

Supply chain reporting in annual reports

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BUSINESS COMPANIES RETAIL

Purpose before profit: How ethical investment is transforming Australian retail

By [Dominic Powell](#)

September 14, 2019 – 12:52am



Shoppers seeking sustainable change and investors concerned about ethical issues have emerged as key challenges for Australia's retailers, forcing major outlets ranging from Kathmandu to Best & Less to look beyond their bottom lines.



Supply chain transparency, sustainable products and waste reduction are among the prominent issues merchants must contend with, as customers and investors alike vote with their wallets when companies disappoint.


Supply chain -
“sequence of activities or parties that provides products or services to an organization”
(GRI 2018b, 20)

Today's Paper Markets Data FINANCIAL REVIEW MY PREMIUM AFR

Menu

Politics Wage Slave Print article

Directors put on notice on slavery



Directors of about 3000 companies operating in Australia will be required to sign off on statements to confirm they are abiding by new laws to stop slave labour being exploited in their global supply chains, under final business guidance published by the Morrison government on Thursday.

Local entities and foreign firms carrying on business in Australia with turnover above \$100 million will be bound by the *Modern Slavery Act*.

John Kehoe
Senior Writer
Sep 26, 2019 — 3:52pm

Aims of the project

- Our study examines current supply chain disclosure practice, institutional effects (Mandatory vs Voluntary) on disclosure, and the perceived usefulness of such disclosure by various stakeholders
- Mixed method approach...

Frameworks

To understand supply chain disclosure requirements

Current practice

To provide detailed analysis of supply chain information disclosed in annual reports, level of coverage and quality of disclosure

Interviews

To develop better understanding of supply chain reporting in the Australian context and augment findings from archival study

Current practice

- Sample:
 - 200 large listed companies
 - Five countries: Australia, Canada, Germany, Japan and the UK
 - Five sectors: Consumer Discretionary, Financial Services, Materials, Communication Services and Utilities
- Sources: Annual report
- Years: 2017/8 and 2016 (Effects of EU Directive)

What are companies doing?

- Disclosures on supply chain management approach and risk in AR?
- In what sections of the AR?
- What supply chain KPIs are disclosed?
- Quality of the disclosure?

Interviews

- Semi-structured interviews were conducted in Sydney, Melbourne and Brisbane
- 15 interviews – 21 participants (5 preparers; 6 users; 4 others)
- Employees of Australian organisations

Indicative questions:

- For what decisions or purposes is information currently being used?
- What are the most important or useful types of disclosures for decision-making?
- Should additional disclosure be made?
- Should there be additional requirements?
- What are the inhibitors and motivators for disclosing?

Main findings

- More disclosures when there are directives and guidelines
- Variety of locations where supply chain policies and KPIs are disclosed
- Low level of non-financial KPI disclosure and comparatives

Frameworks

Disclosure requirement review (Table 1)

Document	Supply chain disclosure
“Consolidated set of GRI Sustainability Reporting Standards 2018” (GRI 2018a)	Supply chain fully integrated into scope of most disclosure.
Non-financial reporting directive (EU Commission 2014) Guidelines on Non-Financial Reporting (EU Commission 2017)	Supply chain fully integrated into scope of most disclosure.
Guidelines on the Strategic Report 2018 (FRC 2018)	Supply chain disclosure mainly integrated into policies, risks, strategies, business models.
The International <IR> Framework (IIRC 2013)	Supply chain disclosure mainly integrated into policies, risks, strategies, business models.
IFRS Practice Statement 1: Management Commentary (IASB 2010)	The word “supplier” is not mentioned at all.

