



# What do South African supermarket retailers disclose about the sustainability of suppliers?

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## ABSTRACT

**Background:** As intermediaries between producers, manufacturers and consumers, retailers are uniquely positioned to influence production practices and consumption trends. Supermarket retailers are increasingly imposing responsibility on their suppliers to improve the sustainability of their supply chains.

**Purpose of study:** The ways in which supermarket retailers disclose their sustainable sourcing initiatives are not well understood. The purpose of the study was to investigate the manner in which South African supermarket retailers disclose their sustainable sourcing practices and performance. The objective was to understand if sustainable sourcing is a key aspect of disclosure in the annual reporting of these retailers and if so, what information and performance measures are communicated.

**Design/Methodology/Approach:** The annual reports of the five largest supermarket retailers in South Africa were downloaded from the internet. Content analysis was used to obtain information from the annual reports. Research questions were formulated from which the content categories were defined, for which in turn coded data was extracted from the reports. A scoring system was developed to score the status quo of the coded sustainable sourcing disclosure information.

**Results/Findings:** The results show inconsistency in what information which the different supermarket retailers disclose with regard to sustainable sourcing and how they present it. It is difficult to compare sustainable sourcing practices and performance measurement amongst supermarkets. This has the potential to compromise the competitive advantage of the retailer.

**Recommendations:** The authors recommend a standardised reporting protocol to aid the verification of sustainable sourcing claims and to enable comparisons between retailers.

**Managerial implication:** Being able to disclose information on sustainable sourcing in the supply chains of retailers in a consistent manner, will enable performance comparisons amongst competing businesses. Using a standardised reporting protocol will facilitate the process of consistent and comparable disclosure, providing a basis for continuous improvement.

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### Key phrases

Disclosure; retailer; sourcing; supermarket; sustainability

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**JEL Classification: Q01**

## 1. INTRODUCTION

As intermediaries between producers, manufacturers and consumers, retailers are in a unique position to influence change with regard to production practices and consumption trends (Chkanikova & Mont, 2015:65; Chkanikova, 2016:479; Ruiz-Real *et al.*, 2018:2). In response to growing social and environmental awareness of consumers, increasing sustainability risks, reputational risks, and emerging regulations, retailers are advocating that sustainable production and consumption should centre around responsible and ethical sourcing of products (Jones *et al.*, 2009:817; Ruiz-Real *et al.*, 2018:2; Saeed & Kersten, 2019:2; International Trade Centre, 2019:8). Retailers are increasingly accounting for the effects of their own impacts on the environment and society, and also imposing a responsibility on their suppliers to ensure that all activities in their supply chains are sustainable (Grimm *et al.*, 2014:159; Thorlakson *et al.*, 2018:1; Saeed & Kersten, 2019:3).

Retailers in general and particularly supermarket retailers, aim to improve the accountability of their suppliers in terms of food safety management, responsible agricultural practices, ethical trading, organic and local production, and animal welfare (BIO Intelligence Service, 2009:31, European Commission, 2011:6). Some retailers require certification of their suppliers according to independent and internationally recognised standards for responsible, fair and ethical supply, while others apply their own customised sustainability standards. Supermarket retailers in South Africa are required by law to comply with national health and safety standards as prescribed in legislation and policy. Such legislation includes the Occupational Health and Safety Act (South Africa, 1993:2) which provides protection for workers who are injured on duty and the Employment Equity Act (South Africa, 1998a:1), which promotes equal opportunities and fair treatment in employment. The Constitution of the Republic of South Africa (South Africa, 1996:10) provides the overarching legislative foundation for environmental management in South Africa and has implications for the way supply chains

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operate. Section 24 of the Bill of Rights in the Constitution declares that 'Everyone has the right to an environment that is not harmful to their health or well-being'. Both the National Environmental Management Act (South Africa, 1998b:12) which provides for environmental management principles including resource efficiency, waste minimisation and sustainable procurement, as well as the National Environmental Management: Biodiversity Act (South Africa, 2004:2) which supports conservation of plant and animal biodiversity, have a bearing on sustainability in supply chains. Supply chain management (SCM) in South Africa is also influenced by the National Water Act (South Africa, 1998c:18) which promotes the protection, use, development, conservation, and management of water resources in a sustainable and equitable manner. Policies such as the National Climate Change Response White Paper require companies and economic sectors or sub-sectors, for which desired emission reduction outcomes have been established, to prepare and submit mitigation plans that set out how they intend to achieve the desired emission reduction outcomes (DEA, 2011:5).

