

Ethical Sourcing:

*A contribution to sustainability
or a diversion?*

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ABSTRACT

There are a plethora of codes of practice emerging to help business manage and communicate social and environmental performance, particularly the relationship with suppliers in developing countries. These codes lie at the heart of ethical trading or ethical sourcing, and often tackle issues central to sustainable business. However, there are often separate codes addressing social and environmental criteria, and no real coherence in either their development or implementation. Consequently, the contribution of ethical sourcing to the sustainable business agenda is open to question.

This paper, drawing on the work in developing countries of the Natural Resources and Ethical Trade programme as well as others in the field, examines the reasons behind the divergence in social and environmental codes of practice.¹ It explores the contribution ethical sourcing has made to increasing business responsibility, but argues that greater cohesion between social and environmental standards is necessary if this approach to value chain management is to help achieve sustainable business goals.

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INTRODUCTION

In 1995, Richard Welford identified ethical trade as a distinct step on the road to sustainability, a half-way point between the technology-based quick-fix solutions of companies to environmental problems, and the fundamental changes in business practice required for sustainability (Welford, 1995). Central to Welford's vision of the sustainable business in the 21st century are the concepts of equity and futurity requiring that companies adopt longer economic timescales than is presently the case, and place equal emphasis on environmental, social and economic change.

The last decade of the 20th century has seen a number of theoretical frameworks and practical initiatives addressing these concerns. Triple bottom-line management theory as described for instance by Elkington (1997) and Nelson (1998) requires business to be responsible for delivering social and environmental as well as financial added value, not only to shareholders but to a diverse range of stakeholders including employees, communities, customers and wider society.

There have been various attempts to define sets of social and environmental performance indicators sufficient to embrace key aspects of sustainability, broad enough to allow comparison between firms, sectors and companies, and having the credibility that allows business and other stakeholders to trust their integrity and use them in making decisions. To address the need for standardisation, the World Business Council on Sustainable Development and the Canadian National Roundtable on Environment and the Economy, for example, have developed environmental performance indicators, and the Global Reporting Initiative's Sustainability Guidelines take this a step further by including social and economic indicators (GRI 1999; Ranganathan 1998). Furthermore, there are a growing number of examples of best practice where triple bottom-line accounting is being

incorporated into core business operations such as that being developed by Shell (Shell 1998) or the examples given in McIntosh et al (1998), and Schwartz and Gibb (1999).

THREE KEY QUESTIONS

The rapid development of both theory and practice is undoubtedly an indication of the importance of the links between business and sustainability, but this should not prevent us from hearing the notes of caution sounded in various quarters. As Ranganathan points out, two decades of voluntary reporting has led to a profusion of indicators but no agreement on what to measure, by whom and how (1999).

Ranganathan also remarks that initiatives to date have tended to be limited to certain aspects of sustainability, specific sectors or specific geographical regions. This raises three sets of questions. First, is the disparity between social and environmental aspects of sustainability merely due to a longer history of environmental concern in the business community, or are there more fundamental problems in developing a cohesive triple bottom-line? Second, is sustainability a core business objective, or merely a grandiose name for ensuring a company or brand's reputation? There is certainly some justification for thinking the latter given that the adoption of initiatives by multinational companies has frequently been a consequence of exposure by the media, trade unions and NGOs, and it is no coincidence that Pricewaterhouse Coopers name their services in this field 'reputations assurance'. If that is the case, then what will encourage sectors that do not feel under attack in this way to adopt sustainable practices? Third, are the approaches that have been developed to date only applicable to a certain size of business? Most case studies cited in the literature to date refer to multinational companies, and constraints facing smaller companies in adopting what are often costly, time-intensive approaches are hardly

mentioned². A note of caution has also been expressed about the appropriateness of existing approaches in certain regions, particularly in developing countries (Bennett and James, 1999). Non-OECD countries account for only 17% of trade into developed economies, and there is concern that the perceived difficulties in implementing adequate social and environmental standards in such countries will further discourage trade and investment (Ward, 1999).

