



Stakeholder accountability in the UK supermarket sector

Final report of the 'Race to the Top' project

Tom Fox and Bill Vorley

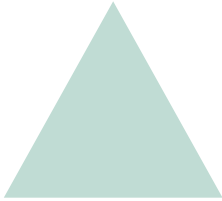
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tracking supermarket
progress towards a fairer and
greener food system



International
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Preface and acknowledgements

This document records the experiences of a project entitled *Race to the Top: tracking supermarket progress towards a fairer and greener food system*. The project was coordinated by the International Institute for Environment and Development (IIED), an independent, non-profit policy research institute, but involved (to varying degrees) the top ten UK supermarket companies (by market share); twenty-four other civil society organisations, and many other individuals and organisations. This report is written by IIED, and seeks to record and reflect on the lessons learned from the project's three-year life in relation to the process itself, the methodologies that were applied, and the content of the indicators that were developed. It also draws on feedback from project stakeholders submitted in response to a short survey circulated in early 2004, and various conversations and correspondence throughout the life of the project. However, the views expressed in this report are those of the authors alone.

The project (at least in its current model) ended prematurely following a confidential 'pilot' year (2002) in which six supermarkets took part and one 'public' year (2003), in which only three supermarkets participated. Whether it survives in a less ambitious form, for example as a forum for dialogue, research and information sharing on supermarkets and sustainability, remains to be seen. The materials, methodologies and research developed throughout the course of the project will remain at www.racetothetop.org and we encourage other initiatives to make use of them.

On behalf of the project partners, IIED is grateful to the main funders of the project, the Esmée Fairbairn Foundation and the UK Department for Environment, Food and Rural Affairs (Defra), as well as other organisations that provided financial support at the initial stages of the project, including the Countryside Agency, English Nature, RSPB and WWF-UK. Thanks also to the UK Food Group for support with disseminating the report.

The *Race to the Top* project was a strongly collaborative initiative, which relied on the advice, support and inputs of many individuals, companies and organisations. Much of this support was in-kind. IIED is therefore also grateful to the following companies, organisations and individuals, for without their enthusiasm and commitment to achieving positive change, this project would not have been possible:

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Tom Fox and Bill Vorley, IIED
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Foreword

This is an important report at a significant moment in the corporate responsibility agenda. These pages chart the course of the *Race to the Top* project, an innovative collaboration to track supermarket progress towards sustainability by developing a set of benchmarks. The insights within the report need to be digested by anyone with an interest in the corporate responsibility agenda.

When *Race to the Top* was established in 2000, the idea that sectoral business benchmarks might be developed by non-governmental organisations (NGOs) with the collaboration of companies was new. “Collaboration not confrontation” was a fresh and appealing idea to a number of NGOs (though it was far from new). The project’s title itself played on a fashionable theory – that high environmental or social standards could be the basis of a ‘Race to the Top’ among competing companies, instead of issues to be traded off in the drive to become leaner, meaner, and more appealing to shareholders.

The report makes for sobering reading four years on. The project coordinators, Tom Fox and Bill Vorley, outline the features of the UK supermarket sector that made the project so exciting – and so challenging. Market concentration at every level of the supply chain; the supremacy of shareholder value delivered through customer satisfaction; the pace of business strategy outstripping the capacity or will of public policy makers to play catch-up. When the supermarkets that were most loved by the Square Mile dropped out of the *Race to the Top*, the market drivers for engagement shattered.

Today, within and beyond the supermarket sector, a mood of deep scepticism prevails among many NGOs

who have engaged with the corporate responsibility agenda over the past five or six years. Corporate *accountability* through law, not market-based corporate *responsibility*, is the theme of the moment. The story of *Race to the Top* demonstrates the attraction of the theme. But it does not in any way downplay the importance of committed staff within businesses working hard to internalise those environmental and social market drivers that do exist. And it points to tougher civil society tactics towards the sector as a whole in the months to come.

Yes, there are lessons in this project for the effectiveness of a market-based corporate responsibility agenda. But *Race to the Top* must not be considered a failure by anyone. Alliances and friendships have been formed and insights gained that will undoubtedly find a reflection in the next wave of efforts to transform the UK supermarket sector. There are insights for coalition-building; for collaboration between businesses and NGOs; and for the future of non-interventionist sectoral regulation.

The conclusion of *Race to the Top* does not pass the baton to a *Race to the Bottom*. This report is a primer for the strategic and tactical choices that will now need to be made. Efforts to strengthen the contribution of supermarkets to sustainable development will continue. And the people behind those efforts will inevitably find ways to overcome the barriers that we now know so much more about.

Halina Ward

Director, Corporate Responsibility for Environment and Development, IIED



Summary

Civil society organisations have been deeply critical of the perceived dominance of supermarkets over the food system. Supermarkets are accused of driving a 'race to the bottom' by procuring food 'grown anywhere, anyhow' without regard for standards of labour, the conservation of wildlife and landscapes, the livelihoods (or even survival) of family farms, the congestion of roads, the demise of vibrant high streets, the management of waste, the welfare of farm animals, or the health and food security of low income communities. As rapid consolidation within the UK supermarket sector continues – three-quarters of the country's supermarket food shopping is now done in just four firms – the critique gets increasingly vociferous.

Each of these issues is hotly contested. Many of the UK supermarkets are considered to be among the leaders of the corporate social responsibility (CSR) movement, and they point to numerous examples of good practice. What often gets overlooked in the war of words between supermarkets and their detractors is the lack of comparable and credible benchmarks for measuring progress towards greater sustainability across the sector.

The objective of the *Race to the Top* (RTTT) project was to develop those benchmarks in partnership with a broad coalition of civil society organisations, and to work with leading supermarkets to apply them. The overall aim was to promote accountability and transparency within the UK supermarket sector, in doing so building incentives for the major UK supermarket companies to improve and communicate their social, environmental and ethical policies and performance over a five-year period. The methodology centred on a process of engagement between supermarkets and civil society organisations with interests in a variety of social, environmental and ethical issues. The main activity was a collaborative benchmarking process, supplemented by additional research, good practice case studies and ongoing dialogue. This was all carried out within a structure that combined centralised project management and brokering, devolved responsibility for input into the benchmarking development process through seven thematic groups, and strategic guidance by an independent advisory group.

The project demonstrated that it is possible to develop methodologies that allow the benchmarking of supermarkets across a range of sustainability issues. Although some issues remain contested, the project facilitated learning among participating supermarkets and civil society partners, both in terms of greater under-

standing of others' positions and constraints, and of benchmarking methodologies. Data collection for the benchmarking process included a questionnaire to supermarkets; a supplier survey; a Fairtrade survey; and a local foods store survey. Although there were difficult discussions among the partners and participating companies on how the results should be published, the scoring methodology demonstrated participating companies' interest in comparing their performance with that of their competitors.

From the start, it was clear that the project's success would depend on the participation of a critical mass of retailers, both in terms of market share and number of participants. During the summer of 2003, a few months before the first public release of results was due, the project partners were optimistically looking forward to broad industry participation. But by the deadline for data submissions, only three supermarkets were on board – the Co-operative Group, Sainsbury and Somerfield. These companies are to be commended for their hard work in collecting data and for demonstrating a willingness to open themselves up to scrutiny. But without the market leaders, a sectoral benchmarking initiative is relatively meaningless.

What made a large proportion of the UK supermarket sector eventually turn its back on this constructive and moderate approach to stakeholder accountability by civil society organisations, once it got close to presenting information in the public domain? Inevitably there is disagreement on what went wrong; some civil society partners said the approach of the project was too conciliatory, whereas some retail partners thought there was not enough consensus building. Each of the non-participating retailers had their own reasons for not taking part. Certainly, a number of interrelated factors together created a problematic environment for the project.

First, given government moves to develop key performance indicators on sustainability for the food sector, some companies seemed to fear that government might pick up a successful RTTT and use it as the basis for a new regulatory framework.

Second, civil society partners felt that the project lacked leverage with the companies, particularly given an over-reliance on company-provided data. Attempts were made to complement the data from supermarkets themselves with data from external surveys. The latter can be powerful measures of supermarket performance, especially where they demonstrate observable change rather than aspiration or company policy. However,

external surveys, such as store surveys for local food, or surveys of suppliers, are expensive, highly labour intensive, and methodologically problematic. Whenever a negotiated solution was needed to keep the project on track, the supermarkets' ultimate sanction of withholding data weighed heavily.

Third, committing to a process such as RTTT requires staff time and technical resources. It is ironic that the increasing pressure on supermarket companies to improve the quality and transparency of data that they release on environmental and social impacts comes at a time when companies have a declining ability to collect that information, due to cost squeezes resulting from the drive to stay competitive against the market leaders. But there is a risk of overstating the resource issue. The problem is not necessarily one of resources *per se*, but of priority setting under conditions of resource scarcity.

Fourth, the UK supermarket sector is heterogeneous in terms of scale, ownership and customer base. All of these factors affect the ability of companies to be successful in certain aspects of 'sustainable' business, such as the marketing of organic or high animal-welfare produce. Businesses are understandably wary of initiatives that run the risk of measuring customers rather than companies.

Fifth, the project took place at a time of upheaval within the market, which put unprecedented pressure on many of the main players. This pressure is likely to continue – the entry of Wal-Mart into the UK was a turning point in the way the domestic food retail market operates. Price-based competition now dominates the majority of the sector, and the market is currently rewarding those companies that do this best. There is a real danger that comprehensive action on social and environmental issues will become increasingly associated with failing companies, reinforcing this trend.

As a case study, RTTT provides insights into:

- the modalities of civil society-led sectoral benchmarking;
- the challenges of managing a multi-stakeholder engagement process involving large, high-profile companies and NGOs, particularly given a legacy of mistrust between some of them;
- research methodologies that attempt to measure and compare the social, environmental and ethical policies and performance of companies; and
- mechanisms for creating incentives for companies to improve their social and environmental performance.

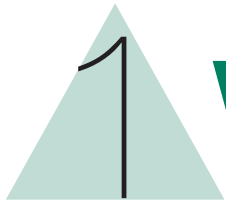
But the initiative also highlights a number of fundamental issues that have deep implications for future sustainability benchmarking initiatives and for policy makers, as follows.

The supermarket sector prides itself on being consumer-oriented in the extreme. But this has reached a point at

which it is in danger of crowding out the interests of some other stakeholder groups. RTTT explored whether sufficient incentives could be established, by creating a framework for greater accountability and transparency, to encourage supermarkets to tackle a range of social and environmental issues, not only those that are perceived to add to consumer value. But some supermarkets appear unable or unwilling to engage with this broader notion of stakeholder accountability, and are attempting to change the parameters of debates about what it means to be a responsible retailer, by conflating the notions of 'customer' and 'citizen'. Influencing change on those issues that are not automatically in line with supermarkets' perceptions of consumer desires thus becomes increasingly challenging.

RTTT explored what it is reasonable to expect of supermarket companies not only as actors in their own right, but also as gatekeepers of the entire food system. The hypothesis was that influencing supermarkets would in turn influence the actions of many other actors. Many of the RTTT indicators measured what retailers were asking or demanding of others, e.g. their suppliers, rather than what they were doing themselves. However, the RTTT experience shows this gatekeeper role to be a double-edged sword. Not only does it offer potential shortcuts and access to positive change, it creates a mechanism for companies to pass responsibility on to other, often less powerful, actors. The allocation of responsibility between retailers, suppliers and consumers is inherently problematic, but this must not be used as an excuse for inaction. The key challenge is to ensure that the gatekeeper role that supermarkets play within the food system is used to drive positive change, rather than to pass the buck.

Ultimately, RTTT was about governance of the food system. Given the lack of commitment of the largest supermarkets, attitudes among some of the civil society partners have now hardened. They have seen the demise of RTTT as a signal that only command-and-control regulation can tame the supermarket sector, marking an end to a period of openness to work through voluntary, collaborative initiatives. But the drive to a more competitive regulatory environment in the UK, as in many other countries, has handed regulatory responsibility for important areas of the food system to supermarkets themselves. Having supermarkets in the driving seat can only be successful for those areas that create consumer value – and even then, only in certain segments of the market. Those aspects of sustainability that do not resonate with most consumers fall into a governance gap that is simply not addressed by the current mode of self-regulation. The conclusion is clear: in such a relentlessly consumer-oriented industry, self-regulation and voluntary initiatives are only likely to be appropriate for issues that are in line with the consumer interest. Creating incentives for supermarkets to drive positive change on other aspects of sustainability implies a more robust role for the state.



What Race to the Top set out to achieve

Race to the Top (RTTT) was established in 2000 by an alliance of non-governmental organisations (NGOs), who first met in July to discuss prospects for a project that would publicly compare the social and environmental performance of UK multiple retailers (supermarkets). The aim was to build on the earlier Christian Aid supermarket campaign, which started in 1996, and used league tables of leading supermarkets' policies to drive home its call on companies to adopt ethical codes of conduct in relation to labour standards within their supply chains.¹ The intention of RTTT was to expand the scope of civil society scrutiny of supermarkets beyond labour standards to an integrated set of supermarkets' social and environmental impacts. At an early stage, the alliance members decided to invite retailers to participate in the process, and the ten largest supermarket companies (by market share) were formally approached in November 2000.

The overall aim of the project was to promote accountability and transparency within the UK supermarket sector, in doing so building incentives for the major UK supermarket companies to improve and communicate their social, environmental and ethical policies and performance over a five-year period. Of course, RTTT was not the only mechanism that supermarkets could use to disclose their social and environmental policies and impacts – some of the participating companies published their own CSR or sustainability reports, and took part in other benchmarking processes. RTTT sought to fill the gaps that these other disclosure mechanisms left, and deal with the issues in an integrated way. The methodology centred on a process of engagement between supermarkets and civil society organisations with interests in a variety of social, environmental and ethical issues. The centrepiece of the project was a collaborative benchmarking process, supplemented by additional research, good practice case studies² and ongoing dialogue.

The benchmarking process involved defining key social, environmental and ethical issues for supermarket action; developing a framework of representative indicators that measured each company's policies and performance on these issues; collecting data from each company and from other sources in relation to these indicators; and scoring and publishing the results

on an annual basis, thereby showing each company's performance and progress over time. The intention was to publish annual results for the top ten UK multiple retailers over at least five years. The anticipated outcomes for supermarkets, civil society partners and government respectively were as listed in **Box 1**.

