

SUPPLY CHAIN SUSTAINABILITY

A Practical Guide for Continuous Improvement



United Nations Global Compact



BSR

Launched in 2000, the United Nations Global Compact is both a policy platform and a practical framework for companies that are committed to sustainability and responsible business practices. As a multi-stakeholder leadership initiative, it seeks to align business operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption and to catalyze actions in support of broader United Nations goals. With more than 8,000 signatories in more than 135 countries, it is the world's largest voluntary corporate responsibility initiative. www.unglobalcompact.org

A leader in corporate responsibility since 1992, BSR works with its global network of more than 250 member companies to develop sustainable business strategies and solutions through consulting, research and cross-sector collaboration. With six offices in Asia, Europe, and North America, BSR uses its expertise in the environment, human rights, economic development and governance and accountability to guide global companies toward creating a just and sustainable world. www.bsr.org

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The Global Compact Office and BSR would like to thank the following organizations for their generous support for the development of this guidance:



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Foreword

More and more companies are extending their commitment to responsible business practices to their value chains, from subsidiaries to suppliers. They do so not only because of the inherent social and environmental risks and the governance challenges the supply chain poses, but also because of the many rewards supply chain sustainability can deliver. Indeed, sustainable supply chain management can be a strong driver of value and success – for business as much as for society. By spreading good business practices around the globe, it has enormous potential to contribute to more inclusive markets and advance sustainable development in the spirit of the United Nations' mission.

Today, UN Global Compact participants around the world are demonstrating leadership by applying the ten principles in their supply chains. However, developing sustainable supply chain programmes that encompass all of the Global Compact's four issue areas – human rights, labour, environment and anti-corruption – remains a daunting challenge for many.

Supply Chain Sustainability: A Practical Guide to Continuous Improvement, developed in collaboration with BSR, can help companies overcome these challenges by offering practical guidance on how to develop a sustainable supply chain programme based on the values and principles of the Global Compact. Featuring numerous examples of good corporate practice, the guide will assist companies in setting priorities for action that will lead to continuous performance improvement.

We hope this publication will encourage more businesses to embark on the journey towards more sustainable supply chains, thereby delivering tangible and lasting benefits to business, the environment and societies everywhere.

Georg Kell
Executive Director
U.N. Global Compact Office

As the Global Compact's ten principles reach their 10th anniversary, it is more evident than ever that making them a reality requires collaboration across the supply chains that define global business in the 21st century. Many companies' most significant impacts on the environment and society occur in their supply chains, and as these networks have grown in scale and complexity over the past quarter-century, so too have the opportunities for companies to promote human rights, improve labour conditions, protect the environment and support ethical business conduct. By working together, buyers and suppliers can not only ensure a baseline standard of business conduct is met but also collaborate to improve the impact of business on society and the environment around the world.

We are very proud to have produced this guide on the anniversary to encourage companies to apply the Global Compact's ten principles throughout global supply chains. BSR brings to this effort its extensive knowledge on how to integrate fair working conditions and good environmental practices throughout extended supply chains. In partnership with our global network of member companies, as well as their supply chain partners, we have worked in more than 30 countries to integrate environmental, social and governance principles into supply chains in multiple industry sectors. Joining forces with the extensive network of UN Global Compact signatories across the globe represents a great opportunity to increase the Global Compact's impact.

We hope that this guide makes a signal contribution to advance fair and sustainable working conditions for entire industries, geographies and market segments by:

- Extending sustainability to small and medium-sized enterprises
- Creating better connections to firms in developing countries on key social and environmental issues
- Supporting good governance and business ethics as a key pillar of well-functioning markets.

This guide is designed to help companies initiate and advance their supply chain sustainability efforts, but it should also be used to broaden impact and enlist collective action for sustainability. BSR is very proud to have partnered with the Global Compact, and we look forward to supporting it and its signatory companies around the world to make the vision of the Global Compact an even more powerful reality.

Aron Cramer
President and CEO
BSR

United Nations Global Compact Advisory Group on Supply Chain Sustainability

The Global Compact Office has established an advisory group of Global Compact participants and stakeholders. The role of the advisory group is to provide input to the overall strategy and work done by the Global Compact Office on the issue of supply chain sustainability, and to ensure that the guidance material developed is robust and addresses the needs of business.

The advisory group is chaired by Mr. Mads Øvlisen, a member of the Global Compact Board. We would like to thank Mr. Øvlisen and all of the members of the advisory group for their support of this effort:

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Executive Summary: Practical Steps to Supply Chain Sustainability

Supply chain sustainability is increasingly recognized as a key component of corporate responsibility. Managing the social, environmental and economic impacts of supply chains, and combating corruption, makes good business sense as well as being the right thing to do. However, supply chains consist of continuously evolving markets and relationships. To navigate this complex terrain, we offer a few baseline definitions and practical steps that companies can take toward progress, using the United Nations Global Compact principles as the basis to work toward supply chain sustainability.

What is Supply Chain Sustainability?

Supply chain sustainability is the management of environmental, social and economic impacts, and the encouragement of good governance practices, throughout the lifecycles of goods and services. The objective of supply chain sustainability is to create, protect and grow long-term environmental, social and economic value for all stakeholders involved in bringing products and services to mar-

ket. By integrating the UN Global Compact principles into supply chain relationships, companies can advance corporate sustainability and promote broader sustainable development objectives.

Why is Supply Chain Sustainability important?

There are numerous reasons why companies start a supply chain sustainability journey. Primary among them is to ensure compliance with laws and regulations and to adhere to and support international principles for sustainable business conduct. In addition, companies are increasingly taking actions that result in better social, economic and environmental impacts because society expects this and because there are business benefits to doing so. By managing and seeking to improve environmental, social and economic performance and good governance throughout supply chains, companies act in their own interests, the interests of their stakeholders and the interests of society at large.

This guide is intended for companies with significant sourcing activities that are interested in learning how to incorporate sustainability into their supply chain management strategies and practices.

WHAT STEPS CAN MY COMPANY TAKE?

This guide outlines practical steps companies can take to achieve supply chain sustainability and presents examples to inspire action. The recommended steps summarized below are based on the Global Compact Management Model, which is a flexible framework for continuous improvement for the mainstreaming of the Global Compact into strategies and operations.

The steps described below and throughout the guide are not linear. Rather they represent complementary actions that companies can take in order to achieve more sustainable supply chains. In addition, there are three principles for successful supply chain sustainability management – governance, transparency and engagement – that are essential to every step of the model.



COMMIT

- Develop the business case by understanding the external landscape and business drivers. (Chapter 2)
- Establish a vision and objectives for supply chain sustainability. (Chapter 2)
- Establish sustainability expectations for the supply chain. (Chapter 3)

ASSESS

- Determine the scope of efforts based on business priorities and impacts. (Chapter 4)

DEFINE and IMPLEMENT

- Communicate expectations and engage with suppliers to improve performance. (Chapter 5)
- Ensure alignment and follow up internally. (Chapter 6)
- Enter into collaboration and partnerships. (Chapter 7)

MEASURE and COMMUNICATE

- Track performance against goals and be transparent and report on progress. (Chapter 8)



1. Introduction

This guide is intended to help companies, both those who are new to and those experienced in supply chain sustainability, to apply the Global Compact principles throughout their supply chains and to integrate sustainability into their business strategies.

Supply Chain Sustainability Defined

In today's globalized economy, outsourcing business operations doesn't mean outsourcing responsibilities or risks—or that a company's responsibility ends once a product is sold. Leading companies understand that they have a role to play throughout the lifecycle of their products and services. Supply chain sustainability management is key to maintaining the integrity of a brand, ensuring business continuity and managing operational costs. It is also an important aspect of the implementation of the Global Compact principles.

WORKING DEFINITIONS

"Sustainability" definitions vary. For the purposes of this guide, the definition encompasses the business role in addressing environmental, social (human rights and labour) and corporate governance issues, as covered by the Global Compact's ten principles.

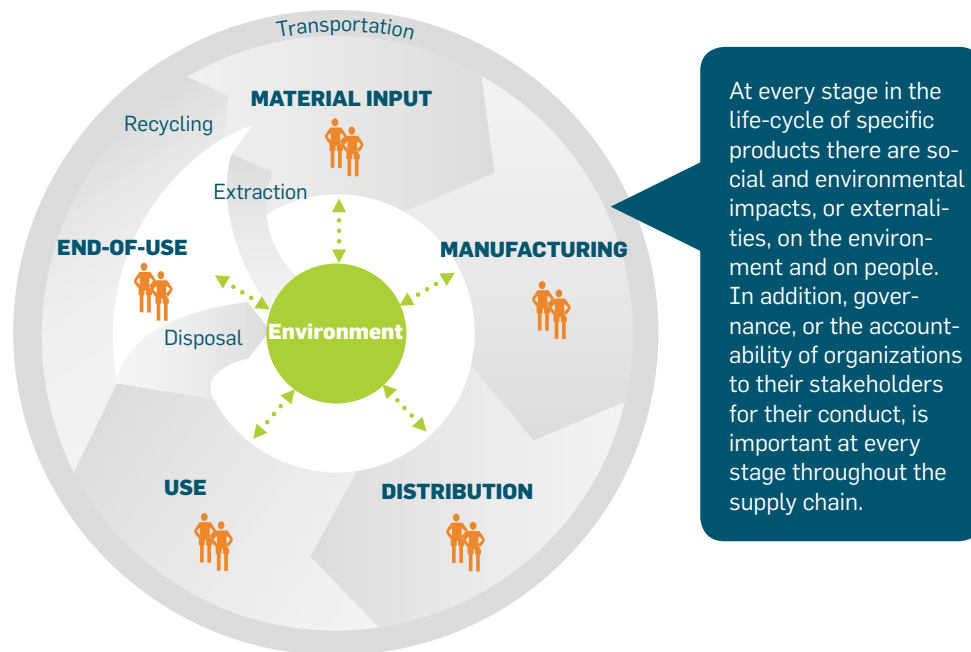
"Supply chain sustainability" is the management of environmental, social and economic impacts, and the encouragement of good governance practices, throughout the lifecycles of goods and services.

The objective of supply chain sustainability is to create, protect and grow long-term environmental, social and economic value for all stakeholders involved in bringing products and services to market. Through supply chain sustainability, companies protect the long-term viability of their business and secure a social license to operate.

This guide focuses on upstream business partners, i.e. relationships with suppliers, rather than with distributors, consumer use of products or end of life issues. A focus on downstream impacts of supply chains may be addressed in the future by the UN Global Compact Office.

In addition, this guide focuses on the question of whom companies buy from and how they source products, rather than what they buy. This may also be a future focus of attention from the UN Global Compact Office.

ENVIRONMENTAL, SOCIAL AND ECONOMIC IMPACTS EXIST THROUGHOUT EVERY STAGE OF SUPPLY CHAINS.¹



¹ From Business for Social Responsibility.



About Supply Chain Sustainability & the United Nations Global Compact

The Global Compact encourages participants to engage with suppliers around the ten principles and to advance sustainable development objectives as part of their commitment to the Global Compact, and thereby to spread good corporate citizenship practices throughout the global business community. As the table below outlines, the ten principles are also intricately tied to sustainability in supply chains.

THE TEN PRINCIPLES OF THE GLOBAL COMPACT AND SUPPLY CHAIN SUSTAINABILITY

THE TEN PRINCIPLES	RELATIONSHIP TO SUPPLY CHAIN SUSTAINABILITY
<p>Human Rights</p> <p>Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and</p> <p>Principle 2: make sure that they are not complicit in human rights abuses.</p> <p>Labour</p> <p>Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;</p> <p>Principle 4: the elimination of all forms of forced and compulsory labour;</p> <p>Principle 5: the effective abolition of child labour; and</p> <p>Principle 6: the elimination of discrimination in respect of employment and occupation.</p>	<p>Companies have a responsibility to respect human rights. The baseline responsibility is not to infringe on the rights of others. In addition, business can take steps to support and promote the realization of human rights, and there are good business reasons to do so.</p> <p>Labour conditions in offices, in factories, on farms and at natural resource extraction sites such as mines, particularly in the developing world, often fall significantly below international standards and national regulatory requirements and can lead to serious human rights abuses. Businesses should strive to uphold international labour standards within their supply chains, including the right to freely chose employment, the freedom of children from labour, freedom from discrimination and the freedom of association and collective bargaining.</p> <p>In addition, workers at times suffer from other labour rights abuses, including excessive work hours, degrading treatment by employers and inhibited movement. In order to avoid complicity in abuses, businesses should seek to ensure that they do not cause the rights of workers and others affected by their supply chain to be infringed upon, including the right to freedom of movement, freedom from inhumane treatment, the right to equal pay for equal work and the right to rest and leisure. The rights of all peoples to work in safe and healthy working conditions are critically important as well.</p> <p>Companies can also begin to address human rights (including and beyond labour conditions) alone or by working with partners to promote a broad range of human rights such as gender equality and access to education and health.</p>

<p>Environment</p> <p>Principle 7: Businesses should support a precautionary approach to environmental challenges;</p> <p>Principle 8: undertake initiatives to promote greater environmental responsibility; and</p> <p>Principle 9: encourage the development and diffusion of environmentally friendly technologies.</p>	<p>Environmental impacts from supply chains are often severe, particularly where environmental regulations are lax, price pressures are significant and natural resources are (or are perceived to be) abundant. These impacts can include toxic waste, water pollution, loss of biodiversity, deforestation, long term damage to ecosystems, hazardous air emissions as well as high greenhouse gas emissions and energy use. Companies should engage with suppliers to improve environmental impacts, by applying the precautionary approach, promoting greater environmental responsibility and the usage of clean technologies.</p>
<p>Anti-Corruption</p> <p>Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery.</p>	<p>The significant corruption risks in the supply chain include procurement fraud and suppliers who engage in corrupt practices involving governments. The direct costs of this corruption are considerable, including product quality, but are often dwarfed by indirect costs related to management time and resources spent dealing with issues such as legal liability and damage to a company's reputation. Companies that engage with their supply chains through meaningful anti-corruption programmes can improve product quality, reduce fraud and related costs, enhance their reputations for honest business conduct, improve the environment for business and create a more sustainable platform for future growth.</p>

ABOUT SUSTAINABLE DEVELOPMENT IMPACTS IN SUPPLY CHAINS

By virtue of their ongoing business relationships, every company makes direct economic impacts through payments to employees, suppliers and governments and indirect economic impacts through monetary flows throughout supply chains and beyond. Companies which make their supply chains more economically inclusive can support further economic development through for instance job creation and increased incomes. Economic development has secondary impacts on socioeconomic development and the environment and is therefore a critically important aspect of sustainability.



UN GLOBAL COMPACT SUSTAINABLE SUPPLY CHAIN RESOURCES

Supply Chain Sustainability: An Online Assessment and Learning Tool

An interactive tool for customers to measure progress in implementing a holistic sustainable supply chain approach, assess gaps and share challenges and successes. Produced in collaboration with BSR (Business for Social Responsibility).

Supply Chain Sustainability Website

Provides information on initiatives, resources and tools to assist companies in developing more sustainable supply chains, as well as case examples of company practices.

<http://supply-chain.unglobalcompact.org>

Human Rights Working Group Good Practice Notes on Supply Chains

A series of Good Practice Notes on how companies can partner with suppliers, governments and civil society to promote human rights in supply chains.

Environmental Stewardship Resource

A strategic policy framework for environmental management and sustainability, including strategies and guidance for supply chain implementation.

Fighting Corruption in the Supply Chain: A Guide for Customers and Suppliers

Practical guidance and tools for both customers and suppliers to engage in the fight against corruption. A product of the UN Global Compact 10th Principle Working Group.

All resources can be accessed at: www.unglobalcompact.org/Issues/supply_chain

How to Use This Guide

The holistic approach to supply chain sustainability described in this guide can help your company identify the key issues and considerations for a supply chain sustainability approach that is aligned with the ten principles of the Global Compact.

The guide is designed for individuals with oversight of and input on corporate responsibility and supply management priorities and practices. The approaches described are meant to be applicable to companies that are new to supply chain sustainability as well as those that have more experience. Advanced practices are highlighted in boxes entitled “On the Horizon.”

We begin in Chapter 2 by exploring the rationales and business drivers for supply chain sustainability. We also discuss the importance of understanding the external landscape and of establishing a company-specific vision for supply chain sustainability.

In Chapter 3, we provide advice on designing a supplier code of conduct that builds from the Global Compact ten principles and other recognized international standards, as well as offering guidance on how to put the code to use.

Chapter 4 describes the key factors in determining the scope of a supply chain sustainability programme, and tools such as supplier segmentation and risk assessment and prioritization.

