

Harnessing the potential of supply chain sustainability

A Spotlight into Supplier Perspectives from Asia

31 March 2025

Commissioned by:



Executive Summary

Embody, in collaboration with AIM-Progress, conducted a Supplier Consultation Exercise in India and Indonesia to understand supply chain businesses' experiences, challenges, and needs regarding human rights due diligence (HRDD) and sustainability compliance. The exercise aimed to bridge the gap between compliance requirements and supplier realities by gathering direct insights from businesses.

Key Findings and Insights:

- **Low Supplier Participation:** Many suppliers declined or avoided engagement.
- **Compliance Challenges:** SMEs struggle with audits, while larger suppliers navigate them more effectively. Most adopt a compliance-driven rather than impact-driven approach.
- **Contextual Realities:** Suppliers face local challenges such as labour retention, rising costs, and regulatory pressures, with differing engagement approaches from Western vs. Asian buyers.
- **Limited Impact of Audits:** While audits improve systems, they require better supplier engagement to translate into meaningful sustainability impacts.
- **Mixed Incentives for Compliance:** Some suppliers see compliance as a competitive advantage, while others feel buyers prioritise cost over ethical sourcing.

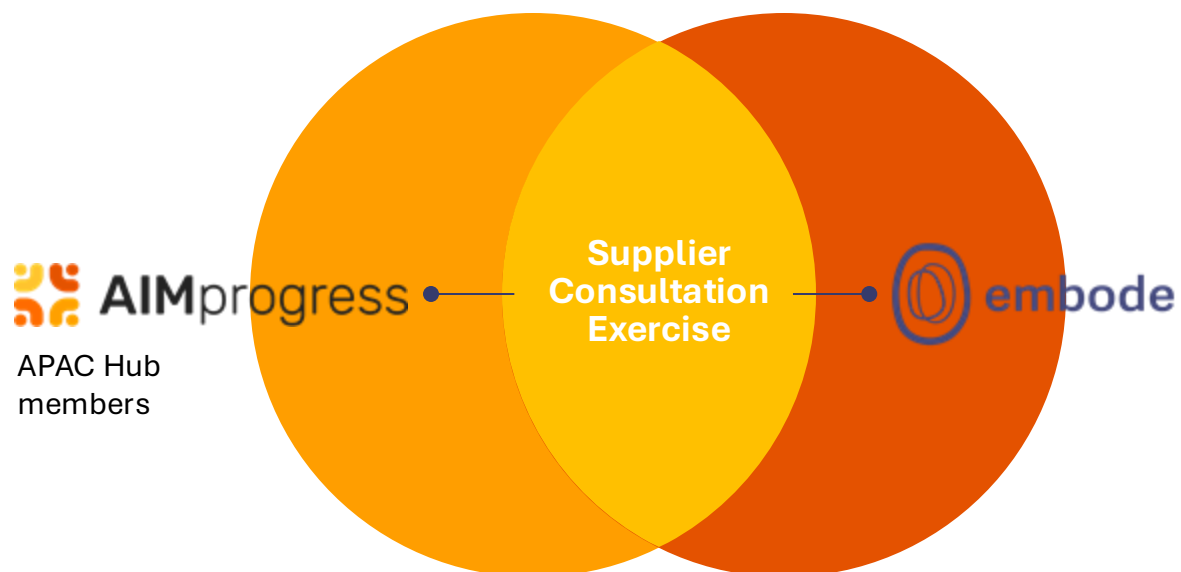
Recommendations:

Based on Embody's analysis of insights gathered from supply chain businesses during consultations, the following recommendations are provided for each stakeholder within the AIM-Progress ecosystem:

1. **Procurement Teams of AIM-Progress members:** Develop targeted procurement strategies through understanding supplier profiles, integrating consistent sustainability communications, fostering relationships beyond transactions, revising procurement terms to support sustainability, and incentivising suppliers via stable contracts and recognition.
2. **Sustainability Teams of AIM-Progress members:** Engage suppliers through meaningful, ongoing dialogue to understand their labour needs, business contexts, and compliance challenges, adapt sustainability audits accordingly, support capability-building initiatives (especially for SMEs), encourage participation in national sustainability programmes, and pilot innovative approaches for fair sharing of costs and benefits.
3. **AIM-Progress as a membership:** Conduct a study on purchasing practices and their impacts on supply chain sustainability and Human Rights and Environmental Due Diligence (HREDD) measures and develop clear industry-wide procurement principles aligned with HREDD standards.