Retailers in South Africa can also choose to apply voluntary sustainability standards that have emerged as a response to increasing awareness of the social and environmental implications of modern supply systems (Chkanikova, 2016:482). A plethora of these voluntary standards exists at national and international level, according to which certification can be obtained for specific aspects relating to the sustainability of products sold by supermarket retailers. These aspects include for example, sustainable crop production, forest products and forest management, and the management of fisheries and aquaculture. Many of the labels awarded for certification to these standards are familiar to consumers and include for example, Fairtrade, GLOBAL GAP, Rainforest Alliance, the Forest Stewardship Council and the Marine Stewardship Council.

Much research has been done internationally on incorporating issues of sustainability into SCM. Castillo *et al.* (2018:38) employ stakeholder theory and business and ethics decisions interdependency to introduce the concept of supply chain integrity. They present some pertinent research questions to explore how the interdependence of business decisions and ethics decisions can improve sustainable supply chain management. Ruiz-Real *et al.* (2018:1) emphasise the notion of using sustainability as a competitive advantage within the retail sector. They present a meta-analysis of retail research on the current state of the art and main trends in utilizing sustainability as a competitive advantage and propose future research focus areas. Saeed and Kersten (2019:2) conducted an extensive literature review on the reasons why organisations engage in sustainability initiatives within their supply chains. They identified 40 reasons which they categorised as regulatory and market related drivers. Many

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of these drivers may assist practitioners to prioritise sustainability-related initiatives for retailers. Muñoz-Torres *et al.* (2020:2) confirm that environmental measurement and reporting practices of companies align with global environmental challenges and cite the textile industry as a case in point. By contrast, despite evidence of increased commitment to sustainable sourcing, not much research has been done on the nature and extent of disclosure by retailers, of the mechanisms and practices they use to ensure that their suppliers are addressing sustainability in their own production processes in turn, and in fact, whether they report on it at all (Morhardt, 2009:437; Niehaus *et al.*, 2018:1, Fernandes & Bornia, 2019:106).

In response to this gap in the research, a content analysis was conducted on the annual reports of South Africa's five largest supermarket retailers, to investigate the ways in which they disclose their sustainable sourcing practices and the performance related information of their supply chains. The theoretical framework underpinning this research is stakeholder theory which embraces the importance of an organisation's relationship with stakeholders beyond only their shareholders (Freeman, 1984:46). Effective communication and transparency through corporate reporting mechanisms are manifestations of this theory leading towards enhanced accountability and increased competitive advantage (Hahn & Kühnen, 2013:14). This paper provides insight into the theoretical context of sustainability reporting in supermarket retail supply chains,-followed by an overview of the extent to which South African supermarket retailers disclose their efforts at incorporating sustainability into their supply chains.

From a practical perspective this research contributes to the understanding of the differences in reporting of sustainable sourcing performance amongst supermarket retailers. Such insight leads to the conclusion that without comparability of sustainable sourcing performance indicators amongst supermarket retailers, stakeholder are left questioning the credibility of the sustainability of retailers supply chains. The outcome of the research is that the insights gained could be used to inform guidelines for the development of a standardised protocol for sustainable sourcing disclosure in annual reports of supermarket retailers. Such a protocol would assist significantly in enabling comparison of the sustainable sourcing practices of the different retailers, and also provide information required by stakeholders such as shareholders, investors, employees and customers to make critical decisions about where they should shop.

