

# The state of sustainable supply chains

Building responsible and resilient supply chains





This report was produced by EY in association with the UN Global Compact. The data and information included is compiled from interviews conducted with 70 companies.



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# Welcome from UN Global Compact

The SDGs not only identify where we have to be in 2030 to create a sustainable world that leaves no one behind; they also outline new markets and opportunities to innovate for companies everywhere.

With the adoption of the United Nations (UN) 2030 Agenda and the Sustainable Development Goals (SDGs), we have entered a period where the world's nations have committed to ending global poverty, protecting our planet and promoting a life of dignity for all.

The role of business is key in achieving these goals. The SDGs provide a new common language for all stakeholders, including business, to establish goals and ambitions. The 2030 Agenda is a wake-up call and offers a new benchmark for the business of tomorrow. Supply chain sustainability will be critical in making the global goals part of local business so that the extension of a company's operations, products and services can support the realities of our planet and better serve markets both today and in the future. In the UN Global Compact's Annual Implementation Survey, our participants rank supply chain practices as the biggest challenge to improving their sustainability performance. Extending the UN Global Compact Ten Principles into the supply chain is a difficult endeavor – often due to the size of the supply chain, and distance from suppliers and partners operating in countries or regions with less rigorous legal standards.

Progress on supply chain sustainability can be made when the priority is set at the top of the organization. If the chief executive sees the supply chain as an extension of the company's workforce and community, expectations can be set related to leading practices in key areas, such as selection, training, auditing and remediation. It is also important to create a broader understanding within an organization – for example, among legal staff, product developers and marketing – of how decisions made beyond procurement have impacts on the supply chain. In addition, companies must look at their supply chains as a whole, including suppliers beyond the first tier that may have the most significant risks or challenges in addressing sustainability issues.

To help companies integrate supply chain sustainability, the UN Global Compact works to identify and promote leading business practices, tools and resources, and innovative approaches, and develop guidance to assist companies. As part of this work, the UN Global Compact has teamed up with EY to develop this report highlighting the actions companies are taking to develop more sustainable supply chains, their primary reasons for doing so and the main challenges they are facing.

We look forward to being a part of this ongoing discussion. We will continue to showcase what a responsible business is and highlight emerging trends and good practices to inspire companies to take that next step. Finally, we would like to express our gratitude to all those companies who gave input to this report, and we especially thank EY for their work.



Ole Lund Hansen  
Chief, Business of Tomorrow  
UN Global Compact

# Welcome from EY

## Today's complex supply chains require transparency and collaboration to manage business risks and bring value to stakeholders

Supply chains present complex challenges to businesses globally. Business, in collaboration with suppliers, peers, governments, communities, academia and non-profit organizations, are learning how to address these challenges and investing in building resilient and responsible supply chains.

EY worked with the UN Global Compact to explore how companies are embedding sustainability in their supply chains by managing risks and adopting corporate commitments to human rights, ethics, the environment and the communities from which they source goods and services. This report echoes the voices of more than 100 sustainability, supply chain and procurement specialists from 70 companies globally.

The report offers market practices from different geographies, sectors and business models. Despite the difference in governance structures, approaches and sophistication in dealing with supply chain challenges among the companies participating in the study, several common themes emerged:

### **Shared commitment**

- ▶ Leading companies are creating shared commitments with their suppliers toward sustainable supply chains.
- ▶ In addition to establishing and communicating supplier expectations, monitoring and auditing supplier performance, companies are investing in supplier engagement, capacity building and incentives to promote continuous improvement and common business goals.

### **Collaboration**

- ▶ Collaboration across functions with peers, non-profit organizations and academia is critical for addressing the complex supply chain challenges.
- ▶ Significant progress toward more responsible and resilient supply chains has been achieved through collaborative initiatives by sector, helping companies reduce management costs and supplier fatigue while leveraging the combined power of all partners.

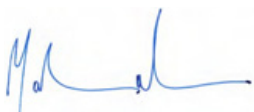
### **Technology as a transparency enabler**

- ▶ Stakeholders are increasingly expecting companies to disclose their supply chain risks, including regulatory, reputational and business continuity risks.
- ▶ Increased transparency in supply chain management is becoming the norm; however, the task of understanding supplier practices and performance beyond Tier 1 suppliers is still a challenge.
- ▶ Technology solutions and innovations enable companies to increase transparency deeper in the supply chain and protect their brands, meeting stakeholder requirements while reducing compliance and supply chain management costs.

The results of the study show that leading companies are deriving numerous business benefits from embedding sustainability in their supply chains. These benefits include product differentiation, increasing market share and growing consumer support. We are grateful to the supply chain, procurement and sustainability professionals from various geographies and sectors who shared their practical experience, challenges and learnings in creating responsible and resilient supply chains.

We are proud to have teamed with the UN Global Compact for this study. As a signatory of the UN Global Compact, EY has pledged to adopt sustainable, socially responsible policies and practices across our value chain. We believe the UN Global Compact Ten Principles align closely with our own purpose of building a better working world. By fulfilling this purpose, we leave a lasting legacy for our clients, our people and society as a whole.

We hope that this report helps your company identify business opportunities, useful approaches and tools, and provides the inspiration to promote sustainability across your value chains.



Mathew Nelson  
Global Climate Change and Sustainability Services Leader, EY

# Executive summary

Supply chains have become global, highly complex and of significant scale. Building and maintaining resilient supply chains is a key success factor for business in a globalized and fast-changing world. Technical quality, cost effectiveness, speed of delivery and reliability have been the focus of supply chain and procurement professionals for a long time. Over the past few years, sustainability has been added to the procurement and sourcing criteria for many companies. Workforce health and safety incidents, labor disputes, geopolitical conflicts, raw materials shortages, environmental disasters and new legislation in areas such as conflict minerals and modern slavery have contributed to the growing awareness of supply chain risks among customers, consumers, investors, employees and local communities.

Despite growing stakeholder pressure, many companies still do not have a comprehensive understanding of the performance, risks and sustainability impacts of their supply chain. The UN Global Compact and EY have collaborated to explore the current state of sustainable supply chains globally by interviewing more than 100 supply chain, procurement and sustainability executives from 70 companies. Overall, the results of the study show that by improving environmental, social and governance (ESG) performance throughout their supply chains, companies can enhance processes, save costs, increase labor productivity, uncover product innovation, achieve market differentiation and have a significant impact on society. Several consistent themes emerged, and we have summarized them on the following pages.

Companies vary significantly in their approaches to supply chain sustainability due to sector characteristics, geographic presence, organizational culture and leadership commitment, and supply chain complexity. The results of the interviews demonstrate that companies globally are on a continuum from managing risks through creating shared value with stakeholders to achieving differentiation for their products and services. Leaders are setting aspirational supply chain goals for achieving competitive advantage by harnessing the power of partnerships, technology innovation, improved efficiency and supplier diversity in their supply chains.