Chapter 5 describes options for engaging with suppliers on supply chain sustainability. It includes approaches for communicating with suppliers, monitoring performance, and building supplier capacity as well as leadership activities in building suppliers’ sustainability management systems.

Chapters 6 and 7 provide practical guidance on internal responsibilities and performance management for supply chain sustainability. They outline concepts of internal alignment as well as the suggested roles for executive management and supply management professionals. In addition, they provide recommendations on goal setting and metrics to track internal and supplier performance in meeting your company’s supply chain sustainability expecta-

tions. They also explore the importance of public reporting.

Chapter 8 describes how industry collaboration and multi-stakeholder partnerships can help extend the impact of supply chain sustainability programmes and some of the associated opportunities and risks.

There is still much to learn about supply chain sustainability, and we welcome comments on the content of this guide and other materials as we seek to constantly improve the availability and alignment of supply chain sustainability tools for companies.

UN GLOBAL COMPACT AND BSR PARTNERSHIP ON SUPPLY CHAIN SUSTAINABILITY

The Global Compact and BSR have launched a joint project to develop strategic guidance materials for business on the implementation of the ten principles in supply chain programmes and operations.

In addition to this guide, the Global Compact and BSR will produce an online self-assessment and learning tool for companies to determine their current level of supply chain sustainability implementation and to learn how to make progress over time in implementing a holistic approach. The content of the learning tool closely mirrors this guide, though it is presented in a more interactive format.

This guide was released at the UN Global Compact Leaders Summit in June 2010 and the tool is forthcoming in 2011.



“Business is often taking the initiative to move things forward. Focusing only on the business case underplays the value that business is and should be providing in society and with regards to development.”

– Mads Øvlisen, Chair of the UN Global Compact Advisory Group on Supply Chain Sustainability.

2. Getting Started on Supply Chain Sustainability

The first steps in developing a supply chain sustainability programme are to evaluate the business case for action and understand the external landscape. These efforts will help identify the highest priority supply chain issues for your company, evaluate risks and opportunities and build the internal support to move forward.

Developing the Business Case

There are many compelling reasons for taking action to improve social and environmental impacts throughout the supply chain. Many companies are driven by their corporate values and culture to address sustainability issues. For these companies, the fact that supply chain

sustainability is the right thing to do and is a driver of social development and environmental protection helps create internal buy-in and commitment.

Many companies also identify specific business drivers for supply chain sustainability. The business case for a particular company depends on a variety of issues including industry sector, supply chain footprint, stakeholder expectations, business strategy and organizational culture. Supply chain sustainability management practices that respond to multiple drivers can maximize the value to business.

The most common business drivers for supply chain sustainability are depicted in the figure below.

BUILDING THE BUSINESS CASE FOR SUPPLY CHAIN SUSTAINABILITY ²



²From Business for Social Responsibility.



Meeting Business Objectives through Supplier Chain Sustainability

Example of Risk Management: Partnering with suppliers to ensure minimum standards in management practices, such as minimum hiring age, contracts with workers, health and safety conditions, etc.

Example of Operational Efficiency: Reducing costs without negatively impacting operations, such as shipping products via ocean freight rather than via air cargo when practicable.

Example of Sustainable Products: Sourcing raw materials with social and environmental impacts explicitly considered, such as biologically based plastics that emit relatively fewer greenhouse gases throughout their lifecycle.

MANAGING RISK

Companies can protect themselves from potential supply chain interruptions or delays associated with suppliers' human rights, labour, environmental and governance practices by ensuring suppliers have effective compliance programmes and robust management systems covering all the areas of the Global Compact Principles. For companies who have a single source for key inputs, managing risks is also critical to ensuring continued access to those resources.

Increasingly, customer and investor expectations are driving companies toward more responsible supply chain management. Strong management of social and environmental issues can help companies address reputational risks.

Finally, companies also use supply chain sustainability to ensure that their suppliers can adapt to anticipated strengthening of environmental regulations, extended product responsibility legislation and to reduce potential future liability.

Example: **Westpac**, an Australian bank, has used advertising campaigns and sponsorships to link the company's brand to social engagement, environmental protection and sustainability. Westpac recognizes that many of its social, ethical and environmental impacts reside as much in its supplier relationships (or the 'supply chain') as in its own activities, and that managing supply chain sustainability is important to protect the company's reputation and brand value. Risks associated with supply management include negative publicity, damage to a company's reputation and actual losses of customer base. Westpac carefully manages these risks through a defined supply chain management practice.

REALIZING EFFICIENCIES

A focus on realizing efficiencies in the supply chain can reduce your company's supply costs while also reducing the environmental footprint of your supply chain, including energy, water and natural and synthetic material use, as well as improving worker health and, motivation, and productivity. Benefits include:

- Strong labour and health and safety practices which may result in cost efficiency and improved productivity
- Increased understanding of key processes in the supply chain, including natural resource management and extraction, logistics and manufacturing, which enables better management and stewardship of resources
- More efficiently designed processes and systems which reduce required inputs and lower costs

Productivity and efficiency initiatives require a full understanding of the different steps of the supply chain and the key social and environmental impacts and cost drivers. By addressing the root causes of issues through strong communication capabilities, in-depth understanding of business drivers and sustainability trends and shared assessments and priorities for improvement, companies can drive improvements and derive the benefits.

CREATING SUSTAINABLE PRODUCTS

Collaboration with suppliers on sustainability issues can foster product innovation. Companies embarking on such initiatives have added new features and performance characteristics to existing products and even generated new products. For example, sustainable products may result in fewer negative environmental impacts than traditional products or have improved end of life collection and disposal options. It is also possible for the sustainability of products to be a differentiating factor and to lead to increased sales for some companies.

Example: **Ahlstrom Osnabrück**, a Finnish wallpaper company, began to develop products based on the Forest Stewardship Council's standard in the late 1990's after a large customer in the United Kingdom announced its commitment to source products that adhered to the FSC standard. By 2010, all of Ahlstrom Osnabrück's pulp suppliers were certified to either the FSC or the Programme for the Endorsement of Forest Certification (PEFC) standards, and the company has 12 manufacturing sites with FSC Chain-of-Custody certification, allowing the company to meet increased marketplace demand for certified sustainable forest products.



“The purchasing power of a corporation can become a unique driver for bringing about positive change in society. Companies must use this power to achieve a purpose and make their supply chain a vehicle for inclusive growth. In a developing economy like India, the bulk of the workforce is employed in the unorganized sector which often constitutes the last mile of the supply chain. If this workforce is exposed to the advantages of good and clean business practices, it would make a great impact on their lives and on the wellbeing of the nation.”

– Anand Mahindra, Vice Chairman & Managing Director,
Mahindra & Mahindra Limited

Understanding the External Landscape

Beyond identifying business drivers, it is also important to understand the external landscape of supply chain sustainability including the approaches of peer companies, the expectations of stakeholders and opportunities to partner with others (explored more in Chapter 8).

BENCHMARKING AGAINST PEER COMPANIES

Your peer companies may have already begun addressing supply chain sustainability. Benchmarking against your peers may provide you with a more sophisticated un-

derstanding of the business value as well as ideas to incorporate into the design of your supply chain sustainability programme. You should seek to understand your peers’:

- Business case for supply chain sustainability
- Understanding of human rights, labour, environment and governance risks, opportunities and impacts and the resulting supply chain focus
- Internal structure for managing supply chain sustainability
- Codes of conduct, and the topics included
- Use of their code of conduct

HOW DOES YOUR COMPANY COMPARE TO RELEVANT BENCHMARKS?

Highlights from the 2009 Global Compact Survey Results Related to Supply Chain Sustainability

■ In 2009 the Global Compact conducted a survey of its signatories, including questions related to supply chain sustainability practices. More than 1,000 completed surveys were received from companies with diverse profiles in size, geographic presence and industry.

■ 83 per cent of respondents indicated they consider suppliers' adherence to the Global Compact principles, and 46 per cent of respondents from companies with more than 50,000 employees indicated they strongly consider adherence to the Global Compact principles by supplier. However, approximately 30 per cent of respondents from companies with fewer than 50,000 employees indicated they strongly consider adherence.

■ Of the 17 per cent of respondents who do not consider adherence at all, the top reasons for not considering adherence included lack of capacity (28 per cent), not a priority (28 per cent) and lack of knowledge how to integrate principles with procurement practices (25 per cent).

■ Among companies that consider Global Compact participation when selecting supply chain partners, regarding the selection of new supply chain partners, 45 per cent rely on publicly available information, 37 per cent rely on self-assessment questionnaires, 37 per cent review other proprietary information and 32 per cent rely on on-site audits by company staff.

■ Among companies that consider Global Compact participation when selecting supply chain partners,

regarding the assessment of current supply chain partners, 36 per cent rely on audits by company staff, 35 per cent rely on self-assessment questionnaire responses and 32 per cent assess corporate responsibility performance during regular business reviews.

■ The largest companies (>50000 employees) indicated they take a variety of actions to assist their supply chain partners to improve and adhere to Global Compact principles, including providing training on specific issues (31 per cent), assistance with setting and reviewing goals (26 per cent), reviewing and commenting on remediation plans (26 per cent) and providing references to third party experts, e.g. consultants, civil society organizations (24 per cent). However, for smaller companies, the top response in all size categories to this question was "no action taken."

■ Some 52 per cent all companies, and up to 84 per cent of the largest companies include corporate responsibility expectations in relevant documents (e.g. contracts, proposal requests, and purchase orders).

■ Some 43 per cent of all companies and up to 72 per cent of the largest companies, provide training to their procurement staff on corporate responsibility.

■ However, 13 per cent of companies reward purchasing decisions that balance business and corporate responsibility criteria and 15 per cent reward suppliers that perform well on business and corporate responsibility criteria.

- Approach and programmes to engage with suppliers
- Metrics to evaluate the success of their programme
- Reporting practices

Some industries have established joint codes of conduct (see Chapter 3) and undertake aspects of collaborative supplier engagement, such as cooperation to conduct audits and training. Benchmarking against peer companies can help you identify these collaborative approaches and industry initiatives, which are covered in detail in Chapter 8, to avoid ‘reinventing the wheel’ of supply chain sustainability.

Finally, suppliers themselves can often provide examples of good practices and can communicate their needs to customers.

Understanding the Expectations of Stakeholders

Companies should also invest in understanding the expectations of their stakeholders including national and local governments, workers’ and employers’ organizations, non-governmental organizations (NGOs), advocacy and activist organizations, academic and issue experts and community groups, as well as suppliers themselves.

Moreover, companies can also benefit from seeking input from customers and investors. Customer and investor demand is a primary driver for many supply chain sustainability programmes, and insights from these stakeholders can help shape programmes to ensure that they create the maximum return for the company.

Engaging stakeholders early and regularly in the process of designing a programme can help companies identify relevant standards and approaches to sustainable supply chain management. Some stakeholders are knowl-

edgeable about, and sometimes even involved in the development of, different codes of conduct and certifications for suppliers. Examples include the Kimberly Process for jewelry, Forest Stewardship Council Certification for wood and paper products and the SA8000 for responsible labour practices across industries. They can help you evaluate the credibility of different options and identify which might be relevant inputs for your company’s programme.

Emerging risks and opportunities in supply chains. From customers and employees to activists and NGOs, stakeholders are often the first to identify emerging environmental, social and economic issues in the supply chain. Companies who engage early and regularly with stakeholders have the opportunity to take a proactive approach to these issues and to partner with stakeholders rather than discovering the issues through an activist campaign. Early identification of issues through stakeholder engagement can also help companies take early leadership in comparison to peers. See Chapter 8 for more detail on multi-stakeholder collaboration.

Example: In developing its code of conduct, **Westpac** consulted its Community Consultative Council, suppliers and NGOs. The company included feedback from organizations such as the Australian Conservation Foundation, Australian Consumers’ Association, Australian Council of Social Security, Finance Sector Union, Human Rights, and Equal Opportunity Commission. Westpac listened and responded to the issues raised by these groups. The company also established a Sustainable Supply Chain Management (SSCM) Policy Review Committee where internal and external stakeholders’ perspectives on SSCM can be heard and used to improve its processes.

The Importance of Investors and Customers as Stakeholders in Supply Chain Sustainability

Customers and investors are increasingly expecting that companies understand and manage impacts in their supply chains.

Investors want to ensure that companies are aware of and are mitigating key risks affecting their supply chains. In addition, they are interested to know how companies are creating value from supply chain sustainability.

Consumers and business customers are also encouraging companies to more closely manage their supply chains. In particular, some consumers are seeking more sustainable products; while business customers may include supply chain sustainability in their supplier selection criteria.



Establishing a Vision

Having a clear vision and objectives for your company's sustainable supply chain programme will provide direction for your strategy and help to define your company's commitment. A vision will be a helpful yardstick in evaluating the success of the programme and in identifying areas for continued improvement.

It is important that the development of the company's vision and objectives are championed from the top of your company. This is critical to ensure the success of the programme. Moreover, to ensure support from company leaders, it is important for executives and senior managers from all parts of the business related to the supply chain should be consulted in this process and have a say in the development of the company's vision. Companies should consider how they can include representatives from supply management functions such as procurement and operations as well as corporate responsibility, design, marketing, logistics, quality assurance, compliance, legal, human resources and environment, health and safety functions in creating the vision, as each of these functions will have a role to play in the implementation of the sustainable supply chain programme. For smaller companies, it is equally important that leaders agree on the vision for sustainable supply chains.

The output of the process should be a statement of vision and commitment. As you develop the statement, consider what is motivating the company to invest in sustainable supply chain management. Are you driven by:

- Customer demands and concerns?
- NGO and activist claims over practices in your supply chain that affect your brand and reputation?
- Investor inquiries to understand how you are managing supply chain risk?
- Non-compliance with regulations and standards that is preventing you from doing business?
- Rising costs as a result of increased demand for and reduced supply of natural resources?
- Pressure from your industry peers who are also developing sustainable supply chain programmes?
- The company's culture of strong emphasis and performance on sustainability?
- Business interest in addressing macro issues

in the environment and society to ensure long-term sustainability of operations?

It is also important to define specific objectives and potential barriers or risk events affecting their achievement. What is the company hoping to achieve through a supply chain programme? What are some long-term outcomes you want to work toward? How will a sustainable supply chain support your company's business strategy? Objectives can vary widely, including: strategic business goals (e.g. creating long-term value for the company), operational business goals (e.g. saving cost by reducing wasted energy and materials), goals to improve your company's reputation (e.g. wanting to change stakeholder opinions of your company), and compliance-based goals (e.g. ensuring activities meet all applicable laws and regulations).

Based on the business motivations and objectives, you can craft a vision statement that reflects what you consider long-term success for a programme. Some examples of company vision statements are provided in the box at left. The vision for your company may change over time. As you become aware of issues and begin to understand and gain experience, it may become necessary to "re-set" the vision.

Example: **Grupo Arcor**, a food products and confectionary business based in Argentina, faced a growing number of requests and inquires from clients, credit institutions, governments and business chambers about the company's supply chain and sustainability. As a result, the company created a Supplier Social Responsibility Programme, founded on a vision to integrate Grupo Arcor's CSR Policy into its supplier relationships. Its specific objectives are:

- To align suppliers with the company's CSR practices and supplier contractual policies
- To guarantee minimum common standards in the company's production and management processes based on sustainability
- To increase and improve Grupo Arcor's supply sources while favoring the economic inclusion of vulnerable groups with productive activities which are normally excluded from the competitive market.

The programme has three main strategies: awareness and training; progressive CSR incorporation into the supplier recruitment policy; and specific responsible purchasing projects.