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## 2. THEORETICAL BACKGROUND

### 2.1. Stakeholder theory

Freeman's (1984:46) stakeholder theory holds that an organisation should create value not only for its shareholders, but for stakeholders who can affect, or be affected by the accomplishment of the organisation's purpose. The theory is particularly relevant for the retail sector, given that retailers have a pivotal position in the value chain as actors in charge of integrating the sustainability activities of different entities along the supply chain. As such, the response of retailers to the demands of their stakeholders, leads to maintaining the legitimacy of the retailer, the emergence of competitive advantage amongst the retailers, the sustainable sourcing of goods and thereby sustainable performance (Needles *et al.*, 2016:45; Ferri *et al.*, 2016:228). Sustainability disclosure is in line with the objective of stakeholder theory. Today organisations report on their sustainability performance in integrated reports. Although the primary purpose of an integrated report is to inform investors, it benefits all stakeholders interested in the company's value creation over time; including customers, suppliers, employees, business partners, legislators, regulators, local communities, and policy makers (IIRC, 2013:4). The sustainable sourcing of goods and its measurement would be important components of an integrated report.

### 2.2. Defining sustainable sourcing

The concept of sustainability in SCM, is firmly captured in sustainable supply chain management (SSCM). The consideration of social and environmental issues associated with the supply of goods and services was first introduced in the context of corporate social responsibility (CSR) (Carter & Easton, 2011:47, Castillo *et al.*, 2018:38; Gurzawska, 2019:3). Based on the stakeholder theory perspective, organisations were being pressured to start balancing their responsibilities to reflect the ethical expectations of consumers, employees, shareholders and local communities. This forced supply chain management to evolve to include Elkington's (1998) triple bottom line (TBL) concept (Carter & Easton, 2011:47; Waller *et al.*, 2015:304; United Nations Global Compact, 2015:15; Castillo *et al.*, 2018:38; Gurzawska, 2019:2; Narimissa *et al.*, 2020:119, Min *et al.*, 2019:46). The lens of the TBL, shifted the conversation away from social and environmental responsibility, to one in which sustainability is integrated into business strategy, risk management, organisational culture and transparency (Carter & Easton, 2011:47, Azevedo *et al.*, 2017:2). Carter and Rogers (2008:368) were instrumental in building upon the theory around the inclusion of sustainability in a supply chain. They defined SSCM as "the strategic, transparent integration and

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achievement of an organisation's social, environmental, and economic goals in the systemic coordination of key inter-organisational business processes for improving the long-term economic performance of the individual company and its supply chains.”

Sustainable sourcing has become an integral component of SSCM, yet there is no accepted concise definition of the term (Schneider & Wallenburg, 2012:244). “Responsible sourcing”, “sustainable procurement”, “green sourcing”, and “ethical sourcing”, to name a few, are often considered synonyms. Responsible and ethical sourcing has been associated more closely with the social aspects of sustainability such as human rights, working conditions, child labour, forced labour, health and safety, and community, along the supply chain (van den Brink *et al.*, 2019:391). However, sustainable sourcing involves a range of environmental, economic and social considerations along the entire supply chain (van den Brink *et al.*, 2019:391; Muñoz-Torres *et al.*, 2020:2). Pagell *et al.* (2010:58) suggest that sustainable sourcing means “managing all aspects of the upstream component of the supply chain to maximise triple bottom line performance”. In the end, sustainable sourcing is a means of providing consumers with products with superior environmental performance and for which they can take social and economic impacts into account in making their purchasing decisions.

Vachon and Klassen (2006:796; 2008:300) suggest that sustainable sourcing is undertaken either through assessment or collaboration practices. Retailers can evaluate the sustainability performance of their suppliers through an assessment based on predetermined sustainability criteria, which a supplier must meet in order for a retailer to source from them (Reuter *et al.*, 2010:46). Alternatively, retailers can require certification of their suppliers to particular voluntary sustainability standards, which verifies their adherence to the standards (Delmas & Montiel, 2009:172). Retailers can also use collaboration practices to improve the sustainability performance of their suppliers. An example is a collaborative supplier development programme between a retailer and a supplier, through which the capability of the supplier is developed in specific practices (e.g. farming methods) through training, workshops, or employee transfers (Bai & Sarkis, 2010:253).

