainable-business/files/csr-sme/human-rights-sme-guide-final\\_en.pdf](http://ec.europa.eu/enterprise/policies/sustainable-business/files/csr-sme/human-rights-sme-guide-final_en.pdf)

### Opportunity and Responsibility: How to help more small businesses to integrate social and environmental issues into what they do

[http://ec.europa.eu/enterprise/policies/sustainable-business/files/csr/documents/ree\\_report\\_en.pdf](http://ec.europa.eu/enterprise/policies/sustainable-business/files/csr/documents/ree_report_en.pdf)

### Sedex Supplier Workbook

<http://www.sedexglobal.com/resources/supplier-workbook>

### Supply Chain Sustainability – A Practical Guide for Continuous Improvement

<https://www.unglobalcompact.org/library/205>

### Supporting Worker Empowerment - Including Support for Workers' Assertion of their Human Rights - in the Supply Chain

[https://www.unglobalcompact.org/docs/issues\\_doc/human\\_rights/Human\\_Rights\\_Working\\_Group/WorkerEmpowerment\\_GPN.pdf](https://www.unglobalcompact.org/docs/issues_doc/human_rights/Human_Rights_Working_Group/WorkerEmpowerment_GPN.pdf)

### The CSR Compass

<http://www.csrcompass.com/>

### The UNIDO Approach to Sustainable Supplier Development - Promoting CSR for SMEs in a Global Supply Chain Context

[http://www.unido.org/fileadmin/user\\_media\\_upgrade/What\\_we\\_do/Topics/Business\\_investment\\_and\\_technology\\_services/CUP/UNIDOsSustainableSupplierDevelopment.pdf](http://www.unido.org/fileadmin/user_media_upgrade/What_we_do/Topics/Business_investment_and_technology_services/CUP/UNIDOsSustainableSupplierDevelopment.pdf)

### Together for Better Outcomes: Engaging and Involving SME Taxpayers and Stakeholders

<http://www.oecd.org/ctp/administration/together-for-better-outcomes.htm>



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