BOX 1: *Anticipated Project Benefits*³

Benefits for supermarket companies

- Gives public recognition of good practice on corporate social and environmental responsibility, informing the investment community, government, consumers and other key stakeholders;
- Provides guidance on which key social, environmental and ethical issues companies might be expected to address from the perspectives of a cross-section of civil society organisations;
- Gives insights into how these issues can be addressed;
- Allows companies to demonstrate a willingness to engage with civil society stakeholders;
- Creates space for constructive dialogue and mutual learning on contentious issues;
- Gives opportunities to inform and shape data collection methodologies such as self-assessment questionnaires;
- Provides a mechanism for highlighting the boundaries of corporate social responsibility, and supportive actions required of other actors including government and civil society organisations; and
- Has the potential to reduce the transaction costs of engaging with a range of civil society organisations.

(continued)

1 This campaign eventually led to the establishment of the Ethical Trading Initiative (ETI).

2 Considered by some participating companies as one of the most useful elements of the project, the RTTT case studies were prepared by two journalists as pointers to good retailer practice within the thematic areas of *Race to the Top*. They remain available at www.racetothetop.org/case/.

3 As envisaged in October 2002.

(continued)

Benefits for civil society project partners

- Provides a mechanism for informing supermarket companies about key issues;
- Enables learning about business models and practical solutions, and the constraints faced by companies in relation to these issues;
- Provides credible data on corporate performance which can inform strategic organisational priorities;
- Reduces the transaction costs of engaging with a number of companies; and
- Frames single issues within a broader framework of ‘supermarkets and sustainability’.

Benefits for government

- Provides a mechanism for implementing strategic objectives, including conservation of natural resources, inclusive rural development, achieving public health goals, and ensuring the integrity and ethical standard of the food supply, at home and abroad;
- Provides a means to support policy instruments such as the Department of Health ‘Five-a-day’ fruit and vegetables consumption campaign;
- Tracks the implementation of policies such as the DTI Code of Practice on relationships between supermarkets and suppliers through independent data collection; and
- Helps government to understand and define the role of policy in supporting supermarket best practices, particularly in the context of the UK Strategy for Sustainable Food and Farming.



The UK supermarket sector

In order to understand the relationship between supermarkets and sustainable development it is important to first summarise the corporate strategies and business environment of the major players. Over the course of the 20th century, market dominance by food distributors and wholesalers gave way to dominance by manufacturers. This was in turn succeeded by the rise of the integrated distributor-retailers – the supermarkets. In the UK, supermarkets have captured at least three-quarters of the bread, milk, fruit and meat markets. The food service sector, especially fast food, is also gaining in importance, and is expected to grow from its current share of 30% of consumer spending on food to 50% by 2020.

At its simplest, the supermarket model is characterised by self-service shopping with separate departments for produce, meat, bread and other grocery items under one roof, discount pricing, large-volume procurement and a centralised distribution system. But the sector is heterogeneous. Different supermarket companies in the UK have targeted specific market segments and concentrated on a preferred format, from the convenience and ‘top-up’ segments dominated by small to medium size stores such as Somerfield and the Co-ops, the ‘deep discounters’ such as Lidl and Aldi with a limited range of own-brand produce aimed at consumers in the C2DE social classes, the full range one-stop formats of Sainsbury’s, Asda, Tesco and Morrisons often with large, edge of town stores, and the up-market retailers such as Waitrose and Booths.

Some of these distinctions are eroding, as companies track the trend to convenience or pull out of saturated or heavily regulated areas, such as Tesco’s 2002 purchase of T&S Stores bringing the company well within reach of its target of 1,000 convenience stores. Some retailers are also broadening their demographic base, such as Tesco’s success in appealing to both ‘down-graders’ and ‘up-graders’. Furthermore, the distinctions between grocery, other retailing and food service are getting less marked as the large supermarkets move aggressively into non-food sales such as electronic items and clothing, and into home meal replacements and so-called ‘meals on the go’. These trends, known as ‘channel blurring’, have mixed implications for access to food, for the survival of independent retailing, and for the structure of the typical high street. Non-food high street retailers such as Boots and the Kingfisher group are struggling against the rapid move by Tesco and Asda into core areas such as pharmacy, opticians, clothing, and financial services. This growth of non-food is redefining the word ‘supermarket’, and is the

other side of the same coin as Wal-Mart’s expansion from non-food into groceries.

Ownership is diverse, from publicly traded limited companies (Tesco, Sainsbury’s, Morrisons, Wal-Mart, Somerfield, Marks and Spencer) to private family-owned companies (e.g. Booths), consumer co-operatives (e.g. Co-operative Group) and employee-owned groups (e.g. John Lewis Partnership, owner of Waitrose). This determines the degree of leverage available to the investment community over retailer strategy, and arguably, the degree of freedom of retailers to promote sustainability even where this acts against short-term financial interests.

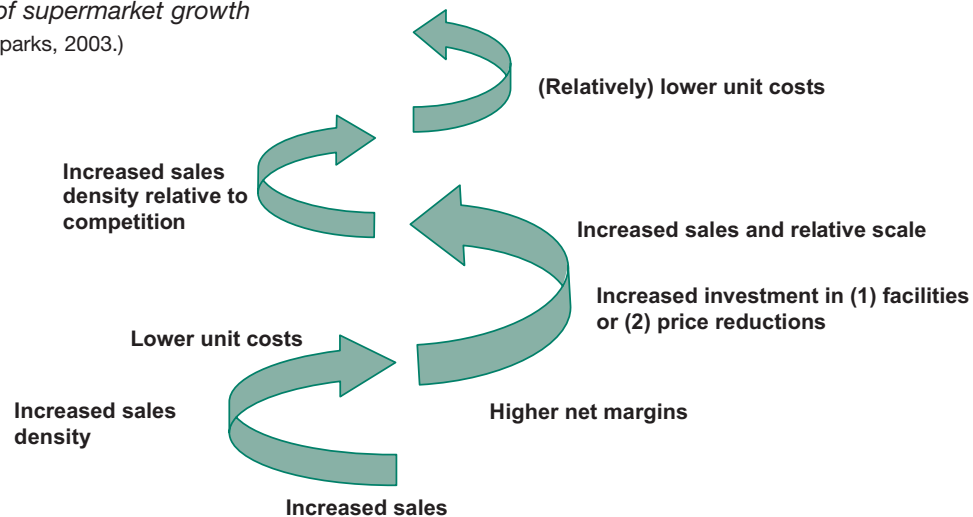
Geographic concentration is also uneven, with Waitrose and Sainsbury’s having a strong presence in the south of England, for example, and Asda and Morrisons (pre-Safeway merger) having strongholds in the north. The existence of national retail chains is a relatively new phenomenon. Tesco is the only real international player, with 20% of its turnover from overseas.

Market share is the traditional measure of success in the marketplace. Larger market share allows economies of scale. Savings are achieved by extracting more favourable terms from suppliers, either through demanding lower merchandise prices, or demanding greater provision of services such as special packaging or third-party food safety certification, or demanding payment of fees. Another measure of success is sales intensity per square metre. Economies of scale and higher sales density deliver lower unit costs and higher net margins potentially leading to a ‘spiral of supermarket growth’ (**Figure 1**; Burt and Sparks, 2003). Features of this spiral are (a) that absolute costs and barriers to entry for competitors are raised, and (b) growth becomes dominated by 1–2 organisations. The UK market is indeed showing signs of a developing duopoly – Tesco and Asda-WalMart now have a combined market share of over 44% and healthy growth rates. The success of Asda-WalMart’s Every Day Low Pricing model shows that investing the revenues of the ‘growth spiral’ in lower consumer prices has been a successful strategy.

Savings are also achieved through attention to shelf management and evaluation, and to distribution logistics. Distribution is perceived to be as important as retailing in driving costs out of the system, firstly by eliminating the role of the traditional wholesaler through direct supply from primary producers and manufacturers to regional distribution centres, and then to super-stores, and latterly taking over parts of the upstream

Figure 1: The Spiral of supermarket growth

(Adapted from Burt and Sparks, 2003.)



distribution network from suppliers where savings are perceived. This is described in some quarters as a creeping monopoly of food supply logistics by supermarkets.

As food retailing has very high labour costs relative to profits, retailers have paid much attention to managing labour costs and increasing labour productivity – this is seen to be key to Wal-Mart’s cost advantage in the US. Corporate overheads are also closely watched; Tesco and Morrisons seem to take particular pride in their no-frills and leanly staffed headquarters.

Another feature of the modern supermarket model is vertical coordination of agrifood chains, with associative rather than arms-length supply relationships. This means that supermarkets are actively seeking to reduce the number of suppliers from whom they source, in part to achieve their quality assurance and traceability objectives, and this constriction in the supply base is expected to continue. Supermarket governance is changing the nature of the large-scale end of commercial farming, from a group that has supported and benefited from state protection and/or subsidy of agriculture to more free market-oriented agribusinesses with high levels of collaboration with downstream processors and retailers. Supply Chain Management (i.e. achieving the right mix of products for maximum profit and minimum wastage) is being outsourced to produce suppliers. While the retailer typically sets the ‘rules of the game’ for participating in the chains, a key supplier may take responsibility for developing a product category’s profile to give maximum returns, such as by devising new packaging strategies, or taking more responsibility for unsold produce. Within this concentrated chain structure, in which most power and leverage resides at the retail end of supply chains, benefits are passed to customers and shareholders. ‘Insiders’ in these chains may be able to prosper

through investing in relationship marketing, product quality, and brand reputation. But in many cases there is declining overall residual value to be shared between supermarkets and upstream actors in the chain.

The phenomenon of own-label branding has been “one of the competitive forces which shifted strongly in favour of retailers during Britain’s ‘retail revolution’ in the 1980s” (Wrigley and Lowe, 2002). Own brands return the highest contribution to margin or gross profit. The market share of own-brand in the UK, at around 40%, is the highest in Europe. Retailers’ brands now compete head on with manufacturers’ brands through shelf placement and packaging. Own label is not only a huge revenue generator, but also key in enhancing corporate image and customer loyalty.

Lastly, retailers are closer to end consumers and many have developed sophisticated information systems which can facilitate supply chain management. Information on consumers from point-of-sale scanners (EPOS data) is a source of competitive advantage to retailers and the chain ‘insiders’ – the category managers – with whom it is shared.

Supermarkets benefit from a high level of public acceptance in comparison with most public institutions, for the very reason that supermarkets are such customer-driven institutions. By global or even European standards, UK consumers have been particularly willing players in the relocation of retail from high street specialist shops such as bakers, butchers and greengrocers or doorstep deliveries, to one-stop shopping in supermarkets, especially since the ‘retail revolution’ of the 1980s.⁴ The same trend, at even greater speed, is noticeable in Central and Eastern Europe and China, where the massive changes in the structure and governance of the food system which supermarkets have ushered in are compared extremely

⁴ For more in-depth analysis, readers are referred to Wrigley and Lowe (2002), and Burt and Sparks (2003).

favourably with the quality and choice associated with earlier regimes. Broad public acceptance is part of the explanation why political scrutiny of the sector is relatively light. Another explanation is that supermarkets deliver on the economic ambitions of governments – low inflation and high employment – giving them significant political clout. The one place where government scrutiny has been intense has been in competition policy; the recent buy-out of Safeway prompted a tough Competition Commission inquiry hot on the heels of another Commission investigation into the sector in 2000. As a result of the Safeway inquiry, Asda was prohibited from bidding for Safeway in order to protect market competitiveness.

The process of consolidation in retail is well advanced. The loss of Safeway from the UK retail scenery has increased the 4-firm concentration ratio (CR4) to around 75%; in other words, three-quarters of the

country's supermarket food shopping is done in just four firms – Tesco, Asda, Sainsbury's and Morrisons (**Table 1**). A strong oligopsony (i.e. a market dominated by a few buyers) is considered to occur when the CR4 rises above 50%.

Wal-Mart (the owner of Asda) has grown to become not only the world's biggest retailer, but also the biggest grocer, with US grocery sales estimated at \$57 billion. Carrefour, Ahold, Wal-Mart and Tesco have become truly global in their reach. In 2003, these four companies alone had sales (food and non-food) of \$520 billion, and employed 2.5 million people. It is predicted that there will be only 10 major global food retailers by 2010. A similar trend of concentration is taking place in food processing and distribution, matching the scale of downstream players in order to exert countervailing power and prevent their profits slipping down the food chain.

Table 1: Market shares of UK supermarkets

VALUE MARKET SHARE			
Retailer	4 wks ending July 2003	4 wks ending July 2004	Implied value growth, YOY
Tesco	26.8%	28.1%	+ 9.7%
Asda	16.8%	16.7%	+ 4.4%
Sainsbury's	16.0%	15.3%	+ 0.5%
Morrisons / Safeway	14.4%	13.8%	+ 0.5%
• Morrisons	5.6%	6.3%	+ 17.5%
• Safeway	8.8%	7.5%	– 10.3%
Somerfield Group	6.2%	5.7%	– 3.0%
• Somerfield	3.6%	3.5%	+ 3.1%
• Kwik Save	2.6%	2.2%	– 11.3%
Co-ops	5.1%	5.2%	+ 5.5%
Iceland	2.2%	2.0%	– 5.6%
Waitrose	3.1%	3.3%	+ 9.8%
Discounters	4.5%	4.9%	n/a
Others	4.9%	5.0%	n/a
Total market	100.0%	100.0%	+ 4.9%
Total market exc Tesco	73.2%	71.9%	+ 3.2%

Source: TNS Superpanel, July 2004



Supermarkets & sustainable development: the critique

In comparison with consumers, civil society organisations have been deeply critical of the perceived hegemony of supermarkets over the agricultural and food system. Supermarkets are accused of driving a ‘race to the bottom’ by procuring food ‘grown anywhere, anyhow’ without care for standards of labour, the conservation of wildlife and landscapes, the livelihoods (or even survival) of family farms, the congestion of roads, the demise of the high street,⁵ the management of waste, the welfare of farm animals, or the health and food security of neighbourhoods. They are accused of running huge, centralised distribution systems along extractive ‘food-in, profits-out’ lines. Critical concern is mounting. One month alone (May 2004) saw the publication in the UK of three books critical of supermarkets and the associated politics of food.⁶

With sales of the world’s largest retailer and largest grocer – Wal-Mart – of over US\$ 280 billion, 43% of which is food, and the UK grocery market heading into monopsony territory, it is clear that supermarkets are drawing increasingly intense attention and concern from a wide range of civil society interests about their growing dominance of the food system. Friends of the Earth and some farming groups have been particularly critical of supermarkets’ commitment to fair trading and UK produce.⁷

Most of these groups associated with farming, public health, animal welfare, conservation, and labour rights, have little interest in (or regard for) the industry benchmarks to which some of the supermarkets subject themselves, such as FTSE4Good or Business in the Community’s Corporate Responsibility Index. Some approach supermarkets as myriad special interests, each with a questionnaire in hand, hoping to drive improvements in how supermarkets address their area of interest, often either through promoting ‘best practice’ or through ‘naming and shaming’. Some of these groups clearly see supermarket market power as

an advantage for achieving their goals of improving social and environmental conditions – such as wildlife-friendly farming techniques – because they only have to deal with a very limited number of ‘gatekeepers’ to the agrifood system with capacity to dictate conditions of market entry.⁸ Some supermarkets have generally complied with the self-reporting demands of each group, although there is a growing number of complaints of ‘questionnaire fatigue’ in an era of cost-cutting and business re-focusing. NGOs have also complained about being ‘stakeholdered’ by supermarkets to the point of ‘stakeholder fatigue’ and have complained that these are mainly consultation exercises and sometimes tokenistic, rather than genuine partnerships.