CODES OF PRACTICE AND VALUE CHAIN MANAGEMENT

To address the third question first, approaches to social accountability such as social auditing, social balance and corporate community involvement reporting (Gonella et al, 1998) and to environmental accountability such as the ISO 14000 series, environmental impact assessment and energy and materials accounting (Bennett and James 1999) focus largely on the individual company, and performance issues for suppliers and sub-contractors are not in practice a priority. Yet many European and North American retailers and brand-name owning companies are under pressure to meet a range of voluntary and mandatory ethical requirements relating to such areas as food safety, health and safety, worker welfare, human rights, integrated crop management, waste management, and animal welfare. These companies are often not producers themselves, and therefore must put in place systems that allow them to monitor the actions of their suppliers. Typically, this is done through the adoption of codes of practice that set out criteria with which suppliers must comply.

Retailers and brand-owners may use comprehensive codes of practice that contain social and environmental criteria, or separate codes that focus on specific performance aspects (e.g. a code for worker welfare and human rights, a code for integrated crop management, a code for animal rights). The majority of codes in use at present have been developed by major

² See Scrase et al, 1999, for example, for an overview of small business constraints in the forest sector.

retailers or brand-owners and are either audited internally or by an external auditor reporting to company management (e.g. The Gap, Levi Strauss, Reebok). In such cases the results are rarely made available beyond the company unless there is a mandatory requirement for greater transparency. However, there is a growing trend to use independently administered sectoral and cross-sectoral standards which allow a wider range of stakeholders to be involved in the auditing, reporting and consultation process (e.g. Ethical Trading Initiative, MPS, Eurep, Forest Stewardship Council).

The use of such codes of practice in managing the supply chain or value chain is at the heart of what is known as ethical sourcing or ethical trading. Ethical sourcing has evolved rapidly throughout the 1990s. A 1998 report listed over 200 codes of practice for worker welfare alone (Varley, 1998), and a stock-take of ongoing work in responsible business identified over 20 codes of practice and standards affecting agriculture in developing countries alone (Tallontire and Blowfield, 1998). Despite this, ethical sourcing is not discussed in detail in recent literature on sustainable business.

This is partly because some writers view ethical sourcing as limited to the social responsibilities of business, and have not linked this to the sustainability debate (e.g. Ferguson, 1998; Barrientos et al, 1999). Where the link has been made, ethical sourcing is seen as just one aspect of a company's operations - i.e. its relationship with others in the value chain (e.g. Ranganathan, 1999) - and has not been highlighted as a topic for specific study. This in turn stems from a particular conceptualisation of a company or corporation, with business defined in terms of its size and scope of operation, distinguishing for example multinational, transnational, international and national companies (McIntosh et al, 1998), rather than in terms of the sectors in which a company operates or a company's position in the value chain. Both sector and position are key determinants in the way business is responding to demands for greater social and environmental responsibility. For instance, sectors such as horticulture and apparel are under significant pressure to adopt better practices, and the most high

profile companies within the value chains of these sectors are setting the parameters of good business practice by imposing codified standards with which their suppliers must comply. The need for timely, comparable, credible and complete information from all suppliers is critical for such companies, and given the difficulties in reaching a consensus about sustainability criteria mentioned earlier, such companies have largely ignored process-oriented, consultative approaches such as social auditing, and instead adopted performance-based systems that clearly prescribe what suppliers must do.

SOCIAL AND ENVIRONMENTAL ASPECTS OF VALUE CHAIN MANAGEMENT

Codes of practice are a response to one of the key challenges for measuring social and environmental performance: the development of practical systems for different sized companies, especially where value chains extend into developing countries. The cost of implementing codes and who bears this is still unclear. There is strong anecdotal evidence in agriculture that codes of practice related to integrated crop management and food safety reduce production costs because, for instance, they lead to less chemical usage without any corresponding reduction in yields (Malins et al, 1998). But in other sectors, the benefits may be less clear, and the recent emphasis by European and North American companies on codes of practice for human rights and worker welfare has raised questions about the cost of auditing, their suitability for small producers, and whether codes of practice act as a form of non-tariff barrier to trade (Blowfield, 1999). Furthermore, the majority of codes of practice have been developed in Europe or North America and prioritise the issues with most resonance for stakeholders in those regions regardless of the relevance or importance of those issues in developing countries (Malins et al, 1998; Blowfield, 1999b). Thus, when the MPS code of practice for cut-flower production was introduced in Kenya, its criteria on energy consumption and chemical usage reflected best practice

for the Dutch flower industry and not that of the Kenyan industry where artificial lighting is not an issue and pesticide concerns are very different because growing takes place at a higher altitude.