### **2.3. Transparency and disclosure of sustainable sourcing**

Consumers increasingly require more information about the products they purchase. Being able to provide this information, depends on transparency and communication of information amongst the actors along the supply chain. The disclosure of this information is a reflection of the transparency of the supply chain. High levels of transparency improve the perceived legitimacy of the information being disclosed and hence improve the relative legitimacy, trustworthiness or brand equity of a company (Gardner *et al.*, 2019:164). Without



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transparency, any information presented as evidence to validate or substantiate sustainability claims, remains difficult to verify. Transparency is, therefore, an essential ingredient for responsible and legitimate disclosure and for trustworthiness of a company. However, the sheer size and increased complexity of global supply chains, and the number of actors involved in shaping how they are governed, make the path towards sustainability disclosure and transparency challenging. This underscores the increasingly important role of access to information, in delivering sustainability outcomes (Gardner *et al.*, 2019:146).

In most instances, retailers make use of their corporate sustainability reports to disclose their sustainability performance. There are, however, very few mandatory reporting requirements for disclosure on sustainability in supply chain. There are many different guidelines and standards that provide measures to evaluate supply chain performance across different dimensions of sustainability and this gives organisations considerable freedom in deciding what they do and do not disclose (Searcy & Ahi, 2014). These guidelines and standards include:

- Global Reporting Initiative's (GRI), Standard 204 (procurement practices) (GRI, 2018a:4), Standard 308 (Supplier Environmental Assessment) (GRI, 2018b:4) and Standard 414 (Supplier Social Assessment) (GRI, 2018c:4).
- United Nations Guiding Principles on Business and Human Rights, Implementing the United Nations "Protect, Respect and Remedy" Framework (UN, 2011:1).
- Accountability Framework Initiative Operational Guidelines on Reporting Disclosure and Claims. This addresses aspects such as protection of forests and other natural ecosystems, respect for human rights and gender equality (Accountability Framework Initiative, 2019:1).
- United Nations Guiding Principles Reporting Framework (UNGP Framework) which focuses on business impacts on human rights (Shift Project, 2015:3).
- UN Global Compact and Business for Social Responsibility (UN Compact & BSR, 2015:7) with its practical guide for continuous improvement of supply chain sustainability, listing principles addressing human rights, labour, the environment and corruption.

The GRI is currently a popular sustainability reporting framework used across the world and provides 15 performance indicators that address supply chain issues. The range of GRI Standards is organised into three series: 200 economic topics, 300 environmental topics and 400 social topics. Within these series, there are specific standards for reporting on supply chain matters. GRI standards 308 and 414 focus on supplier environmental and social

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assessment respectively. Disclosures required according to these standards are not merely generic but should provide details on the magnitude of the impacts. However, Searcy and Ahi (2014) note that while the GRI indicators give a solid reference point for supply chain reporting, reporting on the suggested measures is inconsistent. This inconsistency is evident in the variation in sustainability reports produced by different organisations.

Ahi and Searcy (2015:361) have highlighted numerous possibilities for reporting. They conducted a content analysis of a range of sustainability related journal articles and identified 2 555 metrics being used by companies to report on SSCM (Ahi & Searcy, 2015:361). In the analysis, metrics related to the quality of the product, air quality and energy, were found to be most commonly used. They also found significant overlaps between metrics for similar issues.

This makes comparing the relative sustainability performance between companies difficult. In another study, Morali and Searcy (2013:636) used content analysis and a Delphi-panel to explore the extent to which corporate sustainability principles are integrated into SCM. They found that although sustainability is often integrated, this is done in an incoherent and unstructured way. They emphasised the need for improved alignment and structure in integrating sustainability in a way that will facilitate comparison. Thorlakson *et al.* (2018:2072) confirmed that companies lower down in the supply chain (i.e. closer to the final consumer, such as retailers) tend to face more pressure from consumers and civil society and, therefore, have a higher probability of adopting sustainable sourcing practices and to disclose their relative performance in terms of these practices.