3.1 Examining the critique: buyer power and self-regulation

To understand the contradictions between supermarket accountability to stakeholders and accountability to consumers, we now focus briefly on the critique of supermarkets’ relationships with agricultural producers and rural economies, the subject of one of the seven RTTT ‘modules’. This issue offers a particularly pertinent example of what happens when the ‘consumer interest’ broadly defined (and hence supermarket strategy) is not in line with the interests of another set of stakeholders. A similar examination of the civil society critique has been developed for each of the seven issues covered by RTTT – from impacts on public health to the welfare of farm animals – and readers are referred to briefing papers at www.racetothetop.org for a more complete account in these other areas.

In the late 1990s, the finger of blame for the crisis in UK farming partly shifted from government to the big supermarkets. Similar trends have been noticeable in Ireland,⁹ France,¹⁰ Spain¹¹ and Germany.¹² Although a subset of farming is profiting from trading preferences

5 See also the New Economics Foundation’s *Ghost Town Britain* report (2003).

6 Joanna Blythman. *Shopped: The Shocking Power of British Supermarkets*. Fourth Estate.

William Young. *Sold Out: The True Cost of Supermarket Shopping*. Vision Paperbacks.

Felicity Lawrence. *Not on the Label: What Really Goes into the Food on Your Plate*. Penguin.

7 See FoE Real Food Campaign at www.foe.co.uk/campaigns/real_food/resource/retailers.html

8 A similar remark has been made by WWF-US in dealing with commodity markets.

9 ‘We’re being fleeced’. *The Grocer*, 25 January 2003.

10 ‘Farmers target supermarkets’. *The Guardian* 22 November 2002.

11 ‘Spanish farmers and food producers outraged over huge retail mark up disparity as fruits and vegetables average 227% while meat products average 154%.’ *Food Production Daily*.

12 ‘Milch nicht als Ramschware verschleudern: Bauern demonstrieren vor Tengelmann-Zentrale („Plus“) für faire Preise.’ Rheinischer Landwirtschafts-Verband E.V.

within dedicated supermarket supply chains, many farmers – especially mid-sized family units – feel marginalised by the collapse in the wholesale market, a lack of alternative markets, the sale of goods below the cost of production, and a perceived disconnection between farmgate prices and retail prices. There is a suspicion that supermarkets are earning too much of their money on the buy, not the sell, that is from charging suppliers (through 'listing fees' i.e. charging for shelf space for new products, for 'supplier rebates'¹³, for 'overrides'¹⁴, or even unilateral deductions from money due or ad hoc demands for cash payments) rather than from consumers. It seems to be well known that Safeway's reliance on rebates was about three times the industry average, a level seen as unsustainable.

This came to a head in the UK in 1998 when a slump in finished lamb prices at livestock markets was not translated into supermarket prices, and again in 2001 with a slump in milk prices. The cost structures of these chains – especially the need for processors to cover their fixed costs (which have increased due to health and safety regulations) – have a considerable bearing on farm-retail spread. But the perception remains that supermarkets enjoy a gatekeeper role, which has been variously described as a 'stranglehold' (*New Scientist*, 19 Dec 99), an 'armlock' (Prime Minister Blair, 30 April 2001), and a 'whip hand' (Dobson, 2002). Farmers say that they are left with 'take it or leave it' deals with a few integrators. Associative relationships involving a high level of collaboration between retailers and their supply chains, whether food manufacturers or fresh produce suppliers (Wrigley and Lowe, 2002), are the reality of the post-BSE era, in which dedicated supply chains allow traceability to ensure safety, quality, brand differentiation, risk management, and demonstration of 'due diligence'.

But the closed contract production systems preferred by supermarkets and their first tier suppliers for sourcing own-label produce are now such a large part of the livestock and produce industries that there is no competitive market (e.g. live auctions) where real market prices can be 'discovered.' The wholesale market now represents the price of residual production (and lower quality production) surplus to supermarket requirements. Farmers who supply wholesale markets, especially in remote or economically marginal areas, are the most economically endangered sector of UK agriculture. The systematic coordination of the supply chain using direct contracting, rather than competitive pricing structures, and the use of (or threat to use) imports, allows retailers to regularise (cap) farmgate prices against their precise targets of gross margins.

Farmers point out that supermarkets have been quick to react to technologies that alienate consumers (such as genetic modification), but not to marketing practices that alienate suppliers. The supermarkets argue that except for some very short supply chains such as poultry, farmers are often two to four steps away from the supermarket shelves. They also point to high levels of concentration among packer-integrators and processors, and state that retailers have little control over the trading relationship between farmers and the chain intermediaries. Unscrupulous behaviour by supermarket buyers arises because they can exploit offers from competing suppliers.¹⁵

A round of inquiries into supermarkets by the UK Competition Commission was initiated by the Office of Fair Trading (OFT) in July 1998. The Director General of Fair Trading referred the investigation to the Competition Commission in April 1999, primarily from a consumerist approach, on complaints that profits and food prices were unreasonably high in the UK ('rip-off Britain') compared to continental Europe and the US. But the investigation included the relationship between supermarket operators and suppliers following the initial investigations by the OFT which heard complaints from farmers and growers that they were being threatened by excessive or unreasonable demands of supermarket contracts. The big six chains developed their own code of conduct to pre-empt the findings of the Report.¹⁶

The Commission's report¹⁷, published in October 2000, dismissed claims of overcharging customers and making excessive profits, and concluded that the industry is broadly competitive. But as a 'secondary concern' the Commission unearthed 52 ways in which supermarkets are said to have misused market power. This included 'requests' for 'over-riders' and retrospective discounts, 'requests' for promotion expenses,¹⁸ making changes to contractual arrangements without adequate notice, and unreasonably transferring risks from the main party to the supplier. They also found a "climate of apprehension" among many suppliers in their relationship with the main supermarkets. "In a competitive environment," said the report, "we would expect most or all of the impact of various shocks to the farming industry to have fallen mainly on farmers rather than on retailers; but the existence of buyer power among some of the main parties has meant that the burden of cost increases in the supply chain has fallen disproportionately heavily on small suppliers such as farmers." The annexes of the report showed a remarkable correlation

13 A discount based on the amount ordered or on the time it takes to sell an amount of product.

14 Where the supplier gives back a percentage of sales if a certain annual level of business is achieved.

15 Lord Haskins writing in *The Grocer*, 12 October 2002.

16 "Working Together – Code of Best Practice" presented to Nick Brown on 28 July 2000. IGD Press Release.

17 *Supermarkets: A report on the supply of groceries from multiple stores in the UK*. Available at www.competition-commission.org.uk/reports/446super.htm. See Chapter 11 and Appendix 11.3.

18 In 1999 the NFU strongly criticised Safeway for 'requesting' £20,000 donations per product line towards in-store promotion, in order to guarantee the availability of key products – NFU press release 17 November 1999.

between retailer market share and their ability to extract better terms from their main suppliers (Figure 2).

The Commission did not impose any sanctions, but recommended that supermarkets be made to abide by a legally binding Code of Practice on their dealings with suppliers. A draft code was proposed in the Commission report, which was welcomed by many farm groups. Details of the Code were then negotiated between the major supermarkets and the OFT, in order to find something workable given the diversity of the sector. The final Code¹⁹ from the Department of Trade and Industry, which came into effect in March 2002, and which is (on the insistence of the Commission) applicable only to the top four supermarkets,²⁰ was roundly criticised for the inclusion of ‘weasel words’ that allow wide interpretation by retailers. By late 2002 it had become clear to all parties that the Code as it stood was fatally flawed. In February 2003, the OFT launched a review of the code – the report of that review was published in February 2004, and “found a widespread belief among suppliers that the Code is not working effectively” with the vast majority of respondents claiming that “the Code has failed to bring about any change in the supermarkets’ behaviour”. The saga now continues, with the OFT intending to “obtain information from the supermarkets by conducting a focused compliance audit of each of the four supermarkets’ dealings with suppliers”.

The main lesson of this experience is the failure of an attempt at self-regulation in the UK food retail sector, in response to concerns by a subset of farming supported by recommendations from a government authority. The

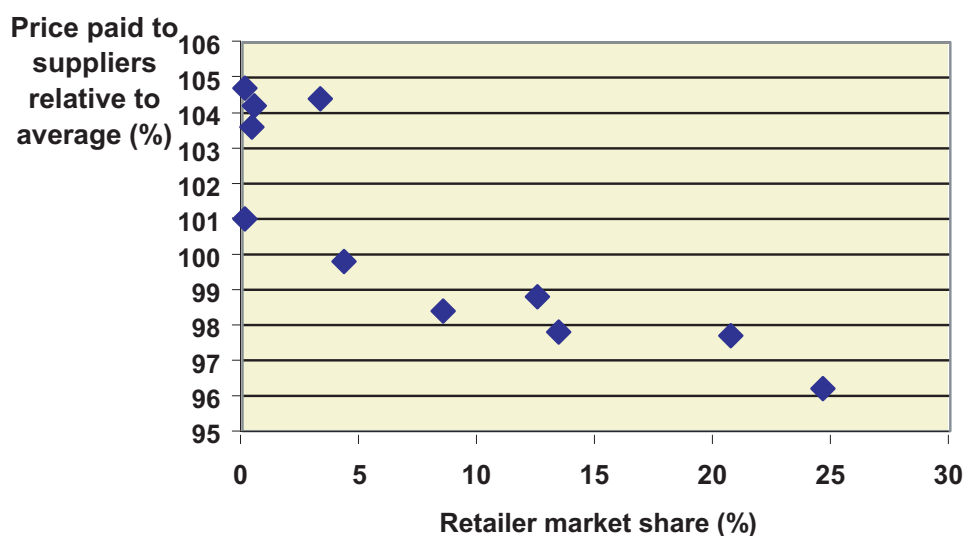
industry ensured that even the most measured and reasonable request for third party regulation – a Code of Practice on dealings with suppliers – was diluted to the point of ineffectiveness. This experience is very important in analysing what happens when supermarkets respond to the challenge of stakeholder accountability and corporate social responsibility (CSR).

There is certainly evidence that when supermarkets do adopt instruments of self-regulation and CSR, such as codes of conduct on labour standards or environmental issues, the associated costs and risks can be passed up the chain as an ‘unfunded mandate’, resulting in a disproportional allocation of costs and benefits between standards ‘makers’ and standards ‘takers’. The chairman of Homegrown Kenya Ltd., which exports high value horticulture products to European supermarkets, was recently quoted as saying:

Each of the markets to which Kenyan produce is shipped sends both commercial and technical representatives to observe and audit what we do here. Some of them make at least three visits in a year. In addition we have the British Retail Consortium that checks our pack stations to ensure that they meet European standards. There is also the Ethical Trading Initiative that looks into the issue of the awareness of horticulture farmers of the social impact of their activities. I would say that Homegrown spends about Ksh2–3 million [EUR 20–30,000] per month [to meet these market standards].²¹

Figure 2: Ability of large supermarkets to extract better terms from their suppliers

(From data in UK Competition Commission 2000 Appendix 7.2. Applies to suppliers’ top 5 lines. Thanks to Michael Hutchings.)



19 Available www.dti.gov.uk/cp/pdfs/codeofpractice.pdf including supermarket undertakings.

20 The Competition Commission’s findings and recommendations relate to those supermarkets with ‘buyer power’, which they defined as 8% or more of the groceries market. Only Asda, Morrisons, Sainsbury and Tesco now fall into this category.

21 *Horticulture Faces Serious Threats*. Interview with Rod Evans, the Chairman of Kenya Flower Council, and the Chairman of Homegrown Kenya Limited by Market Intelligence journal.

An interesting example of the interplay between ethical trade and retailer power over suppliers occurred recently (May 2003), when in a letter to *The Grocer*, Tesco was anonymously accused of demanding a payment of £278 per year per site from all primary suppliers to cover the costs of its compliance with the Ethical Trading Initiative code. The letter said that suppliers would be wary of approaching the Office of Fair Trading with complaints because of the risk to their business.

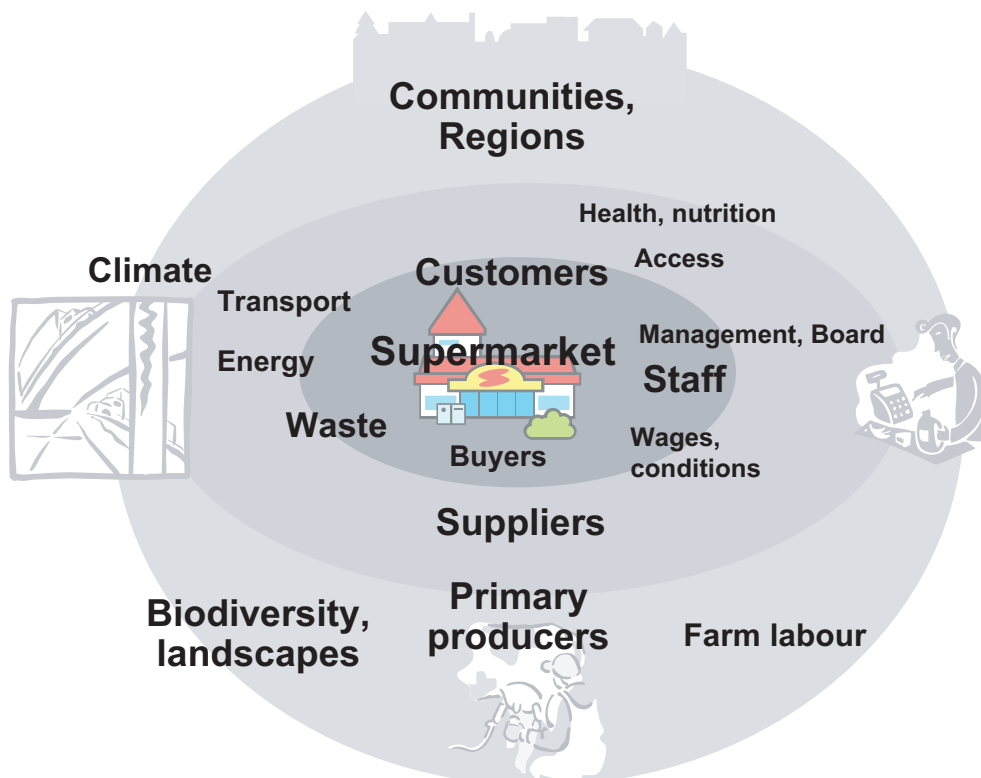
3.2 Beyond the critique: Transparency and Accountability

The issue of abuse of market power and its impacts on producers and labour in supply chains, as well as the other issues listed in the supermarket critique, is contested. For every horror story there is a case study of how supermarkets have applied ethical and environmental considerations to their operations; for instance, in driving the use of ‘greener’ farming systems by their producer suppliers. Also, the boundaries of corporate responsibility in the supermarket sector (Figure 3) are contested. Not all problems of unsustainability in the food system can be attributed to supermarkets. For example, supermarkets can only go so far in pushing their customers towards healthy or ‘ethical’ foods, and away from unhealthy or ‘unethical’ options.

