



# SUPPLY CHAIN INSIGHTS AND RECOMMENDATIONS

CONFERENCE REPORT  
9 OCTOBER 2023

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# EXECUTIVE SUMMARY

AIM-Progress in partnership with Embode held the *Malaysia Supply Chains - Sharing Accountability for Human Rights* event in Kuala Lumpur on September 4, 2023, with support from Unilever, Nestlé and Kellogg's. A total of 105 participants representing Malaysia-based companies, global fast-moving consumer goods companies, manpower solution providers, as well as business and human rights experts came together to discuss the topics of responsible recruitment and buyer-supplier engagement in the Malaysian and global context

The main objective of the event was to facilitate an opportunity for Malaysian businesses to showcase their own efforts, gain new insights and share their unique experiences on how responsible sourcing activities and approaches could be improved to attain better responsible sourcing practices. The event underlined the importance of directly engaging with stakeholders within supply chains to enhance mutual understanding and create reciprocal solutions.

Panelists from Kellogg's, Lonson Enterprise, Mars, Nestlé, PC Group and Unilever shared their experiences in streamlining pre-departure and post-arrival orientation for foreign workers as well as their sustainability journey. Some key-points shared were the significance of companies placing themselves into the perspective of the foreign migrant workers who join their organisation, and the need to embrace open two-way communication and mutual collaboration to build understanding of requirements and circumstantial services.

In the event, Embode provided an introduction into foreign employment regulatory frameworks and processes in selected labour-sending countries, and highlighted its benefits for foreign workers towards decent work and physical and economic security, and its relevance for shaping institutional standard operating procedures and policies. The event concluded with interactive break-out sessions designed to identify opportunities, challenges and recommendations to advance audits and compliance approaches, purchasing practices, supplier-buyer relationships, recruitment and worker engagement.

Numerous challenges remain to drive responsible sourcing; however, best practices shared and discussed throughout the event demonstrate actionable solutions piloted and implemented bring value to supply chain actors and the wider industry.



GROUP PHOTO



# INTRODUCTION

The purpose of this report is to outline direct perspectives and recommendations on how AIM-Progress and its members could better engage with their supply chain partners. These insights were gathered directly from suppliers in Malaysia.





Companies are increasingly advancing their responsible sourcing practices and carrying out Human Rights Due Diligence in their supply chains whilst encouraging their suppliers to do the same. Topics such as supplier engagement and responsible recruitment dictate global conversations on responsible sourcing across the fast-moving consumer goods industry.

AIM-Progress and its members are at the forefront of engaging and supporting their most business-critical first-tier suppliers and business partners in improving their sustainability performance, this includes a vast number of Malaysia-based businesses. With the adoption of new legislation on mandatory due diligence, requirements are casted down to supply chain actors, often leaving Malaysia-based companies unsure how to fully comply and align their business operations with these standards and practices.

In partnership with Embode, AIM-Progress is implementing the Ganapati Initiative and a supplier engagement programme. Throughout the initiative, Embode has identified that supply chain partners face numerous challenges in their sustainability journey relating to responsible recruitment. Embode recognises the need for greater transparency in recruitment processes and cost, in particular considering the increasing pressure for companies to adopt the Employer Pays Principle.

AIM-Progress and Embode seek to address this knowledge gap by collaboratively creating practical solutions and bring together the various stakeholders to raise awareness on the value of responsible sourcing; provide a platform to share and elicit challenges, ideas, good practices and practical solutions; an opportunity to interact with experts, suppliers and buyers; and highlight the importance of human rights due diligence.

## Event Registrants

-  AIM-Progress (Members) - 26
-  Businesses (that supply to AIM-Progress members) - 83
-  Manpower Solution Providers - 6
-  Technical Experts - 8



A group of people in a meeting room, with a woman standing and presenting to a seated audience. The room has large windows and a projector screen. The text is overlaid on the left side of the image.

# INSIGHTS ON APPROACHES, **CHALLENGES**, OPPORTUNITIES AND RECOMMENDATIONS

The following slides present the insights, approaches, challenges and recommendations as shared and provided by Malaysian suppliers.

# APPROACHES

The following presents key reflections on what Malaysian supply chain businesses considered as **effective approaches** to supplier engagement and improving human rights standards.

- **Shared financial responsibility:** Respecting human rights, improving responsible recruitment and effective due diligence hinge on maintaining a shared responsibility. This extends, importantly, to the financial cost of improving a company's standards. It is often highlighted that buyers expect substantial and fundamental changes to their suppliers' operations with no impact on the cost of what suppliers are providing to buyers.
- **Agreed timelines for improving human rights conditions:** When both buyers and suppliers recognise and work from agreed timelines to progress shared human rights approaches they are more likely to be effectively integrated into both the suppliers and buyers operations. This may mean negotiating timelines that are more realistic but not at a buyers desired speed. However, when buyers maintain some flexibility in developing timelines and suppliers ensure they are progressing their commitments, changes adopted are likely to be more sustainable. Issues arise when buyers expect changes within unrealistic timelines.
- **Cost-Plus Model and Open Book Pricing:** Suppliers highlighted that a Cost-Plus Model is a positive approach to purchasing practices. This is where suppliers disclose the cost of the production component and add an additional margin calculated to close the living wage gap. This is similar to Open Book Pricing with Cost-Plus having the additional component of a margin.
- **Connecting workers to their work:** Workers have a sense of pride when they are recognised for contributing to an end product. Customers/Buyers that share and show workers the end-product give workers an ability to share in the businesses success as well as showing to friends and relatives that they played a fundamental role in the production of a candy bar, cereal, snack food, soda can, etc..