#### **2.4. Voluntary sustainability standards for sustainable sourcing**

One of the mechanisms which retailers can use to assist in disclosing their sustainable sourcing efforts, is to require their suppliers from the agricultural, forestry, fisheries and aquaculture sectors, to be certified to voluntary sustainability standards and initiatives for products and processes. There are myriad certification standards and initiatives for social and environmental sustainability for each of these sectors. A sample of the wide range of custodians and their standards can be seen in the membership in the International Social and Environmental Accreditation and Labelling Alliance (ISEAL, n.d). Voluntary standards are developed by the private and public sectors, non-governmental organisations (NGO's) working on social and environmental issues, and by multi-stakeholder forums; and implementation is monitored by independent certification bodies (FAO Trade and Markets Division, 2017:1). A large number of standards for certification of the production and bringing to market, of specific individual agricultural products have been developed by NGOs and non-profit organisations, probably the best known of which is the Rainforest Alliance Products that are currently covered



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by these kinds of certification programmes, include for example, coffee, cocoa, tea, bananas, and palm oil. The standards often cover the process from “farm to shop shelf” and not only the production of the crop (Dankers & Liu, 2003:453). Another group of standards has been developed in various countries, for certification of processes and products from organic agriculture, under the guidance of the International Federation of Organic Agriculture Movements National standards for organic production and products have been created in many countries around the world, including in South Africa (SABS, 2016). In many cases, governments are involved in the development of these standards. Similarly, the Forest Stewardship Council, together with other authorities in the certification of forests (forest management), and chain of custody control of forest products, have formulated standards for sustainability in forestry. The same situation pertains to the sustainable management of fisheries and individual marine products, for which certification is available through the Marine Stewardship Council as well as several other similar organisations. Then there are certification initiatives specifically focused on issues of social and workplace ethics (e.g. the Ethical Trading Initiative /) and social accountability, for which the Social Accountability Standard SA 8000 has been developed (Social Accountability International, 2014).

There are significant challenges with regard to expectations by supermarket retailers, of certification against these kinds of voluntary standards by their suppliers. This is particularly true in a developing country such as South Africa, where many suppliers to supermarket retailers do not have the financial resources necessary to pursue certification (Emongor & Kirsten, 2009). There is also the limitation of certification typically being awarded for individual products, for example coffee, or seafood.

The wide range of production and harvesting practices of different products, also causes different sustainability impacts. The broad spectrum of products on the shelves of supermarket retailers, in conjunction with an equally diverse spectrum of production processes, presents an overwhelming number of unique requirements for certification. Mandating certification could thus be an impractical option for managing the activities of suppliers. Superimposed on this already significant complexity, is the broad range of standards and certification authorities and organisations which exist, each with their own requirements.

### **3. METHODOLOGY**

#### **3.1. Research design**

A qualitative descriptive research design was adopted to investigate the disclosure of sustainable sourcing practices and related performance information of South African

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supermarket retailers. In the case of this study, using a conceptual content analysis approach allowed for the collection and analysis of coded data from annual reports of South African supermarket retailers. It is an unobtrusive research technique that can be used to objectively and systematically interpret textual messages (Arrigo, 2020:8). Moreover, it is a reliable technique, easily replicable, and provides researchers with valid results, as the careful scrutiny of texts and the resulting claims can be supported thanks to independently available evidence (Krippendorff, 2018:24).

In the case of this study coding of text into manageable content categories based on specific research questions, enabled data extraction. In order to account for rater-bias, a scoring system was designed in which the categorical data could be further analysed to provide the required insight into the quality and quantity of sustainable sourcing disclosure information as presented in the annual reports.

### **3.2. Data collection**

The content analysis was done on the annual reports of the five largest supermarket retailers in South Africa, based on their market capital on the Johannesburg Stock Exchange. Some of the supermarket retailers published both sustainability and integrated reports, while others only published integrated reports. Four of the retailers are headquartered in South Africa, while one is part of an international partnership programme headquartered in the Netherlands. All five-supermarket retailers operate in many countries in sub-Saharan Africa, with one of them also trading in Australia and New Zealand. The supermarket retailers are denoted A to E in this article. The names are not disclosed as they are not relevant in terms of the goals of the research. The first step of the content analysis was to identify relevant reports to be used in the analysis. The most recent publicly available annual reports providing comprehensive information on sustainability issues and supply chains were used.

The second step of the analysis was to determine the information that would be required to evaluate sustainability disclosure for supply chains of the supermarket retailers. The information was defined in the form of the following questions:

- 1) Does the report make reference to and discuss sustainability in the retailer's supply chains?
- 2) What is disclosed about sustainability in the supply chains?
- 3) What programmes and initiatives, meant to ensure sustainable sourcing in the supply chains, are disclosed?
- 4) Which voluntary sustainability standards applied to supply chains, are revealed?