Stereotypes of mainstream supermarkets as “normalised, concentrated and conventional” are somewhat outdated, in terms of how much supermarkets have learned from and incorporated features of the ‘alternative’ sectors, as demonstrated by large market shares of organic, fairtrade and regional foods. In fact, there are examples of quite tough competition between supermarkets for the moral high ground; such a ‘race to the top’ has been a feature of the Swiss market, where the Co-op and Migros have a virtual duopoly but have both sought to convert whole parts of their product range – such as bananas – to ethically sourced material.

What often gets overlooked in the war of words between supermarkets and their detractors is the lack of comparable and credible benchmarks for measuring progress towards greater sustainability across the sector. The objective of the ‘Race to the Top’ project was to develop those benchmarks in partnership with a broad coalition of civil society organisations, and to work with leading supermarkets to apply them, thereby meeting many of the civil society organisations’ expectations for greater transparency and accountability. In the next section, we describe how the project partners sought to achieve this objective, and discuss some of the methodological challenges they faced.

Figure 3: Exploring the boundaries of corporate responsibility





The Race to the Top Methodology

The RTTT experience highlights a number of methodological challenges for projects that attempt to do one or more of the following:

- Manage a multi-stakeholder engagement process, involving large, high-profile companies and non-governmental organisations (NGOs), particularly given a legacy of mistrust between some of them;
- Develop research methodologies that attempt to measure and compare the social, environmental and ethical policies and performance of companies; and
- Create incentives for companies to improve their social and environmental performance.

This section explores these challenges, and describes how the RTTT model sought to overcome them.

4.1 Project governance and institutional arrangements

Although the project was instigated by NGOs, one of the earliest decisions was that it should be based on the principle of constructive engagement and dialogue between supermarket companies and civil society organisations. The process remained civil society-led, in that the key issues to be included in the benchmarking framework were suggested by the civil society partners, before possible indicators and measurement methods were discussed with retailers and refined in an iterative process. However, the project dynamic was predominantly one of negotiation and mutual learning.

The bulk of the project's funding was provided by a charitable foundation (the Esmée Fairbairn Foundation) and the UK Department for Environment, Food and Rural Affairs (Defra). These two funders played a role beyond financial support – Tim Keenan of the Esmée Fairbairn Foundation took part in some project workshops, and Defra provided a representative for the Advisory Group (see below). Defra is the government body in charge of both sustainable development issues and relations with the food industry. Defra's initial financial support came through the Environment, Business and Consumer Division, following a recommendation from the multi-stakeholder Advisory Committee on Consumer Products and the Environment. But for the bulk of the project, Defra's engagement was handled from within the Food and Drink Industry Division and was inevitably affected by that Division's relationships with supermarkets. From the perspective

of some of the project partners, Defra was not able to play as full a role as had been hoped in terms of securing the involvement of retailers.

At no point were the supermarkets themselves approached for funding, both in order to avoid any possible conflicts of interest, and in recognition of the significant in-kind contributions that each of the participating supermarkets would make in terms of data collection and participation in the process.

From the start, it was clear that a project that would potentially involve ten major national companies and over twenty civil society organisations, and seek to address numerous thematic issues across the sustainable development spectrum, would need a clear governance and management structure, if it was to be efficient, legitimate and credible. The model developed was a combination of centralised project management and brokering, devolved responsibility for input into the benchmarking development process, and strategic guidance by an independent advisory group (**Figure 4**). The institutional arrangements were divided along both thematic and functional lines, as follows.

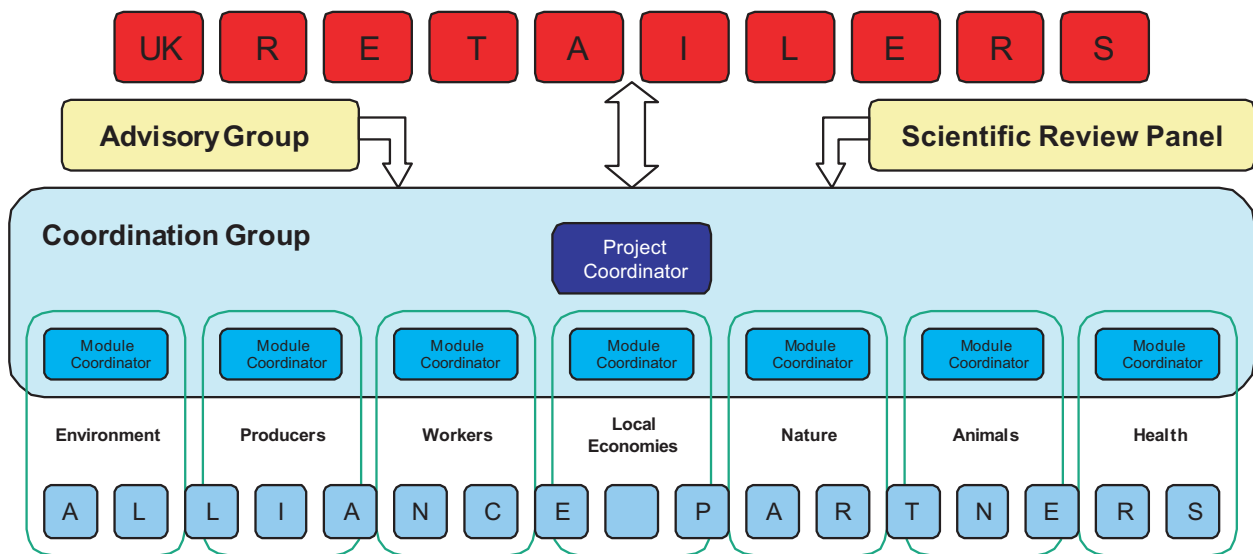
4.2 Thematic modules

The thematic areas emerged from an alliance-wide discussion before the retailers were approached. It was agreed that retailers would only be approached once a first draft of key issues, indicators and measurement methods had been developed. This decision was taken for two inter-related reasons – firstly, to allow a concrete, constructive dialogue around the draft indicator framework rather than starting with a blank sheet of paper; and secondly, to give a clear message that the topics to be covered by the benchmarking process were those considered a priority to the civil society alliance partners, rather than those with which the retailers would be most comfortable.

One organisation or individual was identified to lead on each of the seven themes (or modules) that emerged. Obvious institutional gaps (e.g. animal welfare organisations) were filled subsequently, after discussions with likely additional partners. The modules thus covered a broad swathe of the social and environmental issues related to UK food retail (**Table 2**).

Initial funding from the Countryside Agency allowed the project partners to hold a series of thematic workshops, for which the partners split into module working groups according to their interest and expertise. The New Economics Foundation advised each of the module

Figure 4: Project Institutional Structure



working groups on theoretical and practical approaches to developing indicators. A short list of up to five issues was developed for each thematic module, with initial suggestions for indicators and measurement methods for each issue. The prioritisation process was challenging, particularly given the tendency for campaigning groups to focus solely on their single issue, and the resulting shortlist was inevitably an incomplete compromise rather than a full wish-list. But partners recognised the need to keep the list of indicators, and hence the data collection burden, as streamlined as possible. The main themes and subthemes that had been defined by 2003 are listed in **Table 3**; an explanation of why these themes were deemed significant and the background to each issue can be found in each of the module briefing papers at www.racetothetop.org/issues/.

The selection of topics raises two important methodological and philosophical issues. Firstly, by seeking to be wide-ranging yet manageable, the alliance chose

not to include some apparently obvious topics – e.g. GMOs, an issue which was not included because it was felt that it was already being tackled by supermarkets, as well as covered by other NGO initiatives (particularly Friends of the Earth’s Real Food campaign). At the same time, some observers argued that relatively inconsequential topics (at least in terms of retailer action, if not also sustainability impacts) were included. To some extent this reflected an attempt to raise the profile of some issues that had not previously been prominent among debates on supermarkets’ ethical policies. But some observers continue to argue that to be credible, a broad-based project such as RTTT needs to cover all high profile issues, whether or not they are already being tackled with some effort, even if this simply provides ‘easy wins’ for all retailers.

Secondly, the selection of themes was clearly dependent on which organisations had already been brought into the discussions at the time the modules were formed.

Table 2: Evolution of module themes

November 2000	April 2002	November 2003
Environmental Management & Reporting	Environment	Environment
Terms of Trade with Primary Producers	Producers	Producers
Labour Standards	Workers	Workers
Regional Sourcing and Rural Regeneration	Communities	Local Economies
Biodiversity and Landscapes	Nature	Nature
Animal Welfare	Animals	Animals
Environmental and Public Health	Health	Health

Table 3: Consolidated list of indicators, 2003

Module	Issue	Indicator(s)
Environment	Corporate commitment to environmental responsibility & performance	Board-level responsibility, training and reporting for environmental issues.
	Climate change	Energy use and emissions of CO ₂
	Waste	Waste management and minimisation
Producers	Corporate commitment to trading integrity	Board-level responsibility for trading integrity
	Trading integrity with the supply chain – policies	Standards and codes of practice
	Fair trading relationships	Integrity of the trading relationship with UK farmers and suppliers
	Support for smallholder producers in developing countries	Availability of and promotion of Fairtrade Marked products
Workers	Corporate commitment to labour standards within the company and in the supply chain	Board-level responsibility
	Labour standards within the company	Remuneration of supermarket employees and conditions of employment
	Core labour rights and employee representation	UK company employee representation
	Labour standards in the supply chain	Existence and application of labour standards code of conduct
Local Economies	Support for the local economy – policy	Company policy on sourcing food 'locally' and 'locality' foods, and on promotion
	Support for the local economy – practice	Extent of local and regional sourcing and promotion
Nature	Environmental issues within the supply chain	Corporate commitment to addressing nature conservation issues within the supply chain
	Environmental issues within the food chain	Producer suppliers with retailer-supported farm environment audits and/or plans
	Sustainable fisheries	Wild and farmed fish from sustainable sources
Animals	Corporate commitment to farm animal welfare standards	Board-level responsibility for and policy on farm animal welfare standards, and promotion
	The welfare of breeding pigs – pregnant sows	Sales of pigmeat from progeny of breeding sows kept in stall or tether systems
	The welfare of laying hens	Sales of shell eggs by production system
	The welfare of broiler (meat) chickens	Sales of fresh and frozen chicken by production system
	Transport of farm animals	Policy on transport of farm animals
Health	Corporate commitment to public health	Responsibility for and action on food and public health
	Action on food poverty and health inequalities	Store location and pricing policy
	Access to and within stores	Commitment to widening access
	Nutrition and healthy eating	Extent to which sales support dietary guidelines

The alliance was built essentially through personal contacts at first, and grew somewhat ‘organically’ as existing partners suggested other potential members. This not only implies that such an alliance cannot claim to be comprehensive, but also raises questions about the legitimacy of civil society organisations to define societal priorities, particularly where these organisations are not themselves ‘democratic’ or membership-based. In an era in which civil society organisations are increasingly expected to represent the interests of stakeholders – of corporations or of other entities – this challenge is far from uncommon.

The modular thematic structure had benefits and drawbacks. It gave a focus to the otherwise unwieldy array of issues, and enabled project coordination through the module coordinators. By scoring and reporting on each module separately, companies could be given credit for their efforts and progress in what they (and arguably, their customers) deemed priority areas, without these efforts being hidden by a lower average score across all modules. But it militated against an exploration of the links and trade-offs between different issues – for example, by introducing higher environmental standards with the supply chain, producers may incur increased costs and obligations without compensatory higher returns, thus reducing producer welfare. The modular structure also had implications for the eventual scoring and benchmarking systems – it was convenient to give equal weight to each module, which implied that each module was of equal significance in terms of sustainability impacts, a problematic assumption that some participants understandably challenged. Furthermore, establishing the modules reduced future flexibility to introduce other emerging issues. Although the titles and emphasis of some modules changed during the life of the project (see **Table 2**), their overall focus remained relatively stable.

4.3 Project Coordination and Groups

As noted above, the number of actors and complexity of the issues meant that the project required a clear governance and management structure if it was to be efficient, legitimate and credible. The project was coordinated by IIED, an independent research institute. This role included general project management tasks such as coordination of research and benchmarking, compilation of the retailer questionnaire, fundraising, financial management and reporting to funders, website development and maintenance, documentation and information sharing, etc. In addition, the role included a strong convening, facilitating and brokering element, which included developing and maintaining relationships with supermarket companies and with the alliance’s civil society partner organisations, managing the process of ongoing dialogue, and seeking negotiated solutions where necessary. When the project was established, IIED had worked on sustainable business initiatives in other sectors, but was seen as a relative

newcomer to the UK supermarket scene. IIED’s perceived impartiality and capacity for rigorous research were seen as advantages in performing these convening and brokering functions.

IIED worked closely with the seven module coordinators in what was termed the Coordination Group (**Table 4**), an executive body which met approximately every three months. Each of the module coordinators was formally tasked with leading all matters related to their respective modules, including liaising with other alliance member organisations with an interest in the module and convening meetings with alliance partners, retailers and other experts as necessary; developing all data collection tools including the respective section of the retailer questionnaire and other survey tools; scoring the results; and writing a module briefing paper, which described the rationale, issues, indicators and methodologies for the module.

Other alliance partner organisations were not generally involved in the day-to-day running of the project, although inevitably some were more active than others. They were able to provide input into the development of the benchmarking framework and the data collection tools for those modules in which they had an interest. Some organisations were involved in more than one module working group. Once the benchmarking methodologies were relatively well established, the role of most of the other alliance partner organisations was restricted to information sharing and occasional alliance-wide meetings, called by IIED whenever important decisions needed to be made or explained. Seven such alliance-wide meetings were held in total between July 2000 and December 2003. In many cases these were supplemented by direct contact at regular intervals through the respective module coordinators.