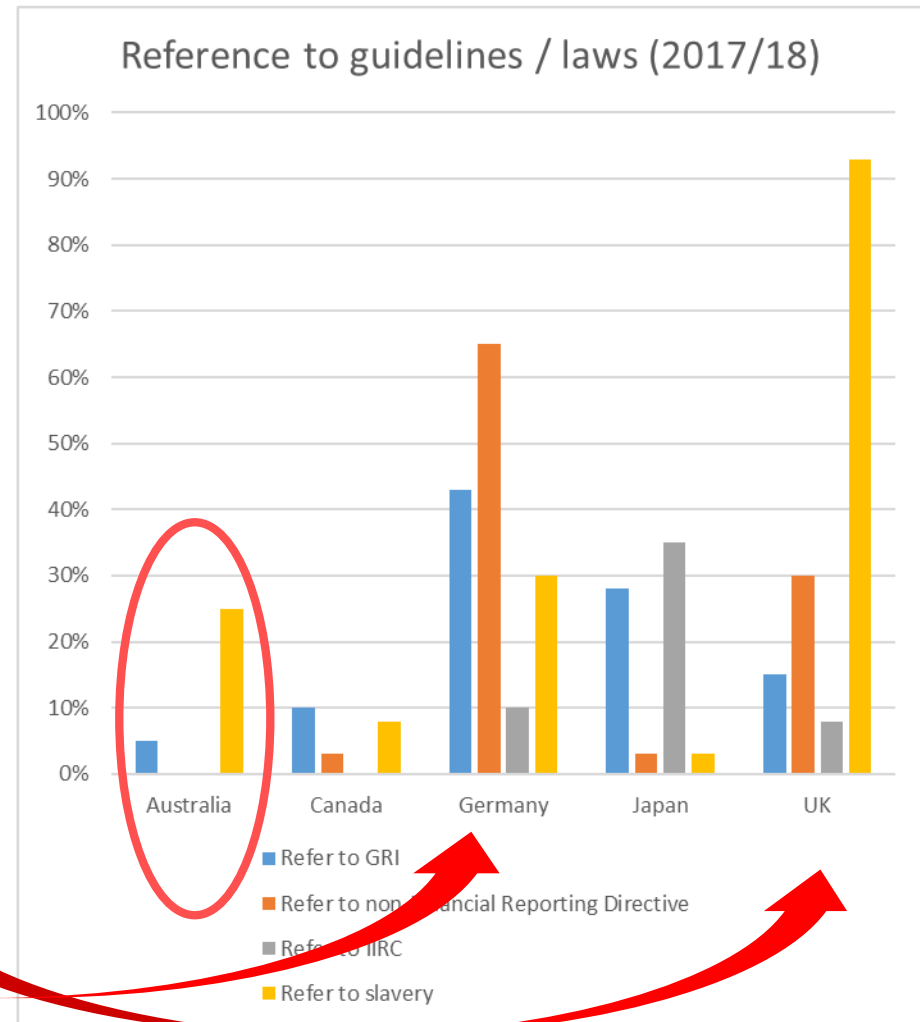
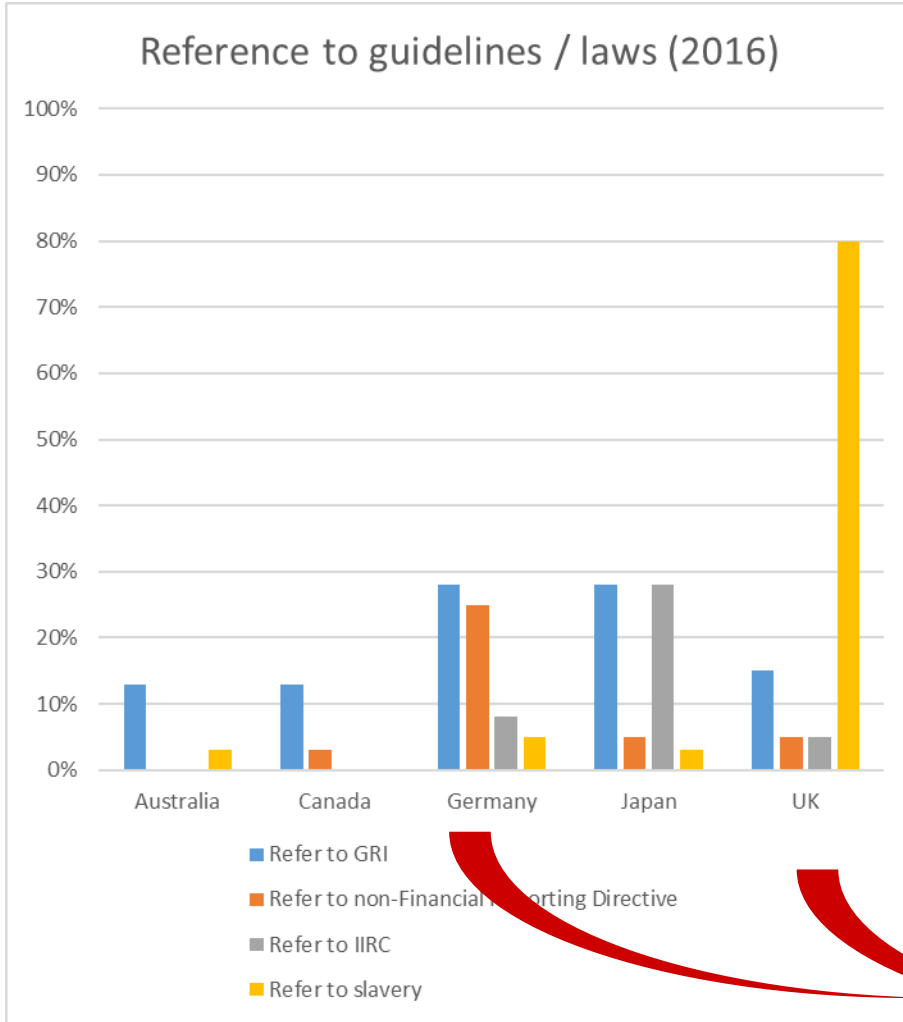
Interviews

