A Guide to Traceability for SMEs

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The Drivers, Opportunities, Challenges and Implementation Steps for Small and Medium-Sized Enterprises (SMEs) Looking to Adopt Traceability in their Supply Chains

LOOKING AT TRACEABILITY THROUGH THE SME LENS

> *"Traceability: The ability to identify and trace the history, distribution, location and application of products, parts and materials, to ensure the reliability of sustainability claims, in the areas of human rights, labour (including health and safety), the environment and anti-corruption."*[1]

Increasing consumer demand for responsibly sourced and produced goods alongside regulatory pressure to improve tracking and transparency in supply chains has led to traceability being recognized as an impactful tool for advancing sustainability objectives among businesses. While the implementation of traceability cuts across various industry sectors, economic levels, and regions, it is especially imperative for small- and medium-sized enterprises (SMEs) to adopt traceability initiatives, due to their volume and integration in the global economy. According to an estimate by the International Finance Corporation (IFC), SMEs account for about 90 per cent of businesses and more than 50 per cent of employment worldwide.[2] In developing countries and transition economies, SMEs are responsible for "most economic activity that has interfaced with productivity enhancement and poverty alleviation."[3] As such, SMEs play a crucial role in sustainable local development, and their engagement is essential to achieving the larger Sustainable Development Goals (SDGs) set out in the United Nations 2030 Agenda for Sustainable Development.

United Nations Global Compact

On 25 September 2015, all 193 Member States of the United Nations adopted 17 new Sustainable Development Goals and 169 related targets as a plan to tackle economic, social, environmental and governance challenges of our time by 2030, providing a clear vision and framework for the future to all nations and businesses. The SDGs explicitly call on all businesses to apply their creativity and innovation to solving sustainable development challenges. The SDGs have been agreed by all governments, yet their success relies heavily on action and collaboration by all actors.

Traceability in supply chains and the link to the SDGs

The United Nations Global Compact defines "supply chain sustainability" as the management of environmental, social and economic impacts, and the encouragement of good governance practices throughout the lifecycles of goods and services. Supply chain policies and programmes offer key opportunities for companies to scale up their sustainability practices, thus contributing to the advancement of the SDGs.

In fact, addressing traceability in the supply chain plays a significant role in achieving the SDGs, including: SDG 8, "Promote inclusive and sustainable economic growth, employment and decent work for all;" SDG 9, 'Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation;" and SDG 12, "Ensure sustainable consumption and production patterns." Further examples that hone in on specific SDG targets include: increasing the productivity and incomes of small-scale food producers, in particular women, indigenous peoples, family farmers, pastoralists and fishers (SDG 2.3); measuring progress on sustainable development (building on existing initiatives) that complement gross domestic product; and supporting statistical capacity-building in developing countries (SDG 17.19).

Global traceability organizations such as the Forest Stewardship Council (FSC), the Marine Stewardship Council (MSC) and UTZ Certified engage with stakeholders along the entire value chain. This allows for the development of a credible and robust chain of custody standards and certification for products from the raw material to the final use phase, and as such may help SMEs meet the criteria for SDG 15.b (sustainable forest management), SDG 14.4 (sustainable fishing), and SDG 2.3 (improve agricultural productivity and increase incomes of small-scale food producers).

SMEs have a unique role to play in engaging with the SDGs. SDG 8.3 calls for the promotion of development-oriented policies that support productive activities, decent job creation, entrepreneurship, and creativity and innovation. It also encourages the formalization and growth of micro-, small- and medium-sized enterprises including through access to financial services, which is of special significance both in the context of building sustainable supply chains as well as for the promotion of traceability efforts in the SME context. Other SDGs, including those focused on water, energy and resource-efficiency, are also strongly related to global supply chains systems, and would therefore benefit from the implementation of traceability schemes and processes.

TRACEABILITY IN THE SME CONTEXT

Traceability in the supply chain is becoming essential to ensuring compliance with laws and regulations. It is furthermore important for satisfying the increasing demand from customers, NGOs, governments, suppliers and buyers who desire more information about the origins of their products and materials as well as the conditions under which they were produced and transported. For SMEs, the drivers for traceability may include contractual requirements outlined in the "Suppliers Code of Conduct" required by the procurers they supply to or regulatory requirements outlined in food safety laws within their jurisdiction. Failure to adhere to these requirements can adversely affect the financial and reputational standing of SMEs. Going beyond the legal minimum, SMEs may also be driven to adopt traceability initiatives as a means to improve efficiencies in productivity and resource planning, and to protect against adverse impacts of risks arising outside of their own supply chain footprint. Additionally, relative to Multinational Enterprises (MNEs), SME supply chains are usually less complex in nature, which can make information gathering and collaboration along the chain for the purpose of traceability much simpler.