Our interviews revealed that the approach to creating sustainable supply chain can be categorized in 5 major groups: basic, improving, established, mature, and leading. Most of the interviewed companies are in the improving or established categories. An improving program is characterized by a minimum level of expectations with a focus on risk and compliance, and basic auditing or assessment of high risk suppliers. As a program becomes more established, companies gain better understanding of locations of supplier factories and the sustainability risks associated with the supply base. They set clear expectations for suppliers and develop processes to screen, select and manage suppliers against those expectations. As companies move towards a more mature program, they focus on integrating these processes seamlessly with the procurement function, requiring suppliers to cascade the requirements further down in the supply chain, and identifying opportunities to improve supplier performance. Mature companies address also their own buying practices and sourcing processes, rather than simply relying on suppliers to achieve their sustainable sourcing goals. They integrate these practices and processes with product design and development to explore opportunities for enhancing sustainability via materials or processes used in the manufacturing of a product or delivery of a service. Currently, only a selection of companies are at the leadership level of maturity, which is demonstrated by creating shared value with their suppliers, treating their suppliers as an extension of their business and engaging in meaningful two-way dialogue.





# Snapshot of study findings

## 1 Supply chain sustainability can no longer be ignored

Companies are embracing resiliency and responsibility in their supply chain management to adapt to externalities such as geopolitical conflicts, changing weather patterns and raw materials shortages, and to improve their impacts on the workforce, local communities and the environment in the places where they procure, source, manufacture and transport their products and services.

## 2 Companies are predominantly risk-driven with aspirations to unlock strategic opportunities and benefits

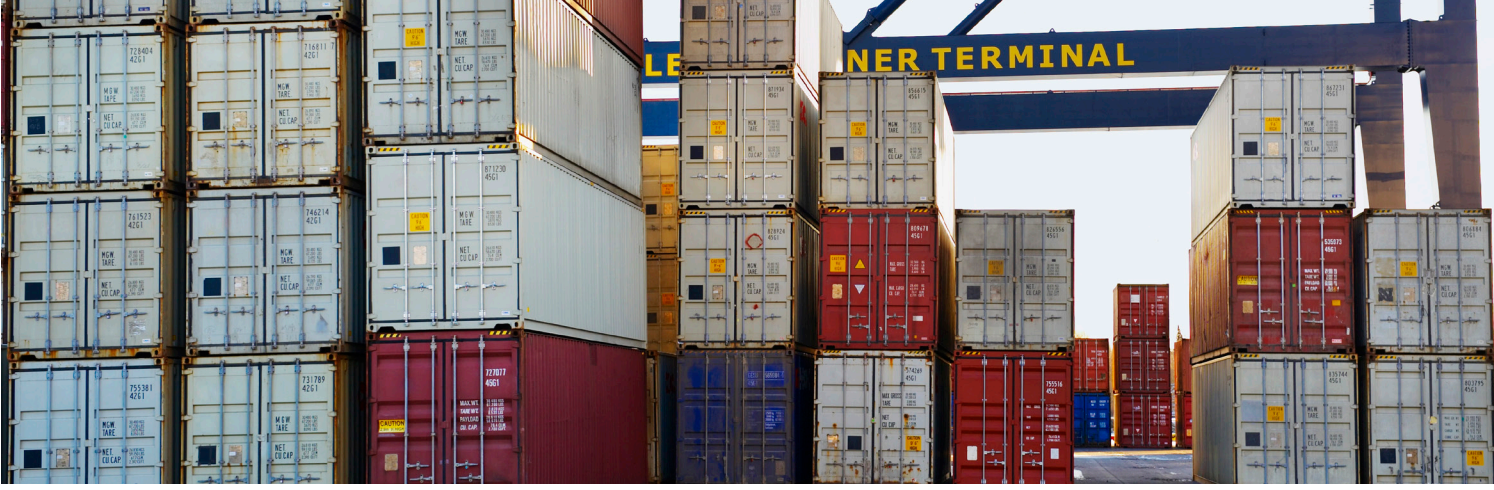
Operational, financial, regulatory and reputational risks continue to be the major drivers for supply chain sustainability. The proliferation of regulations and standards creates consistent compliance framework and performance requirements in the respective geography, but the differences among countries and standard-setting organizations pose significant challenges to business, such as increased time and effort dedicated to compliance issues. Stakeholder awareness has increased significantly, and as a result, supply chain programs are evolving beyond regulatory compliance to focus on creating shared value with stakeholders. Leaders recognize that the sustainability attributes of their products can offer market differentiation, resulting in increased sales, stronger and long-term relationships with customers, and easier access to capital. As companies start to apply a sustainability lens to the design, development, production, packaging, logistics and marketing of their products and services – in order to find strategic growth opportunities and business benefits – the inputs, manufacturing methods, labor conditions, workforce health and safety practices, and environmental and community impacts of these processes will be under growing scrutiny.

## 3 Companies tailor their approaches and governance to create sustainable supply chains

Sustainability requirements, key performance indicators (KPIs) and assessment criteria are increasingly integrated in the business processes for selection, monitoring and incentivizing of suppliers, and are managed by procurement and sourcing functions. However, only a few companies have fully embedded sustainability into their business models, typically with strong support from executive leadership. Most interviewed companies are applying a cross-functional approach to managing supply chain sustainability. The success of this approach depends on formalized lines of communication and reporting, and mechanisms such as working groups that stimulate internal collaboration and knowledge exchange. We expect that additional functions, such as legal, R&D and product design, will play an even more important role in the future as supply chain sustainability drivers continue to evolve.







## 4 Leading companies are establishing a shared commitment with suppliers

Companies demonstrate different levels of maturity in their relationships with the supply chain, from basic communication to considering suppliers as an extension of their business. Mature companies are expanding their relationships significantly beyond auditing and monitoring, and are investing in training and capacity building (either individually or through industry collaborations) and incentives for the top performers. They work with suppliers toward shared commitments as they recognize that suppliers, vendors and subcontractors play an important role in achieving their sustainability goals and those of their customers. These companies increasingly give procurement process preference to suppliers who can help them achieve these goals.

## 5 Technology enables visibility and influence beyond Tier 1

Transparency and traceability, especially beyond Tier 1 suppliers, were identified by all companies as a major challenge. While stakeholder expectations for reporting and disclosure related to sustainability topics have significantly increased in the past few years, companies still do not have a good understanding of the risks deeper in the supply chain. Leaders are encouraging suppliers to adopt industry standards and global frameworks, like the UN Global Compact Ten Principles, to promote sustainability practices with their own suppliers and thus reach further in the supply chain. The combination of growing stakeholder interest, corporate risk concerns and the increased availability and affordability of advanced sensors, mapping tools, mobile technology and cloud software systems has led to a proliferation of software solutions focused on supply chain transparency. Technology helps companies get a better understanding of the current performance of their suppliers, track frequently and benchmark performance over time, make business decisions about selection of suppliers based on performance and ultimately improve processes and increase margin, while improving supplier relations. Technology solutions are evolving to include inputs not only directly from the suppliers and audit results, but also from workers' information via mobile technology, government databases, nongovernmental organization (NGO) campaigns and the local press in order to create a very comprehensive performance profile for suppliers. The outputs of these solutions (scorecards, ratings and rankings) are embraced by well-performing suppliers as a competitive advantage for business growth. Technology will continue to play an increasing role in supply chain sustainability, offering modular, cloud-based, sector-specific solutions, with the potential of global cluster databases being created in the future.