The Advisory Group was established in 2001 to seek to ensure the highest quality, balance and integrity of the project’s work. It acted as an invaluable sounding board and provided strategic and technical advice to IIED and the rest of the Coordination Group. It met quarterly for 3-hour meetings. There were eleven members of the Group in all (**Table 4**). Although all members of the Group acted in their personal capacity, they were selected on the basis of their expertise and background. The regular meetings of the Advisory Group were an invaluable source of advice and encouragement to the Coordination Group, and were where many of the most interesting discussions about the challenges, dilemmas and trade-offs inherent to the project took place. The broad range of members helped to ensure that the project remained balanced and realistic overall, and added a level of integrity that otherwise would have been difficult to achieve.

Other than through direct engagement with the benchmarking process as individual companies, the Advisory Group was the only formally recognised point of contact or influence that any representative of a supermarket

Table 4: *Members of the RTTT Groups*

Coordination Group	
Chloe Alexander and Rupert Howes, Forum for the Future	Coordinators, Environment module
Bill Vorley, IIED	Joint Project Coordinator and Coordinator, Producers module
Julie Smith ²²	Coordinator, Workers module
Vicki Hird and Merav Shub, Sustain: the alliance for better food and farming	Coordinators, Local Economies module
Hannah Bartram, Royal Society for the Protection of Birds (RSPB)	Coordinator, Nature module
Philip Lymbery, World Society for the Protection of Animals (WSPA)	Coordinator, Animals module
Tim Lang and Lindy Sharpe, Department of Health Management and Food Policy, City University	Coordinators, Health module
Tom Fox, IIED	Joint Project Coordinator
Other Civil Society Partner Organisations	
British Independent Fruit Growers' Association Compassion in World Farming Council for the Protection of Rural England Countryside Agency English Nature Fairtrade Foundation Farm Animal Welfare Network Farmers' Link Marine Conservation Society Marine Stewardship Council	National Federation of Women's Institutes New Economics Foundation Small and Family Farms Alliance Soil Association Traidcraft Exchange Transport2000 Transport and General Workers' (Rural, Agricultural and Allied Workers) Union USDAW (Shop, Distributive and Allied Workers) Union WWF-UK
Advisory Group²³	
Richard Baines Chizom Ekeh Nicola Ellen Tony Gould Jim Howell ²⁴ David Hughes Rob Lake John Lampitt James Northen ²⁵ Andrew Simms Anne Tallontire/Valerie Nelson	Royal Agricultural College National Consumer Council Strategy Manager – CSR, Safeway Stores Ltd. T&GWU Food and Agriculture Sector Defra Food and Drink Industry Division Imperial College Henderson Global Investors Farmers' World Network IGD New Economics Foundation Natural Resources & Ethical Trade Programme, NRI
Scientific Review Panel	
Environment Producers Workers Local Economies Nature Animals Health Retail strategy Methodology	Frans Berkhout, University of Sussex Andrew Fearn, Imperial College Mike Ironside, Keele University Kevin Morgan, Cardiff University Richard Baines, Royal Agricultural College John Webster, University of Bristol Gill Cowburn, University of Oxford Institute of Health Sciences Neil Wrigley, University of Southampton Ray Chambers, University of Southampton

22 Succeeded Anne Gray.

23 Members acted in their personal capacity and did not necessarily represent the organisations with which they were affiliated.

24 Succeeded Lindsay Coombs.

25 Succeeded Richard Hutchins.

company had with the project. Nicola Ellen was proposed as a potential member of the Advisory Group by other retailers, because as well as being Safeway's Environmental Manager (and subsequently CSR Strategy Manager), she also served as Chair of the British Retail Consortium's Environment Policy Advisory Group, which was a key forum among the retailers in relation to many of the issues that *Race to the Top* covered. Nicola Ellen's link with the BRC was indicated on the *Race to the Top* website. Officially, the members of the Advisory Group generally acted in a personal capacity and did not necessarily represent the organisations with which they are affiliated. This distinction was made because the British Retail Consortium wished to distance itself from the project. In practice, some members explicitly said that they did represent their organisations.

The Scientific Review Panel was added to the project governance structure at the end of 2002 in response to funders' wishes to ensure that the outputs and methodologies were given due scientific scrutiny. It consisted of leading academics, with one expert nominally assigned to each of the seven modules, plus two additional experts to advise more broadly on retail strategy and methodology respectively (**Table 4**). The aim was to provide peer review and technical advice in relation to the quality and rigour of specific project outputs such as the briefing papers and data collection instruments. Panellists provided advice on these issues to the advisory group, through the project coordinators at IIED or through direct contact with the relevant module coordinator. As the project only ran for one year after the Panel was formed, it is not possible to assess the efficacy of this arrangement.

The other key institutional forum was a series of ad hoc meetings with all participating retailers, organised as necessary to discuss project content, implementation and strategy. Five such meetings were held throughout the project's life. Additional meetings were held to explore some key contested issues within particular modules. In order to keep the number of participants manageable, these meetings were generally not open to the whole project alliance, and only involved the Co-ordination Group. As the project methodology became more established, these meetings were held less often. However, it was the intention that once the first year's results had been published and the annual benchmarking process had become established, workshops would be organised to allow space to explore key barriers to social and environmental improvements by retailers. In addition to the collective meetings with all participating retailers, numerous meetings were held between IIED and individual retailers to provide feedback on the annual results.

Although this structure of groups created an efficient and manageable project, and provided a focus in terms of content, it had its disadvantages. The main drawback was a loss of sense of ownership of the project by some alliance partners, particularly those that were not involved in the Co-ordination Group. It created a relatively 'safe' environment for discussions between supermarkets and the module coordinators, one step removed from the often more critical forum of the wider alliance, which helped to keep the process moving, but took away some of the 'edge' and impetus for action that direct interaction might have created. Finally, the need to keep the whole process moving at the same pace across all seven modules meant that progress on issues and methodologies on which there was consensus was slowed due to lack of consensus elsewhere.

4.4 Data collection and benchmarking

Data collection methodologies for the benchmarking process included a questionnaire to supermarkets; a supplier survey; a Fairtrade survey; and a local foods store survey. From the outset, it was appreciated that it would be very important for RTTT to supplement data collected from supermarkets with externally derived data – partly to cross-reference, and partly to get to data areas that questionnaires cannot reach. For example, if the subject is commitment to local food, then store shelves could be surveyed for evidence of local and 'locality' (i.e. regionally identified) produce. And if the subject is trading relations with suppliers, then suppliers (and hopefully also primary producers) can be surveyed for their views on which retailer conducts trading with fairness and justice. If the subject is labour standards, then the Trades Unions can be approached to see if their information on wages, staff representation, staff turnover etc. tallies with the data that supermarkets themselves submit. Much effort was therefore expended in the development of the supplier survey, Fairtrade survey and local foods store survey.

● *Supermarket Questionnaire*

The supermarket questionnaire provided the majority of the data used in the benchmarking process. It was developed in discussion with participating retailers in workshops and through correspondence, and went through a number of drafts and revisions before and following the 2002 pilot year. Where possible, questions were aligned with other data collection initiatives²⁶, to minimise cases of similar data being requested in different formats. The 2003 questionnaire was sent to all ten major UK retailers. Feedback from 2002 highlighted the need for a long response window, particularly as data was collected during the summer period when key members of staff would be unavailable at times.

²⁶ These included Compassion in World Farming's Compassionate Supermarket of the Year; the Soil Association's Organic Supermarket of the Year; and the Business in the Environment (BiE) index.

The final 2003 questionnaire was therefore distributed to retailers on 17 June, with a deadline for responses of 10 September.

The questionnaire consisted of seven sections, each relating to one module. Guidance notes and a statement explaining the rationale were provided for each module and indicator where appropriate. In addition, the questionnaire included general guidance notes for respondents and a section asking for general data on supermarket operations. The latter were requested for the purposes of normalising data in the responses to certain questions in the seven modules, and to provide information to allow the presentation of results to take account of the particular business context of each company.

● *Supplier Survey*

The supplier survey was devised and implemented by the Centre for Food Chain Research at Imperial College, Wye, under the leadership of Dr Andrew Fearne. The original objective was to develop a survey instrument for the analysis of UK supermarkets' terms of trade with primary producers. But as very few primary producers have commercial relationships directly with retailers, it was agreed that the research focus should shift from primary producers to the suppliers of processed products – fruit and vegetable packers, meat processors and dairy companies, who provide the link between farmers and retailers. The conceptual framework was Kumar's (1996) theory of justice in buyer-supplier relationships, covering distributive justice (e.g. price received, payment terms, distribution of costs, imposed charges); and procedural justice (e.g. bilateral communication). The methodology also incorporated those findings of the UK Competition Commission's 2000 report on UK supermarkets which pertained to supplier relationships.

Qualitative research was conducted to identify key issues from suppliers' perspectives, test the conceptual framework, and design the survey (questionnaire and sampling). This involved 22 interviews with processors, growers and intermediaries (top fruit, potatoes, beef, lamb, pork & bacon, milk and cheese). During the 2002 pilot year, the prototype survey instrument was then tested quantitatively, firstly as part of the Organic Supermarket of the Year award (in conjunction with the Soil Association) and then via a further six mailings to 300 fresh produce suppliers, 60 dairy companies, and 19 fresh meat processors using databases at or provided to Imperial College.

In 2003, the questionnaire was slightly simplified, and comprised 37 questions, of which 36 were statements covering the different aspects of distributive justice, procedural justice and conflict resolution in the trading

relationship between supermarkets and their suppliers in the fresh meat, dairy and fresh produce sectors. In order to get a larger proportion of supermarkets' supply base sampled (and thereby avoid small sample sizes for the smaller retailers) it was decided that for the 2003 survey, participating supermarkets should distribute copies of the questionnaire and reply paid envelopes to their entire supply base. This was done in July 2003. The covering letter emphasised the fact that all responses would be received in confidence and that the results would only be analysed in aggregate, across all three sectors, to avoid any possibility of reprisals against suppliers reporting negative aspects of their trading relationships with supermarkets.

● *Fairtrade Survey*

Commitment to Fairtrade labelled goods was a key component of the Producers module. Within the RTTT questionnaire, retailers were asked about the breadth and depth of support for Fairtrade products – from the number of products to the use of displays and events during the annual 'Fairtrade Fortnight' (FTF). This was another area where it was thought that external data collection could both 'ground-truth' and supplement supermarkets' self-reporting. In association with each FTF, the Fairtrade Foundation proposes a series of actions with their partner 'Fairtrade towns', currently numbering 57 cities, towns, villages, zones and islands,²⁷ through an action pack. In 2003, a short survey form for measuring supermarkets' support for Fairtrade was included in the pack.

● *Local Foods Store Survey*

Another area where retailer self-reporting could be supplemented with independent data is in the area of commitment to local and regional food. The major partners in this survey were the National Federation of Women's Institutes, and Andrew Fearne of Imperial College at Wye. A pilot exercise was conducted in association with the Huntingdon and Peterborough Federation of the WI in February/March 2003, which allowed the survey tool to be improved based on problems with the original form such as a difficulty in distinguishing between *local* and *locality* products. This combined 'Mystery Shopper' surveys and a shelf survey. The 103 actual store surveys were conducted in Cardiff, Newcastle, Bristol, Carlisle, Coventry, Peterborough, Huntingdon, Leeds and a number of other towns, between July and September 2003.

The benchmarking process – particularly defining what influence retailers have on each issue, what should be measured, and how – gave a focus to the engagement process and the thematic discussions, and helped to

²⁷ See http://www.fairtrade.org.uk/get_involved_fairtrade_towns.htm.

highlight where there was consensus and where issues remained unresolved or contested. But it highlighted some key methodological challenges, as follows.

Firstly, although the benefit of focusing on a single sector (multiple food retailers) was that the project could go deeper than cross-sectoral benchmarking initiatives such as Business in the Environment's Index or FTSE4Good, thus identifying themes and measures that are specific to the sector, there remains significant diversity between the ten target companies. These differences relate to size; market share; typical store location, format and size; buying power; target market; product offer (e.g. proportion of non-food and of own-brand products); corporate culture; and ownership structure (e.g. PLC versus private company versus co-operative). Finding meaningful indicators of performance across such a diverse sector remained a challenge, and resulted in the application of indicators and methodologies that some participants saw as inappropriate at best and naïve at worst.

“Working with both leaders and laggards at the same time is difficult. Leaders are often asked to give more than they get out of an initiative” (Rob Lake, Advisory Group member)

A second, related question was whether the benchmarking should recognise existing achievement or incremental change. For example, companies that had already developed sophisticated environmental management and reporting systems expected to be recognised as leaders, yet the greatest impact in environmental terms could arguably be achieved by the ‘laggards’ taking some first steps. The project hoped to balance the two aspects by highlighting the ‘most improved’ as well as the highest performers, but this would only have commenced in the second year, once a first baseline year had been established, and this was not a complete answer. And this itself caused a further problem – measuring change would have required a static set of indicators and methodologies, which militated against the evolution of the framework as new issues came to the fore or better methodologies were developed.

Thirdly, some of the distinguishing characteristics listed above could arguably affect the opportunities for any one company to act on any particular sustainability issue. This relates particularly to store size and typical customer profile, especially where performance is judged by sales of ‘ethical’ products. For example, if a company’s commitment to supporting livelihoods of small producers in developing countries is measured by the sales and number of Fairtrade-labelled product lines, those companies with large stores (and hence scope for stocking Fairtrade products without removing

other key profitable product lines) and an affluent, educated and socially conscious consumer base will score highly. If the indicator is sensitive to this and attempts to measure effort (e.g. proportion of stores with promotional displays during Fairtrade Fortnight) the problem is reduced but not eliminated. Thus the achievement versus progress picture becomes even more blurred by the different levels of effort necessary to achieve either.

4.5 Scoring and publication of results

When NGOs first discussed the project in 2000, the intention was to publish annual ‘league tables’, ranking the performance of all ten major UK multiple retailers in each of the seven module areas. As dialogue with the retailers continued through 2001, it became clear that the idea of a league table was a key barrier to some retailers’ participation (and hence access to their data). Some retailers remained keen, pointing to the positive impact that other externally driven league tables had achieved in driving and rewarding change. But companies were extremely sensitive to the risks of such a publication format, primarily because this meant that they might be ranked in bottom place, thus attracting adverse media attention. There is some truth in the observation that the media is far more interested in who has come last rather than who has come top.