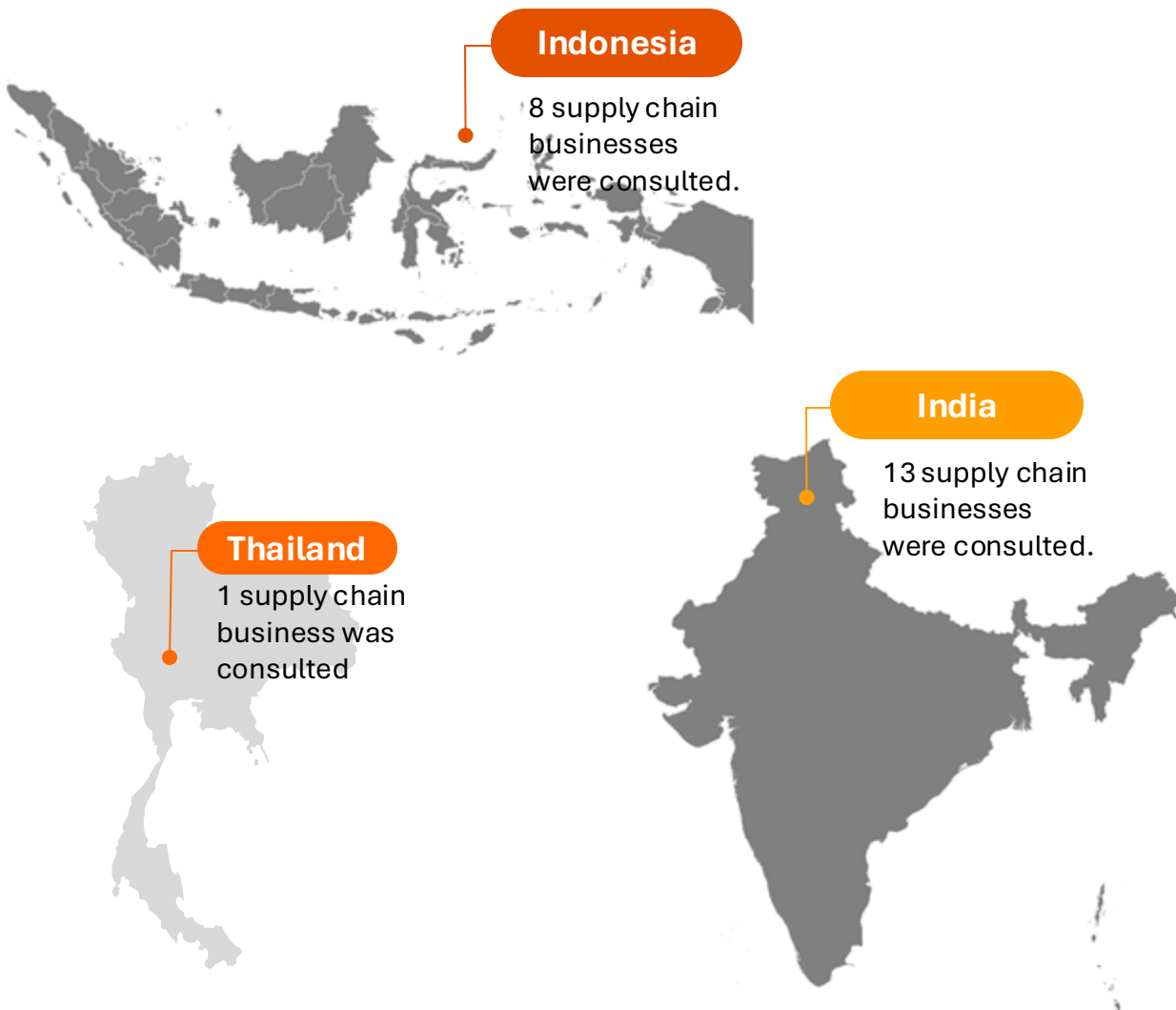
The consultation underscores the need for collaborative, context-aware sustainability strategies. AIM-Progress members can drive meaningful change by fostering transparent dialogue and supporting supply chain businesses in navigating evolving HRDD requirements.