## 6 Collaboration is critical for companies to achieve greater impacts

Companies have recognized that complex supply chain challenges require teaming up with peers, academia, standards setters and non-profit organizations. Multi-stakeholder collaborations focused on a specific sector, geography, issues and commodities have proliferated in the past few years as companies recognize that tackling these areas together is less costly, increases leverage with suppliers, facilitates knowledge exchange and helps enhance credibility.

## Many of the identified themes are interconnected.

Industry collaborations rely on technology solutions to collect information and assess performance of common suppliers, share and communicate data, and engage with stakeholders.

## Many of the interviewed companies recognize that they are a component of the global trade system.

Most of the interviewed chemical companies, for example, participate in the industry initiative called Together for Sustainability, which is focused on sustainability in the chemical supply chain, while individually, they are suppliers to pharma companies working together in the Pharmaceutical Supply Chain Initiative.

As the most global platform for businesses to responsibly address the challenges and opportunities they face around the world, including in their supply chains, the UN Global Compact has the ability to unite companies with stakeholders needed to advance sustainable development: governments, civil society, labor, educators, investors and the UN – among many key actors. This effort is embedded in the notion that all companies must act responsibly by incorporating the Global Compact Ten Principles in the areas of human rights, labor, environment and anti-corruption. Furthermore, the United Nations Agenda 2030: Sustainable Development Goals provide common goals and a new level of ambition for responsible companies that are working to make business a force for good.

### We identified several actions that companies can take to further endorse sustainability in their supply chains:

- ▶ **Assess materiality to focus on the most pressing value chain issues, taking into consideration the UN Global Compact principles:** prioritizing focus areas helps guide investment, metrics and initiatives across the supply chain, and engagement with key stakeholders.
- ▶ **Align resources, structures and processes focused on supply chain sustainability across the whole organization:** integrating sustainability criteria into the procurement process signals commitment across the organization and to stakeholders; organizational alignment reduces risks and optimizes investment; dedicated resources to supply chain sustainability (regardless of their organizational reporting lines) are critical to the programs' success, at least in the early stages, due to the required technical experience and time commitment.
- ▶ **Train management and suppliers on market practices:** capacity building and knowledge sharing across the organization and with suppliers help establish the business case for sustainability and lead to innovation.
- ▶ **Invest in diverse and inclusive supply chain:** working with small and diverse businesses results in regulatory compliance in some geographies, and embracing different cultures leads to competitive advantage and innovation, results in direct economic benefits for local communities, such as revenue and income generation, and reinforces the company's commitment to the communities where it operates/sources.

- ▶ **Stretch sustainability goals beyond direct operations across the tiers of the supply chain:** collaboratively working with suppliers to expand the company's sustainability goals across the supply chain emphasizes the importance of sustainability alongside other commercial and technical criteria, and conveys the company's values and sustainability commitment.
- ▶ **Deploy technology to increase accountability, transparency and traceability:** technology solutions can result in comprehensive supplier performance assessments as well as internal organizational alignment around supply chain performance metrics, procurement decisions and economies of scale.
- ▶ **Create a shift toward supply chain sustainability by leveraging buying power and influence:** participating in industry collaborations and initiatives not only results in business value to the members, such as access to common tools, databases and knowledge, but it gives a sector a common voice and scalable influence with suppliers by leveraging the combined (human, buying, technical, public relations) power of all partners.
- ▶ **Disclose supply chain information beyond the sustainability reporting mechanisms:** transitioning to integrated reporting reflects a company's integrated approach to sustainability and helps it reach a much broader audience of stakeholders.

For further information on what steps companies can take to apply the UN Global Compact Ten Principles throughout their supply chains and to integrate sustainability into their business strategies, please see the UN Global Compact's [Supply Chain Sustainability: A Practical Guide for Continuous Improvement \(Second Edition\)](#).<sup>2</sup>

This study provides an overview of the current state of play on supply chain sustainability, as well as an indication of where we are heading and what companies will need to take into consideration going forward in order to help establish their place as a business of tomorrow.



Throughout the report, this icon will reference additional tools and resources to help companies embrace sustainability in their procurement, sourcing, product and other business policies and practices. For additional resources, please visit the [UN Global Compact Sustainable Supply Chains: Resources and Practices](#)<sup>1</sup> website.

<sup>1</sup> "United Nations Global Compact Sustainable Supply Chains: Resources & Practices," UN Global Compact website, <http://supply-chain.unglobalcompact.org/site/index>, accessed [15 July 2016].

<sup>2</sup> "Supply Chain Sustainability: A Practical Guide for Continuous Improvement (Second Edition)," UN Global Compact website, [https://www.unglobalcompact.org/docs/issues\\_doc/supply\\_chain/SupplyChainRep\\_spread.pdf](https://www.unglobalcompact.org/docs/issues_doc/supply_chain/SupplyChainRep_spread.pdf), accessed [15 July 2016].