A HISTORY OF COHERENCE AND DIVERGENCE

The importance of whether ethical sourcing standards can be applied to different types of company in different countries depends on the relevance of these standards to sustainability. This paper, therefore, focuses on the first two of the previously mentioned three questions: the relationship between social and environmental codes of practice, and whether the use of codes of practice to manage the value chain represents a coherent approach for addressing sustainability issues, or rather a piecemeal attempt to retain a company or sector's reputation.

To understand the relationship between social and environmental standards, one needs to understand the way they have developed. The evolution of codes of practice to cover diverse aspects of production is clearly seen in the horticulture sector, a sector of particular importance to many developing countries that have encouraged the production of fresh fruit and vegetables as part of structural adjustment and trade liberalisation measures.

In the past 30 years there has been a tenfold increase in the global export of agricultural products. This increasing reliance on food grown in other countries, has given stakeholders in the value chain (from producer to retailer) and regulators a host of new challenges. Some of the first codes of practice concerned food safety, with European retailers, for instance, responsible by law for the safety of their consumers. This legal obligation took the form of due diligence, a type of product stewardship that in the event of an incident of contamination places legal liability on any retailer unable to show the conditions under which a food item was grown, processed or packaged. Due diligence led to retailers, particularly the multiple retailers accounting for over 70% of fresh produce sales,

introducing thorough hazard analysis and control systems into their value chains.

Multiple retailers also introduced integrated crop management standards for their producers. These often began as in-house codes of practice such as Tesco's Nature's Choice that then became the basis for industry standards such as the Assured Produce Scheme. Although these standards were initially applied in Europe and North America, by the late 1990s similar systems were in place in all producing countries, and although voluntary in nature were as much a prerequisite for producers selling to multiple retailers as quality, quantity and timeliness requirements.

Moreover, what began as standards for crop management were expanded to embrace a wider range of environmental issues. Thus, when the European framework for good agricultural practice was launched by the European Retailers Group (EUREP) in November 1999 as a benchmark standard for all agriculture standards in Europe, it included criteria on production, harvesting, post-harvest treatment, waste and pollution management, irrigation, and soil and substrate management in addition to the original integrated crop management concerns of fertiliser and pesticide usage.

There are various reasons for this expansion in scope, not least the growth in organic agriculture and the need to reassure consumers that conventionally grown foodstuffs were also safe and environmentally friendly. Consumer pressure is a commonly cited cause of companies' adopting such responsible practices (Christian Aid, 1997), but while multiple retailers have actively promoted organic products, they have done little to raise public awareness about the stringent standards used in conventional agricultural production. One reason for this, aside from the more cynical conclusion that it might reduce consumer willingness to pay premium prices for organic produce, is that standards are used to reduce risk rather than gain competitive advantage. This logically follows from due diligence requirements for food safety where a company only needs to reveal what it has been doing when something goes wrong. In the case of food safety, that means when a consumer buys contaminated product; in the case of

environmental standards, it means when the retailer is accused of environmental irresponsibility (e.g. by the press or NGOs).

The same attitude seems to have been adopted in the more recent introduction of human rights and worker welfare standards. As with integrated crop management, multiple retailers first developed in-house standards with which growers and exporters had to comply. Now the retailers and other high profile companies are starting to work together to develop generic standards (e.g. the UK Ethical Trading Initiative) and industry standards (e.g. the EUREP framework), or adopt international standards such as SA8000.

If one follows the above chronology, it may appear that the separate development of social and environmental standards is a historical accident. A combination of concern about food safety and sometimes inter-related environmental issues meant that the pressure for environmental responsibility had already gained momentum before there was a matching demand for social responsibility. Consequently, instruments for managing and reporting environmental performance were already well-established by the time companies felt a need to address social performance in the late 1990s.

However, the reason environmental standards developed before social ones was not just that there was greater consumer or legislative pressure, or that companies were not concerned about social issues. Discussions with those involved in developing standards in the early 1990s reveal that there was a greater consensus on environmental issues and acceptance of what constitutes best practice, particularly within a given sector. Retailers, importers and producers are more likely to have agronomists and food technicians than social scientists in their managerial ranks, and such people more readily understand environmental issues based on 'hard science' than seemingly contentious and less quantifiable issues such as ethical relativism, human rights and social justice. The fact that it has proved difficult to identify common criteria and indicators for environmental

performance has not greatly undermined the perception that environmental issues are easier to deal with than social ones.