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- 5) What sustainable sourcing measures are reported on?
  - 6) What sustainable sourcing audits are disclosed?
  - 7) What supplier development programmes aimed at building supply chain sustainability, are disclosed?

These research questions are in essence the content categories for the content analysis. Coding themes used to capture data from the reports included: “sourcing”, “responsible sourcing”, “sustainable sourcing”, “ethical sourcing” and “supply chain”.

### **3.3. Data analysis**

The third step in the analysis entailed developing an objective scoring system to score the status quo of sustainable sourcing disclosure of each supermarket retailer. The information derived from the seven questions above, was used to formulate six criteria for evaluation (see Table 1). The relative performance against each criterion was then categorised in terms of three scaling indicators as presented in Table 1.

## **4. RESULTS**

The results of the content analysis are presented in Table 1. Supermarket retailers A and B published both a sustainability report and integrated report and they disclosed more detailed information relating to sustainable sourcing from their supply chains in their sustainability report. Both of these supermarket retailers disclosed their business proposition in relation to sustainability in their supply chain, for which their point of departure is the responsible and ethical sourcing of goods. Although this information was disclosed in their sustainability reports, it was not included in their integrated reports.

While supermarket retailer D published a sustainability report, they did not provide any information on their business proposition in relation to sustainable sourcing in this report. Supermarket retailers C and D only published an integrated report for the 2018/2019 financial year and very little information in terms of their supply chains and sustainable sourcing was disclosed in these reports.

All five supermarket retailers disclosed some information about standards that their suppliers are required to meet and certification that their suppliers must obtain for specific products in their supply chains. While all the supermarket retailers disclosed varying amounts of detail about their internal sustainable sourcing initiatives, programmes, and partnerships, it was supermarket retailers A and B that disclosed the most information. Supermarket retailer B has a programme which they have initiated amongst all the farmers in their supply chain. In this

programme, farmers are required to meet environmental standards such as maintaining soil fertility, water use efficiency, and protecting biodiversity, as well as social standards such as providing decent working conditions for all farmworkers. Suppliers are audited and certified through this programme by supermarket retailer B themselves. In this way, supermarket retailer B can work with the individual farmers to continually improve their performance in terms of sustainability.

Supermarket retailers A and B furthermore, disclosed partnerships they have formed with independent entities such as the World Wide Fund for Nature (WWF) Southern Africa. All five of the supermarket retailers disclosed that they apply the Southern African Sustainable Seafood Initiative (SASSI) classification system in selecting seafood sold in their stores. SASSI is a Southern African retailer/supplier participation scheme, which enables consumers to make purchasing choices based on the sustainability status of seafood species, which are categorised as green, orange or red depending on the stocks of each species. None of the retailers however, disclosed information on the number of seafood species which they sell and their SASSI status.

**Table 1: Analysis of sustainable sourcing disclosure of South Africa's five largest retail supermarkets for the 2018/2019 financial year**

| Criteria  | Indicators  | Retail supermarkets |   |   |   |   |
|---|---|---------------------|---|---|---|---|
|   |   | A                   | B | C | D | E |
| Sustainable sourcing from supply chains is communicated as a core element of the business proposition of the supermarket                                    | 1: No information is disclosed<br>2: Sustainable sourcing is mentioned but is not communicated as a core element of the business and the business proposition<br>3: Sustainable sourcing is communicated in the context of the core business and the business proposition                                       | 3                   | 3 | 1 | 1 | 1 |
| Disclosure of internal (own business) programmes, initiatives and partnerships that address sustainable sourcing within the supply chain of the supermarket | 1: No information is disclosed<br>2: Programmes and/or initiatives and/or partnerships are identified<br>3: Programmes, initiatives and partnerships are identified and described with detail on the nature and rationale for each, and links shown between them where relevant; Specific examples are provided | 3                   | 3 | 2 | 2 | 2 |