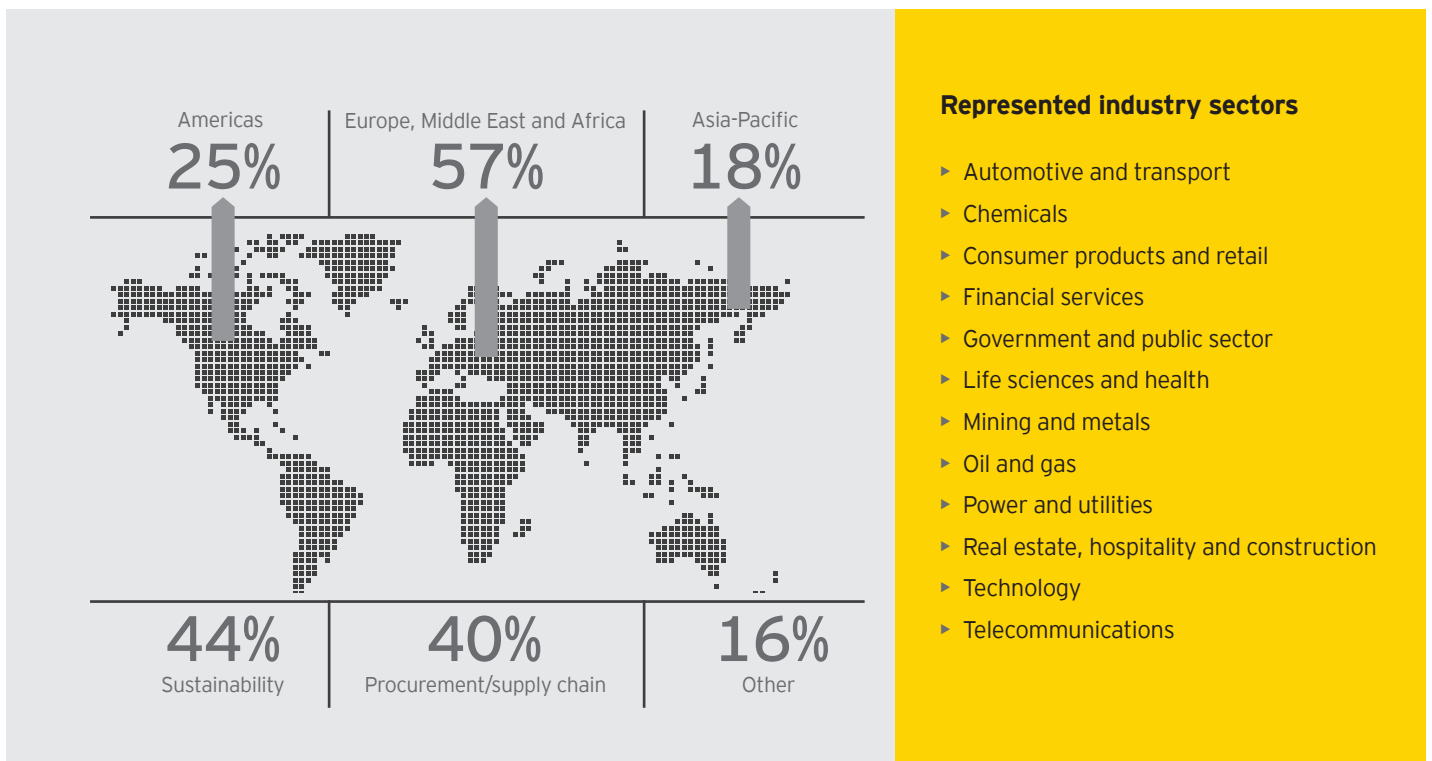


# Introduction

This report summarizes the key messages from the supply chain, procurement and sustainability executives from **70** companies committed to developing, expanding and making their supply chains sustainable. Each one provided important inputs to articulating the drivers, approaches and challenges companies face in the ongoing journey to building a responsible and resilient supply chain.

Respondents came from a wide range of companies, across industries and geographies. Each shared details of their drivers and definitions for responsible supply chains, outlined the way their programs are governed and described their challenges and how they are collaborating with peers, governments and international organizations.

## Survey participant profile



Approximately half of the interviewed companies are signatories to the UN Global Compact and have aligned their operations and strategies with ten universally accepted principles in the areas of human rights, labour, environment and anti-corruption. The signatories commit to take action in support of UN goals and issues embodied in the Sustainable Development Goals. The UN Global Compact is a leadership platform for the development, implementation and disclosure of responsible corporate policies and practices. Launched in 2000, it comprises over 8,800 companies and 4,000 non-business signatories based in 160 countries, and more than 80 local networks.



The UN Global Compact calls on companies everywhere to align their operations with 10 universally accepted principles in the areas of human rights, labor, environment and anti-corruption, and to take action in support of United Nations goals and issues embodied in the SDGs.

## The Ten Principles of the UN 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.

In its [Guide to Corporate Sustainability: Shaping a Sustainable Future](#), the UN Global Compact defines corporate sustainability as a company's delivery of long-term value in financial, social, environmental and ethical terms. Five things sustainable companies share, as outlined in the table (on page 12): principled business, strengthening society, leadership commitment, reporting progress and local action. The guide lays out these five defining features of corporate sustainability, which the UN Global Compact asks businesses to strive toward – and looks at why each element is essential, how business can move forward and what the UN Global Compact is doing to help.

Foremost, companies must operate responsibly in alignment with universal principles and take actions that support the society around them. Then, to push sustainability deep into the corporate DNA, companies must commit at the highest level, report annually on their efforts and engage locally where they have a presence.

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. The Global Compact encourages its participants to integrate the Ten Principles into supply chain relationships in order to advance corporate sustainability and promote broader sustainable development objectives.

For more information about what each of the Ten Principles means, why companies should care and what companies can do to uphold them, please visit: <https://www.unglobalcompact.org/what-is-gc/mission/principles>.

## 5 things sustainable companies do



Principled business



Strengthening society



Leadership commitment



Reporting progress



Local action

Supply chain sustainability is a key focus area for the UN Global Compact, as participants rank supply chain practices as the biggest challenge to improving their sustainability performance. To help companies identify leading business practices, common tools and innovative solutions, the UN Global Compact collaborated with EY to conduct this study.

During the interview process, each organization was asked questions relating to the following areas:

- ▶ Defining resilient and responsible, and key drivers
- ▶ Accountability of supplier management and procurement
- ▶ Operationalizing sustainable supply chains
- ▶ Role of international standards
- ▶ Measurement and reporting
- ▶ Investment and cost of compliance
- ▶ Challenges

As part of our analysis, we captured data and information to identify commonalities in trends, leading practices and conversely poor practices, and other key items. This report presents six major findings that have emerged from the study.

*"Guide to Corporate Sustainability," United Nations Global Compact website, <https://www.unglobalcompact.org/library/1151>, accessed [15 July 2016].*



# Finding 1: supply chain sustainability can no longer be ignored.

While approaches vary by company, sector and geography, all companies are investing in sustainable supply chains.

When asked how they define sustainability in their supply chains, companies give a range of definitions. Focus areas for each company are unique – ranging from social practices to empowering women or minorities, managing conflict minerals or chemicals, child labor elimination and opportunities for contributing to a circular economy – and constantly evolving.

The emergence of new regulations and changing societal expectations exposes companies to new challenges. Where once companies focused primarily on managing one aspect in the supply chain (labor, workplace, health and safety, environmental issues), they are now dealing with a complex mix of challenges, such as creating a more diverse supplier base, sourcing sustainable raw commodities and building longer-term relationships with local communities, and hence are applying more comprehensive strategies for supply chain sustainability.

**Supply chain sustainability is the management of environmental, social and economic impacts and the encouragement of good governance practices throughout the life cycles of goods and services.<sup>3</sup>**

However, one theme is consistent – sustainability in the supply chain is critical. All interviewed companies are developing processes to establish expectations for their suppliers, routinely monitor their performance and disclose the results.

Companies consistently recognize that they are less advanced in their supply chain sustainability efforts than their direct operations due to the complex nature of sustainability in their supply chain.

Leading companies adopt a systematic approach to identify their material sustainability issues, leveraging peer benchmarks, international standards and industry tools. Material issues vary among companies, but typically, companies from the same sector share common challenges.