Project Background and Objectives



1	The Supplier Consultation Exercise is a collaborative project between Embode and the APAC Hub of AIM-Progress, funded by 6 member companies.
2	This project resulted from a recognition of the mounting pressure on supply chain businesses to comply with a growing number of sustainability and human rights requirements , shaped by the evolving Human Rights Due Diligence regulatory landscape over the past decade. It also stems from the recognition that Business and Human Rights (BHR) frameworks often do not fully account for the complexities of supplier realities.
3	Through this project AIM-Progress, in collaboration with Embode, provided supply chain businesses in India and Indonesia with the opportunity to share their experiences, challenges, and concerns regarding their efforts to enhance human rights due diligence. These two countries were selected for the consultation as they are key sourcing regions for APAC members, particularly for Tier 1 suppliers.
4	This exercise offers a unique opportunity for enterprises supplying to international markets to have their voices heard and share recommendations on how brands and buyers can do better at engaging their supply chain partners.

Supply Chain Businesses Consultation Overview



Themes of Inquiry

Suppliers were Consulted on multiple key themes including:

1. **Company profile:** type, size, specialisation in production, commodities supplied to the buyer, and the diversity of its client base in terms of size and product demand.
2. **Workers:** key job categories, gender distribution, and the proportion of locally recruited versus migrant workers over an annual cycle.
3. **Relationship with buyers:** company and relationship history, workforce needs, evolution in production and scale, and the impact of demand fluctuations on the need for temporary or seasonal workers.
4. **Experience related to audits required by buyers:** their frequency, the company's level of influence over them, their impact on business and workers, their role in improving responsible sourcing and human rights, and potential areas for improvement.
5. **Purchasing Practices:** common difficulties and needs in the process, as well as any cultural, commodity-specific, or workforce-related issues that buyers may not fully understand but should be aware of.
6. **Compliance and Sustainability Journey:** the company's understanding, importance, and experience with responsible sourcing, including their own perspectives, priorities, and journey beyond buyer expectations.

Methodology

Embode took a consultative and adaptive approach in interviewing supply chain businesses, ensuring transparency in the steps taken. Consultations were conducted following three principles:

Consultative

Embode underscored that the exercise was not an audit or compliance check but rather a process centered on listening to supply chain businesses.

Efficient

Embode made clear that Consultations would not require more than two hours of supply chain businesses' time.

