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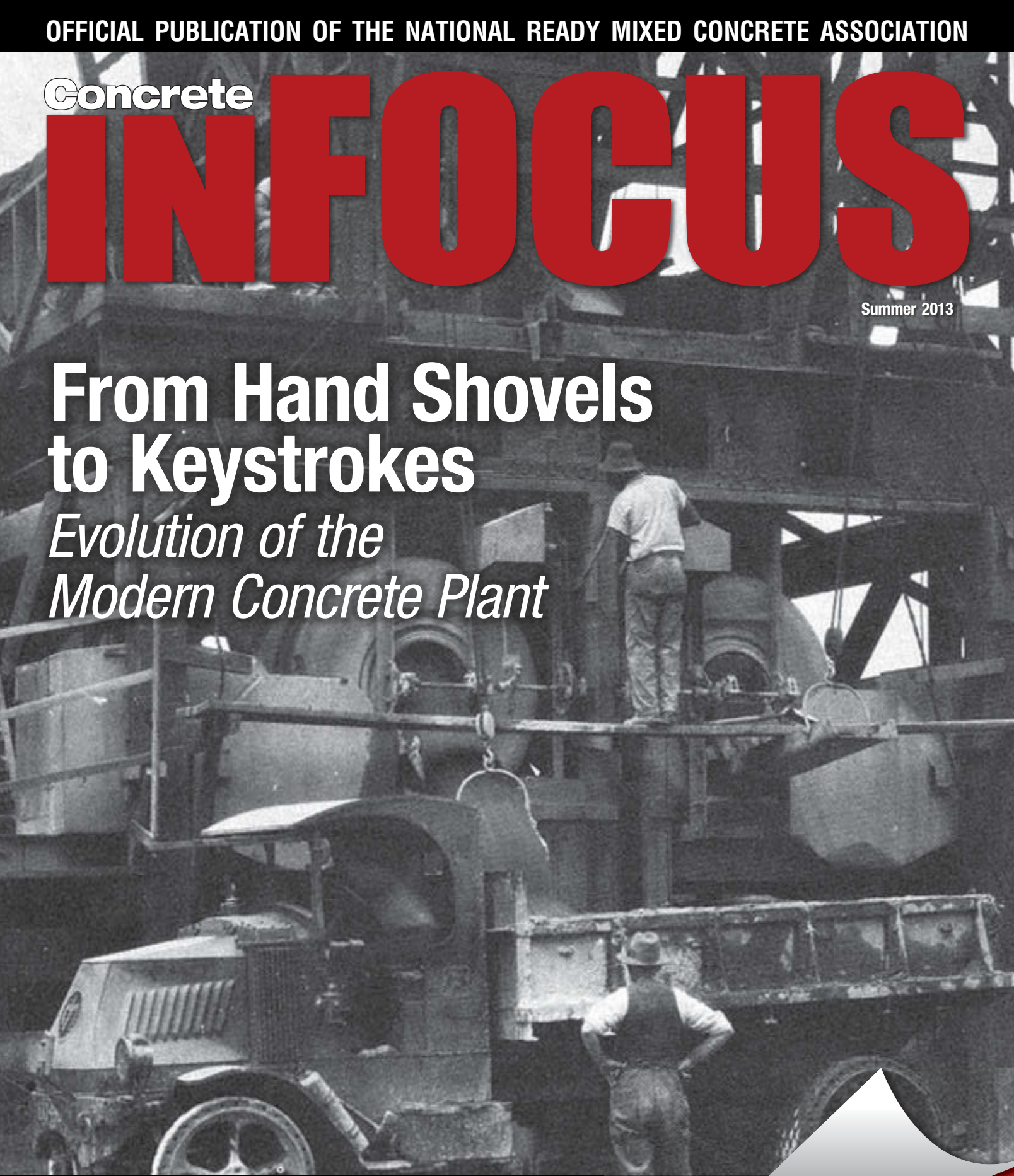
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Summer 2013

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# Responsible Sourcing Through CSR Reporting

Developing a standard approach to responsible sourcing and communication

Tien Peng

Expectations on the building materials industries are rising. Surveys show that given a choice, today's consumers support businesses that practice sustainability and make investments in the community. Consumers and business owners alike also recognize that ignoring environmental and social issues can be bad for business. Companies that pollute their local communities risk harming their customers' health, and ill-treating workers risks union backlash and poor retention rates. Business practices reflect the policies adopted by the organization. And often, especially in the building products industry, it is also necessary to influence suppliers' values and policies.

Influential customers are now asking the building product suppliers to disclose environmental and social performance. Government agencies are expanding their Environmentally Preferable Purchasing (EPP) plans to address multiple environmental and social concerns. And the U.S. Green Building Council's LEED v4 rating system due out this year will likely adopt Corporate Social Responsibility (CSR) reporting as a means to achieve a materials and resources credit.

CSR reports go by many names: sustainability report, EHS report, community engagement report. Whatever they're called, a CSR report is a communications tool increasingly used by corporations to communicate with investors, employees, consumers and the general public regarding their social and environmental initiatives. Some of the multinational materials companies—Titan, Lafarge, Cemex—already publish CSR reports as a matter of course. The reporting of industry activities is the first of many steps businesses

should take along the way toward long-term sustainability. With increased focus on transparency, the materials industry would benefit from a standard approach to responsible sourcing and communication.

## Reputation: Hard to Build, Easy to Lose

In the late 1980s reports started to circulate concerning Nike's alleged "sweatshops," where children as young as 10 were making sneakers, clothing and footballs in Indonesia and Cambodia. Over the course of the 1990s, continued exposure of unscrupulous labor and human rights practices, combined with intensive public protests, dragged down Nike's reputation. The sweatshop debacle caused sales to stop increasing and a stock decrease of 33 to 50 percent.

Who should be held responsible for the breach of corporate ethics? The local factories that employed children? The suppliers that purchased these goods? Nike's senior managers who drove costs down? There was a time when a company only had to concern itself with its own business enterprise. This is no longer the case. Consumers are now demanding that businesses take responsibility for their supply chains, including its suppliers, transporters, warehouses, retailers, and the customers themselves. Like many other companies, Nike learned the hard way that abdicating its responsibilities in favor of its supply chain has negative financial and reputational consequences.

## Social License to Operate

The concrete supply chain includes the full range of activities through which



cement-based construction products become part of a completed project. These include resource exploration, mining, engineering, production, transportation, distribution, quality control and more. These activities are so varied that they seldom reside within one firm, but are usually spread among several business enterprises. While this supply chain requires many types of legal permits to operate, the so called "social license to operate" is a much fuzzier concept that has as much to do with marketing and branding as actual performance.

A social license to operate is not obtained by going to a government office and making an application or paying a fee. This license is earned by acquiring free, prior and informed consent from the local community and society at large, through a stakeholder engagement program that gives the community leverage to negotiate conditions. ■

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