Supply Chain Sustainability Vision Statements

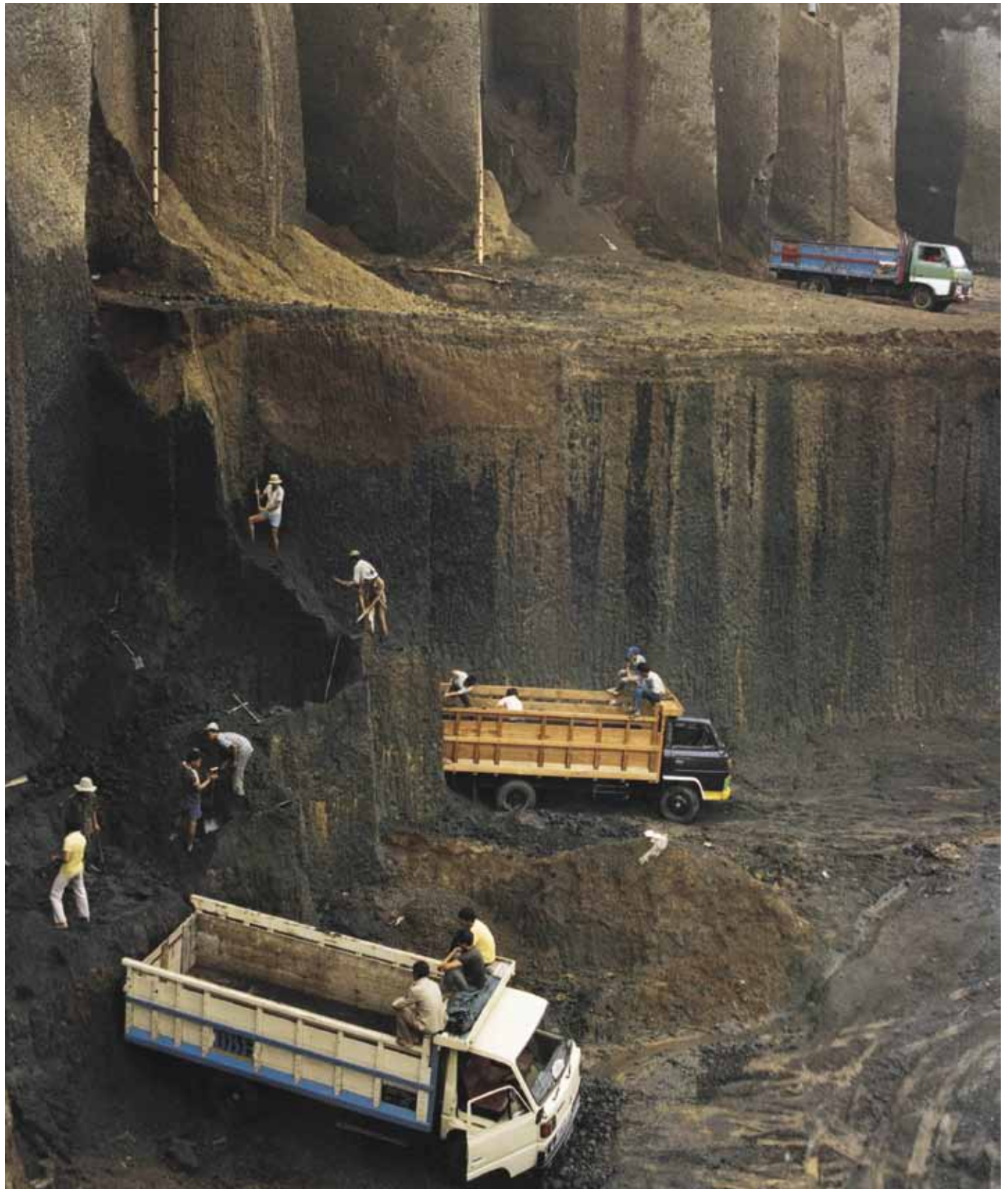
L'OREAL

“We are committed to building strong and lasting relationships with our customers and our suppliers, founded on trust and mutual benefit. We do business with integrity: we respect the laws of the countries in which we operate and adhere to good corporate governance practices....We are mindful of our impact on the natural environment...We are committed to the respect of human rights. We want to end the exploitation of children in the workplace and the use of forced labour...We actively seek out and favour business partners who share our values and our ethical commitments.”

NOKIA

“At Nokia, we work hard to anticipate risk, demonstrate company values, enhance our governance practices, increase employee satisfaction, and look after the environment and communities where we do business. We expect the companies in our supplier network to take a similar ethical business approach and to demonstrate progress and achievements in these areas as well as in educating and overseeing the practices of their own suppliers.

Our aim is to ensure that environmental, ethical and health and safety issues, as well as labour practices, are not separate add-on features, but are embedded within all our sourcing processes, including supplier selection and relationship development.”



3. Establishing Sustainability Expectations for the Supply Chain

As you begin to solidify your vision for supply chain sustainability, an important next step is to translate expectations into a clear set of guidelines that will provide direction to suppliers and internal colleagues. At a minimum, you should expect suppliers to comply with national laws and to take proactive measures to avoid environmental and social harm.³

Overview of Codes of Conduct

Codes of conduct are critical to establishing and managing expectations for both customers and suppliers. They create a shared foundation for sustainability, from which supply management professionals, suppliers and other actors can make informed decisions.

For many companies, a supplier code of conduct is a natural extension of corporate values statements and seen as an affirmation of existing expectations rather than a new set of requirements.

When developing codes of conduct, there are a number of international standards that should also be consulted and referenced. These are outlined below.

Adopting or Writing a Code of Conduct

The Global Compact principles outline each of the areas that need to be covered for a code of conduct to be considered comprehensive. Many companies will find during the external landscape review described in Chapter 2 that other companies in their industry have already created joint codes of conduct. These codes are designed to minimize the burden on suppliers by reducing the number of standards with which they must demonstrate compliance. They are also intended to streamline the process of conducting joint audits of suppliers and to reduce the effort required of companies to design their own codes.

However, there is a risk that joint codes do not address all the issue areas of the Global Compact, or will not meet specific concerns for your business. Your company

should consider whether adoption of one of these joint standards will receive the full support of executive management and be used in place of, or to augment, a unique code created by company. And if you determine that it is necessary for your company to write its own code, joint codes can still be a helpful starting place.

If there are no joint codes for your industry that are comprehensive, or your company determines that they aren't appropriate for your supply chain, there are several principles and initiatives that apply to supply chain management that should be referenced.

For the social elements of the code, companies should refer to the UN Declaration of Human Rights and the International Labour Organization Core Conventions and Recommendations which establish common expectations on a broad range of issues concerning work, employment, social security, social policy and human rights.

Environmental topics that are most relevant will vary by industry, which makes dialogue and collaboration critical to identifying which issues are most important to cover in the code of conduct. It is also important to regularly review the contents of the code to determine whether updated language and interpretation is needed.

³ Protect, Respect and Remedy: a Framework for Business and Human Rights, Report of the Special Representative of the Secretary-General on the issue of human rights and transnational corporations and other business enterprises, John Ruggie. 7 April 2008.



Key steps in development of a code include:

1. Consult with stakeholders, including suppliers
2. Base expectations on existing international norms of behavior rather than inventing new standards, to avoid undermining international law and prevent conflicting expectations for suppliers with multiple buyers
3. Consult with the cross functional teams, in particular supply management professionals
4. Consider a requirement that suppliers cascade these expectations to their supply base

Examples: Though products are increasingly delivered online, print publications are still a significant part of **Reed Elsevier's** business, and the company purchases a large amount of paper. Reed Elsevier's challenge was to better understand the sustainability of the paper it uses. To ensure suppliers meet the ethical stan-

dards Reed Elsevier's set for its own behavior, the company began the Reed Elsevier (RE) Socially Responsible Supplier (SRS) programme in 2003. The cornerstone is the Reed Elsevier Supplier Code of Conduct, which incorporates the ten principles of the Global Compact. Suppliers are asked to sign and prominently post the Code in their workplaces. It also helps suppliers spread best practice through their own supply chain by requiring subcontractors to enter into a written commitment that they will uphold the Supplier Code.

Reed Elsevier has also launched an annual paper survey asking suppliers to communicate their performance on all elements of the Code and the ten principles, not only on key environmental issues (such as mill standards, forest certification, recycled content, bleaching, resource reduction efforts) but also on how they ensure they do not use child and involuntary labour, avoid workplace discrimination and promote freedom of association.

TOPICS AND REFERENCES TO CONSIDER IN WRITING AND ADOPTING A SUPPLIER CODE OF CONDUCT

SAMPLE POLICY AREAS THAT ALIGN WITH THE GLOBAL COMPACT PRINCIPLES:		POTENTIAL SOURCES TO REFERENCE:
<p>Human Rights and Labour</p> <ol style="list-style-type: none"> 1. Forced labour 2. Child labour 3. Working hours 4. Wages and benefits 5. Humane treatment 6. Nondiscrimination 7. Freedom of association and collective bargaining 8. Occupational safety 9. Emergency preparedness 10. Occupational injury and illness 11. Fire safety 12. Industrial hygiene 13. Physically demanding work 14. Machine safeguarding 	<p>Environment</p> <ol style="list-style-type: none"> 15. Material toxicity and chemicals 16. Raw material use 17. Recyclability and end of life of products 18. Greenhouse gas emissions 19. Energy use 20. Water use and waste water treatment 21. Air pollution 22. Biodiversity <p>Anti-Corruption</p> <ol style="list-style-type: none"> 23. Conflict of interest 24. Gifts, meals and entertainment 25. Bribery and kickbacks 26. Accounting and business records 27. Protecting information 28. Reporting misconduct 	<p><i>United Nations Global Compact**</i></p> <p><i>Universal Declaration of Human Rights</i></p> <p><i>Protect, Respect and Remedy: a Framework for Business and Human Rights</i></p> <p><i>ILO International Labour Standards</i></p> <p><i>ILO Code of Practice in Safety and Health</i></p> <p><i>OECD Guidelines for Multinational Enterprises</i></p> <p><i>The Rio Declaration on Environment and Development</i></p> <p><i>United Nations Convention Against Corruption</i></p> <p><i>ISO 14001</i></p> <p><i>SA 8000</i></p> <p><i>OHSAS 18001</i></p>

** For detailed discussion of anti-corruption in the supply chain, including model language for a code of conduct, refer to the Global Compact publication "Fighting Corruption in the Supply Chain: A Guide for Customers and Suppliers".

*Example: **Levi Strauss & Co.*** was the first multinational company to establish Global Sourcing and Operating Guidelines, which outline the company's commitment to responsible business practices everywhere it conducts business. The guidelines include two parts: (1) Country Assessment Guidelines, which help assess potential issues associated with conducting business in specific countries, and (2) Terms and Conditions, which help to identify business partners who follow workplace standards and business practices that are consistent with the company's values.

The **Electronic Industry Citizenship Coalition (EICC)**, an industry association of more than 40 of the leading companies in the information and communications technology industries, established a joint supply chain code of conduct that provides a united voice for customer expectations, streamlines the oversight of supply chain conditions for both suppliers and customers and allows both to focus on changing social and environmental conditions. Each member company in the EICC has committed to adopting the code of conduct and implementing it in their supply chain.

The **Global Social Compliance Programme** is a global cross-industry platform that seeks to harmonize supply chain sustainability codes and approaches.

Using the Code

In order to meet your company's goals for supply chain sustainability, the code should be used as the foundation for setting internal and external expectations and as a framework for action and engagement with suppliers and other stakeholders.

A new code needs to be shared throughout your company to raise awareness of the standards it describes. Supply management professionals will need to gain familiarity with the elements of the code in order to communicate it to existing and new suppliers and to explain how your company intends to work with suppliers to ensure compliance and continuous improvement. Possible mechanisms include internal websites, recurrent trainings particularly for new staff and regular communications from senior

management to reinforce the importance of the code. Also, depending on how large and complicated your company's structure is, it may be helpful to establish internal policies and procedures to explain how the code should be implemented by staff.

Companies often take a variety of approaches to communicating codes to suppliers including:

- **A special, one-time communication.** This approach is often most effective when the communication comes from a senior level executive in your company such as the CEO or Chief Procurement Officer.
- **Inclusion of the code at first points of contact with suppliers.** Companies are including the code at the very start of new relationships with suppliers by posting it on their websites and including it in Requests for Proposals/Quotations. This helps to raise awareness among potential suppliers of the importance sustainability will play in their relationship with the company.
- **Integration of the code into supplier contracts.** Many companies also integrate the code into supplier contracts, or into purchase orders, by asking their suppliers to commit in contracts to complying with the expectations set out in the code.
- **Review of the code at a regularly scheduled business meeting.** Linking the introduction of the code to an established business process and having supply management professionals present the information will demonstrate the strength of the connection between business and sustainability performance. It can also be useful to have supply chain sustainability representatives participate in these meetings if there will be interactions between those individuals and suppliers in the future as part of the engagement and evaluation process.

*Example: **Telenor**,* a global provider of telecommunications services from Norway, implements its code of conduct through agreements on responsible business conduct with suppliers. These agreements require suppliers not only commit to the code, but also to allow monitoring and sanctions for non-compliance. Telenor also requires suppliers to cascade the company's code of conduct requirements to their suppliers and reserves the right to monitor any tier in the supply chain.





4. Determining the Scope

The next step in designing a sustainable supply chain programme is to determine the scope of the programme. Often companies that are just starting out in supply chain sustainability seek to, or feel pressure to, engage their entire supply chain. However, given the size and spread of most companies' supply chains, and the resources that will be required for effective engagement, this is typically unrealistic.

Many companies therefore chose to focus their programme on their “key” or most “strategic” suppliers, which are often those that the company sources directly from, has significant spend with and/or views as critical to production.

In addition, there may be particular “hot spots” in your supply chain, even several steps removed from your operations, which could need immediate attention because of the high level of risk. For example, electronics companies are beginning to focus on minerals that are extracted from regions affected by social conflict and where human rights violations are present.

The objective of determining the scope of the programme is to identify which of your suppliers you should engage with and to what extent, noting that programme boundaries tend to change over time as companies become more sophisticated and capable to manage supply chain sustainability more effectively.

Examples: **Ford Motor Company** has made it a priority to take action on forced labour in the production of pig iron, which is used to make steel, even though it is six or seven tiers removed.

In the development of **Telenor Group's** responsible supply chain programme, Telenor formally did not exclude any tier of the supply chain from the start. Further, Telenor also defined “suppliers” to include any kind of contractual partner, except customers. The practical scoping of this on operational level is carried out through supply chain risk assessment and prioritization within practical efforts.

THE IMPORTANCE OF LOOKING BEYOND DIRECT SUPPLIER RELATIONSHIPS

Sub-tier suppliers are defined as those companies that supply to your suppliers—they are all the companies that you don't source from directly but that provide inputs for your products and services.

For example, in the information technology sector, mining companies are sub-tier suppliers because they provide the metal that goes into electronic components. Similarly, in the financial services sector, some computer hardware manufacturers are sub-tier suppliers because they provide the servers that other information technology companies use to operate data centres.

Many companies struggle with whether and how to include sub-tier suppliers in the scope of their supply chain programme because of the lack of direct interaction and perceived lack of influence.

However, many companies and industries have found that sub-tier suppliers have the most significant challenges in addressing sustainability issues. We recommend that companies be aware of where sustainability challenges are likely to arise by mapping their entire supply chain. You can then evaluate the importance of the issue to your business and its potential impact on society to determine if or how to include it in the scope of your supply chain sustainability programme.



Sample Supply Chain Risk Events for a Food Company*

Child Labour:

Allegations of child labour on farms in supply chain surface.

Working Hours & Wages:

Workers in food processing plants strike due to low wages and unpaid overtime wages.

Corruption:

A supplier’s management misuses revenues or royalties for corrupt purposes.

Food Safety:

Processing plants fail to properly clean machinery and unintended and potentially hazardous substances end up in product.

Indigenous People:

Farming is undertaken on land that is sacred or otherwise essential to lives or livelihoods of indigenous people.

Pollution:

Processing plants fail to properly treat water effluents and are not in compliance with local regulations.

* This list is provided for illustrative purposes. It is not intended to be comprehensive.

Mapping the Supply Chain

To understand the appropriate scope for managing sustainability in your supply chain, you must first define what your company’s supply chain is. A supply chain map helps to trace the key activities of organizations and people involved in bringing a product or service from raw material to market. A generic product supply chain is illustrated below.

Of course, the supply chain of individual products and services can look substantially different. Supply chain mapping therefore needs to be conducted on a product or service category basis. For companies in service industries, like hospitality and transportation, think of the various steps in your service and focus on the supply chain of key assets (such as ships in the transportation industry) and products that support your service (such as food in the hospitality industry).

We recommend focusing on the most important product or service categories as a starting point. This could be identified by reviewing procurement contracts or your company’s cost of goods sold data, or similar primary information. For example, an automobile rental services agency’s main assets

are its fleet of cars and computer systems to manage reservations, and both of these categories would need to be mapped.

To map your supply chain:

- **Identify your major product and service categories to map.** Consider your company’s largest categories of procurement spend and categories that are critical to business operations.
- **For each product or service category, trace the flow of materials and information.** Don’t stop with your direct suppliers — go back to raw materials and original suppliers. Also, don’t make assumptions—work to understand the relationships and transactions as they actually exist. In some cases, agents or wholesalers may play key roles.
- **Gather information on the human rights, labour, environmental and corruption issues at every step of the supply chain.** Where are there potential risks and opportunities associated with these issues? It can be very useful to discuss with peer companies, suppliers, industry bodies, civil society organizations and activists, as well as government representatives to identify issues.