Adopting traceability schemes and initiatives can lead to an increase in market base and appeal, in many cases allowing SMEs to offset costs involved in adopting these schemes by charging premium prices for their products and services.[4] Traceability can also play a major role in verifying sustainability claims, advancing good business practices and identifying the most effective interventions that help SMEs improve their sustainability standing.

"The harvester working in a forest" by abadonian used under iStock standard license

One of the foremost challenges that SMEs may face in adopting traceability schemes is the lack of resources and management capacity as they relate to technology, know-how, skilled labour and financial resources. While "suppliers are located throughout the world and sometimes in remote areas, there are language, skill and access barriers" in fully adopting traceability schemes. These issues can be aggravated if an SME lacks peer support, knowledge or is fearful of adopting traceability schemes that are not universally accepted in their industry sector, thus incurring additional audits and remediation activities. In such cases, SMEs may lack the collaborative support required for the successful implementation of its traceability efforts. Additionally, this lack of support can also make it difficult for SMEs to identify "how much and what to report" for robust traceability efforts, especially in view of privacy and liability concerns.

However, as SMEs are typically more entrepreneurial and flexible in nature, they have an advantage over larger enterprises with established hierarchies to experiment and innovate in their manufacturing operations.[5] This flexibility provides SMEs with an opportunity to minimize risk in the production process, control the supply chain for product recalls and withdrawals, attain quality standards, fulfill legal requirements, and increase brand equity and customer reliability.[6]

THE PRACTICALITIES OF TRACEABILITY: IMPLEMENTATION STEPS

In light of the opportunities and challenges discussed above and keeping in mind the increase in demand for traceability in supply chains, it is important for SMEs to identify steps they can take for implementation. These include:

- SMEs can map processes within their own supply chain footprint to assess the sustainability risks inherent from sourcing, procuring and the final transaction of their goods and services. Further, SMEs can use this mapping process to assess, identify and prioritize their most important sustainability metrics, and then use them as a stepping stone to increase the overall sustainability of their supply chain.
- SMEs can collaborate with their peers, their major procurement entities (such as MNEs), NGOs, and other stakeholders to understand traceability schemes which are applicable to their commodity or service, and if so, to what extent they would help advance environmental, human rights and economic wellbeing-related factors in their supply chains. This collaboration can also help SMEs within each industry sector to increase acceptance of good business practices, achieve critical mass, change market dynamics, and eventually create an even playing field in adopting traceability schemes vis-à-vis its costs.
- SMEs can explore whether traceability processes can be implemented through better alignment of existing enterprise resource planning (ERP) systems, financial documentation (sales, wages), chain of custody documentation, health and safety documentation and/or labour records. This can help SMEs offset additional data collection and verification costs required for traceability efforts.
- SMEs can engage both internally with their employees and externally with their suppliers to develop good business practices, and better align processes to advance supply chain traceability. SMEs may also engage intermediaries to drive traceability efforts. Intermediaries serve as linking agencies/entities in the supply chain and can therefore act as the point of information exchange in the chain of custody.
- SMEs can identify adequate data capturing technology, i.e. alphanumerical codes, bar-codes and RFID tags appropriate to their needs and minimize excessive cost in facilitating traceability in their supply chain. [7]
- Once an SME selects a traceability scheme, it is important to stay engaged and actively assess whether the chosen traceability scheme meets the company's requirements in mitigating sustainability risks. A simple process, such as keeping track of sustainability improvements and communicating them to the market, may help SMEs consolidate their gains and improve their reputation and financial standing.

A Cambodian farmer by Chor Sokunthea / World Bank Flickr under Creative Commons license

MNEs play a crucial role in helping SMEs adopt traceability in their supply chains. MNEs can help SMEs identify the best traceability schemes and certifications which are regionally relevant, sector-specific and acceptable in wider markets. Strengthening SME traceability efforts helps MNEs secure their overall supply chains, protect their reputation, strengthen their financial standing, as well as meet regulatory requirements. From an MNE point of view, the more SMEs that adopt acceptable traceability processes, the better the overall procurement availability for MNEs. One of the most important ways MNEs can help SMEs adopt traceability practices is by helping build capacity, with respect to providing know-how, education, and technologies which can advance traceability in SME supply chains. MNEs may also identify traceability schemes for each level and type of SME to build a 'stacked' traceability initiative, where every tier/section of the supply chain is covered by a traceability scheme.