Advocates of social standards have learnt from this. The instruments used to measure social performance are very similar to those employed in environmental and other aspects of management (e.g. SA 8000 draw on on the ISO 9000 series for quality management and is similar in approach to the ISO 14000 series for environmental management); and the criteria employed in the majority of codes and standards seek legitimacy by basing themselves on international conventions such as those of the International Labour Organisation and the United Nations.

This chronology of the development of environmental then human rights and worker welfare standards does not mean that business was previously blind to social issues, or indeed that it has a longer history of environmental concern. Business has a history of social responsibility, but this has tended to be acted out through community programmes rather than as an explicit element of core business practice, and few companies felt it necessary to be openly accountable for their social impact. For much of the 20th century in the West, social responsibility has been the domain of government, and a history of company-worker confrontation meant there was suspicion that when management engaged in social responsibility, this was a public relations exercise or an attempt to undermine trade unions (ILO, 1998).

While not denying that some companies have long had a sense of environmental responsibility, the fact remains that for much of this century environmental legislation in the West has been less comprehensive than social legislation, and consequently as the general public's concern about the environment grew, business rather than just government was held accountable for the environmental situation. Now, similar concerns are expressed about human rights and worker welfare, particularly where global business rather than national governments appear to have the greatest influence in delivering socially beneficial outcomes (Peters, 1999).

REALISING INTEGRATION

It would seem from the above that although social and environmental standards have developed separately, the building blocks for constructing a more integrated approach are coming into place. Moreover, there are signs that these blocks are being put together. The EUREP framework for good agriculture practice includes environmental, health and safety, and worker welfare criteria; and international standards for specific sectors such as cut flowers and forest management have social and environmental criteria, as do national standards for horticulture in Zambia, Zimbabwe, Colombia and Kenya.

It can be argued that this tendency is undesirable, and there are certain advantages in maintaining the separate identity of social and environmental standards. First, nobody would dispute that there are many distinct social and environmental issues: child labour and freedom of association are clearly social issues, quite separate from environmental issues such as recycling of packaging and energy consumption. Therefore, the expertise required to develop and administer social and environmental standards is distinct, with the former perhaps requiring input from labour organisations and social development specialists, the latter perhaps requiring conservationists, agronomists and pest management experts.

Second, within companies employing standards there is often a separation of social and environmental responsibilities, with social accountability often being a fairly new field. As few companies employ people specifically to oversee the implementation of ethical sourcing policies, it is often easier to implement these policies from within existing operational structures rather than develop new ones that might encounter resistance from elsewhere within the organisation.

Third, in most companies and sectors codes of practice are the main instrument at present for managing and reporting on social and environmental performance, and these function best where they set out clear criteria and indicators, and communicate concise information to

stakeholders. The elusion of social and environmental issues would damage this clarity and conciseness.

Fourth, there are already established mechanisms and infrastructure for developing and implementing environmental standards, including quite sophisticated structures for monitoring and verification. The same is not true for social standards, and premature integration may lead to the adoption of 'off-the-peg' solutions that work well in the context of environmental performance, but may not be suitable for social performance.

The above arguments for keeping social and environmental standards separate are largely practical ones rooted in the reality of employing such standards in core business operations. There are similar practical reasons for integrating these standards, not least the need to control costs by limiting the amount of auditing and reporting (Blowfield, 1999c). So far there has been a degree of cost sharing between buyers and producers in horticulture, but this is unlikely to last, and producers will be expected to pay for the costs associated with ethical sourcing. However producers are not only concerned about cost. At a workshop on ethical sourcing for Zimbabwe horticulture producers in February 1999, other concerns raised were: the large number of codes on offer and which ones have credibility in the market-place; duplication of effort due to having to meet the requirements of several similar but ultimately different codes; and doubts about the messages codes are sending to consumers.

This last point relates to public perception of what companies are accomplishing when they say they have an ethical sourcing system. Although there have been no published surveys on this issue, it is reasonable to expect consumers to conclude that the values a retailer addresses in its supply chain reflect the consumer's own, and discussions between the author and industry representatives suggest that consumers expect environmental standards to have a social component and vice versa.