GENERIC SUPPLY CHAIN STAGES FROM A RETAILER PERSPECTIVE



“We live in an increasingly resource aware and resource constrained world. We need to live within our means and not borrow from the future. To build a sustainable tomorrow we need to make our supply chain sustainable today. In fact, I firmly believe that increased sustainability in the supply chain reduces risks and increases profits for all organizations and stakeholders”

– Kris Gopalakrishnan, CEO and Co-Founder of Infosys

Segmenting the Supply Chain

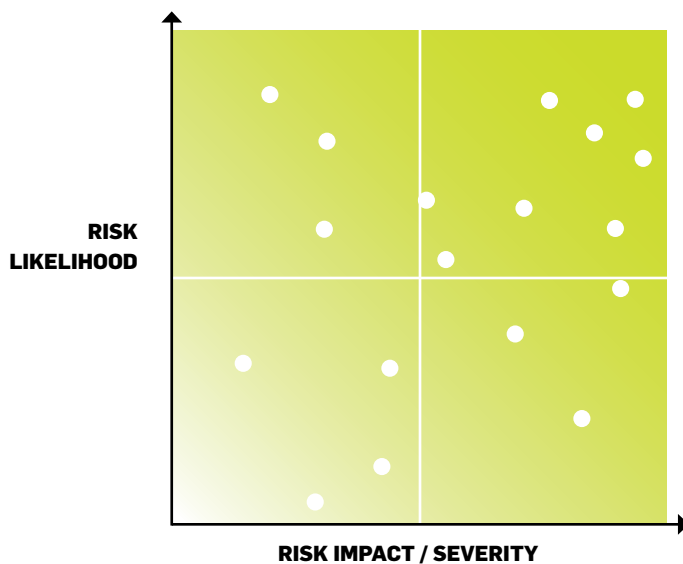
With a more complete understanding of your company's supply chain, you can begin to segment your suppliers to determine how to commit resources to improve sustainability.

Segmentation allows companies to focus on the most critical elements of the supply chain. Good segmentation is a balance between acknowledging that some risk will always exist but that specific risks need to be addressed to avoid negative impacts to your business and to society.

There are a number of different criteria to consider in supply chain segmentation including, but not limited to:

- **Risk to Society:** Where are the biggest risks to human rights, labour, the environment and ethics in your supply chain?
- **Business Risk:** What are the risks in your company's supply chain that could impact ability to do business and meet the vision set forth for supply chain sustainability?
- **Risk to Economic Development:** What are the risks for exclusion of small and medium sized enterprises (SMEs) when introducing code demands, monitoring and auditing schemes?

SUPPLY CHAIN SUSTAINABILITY RISKS MAPPING



Both business and societal risk can be influenced by:

- **Spend:** Which suppliers does your company have the highest spend with, including direct and indirect spend, and potentially therefore the most influence with?
- **Country:** Which countries do your suppliers operate in, and which of those countries are high risk because of weak legal and regulatory frameworks, high levels of corruption, etc.?
- **Category:** Which suppliers, including suppliers for products and processes, are most business critical for your company?
- **Tier:** Which suppliers sell to your company directly, and which are sub-tier suppliers?
- **Nature of transaction:** Does the transaction contribute to increased or decreased transparency and accountability for conditions in the supply chain? For example, sub-contracted labour, brokers, agents, and middlemen may lead to gaps in knowledge, awareness and influence.

There are two main steps to mapping risk in the supply chain:

1. **Identifying Risk Events.** Events, such as underpayment of wages at a factory in your supply chain, can create risk for your business. Internally - and externally-driven events that may not only be against the law but may also affect the achievement of your sustainable supply chain and business objectives must be identified. Risks can include business continuity, regulatory, reputational, market acceptance and customer requirements risks. External stakeholders may also identify other social, environmental, economic and governance risks which your company will have to evaluate for their potential impact on your business.
2. **Assessing the Likelihood and Severity of Risk Events.** Risk events should be analyzed to understand their likelihood and potential impact. This will determine how they should be managed under your company's supply chain sustainability programme.

Many companies find it helpful to plot each risk event on a grid, where the two axes are "likelihood of occurrence" and "severity of consequences," as in the mapping on the left. It is also possible to include additional dimensions and inputs to create the risk ranking. For example, stakeholder perception of risks

may be different, and your company may want to take this perspective into account as well in setting priorities for action.

Finally, to use this analysis to effectively segment your company's supply chain, you will need to translate risks to types of suppliers. For example, an information technology company may find that many of its highest risks are focused on the raw minerals that are used in manufacturing its products. It would therefore want to focus its supply chain sustainability programme at the base of its supply chain programme. A pharmaceutical company, on the other hand, may find that many of its highest risks occur during transportation of its products when the integrity of its medicines and patient safety might be at risk. This company would want to engage with its logistics suppliers to address potential business ethics, labour and business continuity concerns. Some risks, such as greenhouse gas emissions, packaging waste and environmental management in logistics and transportation are common to many industries, and depending on the scale of activity, might require different interventions.

Examples: Through its supplier mapping exercise, **CEMEX**, a Mexican building materials company, realized that 80 per cent of the company's spend in the supply chain goes to 20 per cent of its suppliers. Given the significant size of its total supply chain, and the realistic ability of the company to affect change in suppliers, CEMEX determined that it could most effectively create sustainability improvements and realize business value from focusing on that 20 per cent.

ArcelorMittal, a mining company based in Luxembourg, has a USD 50 billion supply chain extending from basic raw materials like iron ore to sophisticated downstream products and services. The company has mapped out the most significant sustainability related risks and opportunities for each category of the supply chain based on desk research as well as input from internal experts, users and the respective category purchase teams. ArcelorMittal has found that mapping risks in a method that is both robust, but also simple and aligned with the organization's core risk management approach, is essential to crystallize the key priorities to be addressed. The company chose a 2 x 2 matrix (Impact x Likelihood) for each purchase category and held workshops with participants from the wider internal workgroups to discuss the challenges as well as opportunities in each of these categories. This process will need to be repeated on a regular basis to ensure the risk map remains up to date.



Example: In order to address environmental, health and safety impacts throughout the company's supply chain, **Mahindra & Mahindra Limited**, an Indian industrial group, started a programme to enable knowledge and best practice sharing with suppliers. A detailed questionnaire was sent to all suppliers. This provided the basis for understanding the current processes in the supply chain and the level of the environmental challenges, such as effects of irresponsible waste disposal. Suppliers were then categorized as follows

- A.** Supplier with hazardous process and dangerous operations with no EMS/OHSAS certification
- B.** Supplier with hazardous process or/and dangerous operations with EMS/OHSAS certification
- C.** Supplier with non-hazardous process or/and non-dangerous operations with no EMS/OHSAS certification
- D.** Supplier with non-hprocess or/and non-dangerous operations with EMS/OHSAS certification

Suppliers in categories A & B were determined to be top priorities for the company's continuous improvement programme.

Example: **Epson**, a Japanese technology hardware and equipment company, has organized its suppliers by control level. Suppliers are categorized into five levels depending on their impact on the company's CSR initiatives and ability to sustain production.

SUPPLIER CONTROL LEVELS

Control Level	Guidelines
LEVEL 1	Low impact on CSR & compliance, no impact on production
LEVEL 2	Some impact on CSR & compliance, no impact on production
LEVEL 3	Some impact on CSR & compliance, indirect impact on production
LEVEL 4	Some impact on CSR & compliance, direct impact on production Alternative supplier available
LEVEL 5	Some impact on CSR & compliance, direct impact on production Alternative supplier not available, major problems maintaining production







5. Engaging with Suppliers

The ultimate goal of engaging with suppliers is to develop a shared mindset about sustainability issues, to build supplier ownership of their sustainability vision, strategy and performance and to work more closely with suppliers with shared priorities.

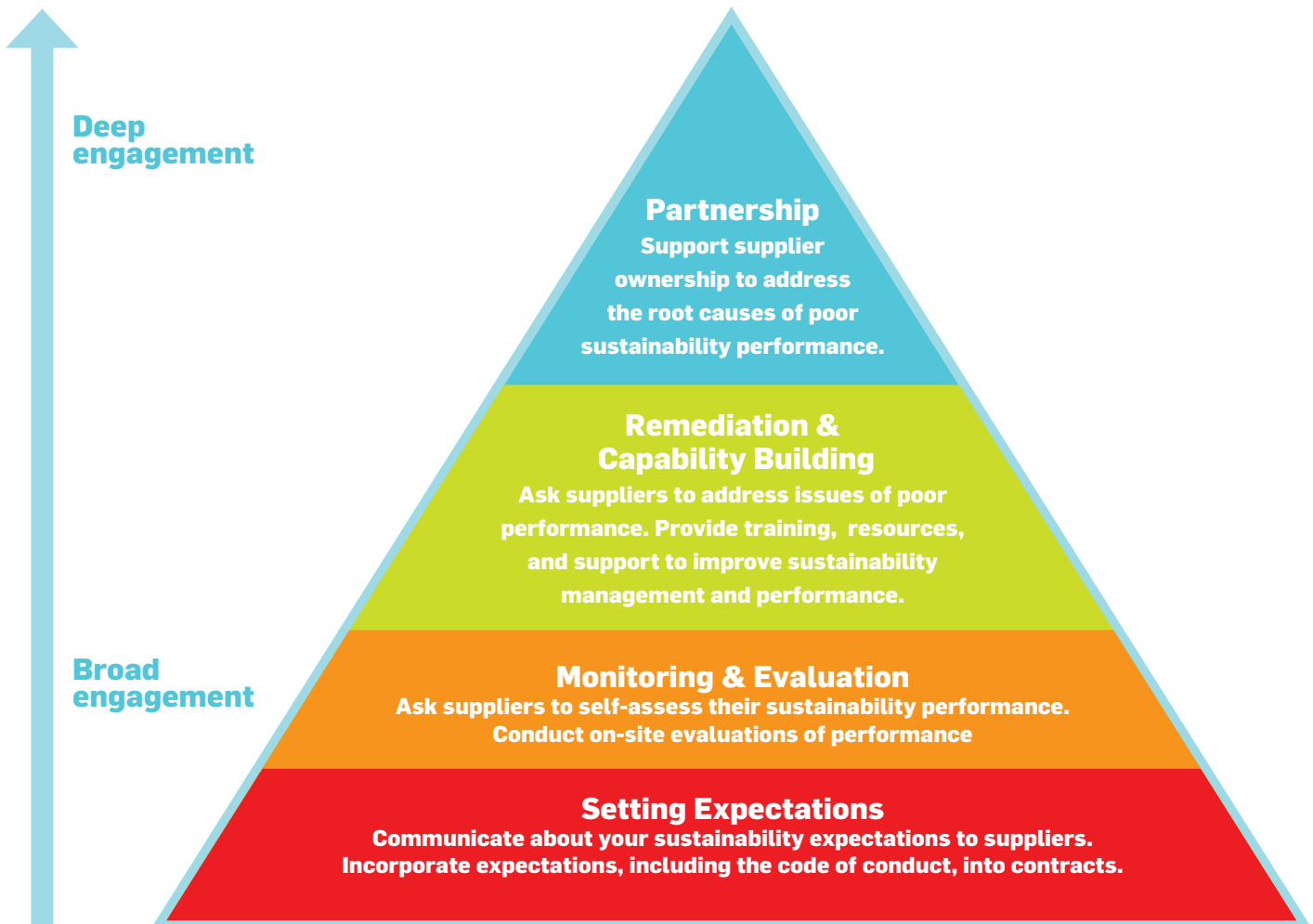
There are many different levers companies can use to improve sustainability in the supply chain. The mechanisms described in this chapter are focused on raising awareness and encouraging suppliers to integrate

and drive sustainability into their business through setting expectations, ongoing monitoring and partnering with suppliers to overcome barriers to improvement.

The figure below shows the tools that are used by companies across a wide range of industries to engage with suppliers on supply chain sustainability. Each has specific purposes, and it is important to have a strategic process to determine which supplier engagement tools to use and to what extent.



TOOLS FOR ENGAGING WITH SUPPLIERS ON SUSTAINABILITY⁴



⁴From Business for Social Responsibility.

Selecting Communications Channels

The first step to improving sustainability in the supply chain is to raise awareness of your company's expectations for sustainability performance. Many companies use their codes of conduct to do so (as described in Chapter 3).

In addition, there are two additional communication methods to consider:

USING EXISTING CUSTOMER-SUPPLIER COMMUNICATIONS.

Every company has some existing processes or methods to communicate with suppliers. These can vary from very basic to very sophisticated approaches. Often these communications are led by supply management professionals and focus on the business aspects of the relationship.

You should consider how to regularly incorporate sustainability expectations and dialogue into these communications to help build shared mindset, reinforce key messages, and provide the opportunity for feedback. This approach has the benefit of providing a dialogue platform where the supplier can in turn raise issues of constraints or tensions created by your company's demands (such as short lead times or many changes to order specifications). Having the right parties around the table can help identify ways to meet both the business and sustainability requirements.

ADDING SUSTAINABILITY TO THE AGENDA OF SUPPLY CHAIN FORUMS.

By participating in supplier forums and talking about sustainability expectations in your

industry, you can help identify organizations that share your company's issues and priorities. These discussions, which can include suppliers, but also peers, partners, policymakers and a broad range of other stakeholders, allow you to share details about your company's priorities and expectations, and learn from others about their approaches. These forums can also provide an important opportunity to get feedback on your programme and identify areas for improvement, as well as to build support for addressing systemic challenges that require a shared response

Examples: In 2006, the **Fuji Xerox Co., Ltd.**, a Japanese imaging technology company, began the implementation of an ethical procurement programme to address customers' needs and respond to their concerns related to management at environmental and labour issues in manufacturing facilities, to minimize manufacturing and brand risks from supplier noncompliance and to improve product and manufacturing quality. As the first step in the development of the company's programme, Fuji Xerox conducted "ethical procurement study sessions" with its nine key suppliers' executives in 2006. The study sessions included a five-day study meeting in Shenzhen, China, with approximately 50 participants, including the executives of the suppliers, their factory presidents in Shenzhen area and Fuji Xerox of Shenzhen executives. The suppliers' study group was critical to the successful launch of the company's ethical procurement programme.

ON THE HORIZON:

Creating Incentives for Strong Sustainability Performance

Many companies starting out in supply chain sustainability are focused on addressing situations when supplier performance on sustainability issues is poor. However, often suppliers are more motivated by incentives for strong performance than by negative consequences.

As your supply chain sustainability programme evolves, you should consider establishing clear benchmarks and rewards for consistently strong performance. Incentives could include:

- Reducing the number of audits conducted
- Establishing a preferred supplier programme
- Increasing business
- Providing recognition and awards
- Allowing participation in strategic buyer/supplier planning meetings
- Sharing costs for sustainability improvements
- Providing assistance for capability building

Example: **Mahindra & Mahindra Limited** is an automobile and farm equipment manufacturing company. The Farm Equipment Sector has established annual sustainability awards for suppliers exhibiting progress on sustainability as defined by Global Reporting Initiative (GRI) Guidelines. So far, seventeen suppliers have received training on GRI indicators and tools like stakeholder engagement.

In 2009, **The Coca-Cola Company**, a food and beverage company based in the United States, brought a group of top global suppliers to Atlanta to participate with senior management in a discussion about the need for business to embed sustainability as a critical element of growth plans. During the meeting, the Chairman and CEO shared his thoughts on the evolution of supply chains, including how low costs, speed, efficiency and customization are merely the price of entry to compete in today's marketplace, and how sustainability will be critical for consumer and customer differentiation. Rather than set top-down directives, the company sought suppliers' strategic counsel in ensuring long-term mutual success in improving sustainability in the supply chain. Following the summit, Coca-Cola received nearly 200 proposals from suppliers, including ideas and strategies related to sustainable packaging, logistics, sustainable agriculture, water stewardship, and portfolio innovation. Coca-Cola is developing individual and collective action plans with the 32 suppliers who participated.

Monitoring and Evaluations

A monitoring system provides information on whether suppliers are complying with the codes and expectations your company has put in place. Monitoring systems are effective in establishing baseline measurements and assessing recent and current performance relative to minimum expectations. However, compliance-based approaches to monitoring have resulted in concerns about costs, disruptions to production of suppliers, doubts about the accuracy of the information collected and potential risks to safety of workers. You should carefully consider what approach to use and with which suppliers, in order to get reliable information collected and avoid over-reliance on compliance audits.

SUPPLIER SELF-ASSESSMENTS

Many companies invite suppliers to self-assess their sustainability performance as an initial screen in selecting new suppliers or as part of a risk assessment for identifying which suppliers may require closer monitoring. Self-assessments can provide customers with useful information and also increase suppliers' understanding of customers' expectations. Many companies also find that self-assessments

are a good starting point to cover a significant portion of the supplier base in a relatively short time frame and at relatively lower cost than audits.

However, reliable self-assessments depend on trust, a suppliers' competency to gather information from disparate parts of their organizations and clear communications so that suppliers understand what is being asked and how their information will be used. For example, the problem of double books is sometimes due to suppliers' concern that their poor performance will result in immediate loss of business.