|   |   |   |   |   |   |   |
|---|---|---|---|---|---|---|
| Disclosure of commitments to voluntary independent (external) sustainable sourcing certification standards                        | <p>1: No information is disclosed</p> <p>2: List provided of independent national and international certification standards to which suppliers must be certified</p> <p>3: Independent national and international certification standards to which suppliers must be certified are disclosed, and background information is provided on the rationale for certification</p>   | 3 | 3 | 2 | 2 | 2 |
| Disclosure of results / outcomes of sustainable sourcing audits and retention of certification of suppliers to external standards | <p>1: No information is disclosed</p> <p>2: Mention that sustainable sourcing audits are conducted against internal standards but results not disclosed. May or may not provide updates on suppliers' retention of certification against external standards</p> <p>3: Results of internal sustainable sourcing audits are provided and updates on retention of suppliers' certification against external standards are provided</p> | 2 | 2 | 2 | 1 | 2 |
| Disclosure of GRI performance measures for sustainable sourcing   | <p>1: No information is disclosed</p> <p>2: A few GRI supply chain performance indicators are disclosed that are considered important to the business</p> <p>3: All the GRI and/or other supply chain indicators are disclosed, and information is provided on business performance against each of the performance measures</p>  | 1 | 2 | 1 | 1 | 1 |
| Disclosure of supplier development programmes that address sustainable sourcing   | <p>1: No information disclosed</p> <p>2: Supplier development programmes are disclosed but not necessarily relevant to sustainability</p> <p>3: Supplier development programmes disclosed that specifically address sustainable sourcing</p>  | 2 | 3 | 2 | 2 | 1 |

## 5. DISCUSSION

The results show that the manner in which supermarket retailers in South Africa disclose sustainable sourcing information on their supply chains is inconsistent. The results are similar to the findings of Saber and Weber (2019:492), who confirmed significant differences in the sustainability reports of ten grocery retailers in Germany. All the supermarkets in the study, disclose to varying degrees, information relating to their sustainable sourcing practices in their

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annual reports. However, there are differences in reporting from one supermarket retailer to the next, in their disclosure of:

- their commitment to and communication of sustainability in the supply chain;
- their requirements for certification of suppliers to external voluntary sustainability standards and / or adherence to the retailer's own internal sustainability programmes; and
- their sustainable sourcing performance measurements.

All the supermarket retailers disclosed information on their own internal programmes relating to sustainable sourcing. Examples include specific farming practices and the participation of suppliers in water stewardship initiatives. All the supermarket retailers disclosed information about voluntary sustainability standards and regulatory standards against which their suppliers must be certified and comply with, respectively. Supermarket retailer B disclosed their requirement for certification against a lot more voluntary sustainability standards than the other supermarkets, suggesting that sustainable sourcing is a clear value proposition for this supermarket and its customers.

Associated with the inconsistency in disclosure, is the lack of comparability of sustainable sourcing practices and performance measurement amongst the supermarket retailers. It is argued that the reason for this is the absence of a standardised protocol or methodology for reporting on supply chain sustainability. While the supermarket retailers do report annually in sustainability reports and/or integrated reports as required for listing on the Johannesburg Stock Exchange, the results reveal significant freedom to choose what aspects of sustainable sourcing to disclose. Even though the GRI G4 sustainability reporting framework used worldwide does have performance standards and measures for procurement, the South African supermarkets in this study did not report on whether they used these standards and measures. Furthermore, the GRI indicators are perhaps not an appropriate measure, since they were designed for the performance measurement of the supply chain in general (Saeed & Kersten, 2017:2), and not necessarily to describe the performance related to sustainable sourcing of supermarket retailers. The need for consistent performance measurement of sustainable sourcing from supply chains is evident.

Despite the increasing effort to incorporate sustainability policies and strategies into supply chain management, retailers are faced with significant challenges related to the complexity of their supply chains. The complexity makes it difficult to obtain accurate and reliable information from suppliers on the environmental and social impacts of their products; and thus, to report comprehensively and transparently on supplier sustainability (Azevedo *et al.*, 2017:2254).