Disclosure requirement review

- Should there be additional requirements?
 - General perception is that there is an abundance of requirements and guidelines, and there is a need to better integrate them
 - *“...if there’s something material about it, if it is a high risk ... that’s already included. So I don’t believe that specific supply chain reporting would be necessary.” (#5 Preparer)*
 - *“... we just need to make sure [reporting is] very targeted and specific and not just a, “Let’s just get a whole load of blanket of information out there, so that people can work out what they do.” (#8 Other)*
 - *“... there will be a role for... consolidation, because everyone can’t have their own standards, it’s just very inefficient.” (#6 User)*

Current practice

Reference to guidelines / laws (Table 2)



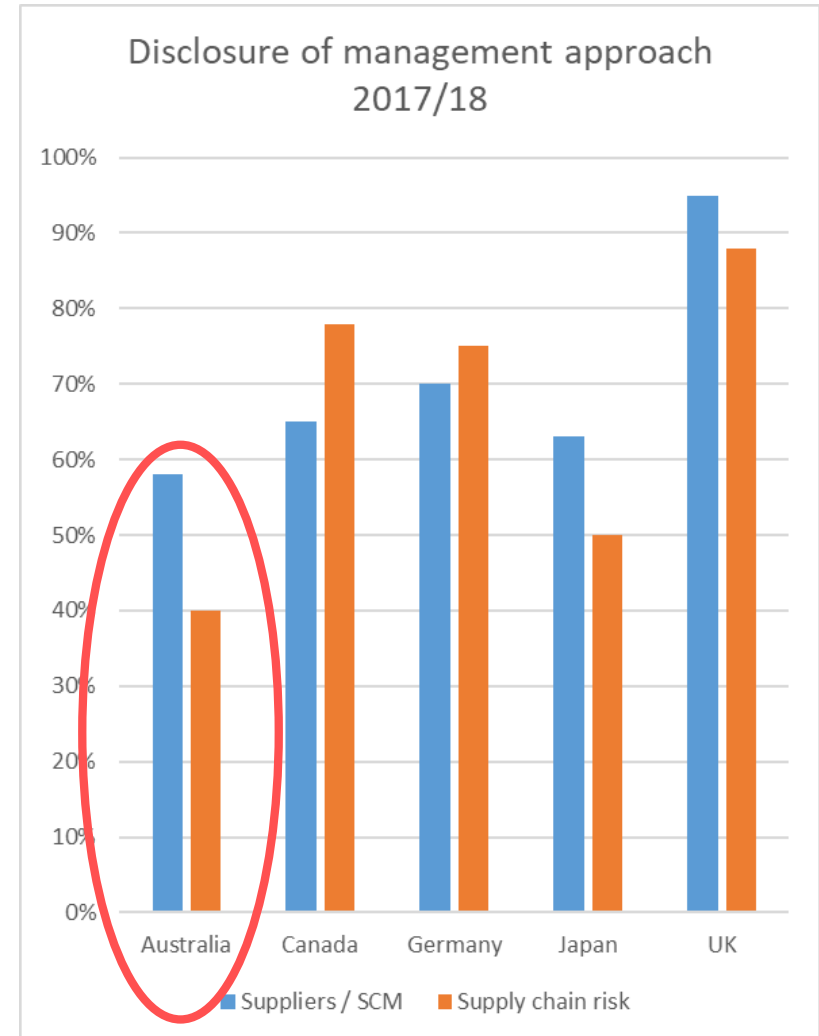
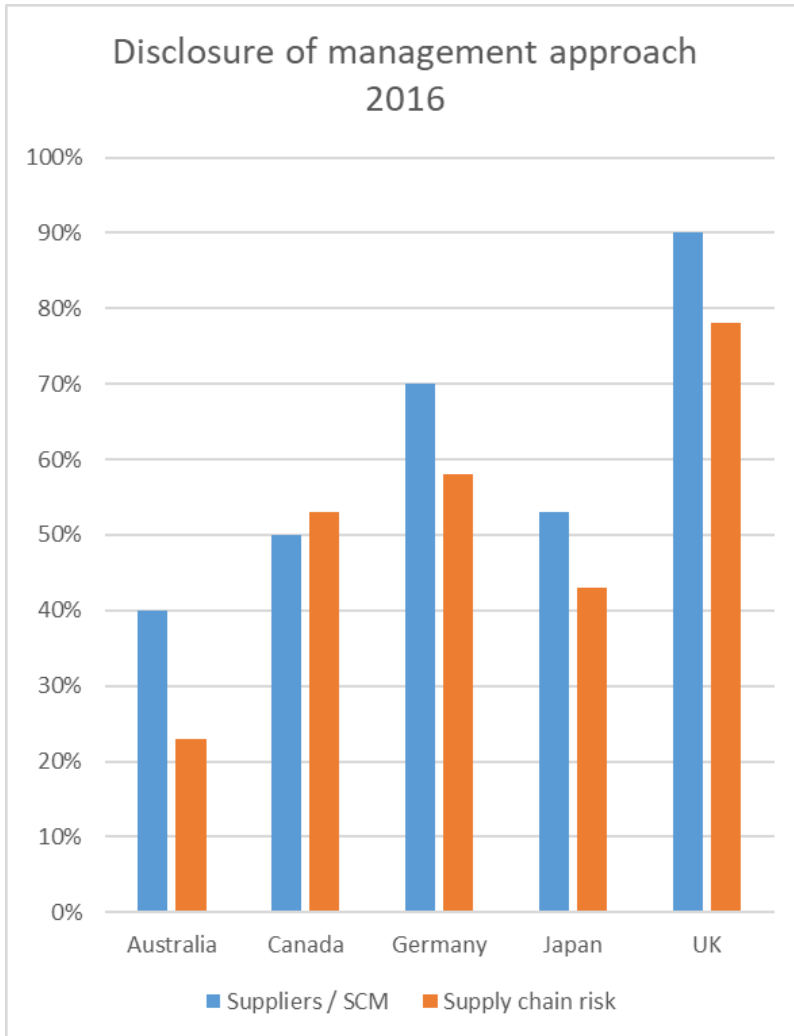
Interviews