# CHALLENGES

The following presents challenges to responsible sourcing approaches as highlighted by Malaysian supply chain businesses.

- **Uncertainty what fees and costs workers have paid:** There is an assumption by buyers that fees and costs are clear. However, there is insufficient clarity on what migrant workers have actually paid and to whom it was paid. Some accounts have shown that the fees and costs paid vary depending on who is asking.
- **Burdensome worker engagement schemes:** Despite buyers requiring suppliers to put in place worker representation schemes, migrant workers are reluctant to engage in them because they are not integrated into their roles with the employer. Thus, migrant workers are less engaged and less likely to invest their time into worker committees as it takes away from their personal time.
- **Demonstrating the business case for audits:** Government regulations and requirements may be less stringent than auditing standards therefore resulting in some companies seeing international standards and auditing approaches as unnecessary if the company is complying with local laws. Businesses may believe that national laws are sufficient for human rights due diligence. If supplying companies do not see the business case for going above and beyond and how it will help them build both a sustainable, as well as an economically viable, business that is more competitive in the international market then they are likely to only adhere to local laws and regulations.
- **Number of auditing and compliance schemes:** Non-standardisation across surveys, questionnaires, assessments, and audits leads to suppliers using more time than they have. At times, buyers/customers have their own preferred due diligence system that differs from other buyers/customers resulting in duplication of time used despite the results of such due diligence being similar.
- **Values and norms impacting efficacy:** The implementation and efficacy of sustainable purchasing practices continues to be challenged by ongoing differences in the collective norms, values, expectations and engagement approaches of buyers and suppliers. Buyers often do not take time to understand the cultural context where suppliers are based. Without this understanding there remains a gap that could be addressed by both parties making effort to understand each others context.



# OPPORTUNITIES

The following presents opportunities for buyers and suppliers to create lasting impact on the rights of workers in their supply chains

- **Consulting with migrant workers to improve due diligence:** Due diligence by the Malaysian employer could be improved by consulting with migrant workers beyond traditional worker voice surveys to better understand their perspective and specific needs. The importance of meaningful socio-cultural connection should not be underestimated, for both workers and employers.
- **Workers seek belonging and community:** Workers can be more meaningfully engaged by providing opportunities for community building and creating a sense of belonging. There was recognition that we need to move beyond a perspective of seeing workers as fundamentally different when in reality they have the same basic human need of connection and belonging. Of note, this goes beyond seeing human rights as a check box list of demands and deliverables.
- **Assisting suppliers to overcome cost and capacity gaps:** If companies can overcome some of higher costs as well as the unknown of how to consult and engage with migrant workers then there is a better chance they will see auditing and compliance approaches as a benefit especially if it promotes their track record to existing and potential buyers.
- **Incentivising suppliers with less commitment to human rights:** Suppliers feel undermined if their efforts to improve human rights approaches are overlooked by buyers/customers who demand due diligence requirements while still buying from other suppliers who have less commitment to human rights but offer their goods at lower cost. If buyers' purchasing practices reward suppliers who do the right thing it may incentivize other suppliers to level up their human rights and due diligences practices.



# RECOMMENDATIONS

The following presents recommendations to AIM-Progress on next steps to change and improve how they are engaging with their suppliers

- **Transitioning audit and compliance approaches to focus on dialogue:** stronger and more transparent engagement between buyers and suppliers is important to auditing approaches. The recommendation is for buyers to find ways to move beyond auditing and compliance being a tick box exercise and more focused on dialogue and collaborative problem solving. Whatever suppliers are providing is important to buyers thus a clearer understanding of one another and recognition of interdependence will promote learning across the supply chain. This can then be cascaded down towards the companies supplying to the suppliers.
- **Include purchasing practices in due diligence practices:** Buyers should review their purchasing practices as a key-action under the human rights due diligence process; including tracking of progress and putting in place improvement plans.
- **On the ground engagement in sending countries:** Co-creation of approaches and partnership between buyers and suppliers that enables suppliers to go to labour sending countries directly to do their own due diligence and to monitor the recruitment process is recommended.
- **Integrate worker representative responsibilities into existing worker roles:** Worker representatives' tasks should be included as a part of their role with their employer and should take place during working hours. Further, participating in surveys is helpful but it is encouraged to incentivise workers to participate in surveys.
- **Buyer co-creation of solutions:** Buyers collaborate to co-create solutions to industry challenges and engage with their supply chains. One example referenced is AIM-Progress' mutual recognition of supplier assessments. This supports the supplier perspective that when multiple customers are aligned on a single approach or platform it improves supplier efficiency and capacity to address areas where improvements are needed.