Other publication models were proposed, including the publication of only the top five companies in each module, and a graded ‘star-rating’ system that avoided a ranking of exact scores and distinguished between high and low scores, irrespective of the rank. Yet some retailers rejected all of these alternative models. By 2003, when plans for the publication of the first ‘live’ results were under way, retailers were even more concerned to avoid any possibility of RTTT results being used to compile league tables of any description. The release of Business in the Community’s first Corporate Responsibility Index was cited as a primary example of how the media tends to focus on companies that do not score highly.²⁸ Again, the sanction of non-participation meant that participating companies had a strong negotiating position, but eventually a tough compromise was agreed. This meant that the 2003 results were to be published in ‘company profile’ format, with text describing how each company performed on each indicator, but no reference to actual scores or allocation of grades/stars. In addition, the highest scoring retailer in each of the seven modules would be identified.²⁹ This was a long way from the original intention of a league table, but civil society partners generally accepted that the compromise was necessary to keep retailers on board.

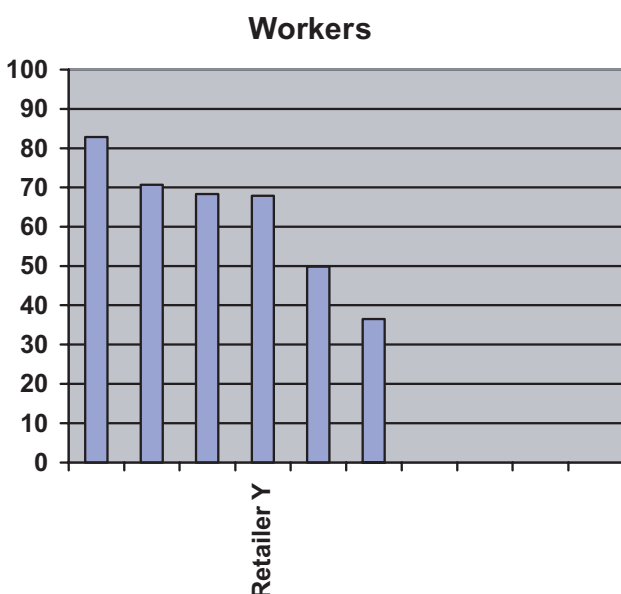
²⁸ In this case, some companies even attracted media attention due to being placed near the bottom of the list, despite each quintile being ordered in alphabetical order rather than by score.

²⁹ In subsequent years, it was envisaged that the most improved retailer in each module would also be identified.

Again, the modular scoring approach and identification of the best performer in each module had its benefits and its drawbacks. It allowed companies to be given credit for their efforts in the modules that they deemed priority areas, without these efforts being hidden by a lower average score across all modules. But it did obscure uneven performance within each module. For example, in the pilot year, one company scored highly on most of the indicators within the Producers module, but because of a policy decision not to stock Fairtrade products, its module score was relatively low. The company profiles included space for companies to explain such policy decisions or make other comments on their performance, but the reader would not necessarily take this into account.

Away from the difficult debates on how the results should be published, the scoring methodology used in the 2002 pilot year demonstrated participating companies' interest in comparing their performance with that of their competitors. Each retailer was provided with a detailed breakdown of their scores across each of the modules. This included a comparison of the score awarded for the sub-elements of each indicator against the average of all participating retailers, and against the highest score awarded among all participants (see excerpts from a company feedback document reproduced in **Figure 5** and **Table 5**). It also included notes on scope for improvement. Participating retailers stressed that this feedback and confidential benchmarking represented one of the most useful elements of the RTTT project. Had all ten retailers taken part, clearly this would have been even more valuable.

Figure 5: How results were presented to retailers: Scores of one supermarket within the 'workers' module in comparison to five other participating retailers



4.6 Retailer Participation and 'Critical Mass'

From the start, it was clear that the project's success would depend on the participation of a 'critical mass' of retailers, both in terms of market share and number of participants. All ten major UK retailers were approached in 2000 and individual meetings were held with each of them to introduce the project during 2001. Workshops involving all participating retailers commenced from 2002, involving all but Waitrose and Morrisons. At the request of retailers, a Memorandum of Understanding was developed in early 2002, which set out the terms of engagement for all participating companies and organisations. This proved a double-edged sword – it confirmed the commitment of the six companies and 24 civil society partners that had signed it by April 2002 to the process of data collection and constructive dialogue (**Table 6**), but it may have acted as a barrier to the continued participation of some of the others, by creating a formal 'signing-up' process that required a high-level go-ahead. Once the MoU was in place, those companies that had not signed it were not permitted access to workshops and meetings. At that point, only Waitrose had formally declined to participate – though discussions continued with the project coordinators on an individual basis, even into 2003.

All six participating retailers provided a full set of data in the 2002 pilot phase, and received detailed analysis of their scores relative to the industry best and industry average. This important phase of the project represented an acknowledgement by civil society partners that they did not necessarily have all the answers, and that RTTT could comprise a form of joint learning. In the light of experience from the pilot year, most survey methods were modified for 2003.

During the summer of 2003, a few months before the first public release of results was due, the project partners were optimistically looking forward to broad industry participation. A letter was received from the chief executive of Tesco on 2nd June 2003, stating that the company "would like to participate on a yearly basis providing our concerns are addressed". This was followed by a constructive meeting at Tesco headquarters. There were signs of interest from Waitrose, and it looked likely that the six pilot year supermarkets would remain engaged. Only Asda and Morrisons showed no interest in taking part. But by the deadline for data submissions in 2003, only 3 supermarkets were on board – the Co-operative Group, Sainsbury and Somerfield. These companies are to be commended for their hard work in collecting data and for demonstrating a willingness to open themselves up to scrutiny. But without the market leaders, a sectoral benchmarking initiative cannot have real impact.

The role of the market leaders in making or breaking a sectoral initiative must not be underestimated. Tesco,

Table 5: How results were presented to retailers: Scores of one supermarket within the 'workers' module in comparison to five other participating retailers

Module		Workers						
Indicator	Question	Theme	Points available	Average Score	Highest Score	Retailer Y Score	+/- average	+/- best
3.1	Board member		10	10	10	10	0	0
	3.1.1	Board member	10	10	10	10	0	0
3.2	Labour Standards within the Company		30	19	24	24.25	6	0
	3.2.1	Length employment	6	3	6	6	3	0
	3.2.2	Contracted hours	6	4	6	3	-1	-3
	3.2.3	Pay rates	6	4	6	6	2	0
	3.2.4	Staff turnover	6	3	4	4	1	0
	3.2.5	Staff benefits	6	5	6	5.25	1	-1
3.3	Employee representation		30	13	25	6.75	-6	-18
	3.3.1	Independent TUs	3.75	1	2	0	-1	-2
	3.3.1	Staff forums	3.75	2	4	3.75	2	0
	3.3.1	TU recognition	7.5	4	8	0	-4	-8
	3.3.2	pay negotiation	15	7	15	3	-4	-12
3.4	Labour standards in the supply chain		30	21	28	26.875	6	-1
	3.4.1	labour code	3.75	3	4	3.75	1	0
	3.4.2	code coverage	3.75	3	4	3.75	1	0
	3.4.3	code training	3.75	3	4	3.75	1	0
	3.4.4	code support	3.75	3	4	1.875	-1	-2
	3.4.5	code monitoring	3.75	3	4	3.75	1	0
	3.4.6	code implementation: first tier suppliers	1.25	1	1	0.625	-0	-1
		code implementation: entire chain	1.25	1	1	0.625	0	-1
		code implementation: own brand or more	1.25	1	1	1.25	1	0
	3.4.7	social report verification	3.75	2	4	3.75	2	0
	3.4.8	procedures non-compliance	3.75	3	4	3.75	1	0
		gangmasters	0	0	0	0	0	0
Total Module 3			100	63	83	67.875	5	-15

Table 6: *Participation of UK top 10 retailers, 2000–2003*

2000 approach	2001+ workshops	2002 MoU, pilot data collection	2003 roll-out
Asda	Asda		
Co-op	Co-op	Co-op	Co-op
Iceland	Iceland	Iceland	
M&S	M&S	M&S	
Morrisons			
Safeway	Safeway	Safeway	Safeway
Sainsbury	Sainsbury	Sainsbury	
Somerfield	Somerfield	Somerfield	Somerfield
Tesco	Tesco		
Waitrose			
		55% of market	< 20% of market

and to a lesser degree Asda, act not only as leaders in market share terms, but also in political and institutional terms. The other retailers cannot afford to be outside certain initiatives once Tesco and/or Asda commit to taking part – and the opposite is also true. As soon as it was clear that Tesco would not be submitting data to the project in 2003, the attractiveness of participation for other supermarkets clearly declined, even to the extent that at least one company that had gone to the effort of collecting the data eventually decided not to submit it.

5 Results

The overall results of both the 2002 pilot and 2003 public processes are briefly presented here, as far as confidentiality allows.

5.1 2002 Pilot Year

The spread of pilot year scores across the supermarkets (with non-participants scoring zero) are presented in **Figure 6**. Scores are not attributed to each supermarket for reasons of confidentiality. Most modules allowed a clear differentiation between best and worst performers. The pilot year results also highlighted the

need for in-depth discussion regarding the appropriateness of the data set to the real issues under investigation. For instance, the 'local sourcing' module was very contested, and a workshop was therefore held in April 2003 to discuss this in some detail, to identify revisions for the 2003 questionnaire.

These data can also be presented in overview format (**Figure 7**) – here the average and best scores from the six participating supermarkets are presented. For such presentations, the individual scores are translated into a grading system with the highest scores awarded 5

Figure 6: Spread of retailer scores in each module, 2002 Pilot Year

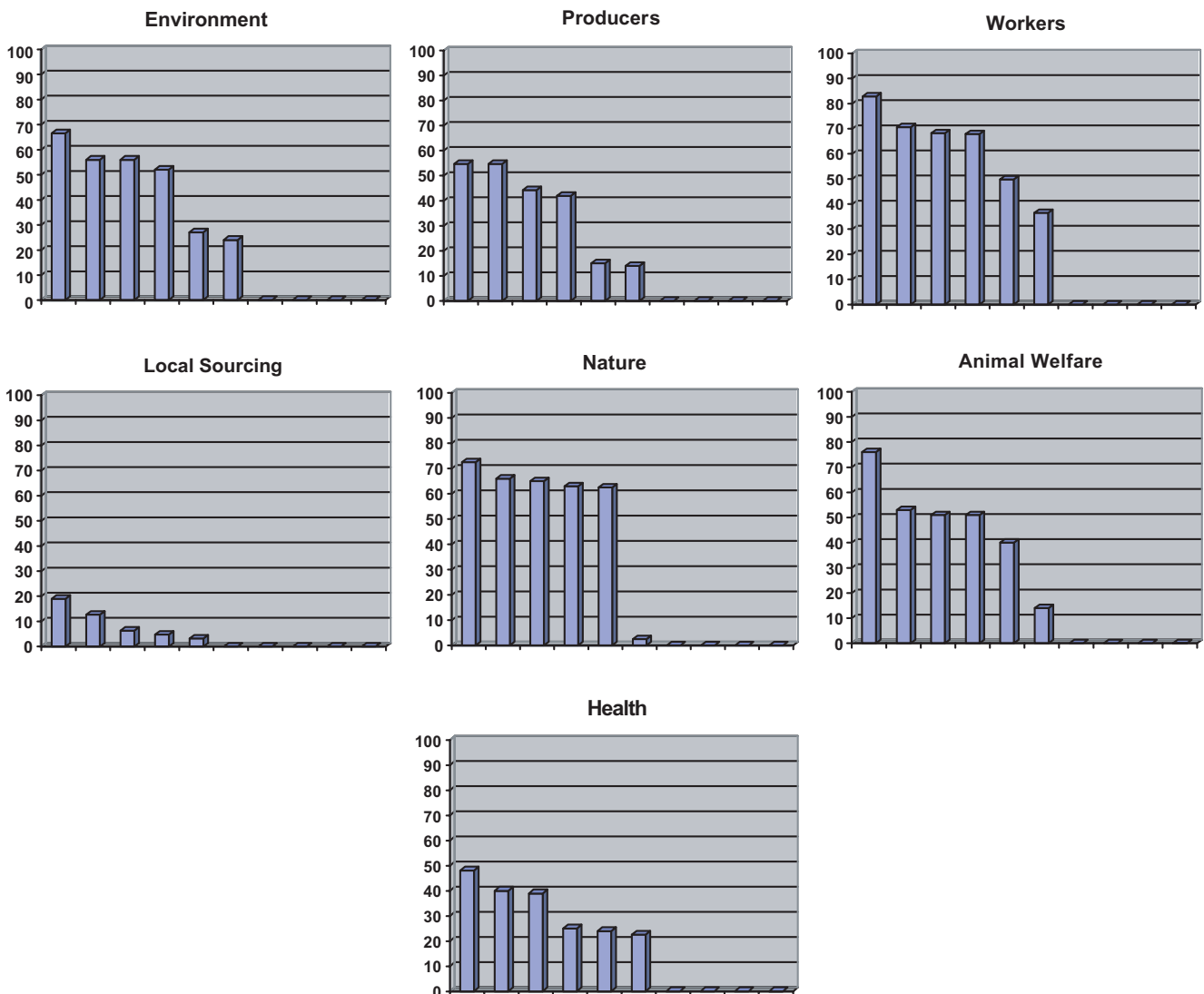
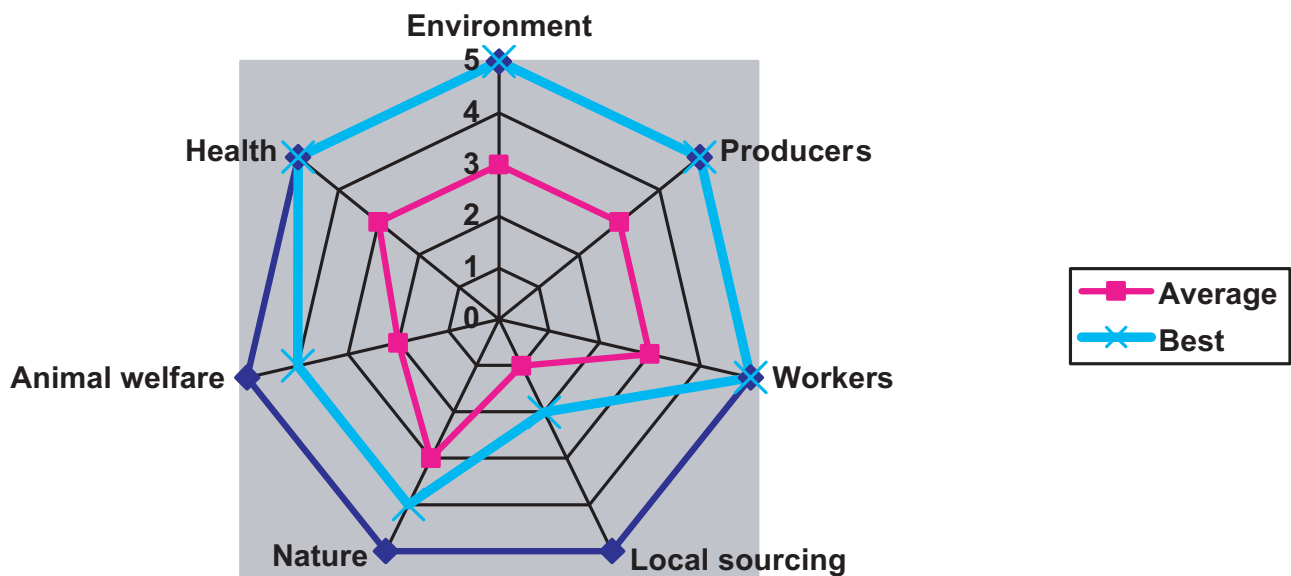


Figure 7: Supermarket Profile star rating – 2002 pilot year



points. Each of the participating companies was presented with these charts as well as a complete breakdown of their own scores against the average and best scores on each element of each indicator.