Reference to guidelines / laws

- Compliance is a major driver of supply chain disclosure
 - *“...I think the initiator is probably regulatory requirements to be really, really frank...” (#10 Preparer)*
 - *“... nothing, unfortunately, motivates people more than... a compliance obligation... it will be quite interesting to see what happens in the next 12 months once we start to see the Australian reporting [MSA] coming through.” (#8 Other)*
 - *“...drivers coming from legislation in lots of different ways as well, so like specific transparency disclosures in legislation like TCFD and modern slavery. But other requirements, for example, ... from the ASX with their encouragement of businesses to disclose on risks...” (#9 Preparer)*
 - *“there’s certainly a lot of compliance related reporting that we’re having to do at the moment, not just in supply chain and sourcing...” (#11 Preparer)*

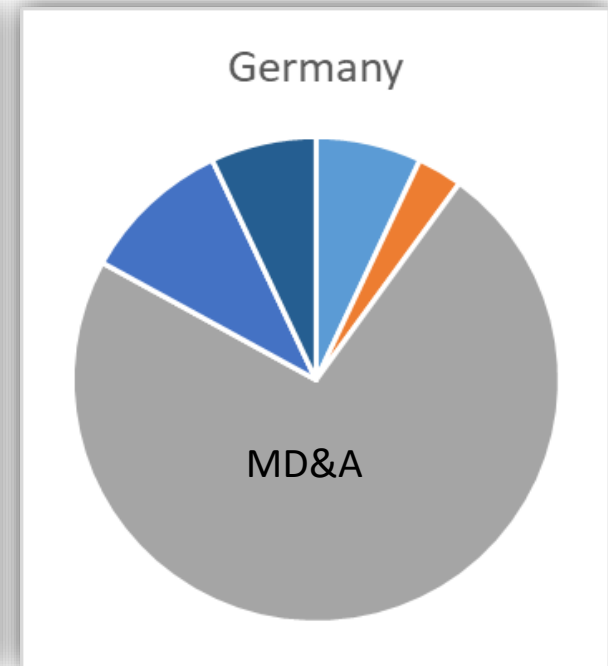
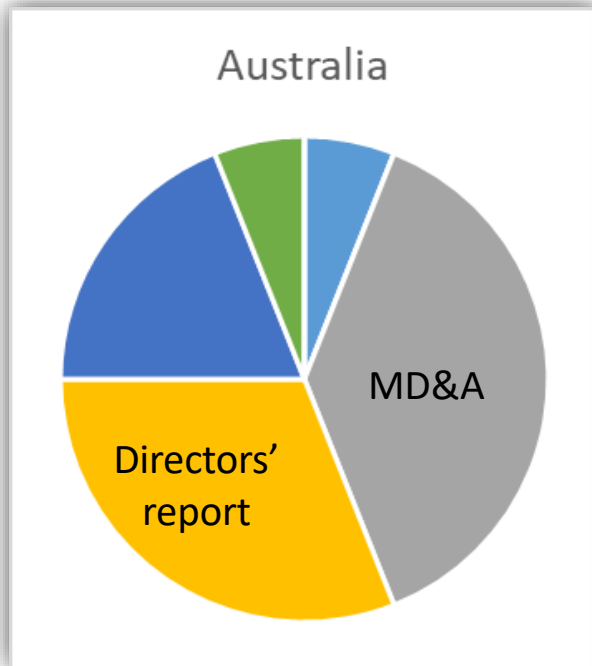
Current practice

Current SCM policy disclosures (Table 3)



Current practice

Location of SC risk disclosure 2017/18 (Table 4)



- Risk section
- Notes to financial statements
- MD&A
- Directors' report
- Sustainability section
- Strategic report
- Company overview

Interviews

Current SCM policy and risk disclosures

- Is it useful to have this information or does it serve a purpose?
 - Mixed views from the interviewees about the need for SCM disclosures
 - *“I have not come across, from talking to our investment team or wider, any great desire for increased supply chain reporting.”* (#5 Preparer)
 - *“You’ve got organisations like [institutional investor] saying, “You have to do ESG guys or we’re not going to invest.””* (#2 Other)
 - *“To us, it comes down to making better informed investment decisions.”* (#6 User)
 - Interviewees view the content of the disclosures as generic, and lacking depth and rigour

Current practice

Number of companies disclosing SC KPIs (Table 5)