Indeed, in horticulture it is hard to disaggregate many social and environmental issues. For instance, the over-use of pesticides causes harm not just to the environment but also to workers involved in spraying and

neighbouring communities whose water sources may be contaminated. On closer examination, there are few environmental issues where there is not a human dimension, and there are also many social issues with an environmental dimension. This can be an indirect link such as the well-documented impact of poverty on the environment in developing countries; it can also be direct as in the case of non-provision of adequate chemical storage facilities which poses a threat both to workers and the environment. The development of joint social and environmental codes of practice could also strengthen the position of those lobbying for greater business responsibility. Several of the arguments against integration stem from the fact that this would be to the detriment of social issues. However, at present one reason companies are reluctant to adopt social standards is that there has been little cost-benefit analysis. This is less the case for environmental standards where, as mentioned previously, there is evidence that complying with environmental criteria improves management efficiency (e.g. by reducing the cost of chemical inputs). Therefore, even if implementing social standards was to increase a grower's costs, the grower might still be willing to adopt an integrated social and environmental package because of the overall savings it could offer.

ETHICAL SOURCING AND SUSTAINABILITY

Important though these arguments are for companies wishing to incorporate ethical sourcing codes of practice into their core business operations, none of them addresses whether such codes make a contribution to sustainability. If sustainable business requires the adoption of the triple bottom-line, then this is a strong case for integrating social and environmental standards into a sustainability strategy. But, although one can argue that a comprehensive code of practice or a package of codes of practice could embrace key indicators of sustainability for a given sector, this is not the reason that codes have been adopted. The EUREP good agriculture practice framework, for example, was described by its Vice President, Willem Hofmans, at its launch on 18 November 1999 as

addressing the demand for a more ethical approach to business, but the EUREP standard will not be used to monitor the macro level impact of the horticulture industry.

At the same meeting, EUREP President, Nigel Garbutt, said that the framework sets out to address social, environmental and food safety issues, but it is doing so primarily in response to consumers' concerns. The coherence between these issues and the extent to which EUREP will use its framework to address sustainability therefore depends on consumer awareness, and whether the public views ethical sourcing and sustainability as part of the same agenda.

The evolution of particular standards is not well documented; likewise the links between why a standard came into being and the implications of this in terms of its objectives and limitations. In horticulture, food safety was the initial focus, and the approaches to managing food safety influenced the types of auditing and reporting that were used later for environmental and now social issues. Although some food safety best practice also relates to environmental best practice (e.g. pesticide usage and residue control), the link between food safety and sustainability is at best tenuous.

What standards appear to set out is an agenda for business responsibility rather than one for sustainability. This can be seen in recent social standards. The vast majority of codes of practice addressing human rights and worker welfare issues draw on elements of ILO core labour conventions, the UN convention on the rights of the child, and the Universal Declaration of Human Rights. A typical code of practice will therefore have broad criteria covering such issues as freedom of employment, freedom of association, safe and hygienic working conditions, child labour, living wages, working hours, non-discrimination, and humane treatment. None of the above international agreements on which these criteria are based evolved from thinking on sustainability. Although it is possible to argue that low wages and poor working conditions are in themselves a threat to sustainability (Greider, 1997), the connection between unjust practices and unsustainable practices is not adequately proven.

The EUREP framework, along with other agriculture standards such as MPS and the Flower Label Programme, is intended to be applied world-wide (Denise Field, EUREP board member, response during question and answer session at the EUREP launch). There is an assumption here that Western consumers can represent the ethical values and definitions of sustainability of all stakeholders, particularly those in developing countries where much agriculture production takes place. Recent work (for instance by the British Department for International Development and the United Nations Development Programme) has tried to define what sustainability means in such countries. The resulting sustainable livelihoods approach in many ways complements the triple bottom-line by emphasising the inter-dependence of economic, social and environmental aspects of sustainability. It defines sustainable livelihoods as the creation or conservation of livelihoods and eco-systems able to cope with and recover from stresses and shocks, and able to maintain or enhance their capabilities and assets both now and in the future (see Carney, 1998 for an overview).