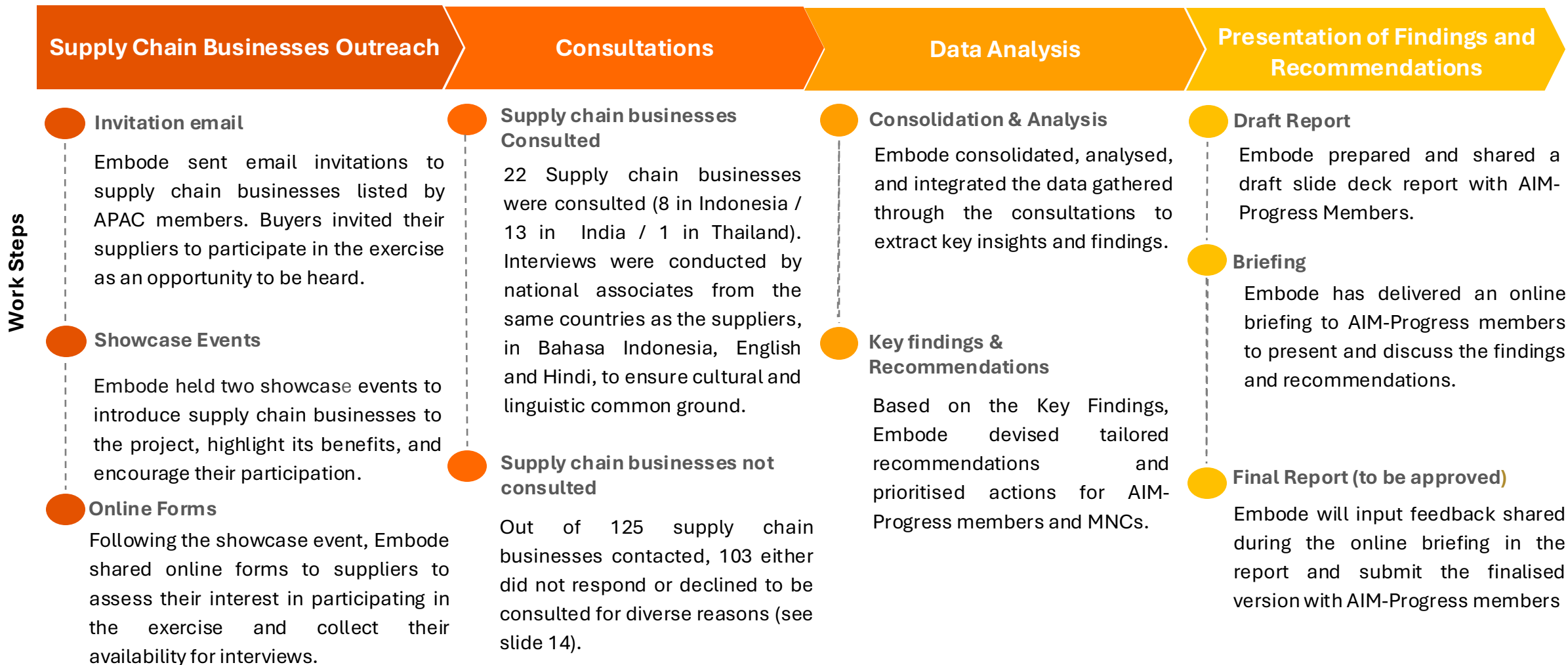
Confidential

Embode emphasised that everything supply chain businesses shared would remain completely confidential and anonymous.

Limitations and Mitigations

The primary limitation encountered in this project was the low participation rate, as many suppliers were reluctant to engage or actively avoided participation. To address this, Embode employed multiple outreach channels and followed up with suppliers 3-4 times to provide ample opportunity for them to review the consultation request, seek clarifications, and confirm availability. Additionally, to broaden the consultation pool, the scope was extended to include supply chain businesses in Malaysia and Thailand, following agreement from AIM-Progress APAC Hub contributing members.

Overview of Steps Taken



Key findings 1/4

Variations by supplier profile

Supply chain businesses which participated in this consultation range from large corporations to family-owned SMEs, with factors like size, history, and location shaping their sustainability efforts.

- **Variance:** Supply chain businesses varied across large, corporate, family-owned and SMEs.
- **Relevant factors:** The size, founding story, history, age, location, and business orientation of the company are significant factors to understand in building good relationships for sustainability in supply chains.
- **Labour make-up:** Each supply chain business have a mix of workers and contractors. Depending on business need and labour availability, companies have a variety of permanent, fixed term, temporary, and third party recruited workers.

Reluctance to engage

Engaging supply chain businesses in the exercise proved challenging, with various barriers preventing meaningful participation:

- **Refusal:** The vast majority of supply chain business approached did not respond or refused to participate in the exercise.
- **Avoidance:** In India, some supply chain businesses approached, engaged in avoidance behaviour. For example, agreeing to engage by email and phone, but then not turning up to the interview, requiring NDAs to be signed once an interview started and responding to questions inauthentically with exaggerated assurances that all standards were complied
- **Voluntary Vs Mandatory:** Most suppliers engaged with across Indonesia and India exhibited initial confusion as to whether this was a compliance-driven mandatory exercise or whether it was voluntary, despite extensive explanatory communications.

"Businesses might not be following actual rules and practices and hence hesitant to speak with Embode. They also feel suppliers generally do not give importance to sustainability and consultations per se."

Feedback on existing audit system

"Most social audits, they will just check documentation and so the employees are trained on what to say during an audit to get good scores. There are a lot of factories nearby that work this way for the audits... during an audit, everyone comes together ... to show that everything works perfectly, but the other 364 days, it's pretty much business as usual in the backrooms of the plant."

"In one case, we had to suspend an audit and report the auditor for overstepping boundaries and making unreasonable demands ... I mean, [if] we give into something like that, we all get a bad name. If he does this to a company that cannot clear an audit, [then] clears an audit and then some drama happens then the country gets a bad deal, people will say you know all of these guys buy their certificates."

Key findings 2/4

Journey to compliance & competitiveness

The Consultations brought to light that supply chain businesses have mixed experiences with compliance, facing significant challenges in meeting standards while also recognising certain benefits for their competitiveness and workforce.

- Many suppliers interviewed in both India and Indonesia described the initial journey to comply with standards as challenging, mainly due to needing to integrate with the national regulations and resources (management and financial) required. Various suppliers mentioned audits being 'overwhelming', 'tiresome' and 'stressful experiences'.
- Some suppliers, named that their effectiveness at complying with audits made them competitive and enhanced their brand image. Some suppliers also named the benefit to their employees as a result of compliance.