Country analysis of distribution of supply chain KPIs by company (2016)

No. KPIs	Australia	Canada	Germany	Japan	UK	Total sample
0	95%	92%	67%	77%	47%	76%
1-2	3%	5%	18%	15%	38%	16%
3-45	2%	3%	15%	8%	15%	8%

Country analysis of distribution of supply chain KPIs by company (2017/18)

No. KPIs	Australia	Canada	Germany	Japan	UK	Total sample
0	78%	93%	58%	60%	25%	63%
1-2	19%	7%	19%	32%	55%	27%
3-45	3%	0%	23%	8%	20%	10%

Current practice

Examples of supply chain KPIs (Table 6)

Category	Examples
Audit	Number of compliance audits
Awards, accreditations, indices, affiliations	'A' ratings from CDP on climate change and supply chain engagement.
Engagement	No of suppliers trained
Environmental	Energy consumption [MWh] (incl. tier 1 suppliers)
Health and safety	Average injury rate at core Tier 1 suppliers
Procurement	% of local procurement
Productivity/ efficiency of SC	% of products delivered on time and in full
Social	Female workers (%) (Tier 1 suppliers)

Current practice

% of companies disclosing supply chain KPIs (Table 7)

Category	2016	2017/18
Audit	9%	22%
Awards, accreditations, indices, affiliations	2%	5%
Engagement	5%	12%
Environmental	13%	17%
Health and safety	2%	2%
Procurement	7%	7%
Productivity/ efficiency of SC	0%	1%
Social	4%	5%

Interviews

KPI disclosure – Inhibitors to more disclosure

- General reluctance to be transparent due to the complexity involved and the quality of the data
 - Lack of ability to validate the data is an issue
 - *“I think the reach and how you verify information can very much depend on the size of your organisation and your clout.” (#8 Other)*
 - Lack of confidence in the information gives rise to perceived reputational damage and litigation risks
 - *“... [the companies] don’t really understand the risks and where they are, so they’d rather say little, than too much... that’s a genuine fear among companies. So by not saying too much, you’re protecting yourself from scrutiny”. (#6 User)*