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Past engagements of the authors with supermarket sustainability managers in South Africa, suggest that obtaining information and data is challenging, as in many instances the relevant parameters are not being measured and the data are therefore not available. Sustainability managers also highlighted that in some instances, this information could be proprietary and thus its disclosure could be damaging to their business. This issue is not unique to South Africa. The Business for Social Responsibility (BSR, 2018:5) reports that most large companies manage large numbers of suppliers and work with suppliers representing a spectrum of maturity in sustainability practices and data collection. This situation makes data collection, standardisation, and accuracy challenging (BSR, 2018:5), all of which have implications for disclosure on supplier sustainability.

The authors of this study argue for improved transparency of disclosure to stakeholders, on the sustainability of suppliers in annual reporting mechanisms. It is recommended that a standard protocol be developed, which prescribes the supplier sustainability information that must be disclosed and how it should be presented to customers and stakeholders in annual reports. Such standardised reporting would aid in the verification of sustainability claims made by supermarket retailers, thereby enabling inter-retailer comparisons. We argue that the uptake of such a protocol will be enhanced if retailers can clearly see the benefits of compliance to their businesses. For example, in a recent survey commissioned by the European Commission on sustainable sourcing policies and the demand for sustainably sourced products in five European countries, retailers reported that they had increased their sales of “more sustainable products” by about 10% (International Trade Centre, 2019:8). Consequently, some supermarket retailers can show evidence of sustainable and responsible sourcing as a competitive advantage in a growing consumer conscious niche market (Newell, 2008:523; Ruiz-Real *et al.*, 2018:2). In terms of managerial implication resulting from this research, the authors have identified that there are the 2 main drivers of disclosure of the sustainability performance of suppliers. Firstly, compliance measures and secondly, the company’s business strategy. Compliance-related disclosure could be regarded as a minimum level of disclosure and would typically be found with companies operating in price-sensitive markets, where customers are more concerned about product pricing than the sustainability related performance of the company and its products. These companies target customers whose purchasing behaviour is mainly driven by direct material value for money (i.e. volume and weight per unit of currency spent). Non-materialistic (e.g. environmental performance) value attributes such as the carbon and water footprints of products, are less important to these customers. However, when sustainability performance becomes part of a company’s business plan, associated value attributes tend to be emphasised in the disclosure of their

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sustainability performance. These companies target customers who also value nonmaterialistic value attributes of products, such as carbon and water footprints, and who are willing to pay a premium over and above the price for the direct materialistic value of the product. These customers are typically highly educated and consequently from higher income strata. Legitimate certification of claimed sustainability performance is paramount to these companies, which explains their effort, dedication and commitment to certification and subsequent sustainability reporting. A standard disclosure protocol will indeed serve the needs of these companies very well.

A limitation of this research is that data was only collected from annual reports for one financial year. Sustainable sourcing disclosure data from previous financial years would have provided insight into how the pressure to include sustainability aspects relating to supermarket retailers supply chains has changed over the years.

## **6. CONCLUSION**

As the demand by customers and shareholders for sustainably sourced products increases, the disclosure of sustainable sourcing practices and performance of supermarket retailers becomes increasingly relevant. To date, the need for this disclosure has been largely unrecognised and where there has indeed been disclosure, it has not been dealt with in a consistent manner. The findings of this research highlight inconsistencies in the manner in which supermarket retailers in South Africa, disclose information relating to the sustainable sourcing of products from their suppliers. This inconsistency hinders comparison of sustainable sourcing amongst the supermarket retailers, which could potentially compromise any competitive advantage they might have had, despite implementing various sustainable sourcing practices and initiatives.

The Sustainable Development Goals (SDGs), and specifically SDG 12 (sustainable consumption and production), call for the integration and disclosure of sustainability practices and information into the reporting cycle. Consequently, retailer managers will need to increase their efforts to improve supply chain sustainability and associated reporting on such efforts. The transparency of this disclosure can be improved by a standard protocol prescribing the manner in which to disclose. The complexity and interconnected nature of sustainability within supply chains are acknowledged as challenging factors in the development of such a protocol. Future research in analysing this complexity would contribute to greater transparency in sustainable sourcing disclosure in annual reporting.

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## 7. DECLARATION OF INTEREST

The authors declare that there were no financial incentives nor personal relationships with individuals or organisations that could influence this research.

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