"When smaller customers see that we have corporate customers, they assume all the checks and balances [have been done] and don't ask many questions. So to have corporate buyers helps with smaller buyers."

Context & culture

Suppliers operate within complex environments that shape their business practices:

- **Contexts of Suppliers:** The operating environment in which suppliers do business has its complexities. These were most often mentioned in relation to labour recruitment and retention, as well as rising costs of national legal compliance.
- **Western v. Asian:** Some suppliers mentioned the distinction between Asian and Western buyers. Asian buyers tend to better understand the context and can be easier to transact and relate with in doing business. Notwithstanding this, Asian buyers were generally less concerned with sustainability measures.
- **Local Pressures:** Some suppliers named multiple pressures they face, such as local corruption of officials, struggle with workers needs and exigencies of business continuity and sustainable growth.

"I think part of it is actually understanding two sides of the coin. They're literally living in a Western world, we're living in a different reality if I can say. Some people have no concept of what this bridge is. You just wonder when you put the phone down, it's like, do you ever read a newspaper? Do you know that there is a subcontinent of Asia that exists and things are different here? Yeah. But this is the way the world is and I think their world is different that way. As much as we can say all worlds are the same, they're not all the same. I think this is what makes the difference is when somebody understands what's on the other side of the coin cause then you're like, okay, you'll go the extra mile to do something for that person, because they actually understand that."

Key findings 3/4

Incentives and disincentives

Supply chain businesses perceptions of audits and sustainability compliance are shaped by both incentives and disincentives:

- **Incentives:** Suppliers expressed pride in their companies, particularly where they have been pioneers and have acquired big named brands as their customers. Therefore, being audit compliant can be a source of pride and can make their stress and efforts worthwhile.
- **Disincentives:** Suppliers expressed disillusionment with buyers who continued to procure based on lowest pricing, or where despite compliance business continuity is not better secured in contracting.

"If buyers could publicly recognise the suppliers that have been following standards effectively, that could motivate suppliers for follow standards better. We are yet to see any examples of this practice but it's definitely good and encouraging for suppliers."

Purchasing practices

The Consultations brought to light that supply chain businesses face many challenges related to the purchasing practices of their buyers

- **Order timelines** - Purchase orders with ample timelines are easiest to meet with suppliers showing a higher business capability of meeting costs and labour. Pressured timelines for purchase orders can have significant negative impact for suppliers.
- **Payment terms** - Some suppliers in India, expressed incredulity at unfair payment terms by customers, some sharing that it could take up to 180 days to be paid. These suppliers felt this amounted to taking financial credit from suppliers by some of the largest companies in the world
- **Sharing value** - Some suppliers felt that buyers were not fairly sharing value by passing costs down the supply chain and being uncompromising on their profit margin, while costs of labour and tax increased in supplier contexts.

Communication & relationships

Communication and Relationships varies based on different factors:

- **Product-related:** Nearly all suppliers reported good communications in regard to product and procurement related matters.
- **Regional or Local:** The best communications and relationships were reported where purchasing teams are based local or in the region.
- **Lack of organisational relationships:** Many suppliers reported that buyer representatives could not speak for other corporate departments. At times corporate buyer representatives were also not aligned on their communications sending conflicting messages to suppliers.

Key findings 4/4

Sustainability awareness & maturity

The Consultations brought to light that awareness of sustainability significantly varies across suppliers:

- **Variations in Awareness:** The majority of suppliers exhibited low awareness or motivation on issues of sustainability. Sustainability was seen largely as a compliance issue. A handful of suppliers exhibited high to exceptional awareness and motivation on issues of sustainability. These suppliers often commented on the low awareness of most of their buyers.
- **Increased Capacity:** Many suppliers sought appropriate capacity building, particularly through the sharing of good practices by their peers within the industry or country.
- **Meaningful engagement with buyers:** Sustainably mature suppliers seek meaningful engagement with buyers where minds can meet on the same level.

"We have some major customers in our network who have never visited our farm.... It's not that they don't care; they're probably have other priorities or other factories to visit. For us, the benchmark of a buyer is determined by how deeply they engage"

Effectiveness of sustainability measures

The Consultations revealed that sustainability measures have limited effectiveness and can even have counterproductive effects for the supply chain businesses interviewed:

- **Limited impact of audits:** Whilst suppliers agreed that audits had improved some systems, they were not appropriate in other areas. No supplier was able to report on sustainability impact as a result of the social audit and compliance approach, beyond national legal compliance on labour and health and safety standards.
- **Anti-competitive Employers:** In a few cases, suppliers shared that International labour standard compliance made them anti-competitive as employers. In their cases, workers preferred to go to other factories where they could do longer hours or have more flexible contracts.