*Example: **Hewlett-Packard (HP)**, a large computer company and member of the Electronic Industry Citizenship Coalition (EICC), requests that suppliers identified as high-risk complete an electronic self-assessment questionnaire to identify potential social and environmental responsibility performance risks. HP reviews the results of the self-assessment and provides feedback to suppliers, and suppliers create and implement an improvement plan if necessary. In addition to helping HP evaluate risk, self-assessments have been shown to help HP suppliers become more familiar with HP's expectations of what it means to conform to HP's code of conduct.*



Compliance audits are on-site evaluations of supplier performance against your policies and expectations. An audit typically includes several elements as illustrated in the figure below. Audits can also include management systems assessments which gather information on the strength of suppliers' sustainability management systems. There are several audit protocols in place in certain industries that can be leveraged. For example, the Global Social Compliance Programme has gathered audit process best practices in a set of reference tools that companies can adopt or can use as a benchmark for their own system.

Audits can be conducted by your company staff or by a third-party auditing firm. The questions of when, why and how to engage external auditors should be driven by your overall supply chain risk management objectives. Both external and internal auditors offer distinct advantages and there is no standard "right way." In fact, some companies use both.

In deciding whether to rely on external auditors or to develop and maintain internal capacity for auditing, consider what type and level of expertise is needed to assess performance against your policies, such as environment or health and safety expertise and regional presence and capacity. Also, individual qualifications are also important and have an impact on the integrity and quality of the audit results. For companies with substantial audit requirements, it's important to carefully

consider the cost, feasibility and effectiveness of internal versus external investments. Also, consider how suppliers will perceive and be affected by audits, how critical they are to your business and how much control your company needs to have over the process and results.

Effective audits are driven by a variety of factors including:

- Preparation and knowledge of factory, workers and community prior to visit
- Maintaining independence from management for credibility with workers
- Selecting a random sample of workers to interview during all parts of assessments
- Holding informal conversations with workers during times and in locations where they are comfortable and secure
- Gathering enough information to ensure understanding of factory conditions
- Documenting information and assessing workers' credibility
- Validating information from workers with other sources
- Always being aware of the need to protect workers' confidentiality and safety

Examples: **L'Oréal**, a French cosmetics company, requires suppliers to agree to be audited by signing an "Ethical Commitment Letter." All subcontractors are audited wherever they operate, as well as all suppliers of raw materials, packaging, on-site security, cleaning services, company cafeterias located in "at risk" countries and all promotional items suppliers. Other suppliers are audited on a case by case basis, as necessary. Audits are based on SA8000 standard, and carried out by specialized, independent third party auditors in the local language. Audits are carried out during a pre-agreed period of 30 days, without a warning of the actual date. They include a visit to the factory, workshops, offices and on-site accommodation as well as individual interviews with employees. The cost of the initial audit is entirely supported by L'Oréal, and the final report is sent in parallel to L'Oréal and the supplier.

Over the past decade, **Nike**, a footwear and apparel company, has experimented with using many tools for encouraging and enforcing contract factories' compliance with their code

COMPONENTS OF AN AUDIT



of conduct and code leadership standards. One of the main components of the company's monitoring programme is its Management Audit Verification (MAV) tool, which is a labour assessment tool designed to audit performance in five key areas: work hours, wages, benefits, grievance systems and freedom of association. The audit focuses on the factory's people management systems and practices and is performed by Nike's compliance staff.

In order to ensure the integrity of the pharmaceutical supply chain, **Takeda**, a Japanese pharmaceutical company, implemented a supplier qualification and monitoring process that includes a risk assessment of potential partners from the viewpoints of quality assurance, EHS and security as well as business performance. This process applies to new suppliers of raw materials, contract manufacturers and logistics service providers. In addition, Takeda conducts periodical audits of suppliers of raw materials, contract manufacturers, packagers, logistics centres and dealers. A combination of monitoring and audits by Takeda staff are complemented by occasional support from external auditors. Questionnaires, facility tours, reviews of policy, standard operating procedures and records and interviews are used to check compliance with regulations and expectations set by Takeda. The likelihood and severity of the identified risk events are assessed and corrective and preventive actions are tracked.

Remediation and Capability Building

Supply chain sustainability is an evolving vision, which means that it is critical to have an approach that defines and incentivizes continuous improvement. This approach should include both remediation of instances of non-compliance as well as investment in suppliers' management capabilities.

Remediation can include a number of activities:

- Working with suppliers to create a corrective action plan for achieving compliance in a clearly defined and reasonable time frame.
- Encouraging improvements through regular communications with non-compliant suppliers.

- Defining a roadmap for gradually increasing standards and expectations.
- Terminating supplier relationships when serious shortcomings on "zero-tolerance" issues are not remedied in spite of repeated notifications. Companies should identify zero-tolerance issues and explain their selection and consequences to suppliers in advance. Companies should also explain in advance the process for remediation and at what point continued noncompliance may result in termination.

It is important that remediation requirements are communicated very clearly to suppliers, and that there are established timelines and consequences for not meeting them or continuing poor performance.

Examples: **Philips**, an electronics company from the Netherlands, implemented a Supplier Sustainability Involvement Programme built on five pillars: setting out requirements; building understanding and agreement; monitoring identified risk suppliers through audits using the EICC checklist; working with suppliers to resolve issues quickly; and engaging stakeholders. When non-conformances are found during an audit, corrective action plans (CAPs) are agreed upon within 30 days. Philips will work with the supplier to define the CAP, specifying the required steps, milestones and responsibilities, and to track progress of the plan. Philips' Supplier Sustainability officers follow up monthly and can escalate the issue to the responsible purchasing manager as necessary.

De Beers, a diamond mining company, launched its Best Practice Principles (BPP) Assurance Programme to address social, employment, business, health and safety and environmental issues throughout the diamond pipeline. De Beers' clients and their significant contractors, who range from diamond cutters and polishers to jewellery manufacturers to retailers, must comply with the requirements of these Principles. Where an infringement against the requirements is raised, the client or contractor is required to submit Corrective Action Plans (CAPs) to address the issue. Evidence is submitted online or the third party auditor will re-visit the site to ensure that CAPs have been successfully and continuously

Protecting Workers Who Participate in the Monitoring Process

- Workers who participate in the monitoring process should be protected from retaliation.
- Workers should be assured that they can speak freely and information that they provide will not be attributed to them as individuals.
- Workers should be provided means to communicate in their native language, when possible.



implemented. The CAP process enforces continuous improvement and provides a structure for ensuring sustainable solutions, and are implemented to address the issue areas. De Beers can be consulted during the CAP process and provides advice, best practices and information drawing on past experience to help solve the problems more efficiently. In addition, a manufacturer committee has been created by the manufacturers themselves to discuss and collaborate on industry-wide and location-specific issues to find sustainable solutions to common issues.

Nestlé India, a food and beverage company, established a dedicated supplier development department in 2005 to achieve cost savings by relying less on imports to overcome quality and food safety issues, and to create a wider, more flexible supply base. The company invests in working with suppliers through training programmes and by providing technical assistance to suppliers to close safety and quality gaps and improve suppliers' management systems and products. As a result of these supplier development efforts, Nestlé India has secured local sources of 12 previously imported raw materials, avoided 10 single supplier situations, developed more than 70 new Indian suppliers able to meet Nestlé's specifications and saved \$US5 Million. By the end of 2009, this initiative has also been replicated in Bangladesh, Brazil, Indonesia, Iran, Malaysia, Russia and South Africa.

Remediation efforts are most successful in combination with efforts to build suppliers' management capabilities. Capability building includes a variety of efforts, from training for supplier personnel to establishing worker hotlines and resource networks. For example, through a combination of practical workshops, training and in-factory consultations, the International Labour Organization's (ILO) Factory Improvement Programme (FIP) helps factories increase competitiveness, improve working conditions, and strengthen collaboration and communications between managers and workers.

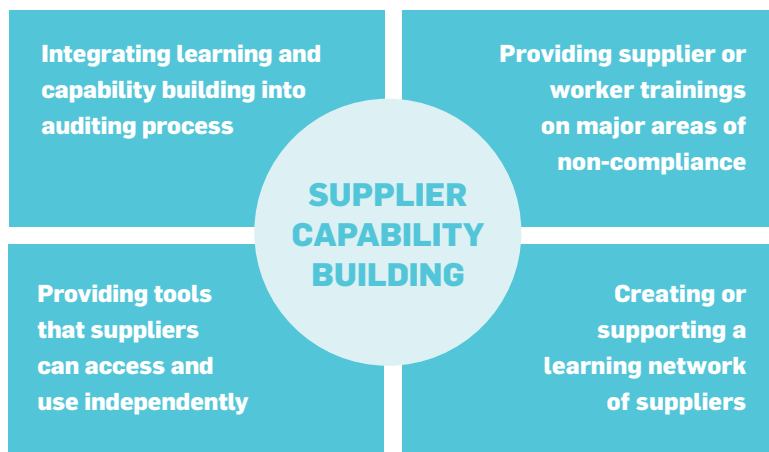
Examples: **HP** completed a pilot worker training project with two suppliers and using the support of a local worker-training NGO to ensure that the EICC Code of Conduct reaches workers as well as management at supplier factories. The training reached more than 4,000 workers, helping them understand their labour rights and giving them a channel for communicating concerns about their working environment. The training covered:

- Raising labour rights awareness
- Establishing worker hotlines and teaching employees to manage them
- Resolving labour issues with tailored instruction for worker representative committees
- Counseling skills and techniques for organizing communications programmes

The pilot was praised by NGOs for showing how workers' feedback helps senior managers understand the demands and grievances of the workers. HP has adapted the pilot project for other factories and will continue to implement similar programmes in 2010.

BSR's **China Training Initiative (CTI)** has delivered practical learning to managers from factories employing more than 1 million workers and has developed tools to enhance managers' abilities and their commitment to improve working conditions. CTI acts as a resource for buyers and manufacturers, bridging buyers' expectations and suppliers' needs with the skills, tools and resources to address corporate responsibility and sustainability challenges and meet buyers' expectations.

OPPORTUNITIES IN SUPPLIER CAPABILITY BUILDING



“A sustainable supply chain benefits our business by mitigating risks associated with producing and delivering our products and services to our customers. It also creates opportunities to develop closer ties with suppliers in the long-term interest of the company.”

– Erik Engstrom, Chief Executive Officer, Reed Elsevier

*Example: **Levi Strauss & Co.** has developed several trainings to help implement their Terms of Engagement (TOE). This includes a detailed TOE Guidebook as a reference for factories, auditors, and external stakeholders with an interest in factory working conditions.*

Engaging with Sub-Tier Suppliers

As described above, companies sometimes find that they have significant risk in the suppliers who are one or more links away in the supply chain. For example, food and agricultural companies have faced significant challenges recently with child labour on farms which they rarely buy from directly. The electronics industry is struggling with mining in conflict zones for the minerals that go into their products.

Engaging with sub-tier suppliers has additional complications beyond those described above, including lack of transparency in the supply chain and lack of company leverage.

To overcome these obstacles, companies are pursuing a number of strategies including:

- **Participation in industry collaborations.** By collaborating with other companies, you can pool your leverage to increase your voice to sub-tier suppliers. You can also share the costs and resources required to engage with these suppliers

- **Engagement in public policy.** Many companies also overcome their lack of leverage by seeking legal and regulatory redress of sustainability issues.
- **Supply chain optimization.** Individual companies can also take steps to shorten their supply chains by grouping smaller suppliers into cooperatives and reducing middlemen. This can also increase the revenue that small suppliers earn.

*Example: **Nestle's** stated vision for the cocoa supply chain is to help cocoa farmers run profitable farms, respect the environment, have a good quality of life and for their children to benefit from an education and see cocoa farming as a respectable profession. However, in many cases, Nestle is more than five layers of the supply chain away from farmers. To address challenges with child labour on cocoa farms, Nestle has joined with other companies, the World Cocoa Foundation, and the International Cocoa Initiative to establish an industry-supported certification programme involving the governments of Cote d'Ivoire and Ghana. In addition to setting and monitoring against standards for child labour on cocoa farms, the programme is providing training to improve farming practices, shortening the supply chain to make sure that more of the value of the cocoa reaches the farmers and supporting community development.*

ON THE HORIZON: Encouraging Suppliers to Join the Global Compact

Companies should encourage their suppliers to begin their own sustainability journey. One way is to encourage them to join and participate actively in the Global Compact and Local Networks around the world. Joining the Global Compact is a sign that the supplier is taking sustainability issues seriously.

*Example: Since 2005, **Schneider Electric**, a French electric components and equipment company, has*

asked its suppliers and subcontractors to join the Global Compact. Support of the Global Compact is one of the criteria for becoming one of Schneider Electric's main suppliers. Schneider Electric has established a goal to source 60 per cent of the company's purchases from suppliers who support the Global Compact by the end of 2010. By the end of 2009, 33 per cent of the company's purchases were made with suppliers

who had signed the Global Compact, and 1,153 of Schneider Electric's suppliers had signed the Global Compact. The company's purchasing teams have been trained on the Global Compact Principles to better engage with suppliers on these issues. Moreover, it closely monitors which suppliers are in danger of being delisted from the Global Compact for failure to Communicate on Progress.

ON THE HORIZON:

Moving from Monitoring to Transparency of Sustainability Management Systems and Performance

The ultimate goal of engaging with suppliers should be supplier ownership of sustainability, which occurs when suppliers integrate into their mission, strategy and decision-making the value, impact and return on investment of responsible labour and environmental conditions.

While monitoring and remediation are essential for understanding risks and challenges in your company's supply chain, there are limits to what monitoring can achieve. Monitoring is not the most effective tool for identifying the root causes of issues, for establishing forward-looking expectations for improvement or for putting shared attention on emerging issues, which are often sources of competitive advantage and other business value.

Companies and suppliers both have equal roles in enabling supplier ownership.

Specifically, companies should:

- Share relevant business information with suppliers
- Build long-term relationships
- Create incentives for sustainability
- Expect improvements to sustainability management systems
- Encourage and reward transparency
- Be sensitive to how their own business practices may impact suppliers ability to meet sustainability expectations

Similarly, suppliers should:

- Demonstrate personal executive commitment
- Incorporate sustainability into strategic planning and valuation
- Demonstrate continuous improvement
- Proactively communicate CSR challenges and progress to companies

Leading companies in supply chain sustainability are trying to build supplier ownership through the development of sustainability management systems. Some companies have begun incorporating evaluation of sustainability management systems into their audit protocols to raise awareness;

others are providing training and consulting for suppliers on sustainability management system design. And some companies have instituted improvement ladders which emphasize a continuous improvement approach to sustainability management systems development with increasing incentives and reduced auditing.

*Examples: **Mahindra and Mahindra Limited** works with selected suppliers to improve their management capabilities in a number of areas. The company's Farm Equipment Sector established the Mahindra Yellow Belt (MYB) Business Partners' Training Programme to help build suppliers' capabilities to address quality problems. The training programme includes two days of training, a test to verify that the learning objectives have been met and a follow up project to apply the learning that is selected by the supplier and approved by Mahindra.*

***Alcatel-Lucent**, a French telecommunications company, developed an assessment approach that could be broadly used and would provide a critical analysis of the performance of a supplier's CSR management systems. The intent was to go beyond traditional auditing methods and to develop a more positive approach. In 2008 the company partnered with EcoVadis to develop a web based collaborative platform to enable a deeper assessment of suppliers' CSR management systems while focusing internal resources on more strategic supplier development activities. The assessments are based on international instruments, including the UN Global Compact, the Global Reporting Initiative Indicators, and draft ISO 26000 guidelines and cover 21 CSR indicators customized for 150 product categories. The supplier scorecard combines several inputs, including (i) self reported information from suppliers, (ii) document audits and (iii) a "360° watch" covering multiple stakeholders. 300 supplier assessments were conducted in 2009, and more than half resulted additional actions such as improvement plans or on-site audits. The assessments generated fruitful discussions with suppliers on the way sustainability was to be considered and the proposed*





6. Determining Roles & Responsibilities

Supply chain sustainability strategies need to be integrated and closely coordinated with business strategies that affect supply chains.

Internal Alignment

One of the most persistent challenges to supply chain sustainability is an unresolved tension in many companies between supply management professionals' commercial objectives and their sustainability objectives and commitment to the Global Compact. This tension is manifested in different objectives for sustainability and supply management staff.

A lack of internal alignment can have negative impacts on suppliers' supply chain sustainability performance. For example, last minute quantity changes can create significant time pressures that erode working conditions if suppliers are forced to increase worker overtime schedules to meet compressed timetables.