## How do companies approach sustainability in their supply chain?

- ▶ Align with company culture, code of conduct, sustainability strategy and materiality
- ▶ Comply with regulations and voluntary commitments (e.g., certification schemes)
- ▶ Apply guidance from international frameworks and standards, including UN Global Compact principles, principles of the International Labour Organization (ILO), SA8000 Standard, Equator Principles, Global Reporting Initiative (GRI) G4, Principles for Responsible Investment (PRI), AA1000 and World Business Council for Sustainability Development (WBCSD) principles
- ▶ Collaborate with industry initiatives and associations, not-for-profit organizations, suppliers and customers
- ▶ Disclose their efforts using reporting mechanisms, such as their sustainability reports, the Carbon Disclosure Project (CDP) and Dow Jones Sustainability Indices (DJSI), and industry databases

Examples include deforestation for food and consumer goods companies and reliable product quality for food retailers; raw commodity shortages and natural resource constraints for chemical companies; ethics for life science companies; conflict minerals for electronic, automotive and jewelry makers; and social and economic livelihoods of workers, producers and communities for utilities. In order to address these challenges, companies are embracing resiliency and responsibility in their supply chain management.



Refer to [Supply Chain Sustainability – A Practical Guide for Continuous Improvement](#) for advice on designing a policy for sustainable procurement and a related supplier code of conduct.

<sup>3</sup> "Supply Chain Sustainability: A Practical Guide for Continuous Improvement (Second Edition)," UN Global Compact website, [https://www.unglobalcompact.org/docs/issues\\_doc/supply\\_chain/SupplyChainRep\\_spread.pdf](https://www.unglobalcompact.org/docs/issues_doc/supply_chain/SupplyChainRep_spread.pdf), accessed [15 July 2016].





**Resiliency** encompasses the need to adapt to external challenges to maintain business continuity, such as the risks from rising global temperature, weather impacts, cybersecurity, energy resilience, resource use optimization, outbreaks from diseases such as influenza and natural disasters such as floods, climate change, droughts and earthquakes.

For a utilities company operating in North America, the impact of water intrusion from routine flooding has been recognized. Working with meteorologists to understand expected weather patterns and build this into resiliency planning, the company has mapped the assets that are vulnerable to water intrusion to determine which assets should be replaced or retrofitted to protect against water intrusion. Similarly, a company may look to innovate or redesign products to adapt to external factors. One European consumer product company is developing a grain that can grow in the desert to respond to challenges relating to drought.

A number of companies have diversified their supplier base in order to achieve resiliency by creating portfolios of suppliers. Leading companies recognize the value in working with a diverse supply chain to increase business innovation and create a more responsive and competitive supply base.

The interviews revealed that the concept of resiliency has not kept pace with the continually rising complexity of supply chains and the increased frequency of risk events. However, leaders anticipate and focus on megatrends such as political stability and its impacts on the supplier workforce; climate change and its impacts on resource availability and commodity prices; and energy dependency and its impacts on production in order to secure business continuity.

Companies with long-term capital expenditure horizons or those that develop products with longer-term product life cycles, such as the construction, real estate, automotive and transport, and extractives sectors, highly value the notion of resiliency in the supply chain and the importance of keeping suppliers in operation in the long run. Similarly, companies located in countries exposed to greater risk of natural disasters or earthquakes, such as Japan, are also focused on understanding and managing their supply chain resilience.

“Our supply chain goals are to create mutual prosperity and long-term relationships.”

Japanese technology company

More than half of the respondents note that a sustainable supply chain should be both responsible and resilient. They expect that supply chain sustainability efforts to increase in the future.

**Responsibility** addresses the business impacts on communities, the environment and across the value chain, resulting in a supply chain that can respond and adapt to changing conditions while looking for innovation. For companies with high brand recognition, heavy dependence on a large number of suppliers or frequently changing supplier base – such as consumer products and retail companies – there is a strong focus on responsibility and engaging with suppliers to improve social and environmental impacts and

The UN Global Compact's definition of supply chain sustainability: the management of environmental, social and economic impacts and the encouragement of good governance practices throughout the life cycles of goods and services with the objective to create, protect and grow long-term environmental, social and economic value for all stakeholders involved in bringing goods and services to market.

meeting compliance objectives. Many of these companies require supply chains that are agile and responsive to quickly changing customer requirements. This environment can lead to supplier prioritization based on on-time delivery and cost efficiencies, in many cases increasing the use of low-cost and best-cost country sourcing. In these instances, establishing a foundation of responsible practices applied consistently across the supply chain becomes critically important.

Companies are increasingly integrating sustainable procurement in broad operational risk management, as demonstrated, for example, by an Australian financial services company that incorporates sustainable procurement in its risk management framework and policies.

Respondents recognize that companies that take a short-term or narrow view of resiliency or ignore responsibility are exposed to risks that may impact business continuity. In the long term, embedding sustainability in the overall procurement strategy (in supplier selection, evaluation and incentives) is a highly effective way to develop a successful supply chain program. As one of the German companies interviewed noted: **"We do not have sustainability issues, but do have business issues, which are also made up by environmental, social and political considerations."**



For further information, refer to [Supply Chain Sustainability – A Practical Guide for Continuous Improvement](#).<sup>4</sup>

<sup>4</sup> "Supply Chain Sustainability: A Practical Guide for Continuous Improvement (Second Edition)," UN Global Compact website, [https://www.unglobalcompact.org/docs/issues\\_doc/supply\\_chain/SupplyChainRep\\_spread.pdf](https://www.unglobalcompact.org/docs/issues_doc/supply_chain/SupplyChainRep_spread.pdf), accessed [15 July 2016].



# Finding 2: companies are predominantly risk driven with aspirations to unlock strategic opportunities and benefits.

Corporate approaches are evolving from risk management through collaboration to differentiation.

## Drivers for a sustainable supply chain

Most companies revealed they had started implementing sustainability programs in their supply chains several years ago. Risk management or mitigation continues to be the predominant driver for companies to embrace sustainability in the supply chain and, in particular, the risk of unintended environmental or social damage and the potential impact on a company's brand, reputation and even share value.

More than half of the companies interviewed also recognize the strategic benefits sustainable supply chains unlock: opportunities for cost reduction, enhanced efficiency or development of new sustainable products. For most companies, these benefits are still aspirational with only a selection realizing tangible, strategic benefits.

Some companies are driven by the culture of the organization and the importance of doing the right thing. This is often the case for private companies or companies with leaders that are passionate about sustainability, social issues and building strong relationships with suppliers.

“Unfortunately, most of the discussion arises out of bad news stories and action tends to be reactive rather than proactive.”