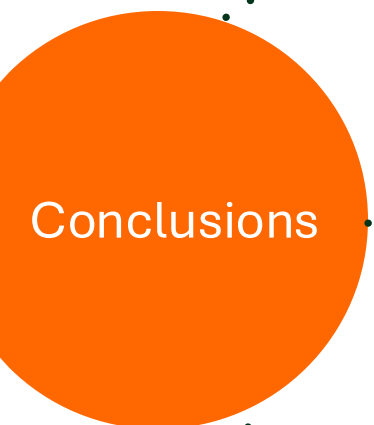
For **increased effectiveness** there needs to be:

- **Supply chain systems integration:** One supplier recommended that supply chain sustainability required a much more integrated systems approach
- **Big Conversations:** One supplier recommended having a fundamental conversation with supply chain actors if sustainability measures were to be effective

Opportunities in Existing Buyer-Supplier Relationships

- **Grounding in National Sustainability Pathways :** An increasing number and variety of national schemes, certifications and standards exist in Asian countries appropriate for business contexts. Some of these are economically incentivised and are being taken up across environment, health and social standards.
- **Retention and Wellbeing of Employees:** Some suppliers reported very low levels of labour turnover and attrition. Approaches used need to be better documented and shared across industry for effectiveness and joint learning.
- **Pioneers and Leaders:** Many suppliers are pioneers and take pride in being leading national businesses. Their experiences could be recognised and amplified.
- **Real Dialogue:** Many supply chain businesses are receptive to have real dialogue on worker and farmer wellbeing. However, the conversations need to be better grounded in national and business realities.
- **Farmer Economics for Sustainability:** Many suppliers have home-grown, nationally relevant corporate social responsibility (CSR) and sustainability programs which generate value for farmers. These good practices need much better documentation and recognition.

Conclusions (1/2)



1. Buyer-centric sustainability assessments and solutions

Supply chain businesses are not sufficiently participating in discussions and workshops on the identification and remediation of sustainability and human rights challenges. Too often suppliers are presented with forgone conclusions (and perspectives) on the challenge. Supply chain businesses may conclude sustainability challenges in contrast to their buyers, as well as define the problems with a distinctly different perspective. Such perspectives provide contextual insights in both the problems and their systems-based solutions. Suppliers' capabilities for sustainability is growing and yet to reach its potential for supply chain HRDD. The main gaps are sharing of costs and appropriate capability as a first step, and a new chapter in shared vision for the future as a next step.

2. Social Sustainability is Compliance-Focused

Supply chain businesses are largely compliance-focused in relation to social sustainability. This is largely due to the compliance-based method used by buyers to instigate the improvement of standards they see as most important for labour and human rights. Whilst this is helpful to a certain extent, it is not conducive for durable effectiveness as supply chain businesses are not incentivised to see beyond compliance for sustainability (as defined by buyers).

3. Audit standards have limited fit in contexts

Audits and compliance approaches are necessary to start the journey to sustainability. However, it is time to step beyond compliance in order to evolve sustainability to a purpose-driven momentum. Suppliers report that certain aspects of audits standards are not fit for contexts for businesses in terms of national regulations or sector. This may result in cosmetic fixing of processes in order to pass audits, without any meaningful change.

Conclusions (2/2)

Conclusions

4. Adverse Purchasing Practices

Purchasing practices currently followed require urgent attention so as not to have adverse impacts on supply chain sustainability requirements. Buyers must be aware of procurement practices which contradict HRDD efforts. For example, bidding and transactions based principally on lowest price bidding confound supply chain businesses who find undermines their efforts to invest appropriately in better labour standards.

5. Business Ethic and long term relationships

Supply chain businesses thrive on strong relationships with buyers that go beyond transactions and pricing. Almost all suppliers exhibited a clear intention and process to understand and satisfy buyers' needs and requirements. This is not only a business imperative but also a sense of pride, work ethic and ambition to succeed. Supply chain businesses are better incentivised to invest in sustainable practices for buyers with whom they have long term and mutually beneficial relationships. Where relationships with buyers are more transaction, suppliers not feel support or sufficient secure to invest in improving sustainable standards.