Successful implementation of supply chain sustainability programmes requires three levels of internal responsibility as illustrated in the figure below.

Governance and Oversight: Executive Leadership and the Board of Directors

Executive and Board commitment, oversight and support are crucial in setting the correct tone and direction for supply chain sustainability. Executives should clearly articulate the company's vision and approach to supply chain sustainability with concrete milestones and metrics. Written and oral communication from executives will help align business managers' and supply management professionals' priorities with these milestones and emphasize the importance of sustainability as a way of doing business. Executives and the Board of Directors should also regularly review progress against supply chain sustainability goals. This senior level oversight will help to hold people throughout the company accountable. Executives should also provide regular internal updates around the company's sustainability priorities, successes and challenges.

THE ELEMENTS OF INTERNAL RESPONSIBILITY FOR SUPPLY CHAIN SUSTAINABILITY

Executive Leadership:

Commitment, Oversight and Support

Supply Management Professionals:

Implementation

Business Managers:

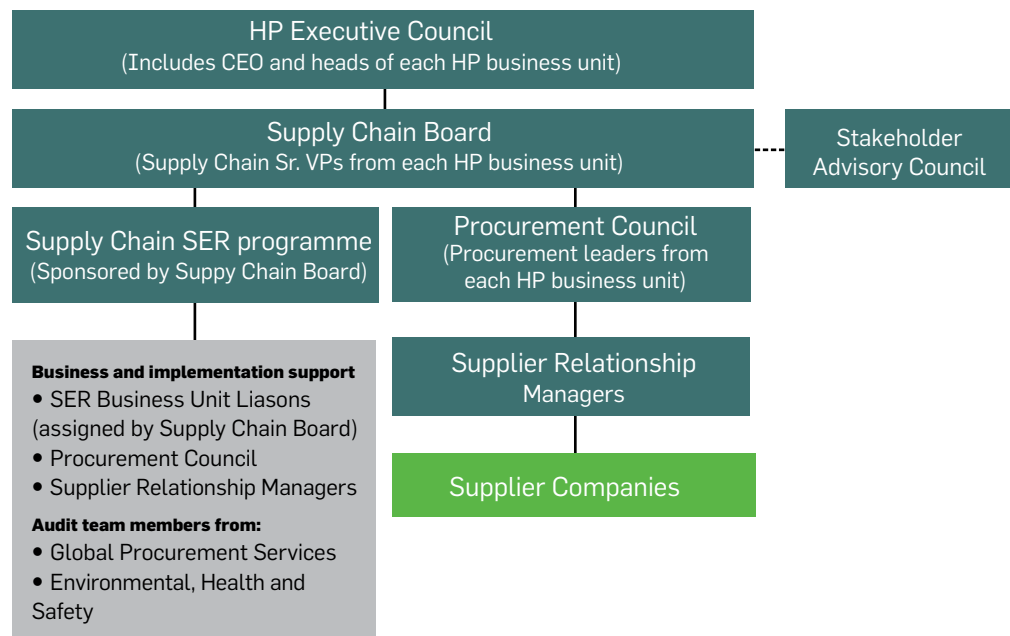
Cross-Functional Coordination



Executives should also support supply management professionals' communications with suppliers as appropriate. Executives at suppliers will appreciate the peer-to-peer interaction, and the involvement of your company's senior leaders will help to demonstrate

the seriousness with which supply chain sustainability is undertaken at your company. As discussed in Chapter 3, executives can help communicate about the code of conduct. They can also participate in supplier meetings as an incentive for strong performance (see Chapter 5).

Example: HP's Supply Chain Social and Environmental Responsibility (SER) governance system clarifies reporting and responsibility across relevant HP businesses and functions. All HP businesses sponsor and support the Supply Chain SER Programme through the Supply Chain Board, which meets monthly and reports directly to the HP Executive Council.



“Nestlé believes that it is only by creating value for society and shareholders at the same time that we can have long term business success. We call this Creating Shared Value. After analysing our value chain we have determined that the areas of greatest potential for joint value optimization with society are water, rural development and nutrition. By working closely with our supply base of 540,000 farmers, we can help them be more productive and emerge from poverty. In return we receive a higher quality end product which benefits the consumer and ultimately our business. We commend this approach to other companies and hope this new guide will help spread best practice.”

– Peter Brabeck–Letmathe, Chairman of the Board, Nestlé SA

Cross-functional Coordination among Business Managers

Competing requirements from different functions internally can negatively impact supply chain sustainability. To support sustainability objectives and enable suppliers to meet expectations, alignment between a wide variety of functions is required. In addition to supply management professionals, product design, business development, logistics, marketing and sales can all impact supply chain sustainability. Companies should consider how to bring together cross-functional representatives, as illustrated in the figure below, to get a clear picture of impacts and where they arise in company decision making.

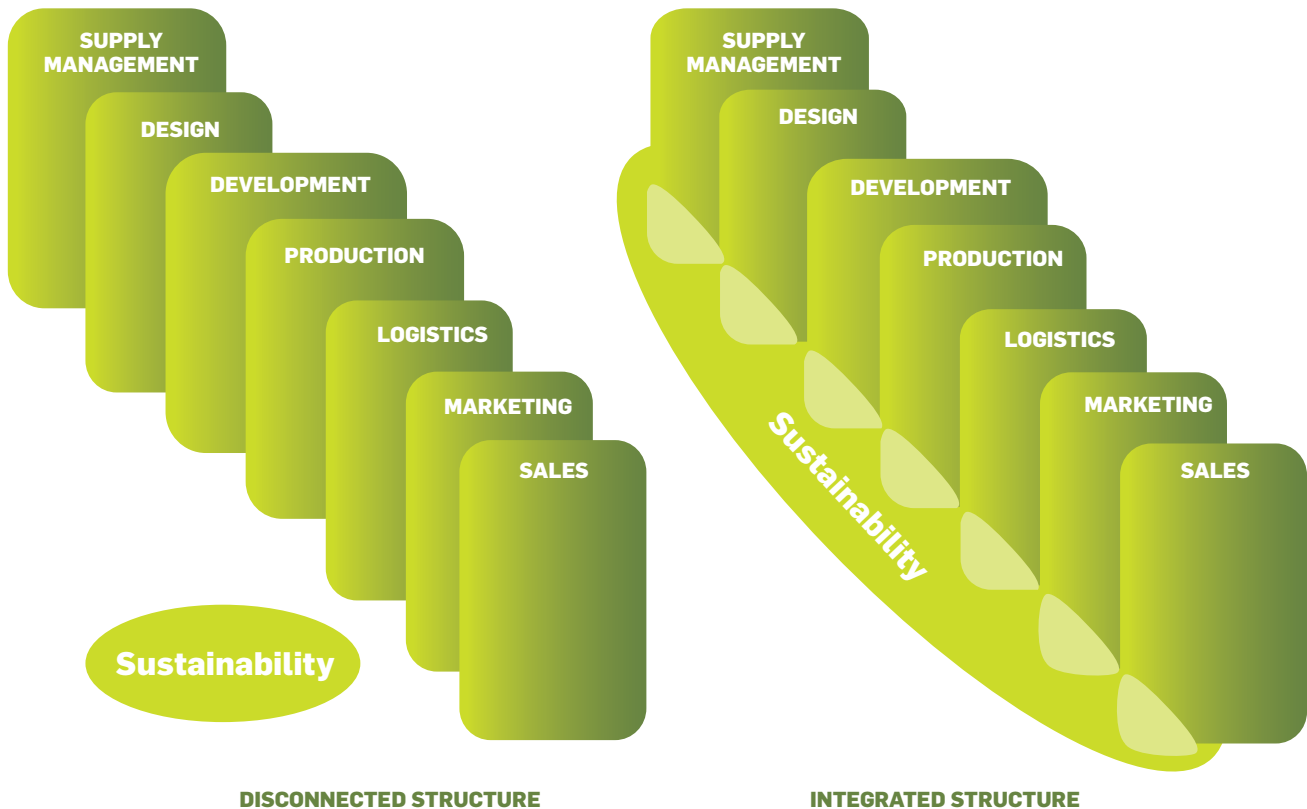
It is important that individual roles and responsibilities within the business are specified so that individuals can assume responsibility for implementing and meeting the vision and milestones set out by executives. These

objectives should be backed by incentives and consequences.

Sustainable supply chain personnel should also provide input to strategic planning processes in functions throughout the company. To build sustainability into decision making processes, sustainability expertise should be embedded in, or available to, every team with an impact on the supply chain.

Example: Grupo Los Grobo, an agribusiness company with operations throughout South America, has established a supply chain committee led by the company's CEO and coordinated by the manager of supplies & outsourcing. Other participants include designated representatives of each of the areas of the company that have a strategic relationship with suppliers (outsourcing for commodity production services, logistics, agricultural inputs, etc). This committee is respon-

INTEGRATING SUSTAINABILITY ACROSS FUNCTIONS⁵



⁵ From Business for Social Responsibility.

sible for establishing and setting objectives and goals through the design of a strategic plan. Objectives are checked and, if necessary, set every year. The results are analyzed, and a new strategic plan is formulated. One of the latest tools to be incorporated in strategic planning is the use of the ONUDI “supplier development platform”. This committee interacts with more than 5,000 small and medium sized supply companies.

Implementation by Supply Management Professionals

Depending on the structure of your company, the group of individuals with the most direct contact with suppliers, referred to throughout this guide as supply management professionals, will have the most responsibility for communicating sustainability expectations to suppliers and holding suppliers accountable for meeting your company’s expectations.

Supply management professionals have three primary levers for moving the needle on supply chain sustainability:

1. Selecting of new suppliers with relatively high sustainability capabilities and practices
2. Engaging with existing suppliers to set and raise expectations and ensure continuous improvement in performance
3. Integrating sustainability considerations in sourcing decisions such as consolidating purchases and winding down product or service lines

SELECTING SUPPLIERS

During the due diligence process of selecting suppliers, companies can include social and environmental management and performance criteria alongside commercial criteria. This will allow supply management professionals to look at the full picture when evaluating suppliers, and in some cases, avoid working with suppliers that bring more sustainability risk to the company. A standard practice is to review responses to a supplier self-assessment questionnaire (described more fully in Chapter 5), which asks for basic information about policies and practices, and can be used in a risk assessment to prioritize suppliers for follow up.

ENGAGING WITH EXISTING SUPPLIERS ON CONTINUOUS IMPROVEMENT

Existing suppliers will also need to comply with your company’s sustainability expecta-

tions. Depending on the current state of sustainability management systems at any given supplier, it may require investments in people and systems that will take time to translate into improved performance. Supply management professionals should take a continuous improvement approach to sustainability with existing suppliers based on:

- **Mutual transparency.** Companies should expect that suppliers will openly and honestly share information related to their sustainability performance. In return, companies should provide clear expectations and guidance as well as advanced notice of changing policies or practices to suppliers.
- **Realistic timelines.** Companies should carefully consider what their minimum requirements are, e.g. legal compliance, and what is a realistic timeline for improvements that go beyond the minimum requirements.
- **Continuous improvement.** Companies can work with suppliers toward management excellence for sustainability and should define excellence in this context. Companies can also help suppliers develop management capacity by providing access to resources.
- **Partnership.** Companies should commit to enabling open lines of communication with suppliers between decision makers of both parties. Customers can work in partnership with suppliers to clearly define roles and responsibilities and to create and achieve mutually agreeable goals.

Example: Timberland, an American footwear company, has changed the way it works with suppliers from a compliance-based approach to a more collaborative approach focused on workers. Instead of leaving a list of violations for factory owners to resolve and then checking back to verify improvements, the company now works more closely with factory management and their workers to understand the root cause of workplace issues in factories. The new approach puts the workers themselves at the centre of the process. Workers and their representatives are now invited to opening and closing meetings of supplier assessments and workers are interviewed in groups as part of the assessment process. In addition, worker code of conduct committees are established, trained and continuously involved in upholding the code of conduct.

Relevance of Sustainability to Supply Management Professionals

“Supply management decisions have a direct impact on business results and sustainability. Therefore, supply management professionals have a responsibility to raise the issue of the development of a sustainability programme within the organization with relevant stakeholders, including the establishment of a sustainability strategy and various enterprise initiatives embedded throughout the supply chain and a formal written policy between the organization and its supplier companies.”

— Institute for Supply Management



INTEGRATING SUSTAINABILITY CONSIDERATIONS

Companies can take many steps to support supply management professionals in integrating sustainability and overcoming the perceived tension between sustainability and business drivers. Many companies begin by providing advice on sustainability issues such as human rights and environmental impacts in a way that makes clear links to other business factors, such as risk, quality, cost, etc.

Companies are also experimenting with supplier scorecards which present information about suppliers' sustainability performance alongside their business performance to support integrated decision making. Leading companies are also placing sustainability personnel within procurement to prevent mixed messages to suppliers.

Examples: At **Starbucks**, buyers are trained on supply chain sustainability issues and how to address them, and have access to all supplier sustainability assessment reports performed for Starbucks. All communication with suppliers comes from buyers. Starbucks's Ethical Sourcing team, the company's sustainable supply chain experts, interacts regularly with buyers regarding supplier assessments and remediation matters. Training, information access and communications are all coordinated to equip buyers with the tools to incorporate supplier sustainability into their purchasing decisions.

Volkswagen Group established a "Sustainability in Supplier Relations" programme with four key elements: standard requirements, early detection of risks, integration into procurement procedures and monitoring and supplier development. Through the programme, all procurement staff have been briefed and sensitized to supplier shortcomings as well as potential for improvement. In addition, suppliers are offered coaching and direct assistance to meet the requirements. Suppliers can contact an email address or fill out a self-assessment questionnaire and an "Ad-hoc-Expert-Team," consisting of the environmental protection, human resources, health and safety and purchasing as well as quality assurance departments, will provide assistance. Information is also made available to suppliers as a standard step in the procurement process.

ON THE HORIZON:

Optimizing the Supplier Base

Supply chain optimization is a fundamental business management tool used to meet a number of objectives, including elimination of waste, duplication and inefficiency in procurement and logistics processes. An uncharted frontier for sustainable procurement is for sustainability considerations to become part of the decision making process so that after going through a consolidation initiative a company's supplier base performs better on social and environmental issues.



“At Restaurantes Toks, we have the commitment not only to deliver products and services that fulfill and exceeds our customer’s expectations, but to contribute in the development of a sustainable supply chain for the benefit of our business, our society and our planet. Sharing success is a must in the process of assuring long term sustainability and growth.”

– Federico Bernaldo de Quiros, CEO, Restaurantes Toks



7. Industry Collaboration & Multi-Stakeholder Partnerships

Industry collaboration and multi-stakeholder partnerships are important tools for advancing your company's supply chain sustainability objectives, particularly for issues that are too challenging and complex to tackle alone. In addition, collaboration can increase the impact and overall efficiency of your company's supply chain sustainability efforts by extending your reach, pooling resources, reducing duplication and avoiding conflicting messages.

The Context for Industry Collaboration

Many leading companies have come to see collaboration as an important element of addressing the root causes of sustainability issues. In addition, collaborative efforts represent a way for smaller companies with fewer resources to take action and contribute to further supply chain sustainability. Two primary types of industry collaboration have emerged:

- 1. Best Practice Sharing.** These industry collaborations, which can be focused in one industry or across sectors, focus on sharing knowledge about approaches and tools that companies have found to be successful in their individual supply chain sustainability programmes. These groups often also create tools together that reflect the direction of their programmes, although typically participants to this type of collaboration are not required to use the tools or to meet any other standards for participation.
- 2. Joint Standards and Implementation.** These collaborations are typically focused within one sector and aim to create consistency among companies' expectations and supply chain sustainability programmes. As described briefly in Chapter 5, compliance based approaches to supplier monitoring are frequently characterized by inconsistency, duplication and inefficiency among companies. For suppliers that work with multiple customers that each have their own code, and approach for monitoring and remediation, unaligned supply chain sustainability programmes can create a significant burden

and divert resources from compliance and continuous improvement efforts.

For this reason, many groups have come together to create shared codes of conduct, which participating companies may or may not be required to adopt, and they work to engage suppliers on the shared code together through joint assessments and auditing. Many of these groups also conduct joint capability building for suppliers.

Example: Through the Sustainable Water Group, a partnership of companies committed to managing water use and wastewater discharge in global textile supply chains, **Gap Inc.** has established a Clean Water Programme to monitor denim laundries' wastewater discharge and require them to meet the Sustainable Water Quality Guidelines. This project allowed Gap to encourage peers in the industry to adopt similar wastewater procedures into their supply chains.



Opportunities and Risks of Industry Collaboration

Industry collaboration can create significant efficiencies for suppliers and companies, but it also comes with some risks. You should consider both as you determine whether and on what elements of your programme you want to collaborate with other companies.