Current codes of practice, even when they address social and environmental concerns, are too temporally and spatially restricted to cover all aspects of equity and futurity implicit in the sustainable livelihoods approach. Social criteria, for instance, are limited to individual rights in the workplace (and some would say the concerns of a limited number of workers [Barrientos et al, 1999]). They adopt an individual rights perspective; ignoring broader definitions that include communal and societal rights. They also make no reference to company impact beyond the workplace; for instance on neighbouring communities, on customers, on society as a whole. Codes of practice are limited temporally to what a company is doing to its existing workforce and its ongoing environmental impact, and not how the establishment of a factory or farm may have affected others' rights (e.g. to land), or how workers are to be treated after the company ceases to operate. In horticulture there is only one code of practice that makes specific mention of land tenure issues in establishing and maintaining farms (Florverde, Colombia [Correa, 1999]).

FUTURE CHALLENGES

The various codes of practice used for ethical sourcing address certain issues of relevance to sustainability, but in their present form are an ad hoc collection of standards that have been driven by a range of concerns, not least the need to meet consumer and other Northern stakeholders' perceptions of business responsibility. At present, there is little conceptual nor practical coherence between the social and environmental standards contained within these codes, and there are arguments for continuing this divergence.

However, given the rapid adoption of codes by business, and also the frequent involvement of civil society organisations and sometimes government in their development and implementation, it would be a missed opportunity not to optimise the contribution this approach to value chain management can make to the sustainable business agenda. Two core problems need to be addressed to take advantage of this chance. First, the scope of codes of practice needs to be widened; for instance, by expanding the range of social issues beyond the current set of human rights and worker welfare criteria so that they cover the needs and priorities of workers and other human stakeholders. Second, codes of practice need to be properly integrated into sustainable business strategies that embrace not only business practice at the site of production, but equally corporate ethics, and interaction with suppliers, local communities, society as a whole, shareholders, consumers and other types of customer.

In expanding the scope of codes, we need to recognise that not all aspects of sustainability can be codified and regulated in this way. For example, codes of practice may prove unwieldy in addressing land rights and other issues beyond the workplace. Recent experience with EU pesticide residue legislation has shown that in certain cases codes are used to measure what can be measured rather than what *needs* to be measured, even if, as in that instance, this is to the disadvantage of certain producers and of limited advantage to buyers and consumers (Keith Jones, pers comm).

Elsewhere (Blowfield, 1999b) I have argued that in the longer term codes may come to be seen not as an end in themselves, but rather as a starting point for increasing business awareness of social and environmental issues, and also bringing together stakeholders to co-operate on addressing these issues. These partnerships can then form the basis for tackling a broader range of challenges central to a comprehensive sustainable business strategy.

Both at the site of operation and beyond, it is essential that establishing linkages between social and environmental considerations becomes an explicit goal. Whatever the reasons for separating social and environmental standards in the past, codes of practice will not contribute towards sustainable business if greater coherence is not achieved. This has been done in the forest sector by developing a hierarchical framework within which social and environmental performance criteria are brought together through common principles and goals (Tropenbos, 1997).

The focus of ethical sourcing standards needs to be expanded, not only beyond the workplace but also in the way employees are viewed. Greater coherence between codes of practice alone will not achieve this. Outside of codes of practice, approaches such as Social Cohesion are beginning to introduce the idea that companies have a responsibility to people similar to that towards the environment shown in product life cycle management³. Social Cohesion proposes that a company's responsibilities are not limited to working conditions, but also aspects such as professional development and relocation; in other words addressing people's needs beyond their direct usefulness to the company.

The way that codes of practice develop over the next few years will be central to the contribution large sections of business makes to sustainability. If codes of practice continue to evolve as a response to pressure to deal with single issues such as food safety, crop management and worker welfare, then there may be little enthusiasm for tackling the challenges of coherence

³ For further information on Social Cohesion, see <http://www.ebnsc.org>

and integration. However, business and other stakeholders have an opportunity to build on the public interest in ethical sourcing to review the role, formulation and implementation of codes of practice, and make them tools for managing sustainability. Whether this happens does not depend on business alone; it requires NGOs, trade unions, consumer groups and journalists to re-evaluate their goals, and construct more comprehensive frameworks for understanding and representing the interests of their constituencies. Sustainability is a multi-faceted issue, and ethical sourcing will only make a contribution to this debate when the inter-dependence of all aspects of sustainability is recognised within ethical sourcing strategies.

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