CASE EXAMPLES FOR DRIVING SME TRACEABILITY

Example: Driving SME traceability through collaboration

Dipantara, a small community wood trading initiative in the province of Java, Indonesia, has developed a group business model aimed at helping smallholder farmers and farmers' groups in the region sell their wood to the international market. Maisons du Monde, a UN Global Compact participant signatory, and The Forest Trust (TFT) homeware retail member has supported the Dipantara farmers' initiative by placing orders for its stores. Dipantara, as a non-profit business entity, partners with 96 farmers' groups across 22 villages totaling 7,966 farmers that have registered with the business.[8] By 2012, it had helped 20 of these farmer groups (involving over 1,200 farmers) achieve Forest Stewardship Council (FSC) certification.[9] The initiative's efforts helps buyers identify the source of wood and trace it back to the tree stump, while at the same time increasing revenues for farmers with smallholdings.

Example: Driving SME traceability through "stacked" MNE-driven traceability certifications

Timberland is an American footwear and apparel manufacturer that works closely with its suppliers and provides training and assistance in order to implement the best social, environmental and responsible business practices. With the support of its SME suppliers, Timberland engages with a series of "stackable" traceability schemes to strengthen traceability throughout its supply chain. The company assesses its leather tannery suppliers using the Leather Working Group (LWG) traceability system and only sources apparel and footwear leather from LWG Silver or Gold-rated tanneries.[10] LWG provides information on the origin of the hides within the supply chain and ensures environmental compliance of SME suppliers by placing them on a rating system.[11]

Timberland's voluntary commitment to adhere to global animal welfare and traceability standard, Responsible Down Standard (RDS) certification enables tracing chain of custody for animal welfare practices for down and feathers from farm to product.[12] Additionally, Timberland's Green Index, a web-based environmental rating system, engages consumers to measure the environmental footprint associated with making a Timberland product from raw material to finished product, driving traceability down from marketplace to different tiers and sections of SME suppliers/factory owners supply chains.

"Busy Office" by Chris Schmidt used under iStock standard license;

Example: Driving SME traceability by developing partnerships between International Governmental Organization and MNE

United Nations Industrial Development Organization (UNIDO), under the Consumer Goods Forum's Global Food Safety Initiative (GFSI), is helping SME suppliers take advantage of efficient food supply chains and find opportunities in expanding global supermarkets by developing a partnership with the international retail company METRO Group. GFSI has established a common benchmarking process which helps SMEs, producers and suppliers tackle different food safety standards and certification schemes under one process.[13] Additionally, through its objective of eliminating duplication and cost in the supply chain under the "Global Markets Protocol," GFSI has been pushing capacity-building programmes for SMEs through knowledge-sharing and partnerships between SMEs and larger retailers. Thus, through UNIDO's experience upgrading food industries in developing countries, it is supporting knowledge transfer to local suppliers and implementing effective, upgraded food safety management systems while helping local SMEs scale into METRO's supply chains.

CASE EXAMPLES FOR DRIVING SME TRACEABILITY

Example: Driving SME traceability through existing systems – scalability and capacity building

The International Trade Centre (ITC), a joint-cooperation agency of the World Trade Organization and the United Nations Organization, has produced an online database of 210 detailed sustainability standards covering over 60 sectors called the "Standards Map".[14] The Standards Map addresses traceability and transparency in global supply chains. Voluntary standards databases such as the Standards Map—complete with eco-labels, self-assessment tools and technological advances—are making the implementation of traceability efforts affordable and accessible for SMEs. The Standards Map allows for comparisons of private standards via a user-friendly, easy to refer self-assessment tool, enabling a simple process for reviewing traceability and pinpointing shortcomings in supply chain sustainability practices, which require external support capacity. The Standards Map also helps smallholders and SMEs identify their own best practices, build a supply chain sustainability path, and fix shortcomings through knowledge-sharing. Additionally, the database promotes visibility in the supply chain for potential customers. Finally, ITC is working with the UN Global Compact and Global Standards to develop a free online system for SMEs, which will provide a platform for traceability and mapping in supply chain sustainability. Through this system, SMEs will be able to voluntarily share key information with potential business partners and stakeholders.

"Streetview of machine-shop worker in China" by ImageegamI used under iStock standard license;

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