6. Maturity at level of procurement

Supply chain businesses gauge and calibrate their required level of maturity in sustainability vis-a-vis the buyer businesses they supply to, which in turn is reflected by the procurement teams they usually interact with. Therefore, the level of sustainability maturity of procurement teams is the most important touchpoint for supply chain businesses to take their cue from.

7. National Programmes for Sustainability

National and local governments and programmes geared towards sustainability are best placed to work for supply chain businesses as they respond to context-relevant drivers and challenges. Many suppliers are already participating in national and local schemes incentivising social and environmental sustainability standards.

1. Recommendations to Procurement Teams

Based on Embode's analysis of insights provided by supply chain business through the Consultations, the following is recommended to procurement teams:

- ✓ **Supplier Profiles:** Identify the variant profiles of suppliers (i.e. SMEs, corporates, family-owned etc) to ensure supply chain relationships and sustainability efforts are appropriately targeted for the different types of business needs.
- ✓ **Integrated communications:** Ensure consistency of communications across the company so that all procurement messaging is well integrated with sustainability efforts and is not contradictory or repetitive across the business.
- ✓ **Sustainability Awareness:** Build knowledge and participate in discussions on sustainability in supply chains in order to better support and engage suppliers in an increasingly mature way.
- ✓ **Relationships beyond transactions:** Give attention to strengthen relationships with suppliers that go beyond product specifications, transactions, pricing and orders. This includes visiting suppliers, face-to-face meetings as well as taking time and initiative to understand supplier challenges and hopes.
- ✓ **Order timelines and payment terms:** Review purchasing and procurement practices to ensure payment terms and order timelines are not having an adverse impact on any suppliers' labour or other sustainability standards
- ✓ **Review and prevent "reverse auction" bidding:** Review all use of lowest price bidding as the main factor in selecting suppliers, with the recognition that this drives a 'race to the bottom' in terms of sustainability investing.
- ✓ **Incentivise suppliers:** Build reliable and durable business relationships with suppliers which incentivise sustainable practices, such as longer term contracting which supports business continuity and by providing opportunities for business recognition through public awards and mentions.

2. Recommendations to Sustainability Teams

Based on Embode's analysis of insights provided by supply chain business through the Consultations, the following is recommended to sustainability teams:

- ✓ **Labour Needs and Challenges:** Be attentive to labour needs, challenges, retention and national compliance requirements of supply chain businesses in order to better understand the impact and relevance of supply chain focused HREDD interventions.
- ✓ **Engage suppliers in meaningful dialogue:** Suppliers' perspectives, challenges and risks should form an important part of HREDD and sustainability assessments and recommendations. This should be gauged not just through a consultative approach, but through meaningful and ongoing dialogue which seeks to understand the context, business needs and exigencies of supply chain businesses.
- ✓ **Contextualise audits:** Audits should be better contextualised and adapted for business contexts and sectors so that they are effective at authentically improving standards and measuring actual impact.
- ✓ **Capability Building:** Support suppliers' journey to compliance, particularly SME and other growing businesses, through hands-on capability building and sharing of good practices from within their sector.
- ✓ **National Sustainability Pathways:** Support and encourage supply chain businesses to fully engage with national programmes and pathways for sustainability, which are more often better contextualised for their business needs and costs.
- ✓ **Sharing of costs and value:** Innovate and pilot models and approaches for sharing costs and values in supply chains more conducive to, and incentivising of, HREDD and sustainability measures.
- ✓ **National Sustainability Programmes:** Supply chain businesses participating in national and local sustainability schemes should be supported and encouraged, as these programmes are often best placed to respond to business needs and incentivise suppliers through tax benefits or cost reductions.

3. Recommendations to AIM-Progress

Based on Embode's analysis of insights provided by supply chain business through the Consultations, the following is recommended to AIM-Progress as a membership:

- ✓ **Link between purchasing practices and HREDD:** Commission a study into purchasing and procurement practices and their impact on supply chain sustainability and HREDD measures (to help inform members' risk-based approach to reviewing purchasing and procurement practices).
- ✓ **AIM-Progress Principles:** Consider an industry-wide 'Dos and Don'ts' of purchasing and procurement in line with HREDD standards

Aarti Kapoor

Executive Director, Embode
aarti@embode.co

Yael Fattal Lariccia

Global Project Manager – Human
Right, AIM-Progress
info@aim-progress.com