Interviews

KPI disclosure – Inhibitors to more disclosure

- Mixed views on the cost involved in collecting the information required for the disclosure.
 - *“... [they] may not yet be as far down that path and also if they’re slightly smaller scale, it takes a lot of effort...” (#11 Preparer)*
 - *“[for] a very complex global supply chain, to get real transparency over it is costly” (#9 Preparer)*
 - *“The costs will just be the mere challenge of accumulating the information ... There will be a cost associated with assurance. I often think ... we overestimate the costs of some of these things.” (#4 Other)*
 - *“... it can be resource intensive, but ... if it’s a material risk to a business then they should be putting the resources to that. And there is an obligation to disclose material risks.” (#12 User)*

Current practice

Quality of supply chain KPIs (Table 11)

	Prior year provided		Target provided	
	2017/18	2016	2017/18	2016
Percentage of all KPIs				
All countries	33%	48%	13%	17%
Australia	27%	75%	13%	0%

Interviews

Quality of reporting

- Challenge in providing quality data on supply chain KPIs can be attributed to the nature of supply chain disclosure
 - *“I would say there’s less information about supply chains. I think that comes back to the simple fact that environmental metrics are quite easy to measure and report on. You can report your nitrogen levels, you can report your CO₂ emissions, CO emissions, intensity, there’s all sorts of ratios. CO₂ emissions by number of staff. I think because there are numbers, there’s going to be more about. Where I find the biggest lack in reporting is probably supply chains and culture. Although, some companies are starting to report better on culture now.” (#6 User)*

Conclusions & Recommendations

- Low level of non-financial KPI disclosure and comparatives
 - Absence of prior year figures and/or targets makes it difficult for users to interpret the supply chain KPIs
 - **Recommendation: Need for comparatives** (*Voluntary in IFRS Practice Statement 1... make mandatory?*)
- Variety of locations where supply chain policies and KPIs are disclosed
 - Can lead to a lack of comparability and difficulty for users to locate supply chain information
 - **Recommendation: Need for consistent location** (*mandated?*)

Conclusions & Recommendations

- More disclosures when there are directives and guidelines
 - ASX CG Principles changes and the MSA coming into effect in 2020
 - ASX (2019, p. 36): “**Social risks**:... risks associated with the entity or its suppliers engaging in modern slavery, aiding human conflict, facilitating crime or corruption, mistreating employees, customers or suppliers, or harming the local community.”
 - ***Recommendation: IASB to include examples in IFRS Practice Statement 1***
- Challenges moving forward
 - Different perspective of users and preparers
 - Will disclosures be boiler plate or contain useful information?
 - Will disclosures drive behaviour or distract?

Examples of management approach disclosures

- **Pact Group Holdings**

The ability for the supply chain to meet the Group's requirements including the sourcing of raw materials, is reliant on key relationships with suppliers. The price and availability of raw materials, input costs, and future consolidation in industry sectors could result in a decrease in the number of suppliers or alternative supply sources available to Pact. Additionally, Pact may not always be able to pass on changes in input prices to its customers. Any of these factors may have an adverse effect on the Group's future financial performance.

- **Orora Limited**

Orora's approach to supply chain risk management is multi-faceted and includes:

- **implementing a multi-sourcing strategy for the supply of raw materials**
- **customer contracts that provide for regular and timely pass-through of movements in raw materials input costs**
- **input pricing strategies including active monitoring of input prices**
- **supplier due diligence and risk management including a supplier assurance framework**
- **a focus on innovation in sustainable energy sourcing and pricing including entering long-term renewable energy power purchase agreements**
- **business continuity and disaster recovery plans including with technology service providers.**

Current practice

Location of supply chain KPIs (Table 10)



- Risk section
- Notes to FS
- MD&A
- Directors' report
- Sustainability section
- Strategic report
- Company overview
- Audit committee report

Current practice

Quality of supply chain KPIs (Table 11)

	Prior year provided		Target provided	
	2017/18	2016	2017/18	2016
All countries				
Number of KPIs with comparatives	80	86	32	31
Percentage of all KPIs	33%	48%	13%	17%

	Prior year provided		Target provided	
	2017/18	2016	2017/18	2016
Australia				
Number of KPIs with comparatives	4	3	2	0
Percentage of all KPIs	27%	75%	13%	0%

Thank you