

Responsible Hospitality: Theory and Practice

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Principle 5: Embed responsible business practices throughout the supply chain

Purchased products and services account for more than 60% of the average company's costs. When your supply chain's environmental and social footprint equals or exceeds your company's, the business' resulting exposure to supplier activities becomes enormous – as does its vulnerability to adverse environmental and social impacts caused by any suppliers.

(Vassallo et al., 2008:3)

Text box 27: Storm clouds on the horizon?

According to the World Resources Institute (2008), the world has experienced a remarkable rise in the price of vital commodities, including energy and agricultural products. For example, between 2006 and 2008, the average world price for oil rose by 110%, rice by 217%, wheat by 136%, maize by 125%, and soybeans by 107%. For all businesses, the corollary of these price rises has been felt immediately and painfully in the form of an increase in costs. Some businesses (including a number of hospitality businesses) have responded to this rise in commodity prices by entering into heated discussions with suppliers, cutting margins and forcing some to the very edge of the financial abyss (see www.tescopoly.com for a flavour of the heated nature of the debate that can follow aggressive price reduction strategies for suppliers and the public relations furore that follows in its wake). In all too many instances, suppliers respond to pressure to cut costs by passing harsher conditions on to employees and suppliers further down the chain (especially when they are located in countries without rigorously enforced human rights/employee standards). It is the employees in these companies who bear the brunt of longer working hours or poorer rates of pay. As many of the world's international companies have found out, such strategies may offer the opportunity for cost reduction in the short term, but they can be costly for corporate reputations, and rarely lead to long term and resilient supplier relationships.

The responsible business initiatives for most hospitality companies focus on the direct impacts of the organisation. The vast majority of impacts for hospitality companies lie in the supply chain. There is a clear dichotomy between these two positions. Forward looking companies have realised that this dichotomy could damage their reputation in the short term and, in the long term, place their future under threat, especially when it comes to the issue of food security. In the words of Paul Polman (Chief Executive Officer of Unilever):

We must start viewing food security as a part of the larger question of sustainability and the need to live within the natural resource constraints

of the planet. For big companies, like Unilever, this will mean developing new business models which will allow them to uncouple growth from their environmental impacts. With this mindset we should advocate and, where possible implement, ... practical approaches'.

(Institute of Hospitality, 2011: 20)

Those companies that can legitimately claim that responsible business is a part of their DNA have recognised the need to fundamentally change the nature of their relationships with their supply chain. These companies are few and far between and none of them would claim to have completed their responsible business journey as yet. Most, however, are committed to continue building constructive partnerships with their suppliers to jointly pursue responsible business objectives. The reasons that they embark upon this journey are occasionally based on a genuine desire to save the world. Usually they are more pragmatic and include a combination of the following:

- ◆ The need to protect reputations as third-sector organisations increasingly investigate corporate responsibility initiatives (especially in global companies) and target supply chain weaknesses as a key means of undermining credibility. To understand the power of the media see, for example, the recent experiences of Unilever (who played a leadership role in the Round Table on Sustainable Palm Oil and had a commitment to source all its palm oil from certified sustainable sources by 2015. A documentary, screened by BBC programme *Panorama* on 22 February 2010, was investigating whether this claim could be met.
- ◆ The dwindling stock of many commodities and the need to achieve security of supplies. This is the case for not only oil, but in current market conditions, also wheat,⁷ soya beans, cocoa and corn, as well as minerals. Global climatic conditions, combined with competition for land (not aided by the increase in use of land for production of biofuels), have led to reduced output, and driven prices up. Businesses with supplier arrangements that are dependent on more than price alone have demonstrated that they are more able to weather such storms and secure access to suppliers.

Supply chains at risk

The financial crisis and a number of other large events that have happened in the past five years have definitely prompted companies to start looking at the true costs of supply chain disruption risks.

Paul Kleindorf (quoted in the Financial Times, <http://www.ft.com>)

⁷ The USDA said wheat stocks in 2010 would fall from just under 194 million tonnes to 174.8 million tonnes. (<http://www.bbc.co.uk/news/business-10956219>)

Chapter extract

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