OPPORTUNITIES

In addition to the benefits that industry collaboration can create for suppliers discussed above, the opportunities for companies are significant:

- **Leverage with Suppliers.** Partnering with peers on supply chain sustainability can boost your company's leverage with direct as well as sub-tier suppliers. By collaborating with peers, your expectations and engagement approaches are not only more aligned, but your voice to direct and sub-tier suppliers will be much louder.
- **Credibility with stakeholders.** Participating in industry collaborations can demonstrate your company's awareness of the challenges in supply chain sustainability and help boost your credibility with external stakeholders. Industry collaborations can also provide an opportunity to discuss controversial topics with external stakeholders that your company may not be comfortable addressing one on one.
- **Resource sharing.** The processes outlined in this Guide all require resource investment, and particularly for smaller companies or companies with recent commitments, the time and money necessary to implement a strong supply chain sustainability programme can be significant barriers. Industry collaboration can help companies pool their resources and share the expenses of establishing expectations and engaging with suppliers.

RISKS

There are also some risks to industry collaboration that you should consider:

- **Internal commitment.** Industry collaboration can be challenging for some companies and could threaten your ability to get internal commitment to supply chain sustainability, particularly if potential partners in industry collaboration are seen as competitors or at markedly different

stages of supply chain sustainability. To ensure buy-in, you should get a clear understanding of which companies you will be partnering with and what their expectations are.

- **Resource draining.** While industry collaborations have the potential to create cost and time efficiencies for participants, they also require investment, and may not always deliver results. For example, initiating shared action with partners and agreeing to common expectations and engagement processes can be quite time intensive, and these efforts may take significant amounts of time to mature and create substantial impact.
- **Unwillingness to change course.** For collaborative efforts that are more established, there is a possibility that other participants in the collaboration will be unwilling to change approaches to get alignment with your company.

Example: De Beers, a diamond mining company based in Luxembourg, works with other companies in the industry to address a range of historical challenges including conflict diamonds, a lack of commercial transparency and poor working conditions in factories in major cutting and polishing centres like Surat in India.

Although the Kimberley Process Certification Scheme and the World Diamond Council System of Warranties were launched in 2003 to address the issue of conflict diamonds, no single standard existed to verify full ethical practices throughout the diamond pipeline addressing social, employment, business, health and safety, and environmental issues.

De Beers saw an opportunity to leverage its leadership position in the diamond pipeline to establish a benchmark for best practice not only within the diamond mining sector, but also through the cutting, polishing, and jewelry manufacturing pipeline. To this end, De Beers launched the Best Practice Principles (BPP) Assurance Programme in 2005 and made compliance to the standard a contractual condition of supply to De Beers customers and a requirement for all entities within the De Beers Group.

PARTIAL LIST OF INDUSTRY COLLABORATIONS

AIM-Progress

AIM-PROGRESS is a forum of consumer goods companies assembled to enable and promote responsible sourcing practices and sustainable production systems. It is a global initiative supported and sponsored by Association des Industries de Marque (AIM) in Europe and the Grocery Manufacturers Association (GMA) in North America. Its key objectives include development of a forum to exchange views regarding responsible sourcing practices and of common evaluation methods to decrease duplicative auditing.

Apparel, Mills and Sundries Working Group

A working group of apparel and retail companies and their suppliers that collaborate to address sustainability issues up-stream at the mills and sundries supplier level. The group is focused on implementation of its joint code of conduct through supplier evaluations and trainings.

Business Social Compliance Initiative (BSCI)

The BSCI is a platform for retail, brand, importing and trading companies dedicated to the improvement of working conditions in their supply chain worldwide. The organization has created a code of conduct and implement the BSCI Code through a combination of external monitoring and collaborative capacity building activities.

Beyond Monitoring Working Group

BSR's Beyond Monitoring Working Group is a collaboration of leading companies from many industries who embrace a vision of supply chain sustainability that is driven by internal alignment, supplier ownership, worker empowerment, and public policy engagement. Together these companies explore next generation supply chain sustainability approaches to improve their individual companies' programmes and to drive the field forward.

Electronics Industry Citizenship Coalition (EICC)

The EICC promotes an industry code of conduct and shared implementation resources for global electronics supply chains to improve working and environmental conditions. The EICC conducts joint audits, provides tools to audit compliance with the code, offers resources for training for procurement and suppliers, and helps companies report progress. EICC membership is available to electronic manufacturers, software firms, ICT firms, and manufacturing service providers, including contracted firms that design, manufacture, or provide electronic goods, and as such covers the vast majority of the electronics supply chain.

Ethical Trading Initiative

ETI is an alliance of companies, trade union organizations, and NGOs that are committed to working together to identify and promote good practice in labour code implementation, including monitoring and verifying compliance with code provisions.

The Global e-Sustainability Initiative (GeSI)

GeSI brings together leading Information and Communication Technology (ICT) companies – including telecommunication service providers and manufacturers as well as industry associations – and NGOs committed achieving sustainability objectives through innovative technology.

Global Social Compliance Programme (GSCP)

The GSCP is a business-driven programme for companies whose vision is to harmonize existing efforts in order to deliver a shared, global and sustainable approach for the continuous improvement of working and environmental conditions across categories and sectors in the global supply chain. The GSCP offers a global platform to promote knowledge exchange and best practices in order to build comparability and transparency between existing systems.

Fair Labour Association

FLA is a collaborative effort of its members to improve working conditions in factories around the world. Participating companies commit to the FLA code, and the group has created a practical monitoring, remediation and verification process to achieve those standards.

ICTI-Care

ICTI CARE is the toy industry's ethical manufacturing programme aimed at ensuring safe and humane workplace environments for toy factory workers worldwide. To achieve these goals, the group provides education, training, and a unified monitoring programme for toy factories.

Social Accountability International (SAI)

SAI is a multistakeholder, multinational, multi-industry organization of business, labour and NGOs whose mission it to advance the human rights of workers around the world. It carries this out through training, capacity building, and the SA8000 workplace standard which is based on ILO and UN conventions.



Multi-Stakeholder Partnerships

In addition to collaborating with industry peers, many companies are recognizing the value of working with a broader range of stakeholders. Chapter 2 described a range of stakeholder groups that could provide input on your company's supply chain sustainability strategy, including national and local governments, workers' and employers' organizations, nongovernmental organizations, advocacy and activist organizations, academic and issue experts and community groups.

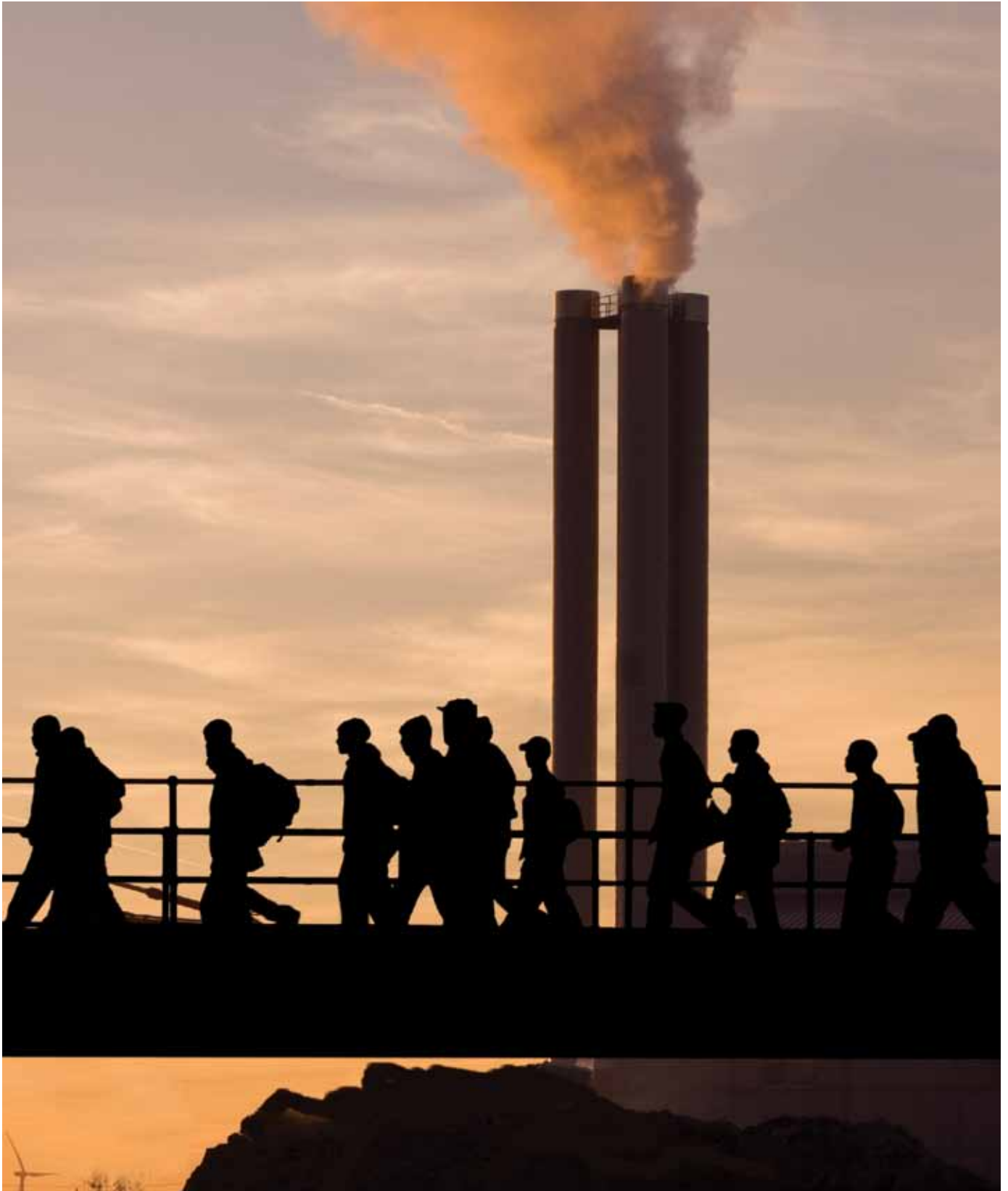
In recent years, more and more stakeholder groups have demonstrated willingness to partner with companies. Many of these stakeholder groups are knowledgeable about sustainability issues and can be useful partners, beyond just sharing perspective and advice, by working closely to address supply chain challenges. They can assist with understanding the context for sustainability challenges, help with designing effective responses, and acting as local implementing partners. In addition, they can bring resources and legitimacy to supply chain sustainability efforts.

Business can also work with local authorities to support local efforts and improve capacity to address the root causes for sustainability challenges that business experience in supply chains.

Examples: Many companies have created cost efficiencies by undertaking efforts to reduce accidents and illnesses and improve the overall health of workers in their supply chains. **Levi Strauss & Co.**, a U.S.-based apparel company, has implemented a number of worker rights and responsibilities and health education training programmes at suppliers' factories, working in partnership with civil society organizations, to improve worker well-being, ensure worker rights are respected and achieve savings through increased productivity and reduced absenteeism. The company places an emphasis on building the capabilities of these civil society organizations to provide expanded services to workers and factories.

Better Work is a unique partnership between the International Labour Organization and the International Finance Corporation dedicated to reducing poverty and providing a fair framework for globalization in developing countries through a comprehensive process for assessment, remediation and in-factory training tools. Companies have access to a streamlined and more cost effective process to get information about supplier compliance and to track efforts to fix problems. Better Work Buyers' Forums are held at the international and in-country level. These forums provide buyers with an opportunity to provide feedback into Better Work expansion plans and tools, and to engage in constructive dialogue with relevant stakeholders including national governments, unions, and manufacturer associations. There are active in-country forums in Cambodia, Jordan and Vietnam, with explorations in Indonesia, Morocco, Nicaragua, Haiti and Lesotho.





GLOBAL COMPACT LOCAL NETWORKS

More than 80 Global Compact Local Networks provide on-the-ground support for Global Compact signatories around the world. Networks undertake a variety of activities to do so, including identifying local priorities relating to responsible business practices, raising awareness about local sustainability challenges and opportunities, organizing learning and dialogue events, mobilizing collective action efforts and facilitating partnerships between companies and local stakeholders to contribute to broader sustainable development objectives. Networks also provide assistance to companies in preparing their annual Communication on Progress reports.

To advance supply chain sustainability, companies can work through Local Networks in geographies where they have significant numbers of suppliers. Companies can for instance encourage suppliers to join the Global Compact and participate actively in Local Network events to improve their own sustainability performance. Companies can also support Local Networks by sharing knowledge and expertise, and providing financial support to Local Network activities.

Many Local Networks have engaged in activities to advance supply chain sustainability, including:

The Global Compact Network Spain has worked extensively on the implementation of the ten principles in the supply chain. The Network organized a learning forum where companies from different sectors could exchange good supply chain practices. It also published the guide "The Responsible Management of the Supply Chain", focusing on risk management and building long term relations with suppliers to improve responsible business practices.

www.pactomundial.org/recursos/doc/Publicaciones/ASEPAM/23526_3133132009182520.pdf

The Global Compact Network Japan has convened a Working Group on Supply Chain Management in which more than a dozen Japanese companies from different sectors participate. The Network has analyzed the ethical sourcing-related issues of Japanese companies and highlighted good practices. Among these issues are how companies can more effectively engage with suppliers and realize the win-win-win potential of sustainable supply chain management – for buyers, suppliers and societies.



“At Telenor, we aim to make corporate responsibility an integral part of the way we do business — and we realize that our impact on society also extends to our suppliers and business partners. Managing our supply chain towards responsible business conduct is therefore something we do not compromise within Telenor. We shall not only demonstrate excellent working conditions and environmental management within all our own companies, we also require that all our suppliers meet the standards set down in our Supplier Conduct Principles. We will work towards our goals by driving continuous improvement through systematic engagement with our suppliers.”

— Jon Fredrik Baksaas, President & CEO of Telenor



8. Establishing Goals & Tracking and Communicating Performance

While it is important to establish clear roles for key functions throughout the company, it is equally important to set comprehensive performance goals. Explicit objectives for supply chain sustainability will provide individuals' with direction in their tasks and will also help your company evaluate the impact and success of your programme.

The Process of Goal Setting

Goal setting should be a collaborative process that involves leadership from each of the functions that will have responsibility for meeting established objectives. It's also important to ensure sustainable supply chain objectives are aligned with business needs. Review your company's business strategy and objectives and identify places where the supply chain objectives you have defined support the company's overall business objectives. Each supply chain objective should support at least one business objective, and your company's executive leadership should endorse the goals.

Performance against goals will need to be tracked year after year as part of a measureable business objective. While this seems obvious, it requires companies to go through the often challenging process of defining what the desired and realistic goals are and how and when that goal should be met. Defining and tracking progress towards goals demonstrates the value of the work that is done to meet the goal.

Although goals are usually designed at a high-level for the entire business, these objectives need to be translated into actionable targets for managers across all functions in an integrated and coherent manner. Only in this way can they be rolled out throughout the company. For example, a goal on the number of suppliers that attend sustainability trainings can be translated into a target for individual supply management professionals within each sourcing group that manages supplier relationships. Similarly, more micro-level targets that can be rolled up provide a picture of overall performance against goals.

Goals for Impact

Based on your company's vision for supply chain sustainability, objectives for business

impact should be fairly straightforward. These can include meeting customer and other stakeholder expectations, reducing costs and expanding into new markets. It's also important to establish objectives for the societal and environmental impacts of your company's supply chain sustainability efforts. While some stakeholders are interested in understanding the processes through which companies meet their supply chain sustainability commitments, many are more concerned with the value created. Suppliers also seek to understand the value created for their businesses through meeting responsible sourcing requirements. Companies may in some cases consider setting objectives related to suppliers' establishing their own sustainability management systems, effects on the environment such as greenhouse gas emissions and waste and effects on workers and communities. These may include workplace injury and illness rates, total wages paid, training and skills developed, and impact on communities and local development such as number of jobs created, income generated, and infrastructure developed.

Example: **Restaurantes Toks** operates 84 restaurants in 20 cities throughout Mexico, providing more than 6,500 jobs and serving more than 21 million consumers each year. In an effort to integrate poor rural communities into its supply chain, the company has initiated a project working with a strawberry marmalade production group formed and managed by 13 women in Santa Rosa de Lima in Central Mexico. In 2005, the per capita income in Santa Rosa de Lima was less than \$US 60 per month, and the town's population was disproportionately female due to high rates of illegal immigration by men to the United States. Restaurantes Toks has incorporated strawberry marmalade supplied by the Santa Rosa de Lima Enterprise into its menus, successfully integrating the community into the company's supply chain. Before beginning to sell to Restaurantes Toks, the Santa Rosa de Lima Enterprise provided an income of \$US 1,000 to all the families in the community. The Santa Rosa de Lima Enterprise now sells more than \$US 461,000



worth of strawberry marmalade to Restaurantes Toks each year, radically increasing the community's per capita income. Furthermore, Restaurantes Toks is working with the company to increase production capacities to enable it to enter additional markets.