Financial services company in Asia-Pacific

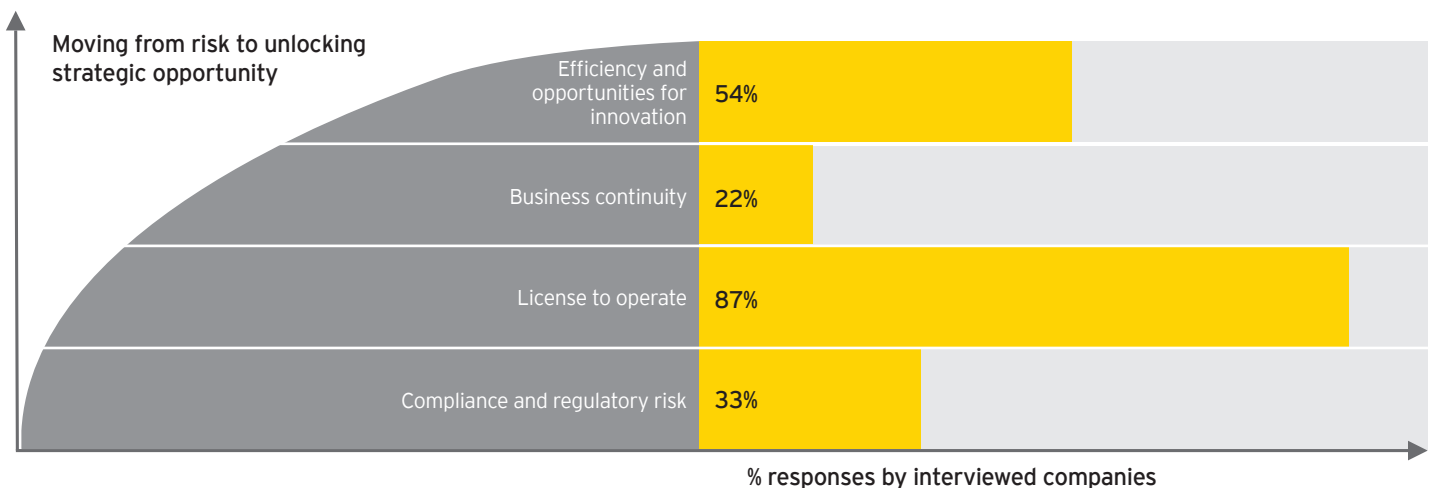
## Compliance and regulatory risk

Governments play a critical role in establishing sustainability requirements for private companies through legislation. Most companies recognize that regulatory drivers are highly important for supply chain sustainability as they set minimum standards for the respective markets, frame consistent expectations for market players and create a level playing field for companies across sectors to address a number of social (e.g., workplace labor), environmental (pollution standards), chain of custody or health and safety issues. On the other hand, companies cite the lack of government enforcement to implement effective legislation in certain countries and regions as a challenge.

Recently, the proliferation of new legislation has increased the importance of regulatory drivers, and nearly one third of companies are driven by the need to meet and comply with growing regulatory requirements – tackling issues such as forced labor, human trafficking, product stewardship, illegal logging and data privacy.

**1/3** of interviewed companies are driven by the need to meet and comply with growing regulatory requirements

## Drivers for building sustainability into supply chains





However, operations in a multitude of jurisdictions and the inconsistency in emerging legislation are presenting a growing challenge for many companies. The UK Modern Slavery Act, the California Transparency in Supply Chains Act of 2010 and the Federal Acquisition Regulation anti-trafficking provisions place obligations on larger businesses to evaluate the risk associated with these new laws, and disclose steps taken to end, suspected human trafficking or coerced labor practices in their supply chains. While the objectives of the laws are generally consistent, companies are finding that differing requirements lead to significant time on compliance activities.



For more information, see the [Guiding Principles for Business and Human Rights](#) for an authoritative global standard for preventing and addressing the risk of adverse human rights impacts linked to business activity.

Conflicting standards result in similar challenges for companies trading in grain or soy. When operating across global markets, investing to achieve more sustainability products will lead to increased price. Unless the requirements and expectations are globally aligned, progress will be incremental.

Companies that are operating in environments with weak government authority or regulatory enforcement indicated they are more driven to establish a higher standard by which to measure their suppliers.

Consumers increasingly want to feel good about their purchases and are more engaged on social and environmental implications of the products they purchase.

Consumer products and retail company in Asia-Pacific

### License to operate

For three out of every four interviewees, avoiding reputational damage is the key driver. Companies noted that the Rana Plaza disaster, recent recalls in the automotive industry and personal experiences with incidents such as the 2011 floods in Bangkok or factory fires in China, have led to a shake-up at the company and industry level. Following the collapse of Rana Plaza, many companies boosted their focus on building maintenance and fire safety, while collaborating with NGOs to develop and implement the Bangladesh Accord on Fire and Building Safety.

According to the ILO, every year, approximately 337 million people are victims of work accidents, and more than 2.3 million people die from occupational injuries or work-related diseases.<sup>5</sup> The UN Global Compact discusses how companies can make sure workers within the supply chain enjoy adequate safety protection in the workplace in its Occupational Safety and Health in the Supply Chain guide.

In addition to risk (regulatory and reputational), maintaining a license to operate and responding to stakeholder interests are key drivers for embedding sustainability into the supply chain.

- **Consumers:** demand for sustainable products manufactured with sustainable materials and labor practices is increasing. Consumer-facing industries typically feel this pressure the most, either directly from end customers or from the public requesting more information, transparency and better management of sustainability impacts along the supply chain.

While switching to products with a high sustainability performance does not always translate into behavioral change, young consumers in particular have high expectations about corporate responsibility practices and tend to punish brands with a poor record in supply chain sustainability through their purchasing power, social media and even consumer boycotts.

- **Customers:** business-to-business companies are investing in products and services with sustainable attributes that will in return enable their customers to achieve their sustainability goals and commitments. For example, a global diversified company headquartered in the US has established supplier goals around compliance with environmental and conflict minerals regulations, diversity and packaging, in addition to cost and quality, which enables the company to deliver products to its customers in a responsible and competitive way. The growth of the CDP supply chain program to 75 members is also a

<sup>5</sup> <http://www.ilo.org/global/topics/safety-and-health-at-work/lang--en/index.htm>



testimonial for the growing customer interest in sustainable supply chains. The program's members now include some of the world's largest organizations with a combined purchasing power of over US\$3 trillion. This purchasing power is now a trigger to cascading sustainability principles deeper into the world economy.

- ▶ **Investors:** investors are similarly adding pressure to companies, using surveys like the DJSI and CDP and industry tools, such as the Global Real Estate Sustainability Benchmark. There has also been a rise in shareholder activism for sustainability issues in the supply chain. After a record-breaking year for shareholder proposals in 2015, as of February 2016, there were a total of 370 social and environmental resolutions filed against US companies, many of which relate to requests for more transparency from companies about environmental management at their own operations and in their supply chains.<sup>6</sup> One apparel and footwear company noted that sustainability compliance metrics for their suppliers are now presented during investor calls, including aspects such as percentage of allocation to best-performing suppliers. Leading companies are increasingly including ESG metrics in the procurement processes. For example, a global chemical company with over €70 billion revenue in 2015 considers sustainability a key differentiator for its business in the capital markets and for its products with customers. Including ESG metrics in its procurement standards has been a logical translation of its investor and market strategies. As a result, buyers in each business unit are responsible for the ESG performance of their suppliers. For companies that serve or have shareholders from governments and municipalities, such as utilities, having a diverse and inclusive supply chain is a critical component of its responsible sourcing strategies.