5.2 2003 Public Year

Because only three supermarkets (Co-operative Group, Safeway and Somerfield) provided data sets in 2003, the spread of scores cannot be presented here without effectively breaching the agreement on confidentiality. As noted above, it was agreed that the project would identify the ‘best in class’ company in each module (Table 7). On the basis of the data submitted to the project – and it should be recognised that some participating retailers felt unable to provide complete data sets for confidentiality reasons, which inevitably affected their scores – the Co-op was far and away the leading company in *Race to the Top 2003*. The Group achieved ‘Best in Category’ in six of the seven modules. These outstanding results show what can be achieved when a company puts its whole operation behind the idea of responsible retailing, despite a challenging position in the food retail market.

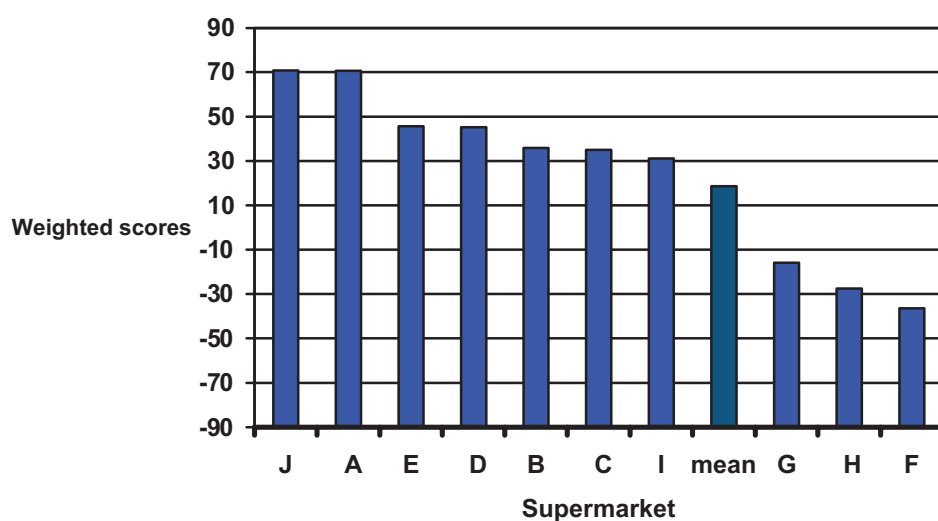
It would have been very interesting to compare the Co-op’s results with those companies with high-end customer bases – especially Waitrose and Marks and Spencer – to see just how far the Group has come, and how the assumed ethical leaders now have to watch out for the Co-op moving the goalposts of responsible retailing. There are many lessons from the Co-op’s performance, which has accompanied its re-invigoration in the fortunes of co-operative retailing, for those companies, which say that ethics are a luxury they cannot afford.

Table 7: ‘Best in class’ in each module, 2003

Module	Best in class
Environment	Safeway
Producers	Co-op
Workers	Co-op
Local sourcing	Co-op
Nature	Co-op
Animals	Co-op
Health	Co-op

5.3 Results of the external data collection

Although the majority of the data collected came from the supermarket questionnaire, the project placed considerable emphasis on developing workable methods for external data collection. Although these suffered from various methodological problems, particularly small sample sizes, the results are nonetheless revealing. They show that putting policy into action is not always smooth – the supplier survey, for example, indicated that the Co-op has work to do in terms of supplier relationships. And the store survey associated with the ‘Local Economies’ module showed that local sourcing of food is weak across the sector.

Figure 8: Results of supplier survey, Pilot Year

● Supplier Survey

The results of the 2002 pilot are presented in **Figure 8** and **Table 8**. The results indicate strong validation of the survey instrument – there was a wide level of support for the items being measured, and the scoring system generated adequate variation to capture the relative performance of each supermarket. The single biggest problem was the sampling method – few retailers were adequately represented in the sample.

In 2003, only two supermarkets participated in the supplier survey, from whose supply base a total of 28 completed questionnaires were returned (**Table 9**).

This poor response highlights the problems of relying on supermarkets for access to suppliers, giving the industry the same power of veto as for the main RTTT questionnaire.

Table 8: Survey of supermarket terms of trade with suppliers – Pilot Year

Supermarket	Sample Size	Mean Score* (unweighted)	Rank	Weighted mean score** (weighted by significance to the business)	Rank	Mean progress since 2002***
A	12	28.0	2	70.6	2	1.22
B	4	17.7	4	45.2	5	1.09
C	1	15.0	5	35.0	6	1.84
D	8	14.5	6	35.9	4	1.11
E	9	19.9	3	45.7	3	1.18
F	17	-14.0	10	-36.5	10	1.08
G	37	-5.1	9	-16.0	8	1.14
H	4	-4.7	8	-27.5	9	1.14
I	31	12.6	7	31.1	7	1.18
J	17	28.1	1	70.8	1	1.17
Total	140	8.1	–	18.6	–	1.16

* Maximum/Minimum = 86/–86

** Maximum/Minimum = 258/–258

*** 2 = yes, 1 = no

Table 9: Survey of supermarket terms of trade with suppliers, 2003

Supermarket	Sample Size	Mean Aggregate Score*	Standard Deviation	Mean progress since 2002**	Standard Deviation
1	5	17.2	12.3	6.6	8.6
2	23	7.6	10.6	6.2	6.0
Total	28	9.3	11.3	6.3	6.4

*Maximum/Minimum = 60/–60 ** Maximum/Minimum = 30/0

● Fairtrade Survey

This survey did not benefit from testing in the 2002 pilot year, and the data gathered around Fairtrade Fortnight in February 2003 were not used in the 2003 benchmarking, because national coverage was very uneven. But the exercise showed that by working with motivated volunteers, high quality survey data can be obtained on this issue. The most comprehensive response was from the group in Leeds, who conducted a total of 90 surveys (**Table 10**).

● Local Foods Store Survey

The survey indicated a generally low rate of local and locality food sourcing by the major retailers (**Table 11**).

Across the product lines surveyed (apples, potatoes, milk, lamb, beef and cheese) very few instances of ‘local’ products were identified. There was more evidence of ‘locality’ products, for example many stores around the country stocking several labelled locality potato varieties, a few locality meat cuts, and several locality cheeses. There was also very little evidence of ‘promotion’ in the form of point of sale advertising, sampling stands, leaflets etc. Most retailers have not yet ensured that their customer service staff are briefed on the issue of local sourcing. When ‘mystery shoppers’ asked customer service staff for information about local foods available in their stores, the overwhelming response was that no information was available, or customer services simply ‘didn’t know’.

Table 10: Survey of supermarkets in Leeds, February 2003

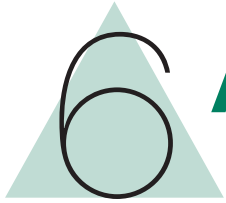
Supermarket	No. of surveys	Store Size	No. of Fairtrade lines per store (average)	No. of Fairtrade lines (largest numbers)	Promotional effort*	Support for Fairtrade**
G	6	Large	25.0	29	High	good
A	4	Large	7.6	11	Low	poor
E	18	Medium – Large	7.6	13	Low	poor
I	6	Small – large	11.5	24	Low	fair
F	13	Medium	11.7	21	Low	fair
H	2	Medium	2.0	2	Low	poor
B	26	Small-medium	13.3	40	High	excellent

* Special displays, advertising at checkouts, stands etc.

**Based on the average and maximum number of Fairtrade lines and promotional effort relative to store size.

Table 11: Survey of supermarket commitment to local foods, 2003

Supermarket	No. of stores surveyed	Total no. of surveys conducted	Points	%
A	8	10	14.04	47
B	4	5	3.52	12
C	6	9	6.05	20
D	10	15	8.1	27
E	6	7	8.79	29
F	7	10	9.83	33
G	7	9	10.97	37
H	6	11	9.64	32
I	12	18	10.37	35
J	4	7	12.84	43



Assessing RTTT against the project objectives

The project objectives can be broken down into key elements as follows. The extent to which each has been met, despite the premature end of the project, is discussed briefly here. We draw on comments made by project partners, submitted to a project review in early 2004.

- **To benchmark and track the social, environmental and ethical performance of UK supermarkets over five years**

The project failed to track performance over five years, completing only one pilot year and one 'public' year of data collection. But the project developed and tested various methodologies and benchmarks that could be applied elsewhere in the future, and collected a baseline of data from some retailers. One project partner commented that the project achieved the "clarification and delineation of valid criteria as a basis for benchmarking supermarket performance and progress."

- **To engage stakeholders in the process of research**

The model developed by the project encouraged direct participation of key stakeholders in the research process, and an iterative process of constructive dialogue between supermarket companies and many of their civil society stakeholders. This had significant benefits. One partner commented, "I think NGOs associated with RTTT learnt a lot about the reality of the supermarket business." One supermarket noted that the project brought various benefits including "building relationships with civil society groups [and] improved understanding of issues."

- **To apply scientific scrutiny to the most contested issues**

Where independent research was commissioned, e.g. in relation to supplier welfare, this helped to move forward contested debates. Additional research was planned in subsequent years on other contested issues, notably the Health and Local Economies modules. Because the project ended prematurely, the opportunity to apply such scrutiny to these areas has not been taken.

- **To catalyse change towards a greener and fairer food system**

The project drew attention to many sustainability issues, both within and outside supermarket companies. One supermarket commented that the project influenced the company's own corporate social responsibility reporting and many other benchmarking initiatives. In a letter to the project from Marks and Spencer in September 2003, Rowland Hill stated:

A huge amount of understanding and knowledge has been developed within the Race to the Top project and much of this is now finding its way into other benchmarking schemes e.g. Compassionate Supermarket of the Year, Organic Supermarket of the Year, etc. As such, the project has generated relationships and knowledge which are no longer confined [to] Race to the Top. It could be said that as with 'reporting', RTTT's very success has weakened its own reason for being.

Race to the Top has influenced individual retailers, as witnessed by the Co-op's recently launched Responsible Retailing Initiative. The project's legacy can be seen in the subject areas and choice of advisors to the Co-op Initiative, four of whom were directly involved in RTTT. The project also influenced wider policy debates on responsible business, through presentations to institutional investors and others, press releases and articles in accessible policy-oriented journals.



Examining what went wrong

What made a large proportion of the UK supermarket sector eventually turn its back on this constructive and moderate approach to stakeholder accountability by civil society organizations, once it got close to presenting information in the public domain? Inevitably there is disagreement on what went wrong (**Box 2**); some civil society partners said the approach of the project was too conciliatory, whereas some retail partners thought there was not enough consensus building. Each of the non-participating retailers had their own reasons for not taking part. Certainly, a number of interrelated factors together created a problematic environment for the project.

7.1 Regulation and self-regulation

Supermarkets have advocated voluntary self-regulation rather than mandatory and enforceable rules to improve their social and environmental performance. Transparency is a key pillar of self-regulation, but even the basic idea of Key Performance Indicators on sustainability for food retail – as proposed in Defra’s Food Industry Sustainability Strategy (FISS), in which ‘challenging key performance indicators’ are supposed to be developed for food manufacturers, wholesalers, retailers and caterers – have been strongly resisted by parts of the industry. There was no government drive to push supermarkets into engagement with the project, but some companies still seemed to fear that government might pick up a successful RTTT and turn it into a form of third-party regulation.

7.2 Compromise and leverage

In seeking to find compromises along the way, RTTT lost some leverage with the corporate sector. The commitments of civil society partners to respect constructive engagement and confidentiality diluted their ability to challenge the businesses, and almost certainly undermined the aim of partnerships with RTTT, which was to develop increased transparency in the supermarket sector as a lever for change. When the project hit rough water around concerns over publication of data, one of the retailers proposed instead that the project restructure to become an ETI-type ‘safe place’ in which to discuss issues away from the glare of publicity. While such a structure may have had some advantages outside the restrictive set of measurements, it would also have taken the heat out of the project by attracting the ‘usual suspects’ and letting the laggards off the hook. There certainly remains a need for spaces that allow constructive engagement

BOX 2: *Comments from partners on what went wrong*

“RTTT was effectively an NGO project ‘offered’ to companies – there may even have been a sense that it was being imposed – rather than a genuinely shared undertaking from the very outset.”

“Benchmarking could be viable if a more pragmatic/consensus based approach were adopted.”

“It is difficult to see how the project could have been built differently and in a way that would have brought more supermarkets on board without compromising value and integrity.”

“I don’t think that this emphasis [on being objective; on cooperation and collaboration] is intrinsically doomed to failure – all it means is that a different way for achieving goals ... needs to be found.”

“It was far too conciliatory to supermarkets’ stalling tactics... Business is more likely to participate in initiatives if they feel they are losing out by not joining. In this case they felt they were being wooed and that they had nothing to lose by saying ‘no’.”

“Not critical enough of supermarkets”

“Maybe public policy threat would have got supermarkets on board.”

“It was fairly obvious that the retailers wanted to scupper the project if at all possible because it could have been damaging to themselves.”

between supermarkets and their stakeholders, but the project suggests that this alone is not enough.

7.3 Over-reliance on industry data

The project relied heavily on data disclosed by the retailers themselves. Attempts were made to complement the data from supermarkets themselves with data from external surveys. The latter can be powerful measures of supermarket performance, especially where they demonstrate observable change rather than aspiration or company policy. However, external surveys, such as store surveys for local food, or surveys of supermarket suppliers, are expensive, highly labour intensive, and methodologically problematic.