Due to the demonstrable impact of this model on protecting and promoting human and economic rights, Restaurantes Toks has duplicated the approach with 10 other community food and handicraft production groups.

Example: Starting in 2000, **Natura**, a Brazilian cosmetics company, began to implement a strategy of using raw materials extracted from Brazilian native vegetation as a platform for its products. This strategy supported the company's goal to create and nourish a business model that builds on existing social networks and contributes to sustainable livelihoods derived from sustainable extraction of non-timber forest products. The company established relationships with three poor communities, and they were contracted in 2003 to produce *priprioca*, an ingredient that provides fragrance to Natura's cosmetics. In order to ensure that the Brazilian flora inputs were extracted according to rigorous social and environmental standards, Natura developed the Active Ingredient Certification Programme. The certification process had three phases: identification of areas for potential suppliers, devising a certification strategy and certification inspections. Some 15 ingredients were certified through this programme by 2006. In addition to certification of the extractive products, the programme also encouraged the formalization of associations and cooperatives in the supplier communities, enabling access to commercial opportunities.⁵

Goals for Supplier Performance

As discussed in Chapter 5, there are many mechanisms you can use to track performance of individual suppliers and encourage supplier ownership. However, it is important that companies set objectives for overall supplier performance, which can be revised at later dates with supplier input.

Goals for suppliers should be formulated

with inputs from management across functions, especially procurement, to ensure broad commitment and realistic goals. They should establish objectives for overall supplier performance against the expectations set by your company. For example, companies often set goals for the number of suppliers completing corrective action plans after they've been audited (see Chapter 5). Companies should also set goals for performance in specific areas such as human rights, labour, environment, ethics and supplier management systems.

Goals for Internal Performance

As described in the preceding chapter, one of the most persistent obstacles that companies face in meeting their impact objectives and supporting suppliers to meet supplier performance objectives is the unresolved tension between supply management professionals' commercial objectives and their desire to ensure fair working conditions and environmentally friendly practices. To support increased attention from supply management professionals on sustainability issues, companies should consult with leaders from supply management and other functions to set objectives for internal implementation of supply chain sustainability.

Goals for internal performance should provide guidance on expectations for how sustainability will be integrated into supply management decisions. For example, some companies establish goals related to placing a specific percentage of their spend (or volume) with the highest performing suppliers, while others emphasize setting goals that make sustainability a key factor alongside other commercial and technical criteria, to be used in making decisions about supply. Another goal would be the percentage of supply management professionals receiving training in sustainability issues.

Example: In 2009, **Montepaschi Group**, a leading financial institution in Italy, launched its Sustainable Supply Chain programme as a key component of its overall CSR strategy. One of the group's key objectives is to embed the policy principles within its standard sourcing processes. Specific objectives include: Preference to suppliers who demonstrate

⁵ Natura's Ekos: Perfume Essences Produce Sustainable Development in Brazil, Growing Inclusive Markets Case Study.

better management of environmental, social and economical impacts within their production and supply processes

- Using sustainability indicators as a key selection and evaluation factors for procurement of goods and services
- Avoiding suppliers whose practices are not in line with human rights, labour, environmental or general regulations
- Adoption of fair and open communication with suppliers
- Regular monitoring of supplier performance in the context of the group policy and reporting of status and actions to stakeholders

Measurement Processes and Practices

In order to evaluate performance against your company's supply chain sustainability goals, you will need to collect and track performance data over time. Much of this data, and the processes and practices around it, will also be critical to the implementation of aspects of your company's supply chain sustainability programme already covered in this guide.

WHAT DATA TO COLLECT

Companies will need to collect data on both supplier and supply management professionals' performance. Metrics need to be designed to allow for straightforward evaluation of the company's progress on its goals. Much of this data will likely overlap with the data that supply management professionals will collect as part of evaluating suppliers, and that other functions, such as Environment, Health, and Safety, may also capture. You should begin by analyzing the breadth and quality of all existing metrics and data. As a next step, you will probably need to spend some time standardizing metrics so that if different parts of the company are collecting information on the same topics it is captured in a unified way.

HOW TO COLLECT DATA

Data collection can be challenging given the vast number of suppliers that your company may be evaluating and the number of sources that data can originate from. In addition, there are many examples of suppliers that keep double books, coach workers to respond falsely to worker interviews during audits, bribe inspectors and find other ways to mask the real situation in their company. This

SUPPLIER DATABASES

Fair Factories Clearinghouse (FCC): launched by U.S. footwear and apparel firm Reebok International Ltd., the National Retail Federation, Retail Council of Canada and World Monitors to create an online global database to share factory audit and compliance data. The FCC, a non-profit organization, offers members an online audit management system and sharing platform to enable cost effective, well-informed ethical business transactions and improved workplaces around the globe.

Suppliers Ethical Data Exchange (Sedex): Several U.K. food firms, including Marks & Spencer plc, Safeway plc and Tesco plc, have teamed up with the U.K. ethical trading consulting firm Impactt Ltd. to create an online database for companies to consolidate and share their supply chain audit information. The Web-based database catalogs audit information such as working hours, compensation, labour conditions, freedom of association and child labour.

Ecovadis: EcoVadis is operating an online collaborative platform allowing companies to access to CSR ratings of suppliers covering 21 indicators and 150 spend categories. 25 "Global 500" companies are using EcoVadis to assess and develop the CSR management systems of thousands of suppliers across 80 countries.

makes methods of ensuring the integrity of data critically important to decision making.

In addition, transparency of supplier information across functional and organizational boundaries is often limited, and companies often struggle with a lack of effective communication and understanding between companies and their suppliers on the information they need to exchange. Many companies are exploring information technology platforms that will enable comprehensive data collection and management. Cross-functional business managers can be helpful in aligning internal systems and processes. Collaboration with suppliers may also be useful since they will be inputting data and may be more inclined to engage with your programme if they feel that they've had a hand in shaping it.

There are a number of data sharing platforms that can help collect and manage supplier information about sustainability performance. These include Sedex, EcoVadis, e-Tasc and Fair Factories Clearinghouse. There are also many information technology companies that provide this type of resource as well.



Global Reporting Initiative (GRI)

GRI is the world's most widely used sustainability reporting framework. The GRI sets out principles and indicators that organizations can use to measure and report their economic, environmental and social performance. GRI is also the recommended reporting language for Global Compact companies to communicate with stakeholders on their progress in implementing the Global Compact principles.

The GRI has formed a multi-stakeholder Working Group to develop recommendations on how to enhance the GRI Sustainability Reporting Guidelines to improve the quality of disclosure on performance with respect to supply chains.

For further information see www.globalreporting.org/CurrentPriorities/SupplyChain.

HOW TO USE DATA

Finally, you need to plan for how data will be used. As data is collected over time, your company's executive leadership should receive regular updates on progress. Supply management professionals in particular will use much of the data on supplier performance in decision making as described in Chapter 3.

Examples: **Johnson Controls Inc.**, an American instrumentation company, established a supplier sustainability rating system to assess and rank suppliers based on whether they are meeting the expectations expressed in the company's ethics policy. Suppliers use a web-based self-assessment to communicate the status of their environmental, human rights, social and governance programmes. The questionnaire, which is completely electronic and resides on a public web site so that all suppliers have easy access to it, contains questions related to human rights, working conditions, employee safety and energy management. Because energy efficiency and greenhouse gas emissions management is a critical part of Johnson Controls' business, the questionnaire asks if the supplier is publicly reporting its greenhouse gas emissions, and specifically asks if the supplier is reporting to the Carbon Disclosure Project. Once a supplier completes the questionnaire, the respective procurement managers are provided the results and they determine the ranking of the suppliers, and as appropriate, work with the supplier to ensure they are fully compliant with expectations.

Example: **Timberland**, an American footwear company, has created a "Green Index" environmental rating system that measures and communicates critical aspects of environmental performance in a simple format to inform both product design and consumer choices. The Green Index rating system drives alignment of product design and development with Timberland's corporate environmental strategy. The company aims to reduce impacts in three broad areas: climate, chemical use and resource consumption. By providing clear environmental measures in these areas, product creation teams can choose processes that require less harmful chemicals and increase the use of less carbon-intensive materials, as well as recycled, organic, and renewable materials. Applying the Green Index rating and label across Timberland's entire footwear line (100 per cent of line to be rated by end 2011)

is part of the way the company sets targets to improve the environmental performance of products.

Communicating Progress And Reporting

Public reporting can be a tool to stimulate and enhance sustainability and transparency in the supply chain. It also demonstrates the management of environmental and social impacts and the assurance of good governance in the supply chain to both internal and external stakeholders.

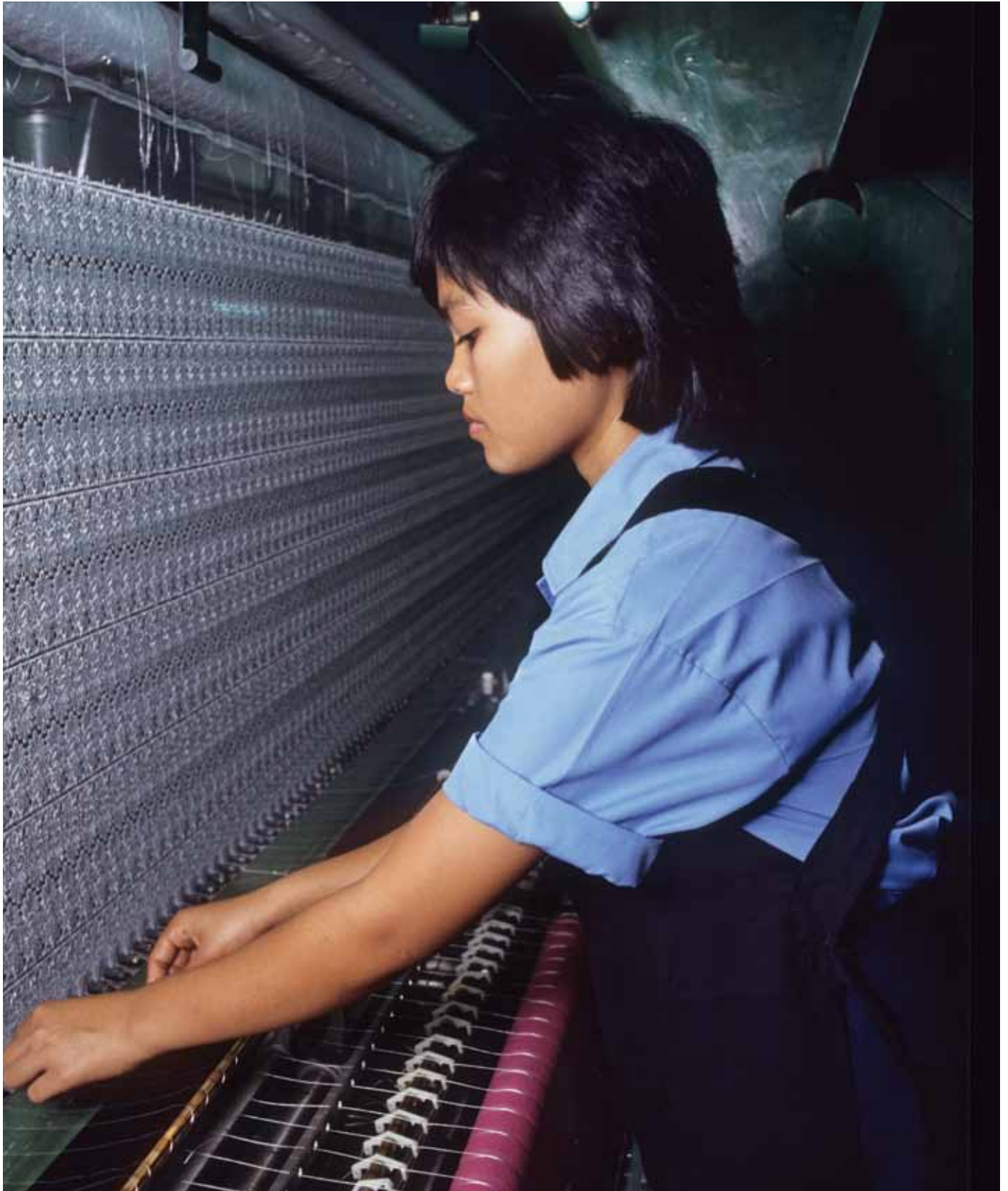
Global Compact signatories are required to publicly communicate with stakeholders on an annual basis on their progress in implementing the ten principles. This annual communication, or Communication on Progress (COP) is an important demonstration of the company's commitment to the Global Compact and its principles.

Beyond the COP, sustainability reporting is the most common way for companies to communicate progress with stakeholders. While the practice is evolving to include stand-alone reports, online reporting, and integrated sustainability and financial reports, the objectives are to measure and disclose organizational performance towards the goal of sustainable development. Sustainability reporting is a logical last step after having implemented a supply chain sustainability approach and, as the process requires companies to consider their progress against goals and to be transparent to internal and external stakeholders, will help to improve it continuously.

Reports can be used for the following purposes, among others:

- Source of best practices that can inspire others and provide a benchmark for analysis of sustainability performance.
- Self-evaluation and continuous improvement in the process of implementing the principles, including in the supply chain.
- Benchmarking and assessing sustainability performance with respect to laws, norms, codes, performance standards, and voluntary initiatives;
- Demonstrating how the organization influences and is influenced by expectations about sustainable development; and
- Comparing performance within an organization and between different organizations over time.





Acknowledgements

A wide range of stakeholders were consulted throughout the development of this guide, including Global Compact signatories, Global Compact Local Network focal points, UN Agencies, issues experts, civil society and members of BSR's Beyond Monitoring Working Group. We wish to thank the following individuals for taking the time to review and comment on the draft versions of this guide:

Mr. Thomas Berkmark, CEO, Bergmark Sustainability AB (former Sustainability Director, IKEA); Mr. K. Dilipraj, CSR Manager, BYD Company Limited; Mr. Ricky Ho, Director & General Manager, CTPS; Mr. Pierre-Francois Thaler, Executive Director, Ecovadis; Ethical Trading Initiative Norway; Ms. Tábata Villares and Ms. Julia Zuarella Fernandes, Focal Points, Ethos Institute and Global Compact Network Brazil; Global Compact Japan Network Members; Dr. Lin Lah Tan, Network Focal Point, Global Compact Network Malaysia; Ms. Valentine Papeians de Morchoven, Analyst and Responsible of Human Rights and Labour Standards, Global Compact Network Spain; Ms. Iuliia Petryshyn, Assistant, Global Compact Office; Mr. Sune Skadegaard Thoresen, Partner / Director, Global CSR; Mr. Bastian Buck, Technical Development Coordinator, Global Reporting Initiative (GRI); Ms. Eija Salo, Director, HRD, Global HR & Administration, LITEONMOBILE / PERLOS; Mr. Mark Snyderman, Senior Knowledge Leader, LRN and member of the UN Global Compact Working Group on the 10th Principle; Ms. Lene Wendland, Adviser on Business and Human Rights, Office of the High Commissioner of Human Rights (OHCHR); Ms. Mariam Ram, Managing Director, TNQ Books and Journals Pvt. Ltd.; Ms. Susan Côté-Freeman, Programme Manager, Private Sector Programmes, Transparency International; Mr. Casper Sonesson, Deputy Director, Private Sector Division, United Nations Development Programme (UNDP); Ms. Garette Clark, Programme Officer, United Nations Environment Programme (UNEP); Ms. Natasha Weisert, Industrial Development Officer, United Nations Industrial Development Organization (UNIDO); Ms. Deborah Gallagher, Executive Director, Duke Environmental Leadership Programme, Nicholas School of the Environment, Duke University.

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The Ten Principles of the United Nations Global Compact

HUMAN RIGHTS

- Principle 1 Businesses should support and respect the protection of internationally proclaimed human rights; and
Principle 2 make sure that they are not complicit in human rights abuses.

LABOUR

- Principle 3 Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
Principle 4 the elimination of all forms of forced and compulsory labour;
Principle 5 the effective abolition of child labour; and
Principle 6 the elimination of discrimination in respect of employment and occupation.

ENVIRONMENT

- Principle 7 Businesses should support a precautionary approach to environmental challenges;
Principle 8 undertake initiatives to promote greater environmental responsibility; and
Principle 9 encourage the development and diffusion of environmentally friendly technologies.

ANTI-CORRUPTION

- Principle 10 Businesses should work against corruption in all its forms, including extortion and bribery.