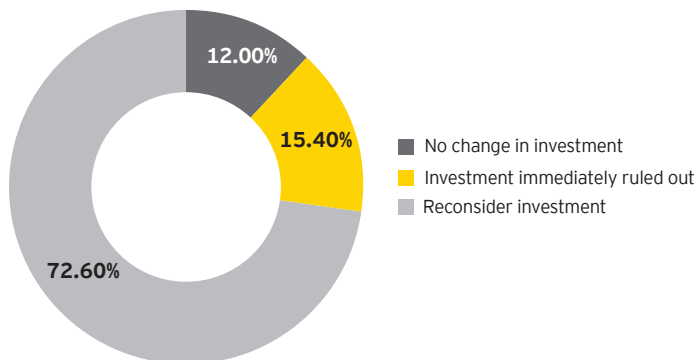
For more information, reference the [Women's Empowerment Principle](#)<sup>7</sup> to learn how companies expand their business relationships with women-owned enterprises.

EY's Tomorrow's Investment Rules survey conducted in 2015 concluded that more than 88% of institutional investors would reconsider investment or rule out investment immediately if risk in the supply chain is not addressed.

#### Impact of supply chain-related disclosures on investment decisions

How would the following disclosures about a prospective investment affect your investment decision?

#### Risks in the supply chain not addressed



For further details, see the [Value Driver Model](#), a toolkit to help companies and investors to effectively integrate sustainability data in their existing investment processes.

<sup>6</sup> "Proxy Preview 2016," *Proxy Preview website*, <http://www.proxypreview.org/proxy-preview-2016/>, accessed [15 July 2016].

<sup>7</sup> "Commit to Inclusive Sourcing", *UN Global Compact website*, <https://www.unglobalcompact.org/library/3231>, accessed [27 July 2016].



International financial institutions such as the World Bank, International Finance Corporation (IFC) and the European Bank for Reconstruction and Development have developed principles, frameworks and requirements for supply chain sustainability for gaining access to financing they provide. As part of its role to help bring business, civil society, governments and the UN to the same table, the UN Global Compact works with international financial institutions to align UN values through a variety of activities, including promotion of material and collaboration. In addition, the UN Global Compact's sister initiative, the PRI, which has nearly 1,500 signatories from over 50 countries and represents US\$60 trillion in assets under management, has developed guidance on investor expectations on company policies, practices and disclosure related to supply chain labor practices, water risks in the agricultural supply chain and human rights in the extractive industries. The UN Global Compact and the PRI have also developed a tool for companies to better assess and communicate the financial impact of their sustainability strategies and help investors integrate sustainability data into their existing investment processes. The Value Driver Model utilizes key business metrics to determine and illustrate how corporate sustainability activities, including supply chain sustainability activities, contribute to overall performance.

The PRI works to understand the investment implications of the ESG factors and to support its international network of investor signatories in integrating these factors into their investment and ownership decisions.

- ▶ **Local communities:** many of the interviewed companies, especially from the extractive sectors, source from or rely on suppliers and subcontractors in emerging economies. These companies often face local community opposition to their operations due to concerns about environmental pollution and competition for natural resources, and challenges related to ethics and the lack of skilled workforce and competent suppliers, vendors and subcontractors. In response, they implement social and community investment programs in areas where they operate, with the goal of enhancing the company's social impact on its host society. They provide a range of benefits to the local communities in these geographies, including employing and training local people, buying supplies and services locally, and supporting community development, often referred to as "local content."
- ▶ **Employees:** both employees and future employees have growing awareness of the issues impacting the supply chain and look for employers that are proactively managing these risks and issues. For example, an Australia-headquartered apparel retailer with US\$1.5 billion of revenue in 2015 has seen an increasing interest from employees around ethical sourcing. New employees and in particular young people interviewing with the company ask many questions and express a strong desire to sell products that are produced ethically.



For additional information and examples of good practice related to this topic, see the UN Global Compact's Good Practice Notes on:

- ▶ [Community Engagement and Investment to Advance Human Rights in Supply Chains](#)
- ▶ [Supporting Worker Empowerment – Including Support for Workers' Assertion of their Human Rights – in the Supply Chain](#)

## Business continuity

For a number of companies, a sustainable supply chain translates into maintaining supply chain security, enabling the company to continue to deliver on time, at cost and to specification. For one retail company, business continuity simply means availability of commodities and limiting the number of empty shelves.

A global life science company requires all sites and key suppliers to report regularly on crisis and business continuity, and their approach must be refreshed annually. Interviewed companies recognize that business continuity is increasingly impacted by climate change and the resulting resource scarcity and natural disasters, such as floods and droughts. A real estate company in Asia-Pacific discussed the impact of the 2011 Bangkok floods on the global microchip industry, which resulted in a global shortage due to impacts on both factories and the ability to move product in and around the region. In another example, a Europe-based beverage company proactively addresses water scarcity issues (exacerbated globally by climate change) in its supply chain, given water is such a key ingredient in the product. Changing availability and costs of commodities (cotton, palm oil) due to climate change are also concerns for the companies in the food, retail, chemical and apparel sectors. Although only a few companies require their suppliers to create goals around greenhouse gas emissions and energy use, many encourage the use of renewable energy and energy efficiency initiatives.



The UN Global Compact – with partners from the UN and civil society – helps companies take a deep dive on critical issues, including in the supply chain, through action platforms. Some of the platforms related to the environment include:

[CEO Water Mandate](#)  
[Caring for Climate](#)  
[Food and Agriculture Business Principles](#)

## Efficiencies and opportunities for innovation

Although risk-related aspects are the biggest drivers for companies, several chemical, oil and gas, and manufacturing companies interviewed are looking to shift from a reactive, risk-management approach to finding strategic opportunities for their business to enhance corporate strategy, unlock value, secure business continuity, reduce costs, improve quality or speed to market, or to generate new business.

For example, for an Asia-Pacific consumer products company, achieving cost savings is not a primary driver, but overall, integrating sustainability can lower the cost of doing business through higher-quality products. Cost benefits may not necessarily be realized by the up-front costs alone, but when looking at the total cost, including maintenance, delivery and end-of-life cost advantage may be realized. Other examples include:

- ▶ Supporting achievement of sustainability goals, such as recycling, energy efficiency improvements and waste management
- ▶ Gaining access to sustainable finance
- ▶ Reducing the size or number of shipments, resulting in a lower environmental footprint and cost savings
- ▶ Catering to growing consumer interest in certified commodities to eliminate supplier engagement in unsustainable or illegal activities, such as deforestation
- ▶ Developing new resilient, long-lasting products that use alternative sources of energy

One company discovered that for certain projects, up to 30% of materials were not being used and sent directly to a recycling facility. In addition to the resulting cost inefficiency, the associated manufacturing and transportation required resulted in more than 40 tons of carbon equivalents. This could have been avoided if procurement and ordering process inefficiencies, as well as waste management, had been addressed.