7.4 The lack of company resources

Committing to a process such as RTTT requires staff time and technical resources. But in order to stay competitive against Asda and discount supermarkets, rival companies feel obliged to squeeze costs in both their supply chains and offices. Companies such as Sainsbury's have radically cut staff and technical capacity in order to match Asda's cost structure and profitability. It is ironic that the increasing pressure on supermarket companies to improve the quality and transparency of data that they release on environmental and social impacts comes at a time when companies have a declining ability to collect that information. But it should also be noted that two of the smallest and therefore comparatively most thinly resourced retailers – the Cooperative Group and Somerfield – were able to compile and report on RTTT data, while the largest retailer Tesco was not. So the problem is not necessarily one of resources *per se*, but one of priority setting under conditions of resource scarcity.

“The biggest difficulty was that the data being asked for was not already collated by the business as it didn't have any business value”.

7.5 The diversity of the sector

As described earlier, the UK supermarket sector is very heterogeneous in terms of scale, ownership and customer base. All of these factors affect the ability of companies to be successful in certain aspects of 'sustainable' business, such as the marketing of organic or high animal-welfare produce. There is a risk that in our selection of indicators and monitoring data, we are measuring *customers* rather than companies. For instance, if up-market stores like Waitrose are compared with lower-end stores such as Somerfield on sales of Fairtrade or high animal welfare produce, there is a risk of endorsing the performance of the high-end store even though it is their consumer base 'pull' rather than company 'push' which is making most of the difference.

7.6 Industry upheaval

The *Race to the Top* project took place by chance at a time when the market and its investors and regulators were in a period of upheaval. The proposed takeover of Safeway and associated Competition Commission inquiry shortly after the 2000 report and proposed Code of Conduct, and the crisis at Sainsbury's, all conspired to inject uncertainty and instability into the sector at the time that the project was to go public with comparative information.

“The RTTT project was unlucky in timing in the 2003 project in that an area of extreme competition emerged with the Safeway/Morrison merger/takeover; Tesco assertive and gaining market share; Walmart ever more intrusive and Sainsbury's feeling vulnerable.”

7.7 Wal-Mart has changed the rules

The UK supermarket sector had been quite innovative in approaches towards greener and more ethical supply chains, partly because it was running on higher levels of profitability than US and continental European equivalents. The entry of Wal-Mart into the UK was a turning point in the way in which the domestic food retail market operates. Only Tesco has really been able to match it in terms of growing its share of the mass customer market under fierce price competition. In the Wal-Mart model, savings captured from highly leveraged suppliers (and in turn from primary producers and labour) are now being passed to customers to protect or increase market share.

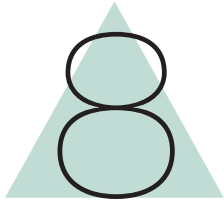
The 'spiral of supermarket growth' is therefore working differently now. The problems encountered by Sainsbury's in recent years may show that investing revenues of the 'growth spiral' in improved facilities and improved environmental performance may not be as well received by consumers and investors. This is a key factor in the business case for or against strategies for sustainable development in the supermarket sector. Supermarket executives point to the example of Iceland, the UK supermarket chain which went into a tailspin after a very costly attempt to go 100% organic, following its success with 100% GM-free, as evidence that taking the strategic eye off the 'business of doing business' is the road to poor financial performance. A look at industry winners and losers in the UK would suggest that this association is becoming even more pronounced. And in talking with the investment community, it was apparent that CSR is a factor which may influence investment choices in mid-sized supermarkets with mediocre financial performance, but less so the industry giants like Tesco, which are seen as essential components of many investment portfolios.

The poor financial payback on investing in social and environmental performance is in part explained by the

fact that expectations that regulation would follow behind innovative companies have not transpired. Sainsbury's was quoted in 1997 as saying that "It would be a great testament to the vision of managers here at J Sainsbury plc if legislation were to be agreed at the national and international level... By setting new and higher environmental standards, we establish targets for both our competitors and the Government to aim for" (Bendell, 2004). In fact the opposite has happened – those companies which have done the least on formal CSR have had a free ride, coming under neither activist nor Government pressure. And the industry associations lobbied against even the most 'lite' third-party regulation for sustainability – the Defra Food Industry Sustainability Strategy. In the meantime, Sainsbury's has been weakened by intense price competition from Tesco, Asda, Morrisons, and the deep

discounters. The technical resources needed to work towards greater sustainability, for instance with suppliers and primary producers, and to collect information from inside the corporate structure in response to civil society demands, may well be seen as a luxury which cannot be afforded in the race to generate consumer value and gain market share.

The drive to squeeze the supply base to maintain competitiveness has even reached into the most upscale retailers. Part of Marks and Spencer's strategy to fight off takeover by retail entrepreneur Philip Green has been to bear down on its supply chain. Chief executive Stuart Rose is now renegotiating arrangements with its key clothing and food suppliers. Analysts believe that £100m savings will be achieved through increasing discounts from 3.75% to 7.5% initially and then to 10%.



Lessons and conclusions

The RTTT experience highlights three fundamental issues that have deep implications for future sustainability benchmarking initiatives and for government policy alike:

8.1 The conflation of customers and citizens

The supermarket sector prides itself on being customer-oriented in the extreme. The focus on creating customer value has underpinned the business strategies of the most successful players. But this has reached a point at which it is in danger of crowding out the interests of some other stakeholder groups. For these companies, concerns about their social and environmental impacts only become significant when they affect customer trust.

RTTT attempted to create a mechanism by which supermarkets could be benchmarked according to their impacts on society – on the environment, on workers and communities, within their supply chains, and so on. Some of these issues may well chime with consumers, but many of them do not. The aim of RTTT was therefore to explore whether sufficient incentives could be established, by creating a framework for greater accountability and transparency, to encourage supermarkets to tackle a range of social and environmental issues, not only those that are perceived to add to consumer value.

But some supermarkets appear unable or unwilling to engage with this broader notion of stakeholder accountability. They argue that their primary responsibility is to be accountable to their customers, who are voting continuously with their wallets and purses in a highly competitive (and they would add, highly democratic) marketplace. Tesco wrote to RTTT in July 2003, suggesting “currently the project overlooks customers and we believe that it could be significantly improved by adding a customer focus to the questionnaire in its entirety, and in terms of understanding what customers want from supermarkets.” This was, in effect, asking RTTT to endorse as an element of corporate responsibility what supermarkets do very efficiently anyway – serving their customers.

Some supermarkets are thus attempting to change the parameters of debates about what it means to be a responsible retailer, by conflating the notions of ‘customer’ and ‘citizen’; ‘stakeholder accountability’ and ‘customer accountability’; and ‘public good’ and ‘customer value’. The risk is that certain stakeholders’

voices are drowned out of these debates. Influencing change on those issues that are not automatically in line with supermarkets’ perceptions of consumer desires thus becomes increasingly challenging.

“The consumer and the citizen are generally not the same person, and supermarket companies listen to the former first and the latter a long way second.”

“The financial dynamics of ‘big box’ retailing are such that price comparisons with immediate competitors overwhelm all other consideration.”

“Sustainable development is for retailers low in their list of priorities.”

“Sustainability and CSR are often marginalized and are not integrated into core business operations.”

“NGO arguments about reputation, customer interest, etc. cut no ice with a company that is highly successful and absolutely convinced it knows its customers well and knows what kind of reputation it needs for the future.”

“There remains a conflict between [business practices and sustainable development] where shareholder pressures remain.”

8.2 The buck stops ... where?

RTTT explored what it is reasonable to expect of supermarket companies. But much of the content of the project looked at supermarkets not only as actors in their own right, but also as gatekeepers of the entire food system. The hypothesis was that influencing supermarkets would in turn influence the actions of many other actors. Supermarkets are perceived to have the power to define the way our food is produced and consumed. Indeed, many of the RTTT indicators measured what retailers were asking or demanding of others, e.g. their suppliers, rather than what they were doing themselves.

However, the RTTT experience shows this gatekeeper role to be a double-edged sword. Not only does it offer potential shortcuts and access to positive change, it creates a mechanism for companies to pass responsibility

on to other, often less powerful, actors. It allows supermarkets to push social and environmental requirements up the supply chain, along with any associated costs, both related to implementation and certification. And it makes any discussion of the respective allocation of responsibility between retailer and consumer exceedingly difficult.

Discussion often centred on the different circumstances faced by companies operating in a heterogeneous sector, and the particular challenges that this raises for particular retailers. For example, a company with a higher proportion of low-income customers argued that it is unrealistic to expect it to sell as many free range eggs as a company with a relatively affluent consumer base. This raises difficult issues. It could be argued that it is unethical to stock *any* eggs from caged hens, and even if a company loses custom by only stocking free range eggs, or has to sell eggs at a lower margin, not doing so in the name of affordability and customer choice is unacceptable. But one could also argue that low-income consumers have a right to cheaper alternatives, as long as these products are meeting legal standards.

The extent to which a company is able to influence its business environment, in order to overcome the conditions that apparently limit action on social and environmental issues, was perhaps even more contested. During the life of RTTT, it was an oft-cited mantra that the best that supermarkets can do is to offer a diverse range of products to the consumer, who takes the ultimate decision whether or not to purchase sustainably-produced goods. This paints a picture of benign organisations, with little or no influence over their customers' purchasing decisions. But many of the NGOs involved in RTTT rejected this analysis as buck-passing, pointing to the huge marketing expertise and effort expended in convincing consumers to buy particular products.

Furthermore, this argument that ethical decisions should be left to the consumer is criticised for expecting too much of the individual shopper. Making informed decisions would be hard enough even if all products were labelled according to environmental or social impacts. And many consumers simply would not want the responsibility, even if such mechanisms were developed. Faced by an unprecedented degree of choice already on each trip to the supermarket, it is understandable that consumers would simply be overwhelmed. A further extension of this critique is that ethics are increasingly marketed as consumer choice rather than a corporate standard; fairness and justice in trading, for example, is niched as Fairtrade labelled speciality products and not mainstreamed into business practice, where many would argue it should be.

This debate is particularly incongruous in an era in which supermarkets are increasingly investing in corporate-level branding. The aim of this is to encourage consumers to buy in to a set of values identi-

fied with the company, reassuring them that once they are in the store, they can rest assured that anything that they put into their trolleys has been produced to a standard in line with these values. This conflicts somewhat with the argument that consumers should be expected to make individual product-based selections.

The allocation of responsibility between retailers, suppliers and consumers is inherently problematic, but this must not be used as an excuse for inaction. The key challenge is to ensure that the gatekeeper role that supermarkets play within the food system is used to drive positive change, rather than to pass responsibilities on to other, less powerful, actors.

8.3 Governance gaps in an environment of self-regulation

Ultimately, RTTT was about governance of the food system. So what does the project tell us about the relationship between the supermarket sector, civil society and the state, and how this relationship can be influenced for positive social and environmental change?

As noted earlier, the project relied on securing data from supermarkets themselves, and this significantly influenced the relationship between the civil society and industry players. Future attempts to build stakeholder accountability across the supermarket sector will either require a coordinated civil society thrust to gather external data, or will require a stronger push from the state. The cost implications for civil society to go it alone are very considerable. If benchmarking is to succeed without retailer self-reporting, in a way which has at least some scientific rigour, then large numbers of trained researchers will have to be mobilised to survey the supermarket shelves, and ways will have to be found to scrutinise supply chains to measure trading relations, animal welfare, labour standards, etc. A further problem is that civil society organisations find it very hard to organise effectively around holistic issues of sustainability, as they must respond to memberships and constituencies that are often focused on single issues.

Civil society partners in the *Race to the Top* initiative were stunned by the hubris and lack of commitment of the largest supermarkets in dealing with what was perhaps the most powerful stakeholder alliance yet to engage supermarkets on issues of accountability and sustainability. From their perspectives, leading companies could play along, attend some of the meetings, and even give (conditional) written agreement to participate, and then not submit even one byte of data. There has followed a hardening of attitudes, and the rules of engagement between supermarkets and civil society appear to have changed irrevocably. While still acknowledging the need for spaces that allow constructive engagement between supermarkets and

their stakeholders, some have seen the demise of RTTT as a signal that only command-and-control regulation can tame the supermarket sector, marking an end to a period of openness to work through voluntary, collaborative initiatives.

This line of argument points towards a stronger role for the state. But the drive to a more competitive regulatory environment in the UK, as in many other countries, has handed regulatory responsibility for important areas of the food system to supermarkets themselves. Defra's support for RTTT was symptomatic of this hands-off approach. The move to partial self-regulation is justified by the argument that supermarkets have higher standards, e.g. on food safety and hygiene, than baselines set by national legislation. For achieving the goals of sustainable development, however, having supermarkets in the driving seat is

effective only for those areas that create consumer value for the supermarkets, such as pesticides, hygiene, GM, or animal welfare – and even then, only in certain segments of the market. Those aspects of sustainability that do not resonate strongly with most consumers, such as trading relations with farmers or labour rights, fall into a governance gap which is simply not addressed by the current mode of self-regulation.

The conclusion is clear: in such a relentlessly consumer-oriented industry, self-regulation and voluntary initiatives are only likely to be appropriate for concerns that are aligned with the mainstream consumer interest. Creating incentives for supermarkets to drive positive change on other aspects of sustainable development implies a more robust role for the state. Whether this basic insight is accepted by the food industry's regulators remains to be seen.



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Race to the Top Alliance Partners

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City University
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Council for the Protection of Rural England
Countryside Agency
English Nature
Fairtrade Foundation
Farm Animal Welfare Network
Farmers' Link
Forum for the Future
Marine Conservation Society
Marine Stewardship Council
National Consumer Council
National Federation of Women's Institutes
New Economics Foundation
Royal Society for the Protection of Birds (RSPB)
Small and Family Farms Alliance
Soil Association
Sustain: the alliance for better food and farming
Traidcraft Exchange
Transport2000
Transport and General Workers' (Rural, Agricultural
and Allied Workers) Union
USDAW (Shop, Distributive and Allied Workers) Union
World Society for the Protection of Animals (WSPA)
WWF-UK

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This is an important report at a significant moment in the corporate responsibility agenda. It charts the course of the Race to the Top project, an innovative collaboration to track supermarket progress towards sustainability. The report outlines the features of the UK supermarket sector that made the project so timely – and so challenging: market concentration, the supremacy of shareholder value delivered through customer satisfaction, and the pace of business strategy outstripping the capacity or will of public policy makers to play catch-up. This report is a primer for the strategic and tactical choices that now need to be made. There are lessons for coalition-building, for collaboration between businesses and NGOs, and for the future of sectoral regulation.

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