## Diverse and inclusive supply chain

Almost all interviewed US-based companies have strong commitments to creating diverse and inclusive supply chains. Many of these companies started their supply chain diversity programs over 30 years ago, initially driven by federal regulatory requirements. However, they continue to invest in these programs and significantly exceed regulatory requirements because of the clear business benefits they obtain by working with small businesses or businesses owned by women, minorities, persons with disabilities, veterans or persons from the lesbian, gay, bisexual and transgender (LGBT) community. These programs demonstrate a strong commitment to the communities where the companies operate, resulting in improved relations with the public, regulators and local activists, and increased engagement of employee and interest from new hires.



Refer to [Support Your SME Suppliers](#) for good practices, action steps and other resources to help your company's small- and medium-sized enterprise (SME) suppliers incorporate sustainability in their strategies.

One US electric utility, for example, finds a direct link between employee morale and the supply chain diversity program: employees proudly promote the program, receive external awards and recognition for participation, and serve as ambassadors of the company in the local communities where they live and where the company operates. The company sets diversity targets for each business unit, and executive compensation is related to achieving the targets. Diversity criteria are included in the request for proposal process and contractual vehicles, but most important, diversity has become part of the company culture. The program creates positive branding for the utility and results in increased spending with diverse demographic groups.

Recognizing that skills, capacity and business knowledge are among the top challenges for small and diverse suppliers, several of the interviewed companies proactively provide training opportunities, tools and networking forums for certified diverse enterprises to strengthen their business capabilities and access to purchasing and sourcing professionals. A US automotive company, for example, sponsors joint forums with local advocacy groups, which are an extension of its second-tier purchasing program. Feedback from participants indicates an average of US\$15 million in business opportunities for minority, women and veteran-owned enterprises. In another example, a multinational agrochemical and agricultural biotechnology corporation has recently launched a supplier diversity mentoring program. Six mentees were selected from over 80 applicants. They have access to senior company executives, subject-matter experts and external coaches, and will learn about effective business methodologies, process improvement, human resources, change management, procurement, sales and marketing, social media, finance, sustainability, environmental safety and health, technology infrastructure and digital media. The company plans to expand the program in Brazil, India and other geographies in order to grow a diverse supplier base globally, identify long-term supplier partners and reinforce its commitment to economic development and to local communities.



Committing to inclusive sourcing includes diversity in the supply chain. The UN Global Compact, together with UN Women, launched the [Women's Empowerment Principles](#),<sup>8</sup> to guide companies to empower women in the workplace, marketplace and local communities.

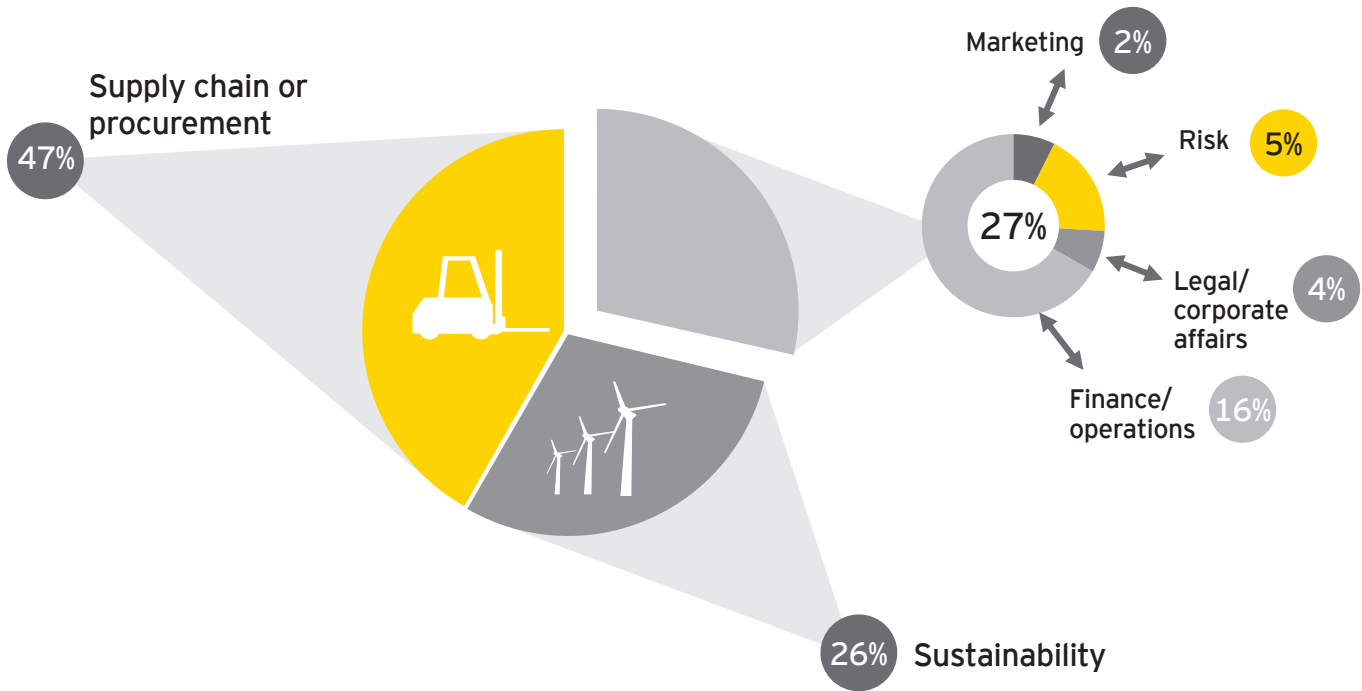
<sup>8</sup> "UN Global Compact Management Model," UN Global Compact website, <https://www.unglobalcompact.org/library/231>, accessed [15 July 2016].

Executing an effective supply chain diversity program is not easy. A successful program requires dedicated professionals, documented policies, contractual mechanisms and strong support from the executive team. However, diverse and inclusive supply chains result in numerous benefits, not just to the companies implementing them but also to society:

Benefits to business	Benefits to society
<ul style="list-style-type: none"> <li>▶ Creating competitive advantage               <ul style="list-style-type: none"> <li>▶ Diverse suppliers are usually more innovative, agile and responsive.</li> <li>▶ Supplier diversity programs create product and service considerations among multicultural and female consumer segments, which are growing in size and affluence.</li> </ul> </li> <li>▶ Winning the war for talent               <ul style="list-style-type: none"> <li>▶ Employees proudly serve as ambassadors for their companies.</li> <li>▶ Younger employees, especially millennials, prefer to work for value-driven companies.</li> </ul> </li> <li>▶ Increasing the ability to penetrate global markets               <ul style="list-style-type: none"> <li>▶ Supplier diversity allows companies to stay globally relevant within local marketplaces.</li> </ul> </li> <li>▶ Leading to supply chain efficiencies and innovation</li> <li>▶ Increasing brand recognition and reputation advantages               <ul style="list-style-type: none"> <li>▶ Diversity programs enhance consumer loyalty.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▶ Generating wealth and economic growth               <ul style="list-style-type: none"> <li>▶ Supplier diversity programs are highly impactful to local communities, especially in disadvantaged communities.</li> <li>▶ Diverse suppliers tend to hire diverse suppliers themselves.</li> <li>▶ Diverse suppliers have access to microfinancing and capital.</li> </ul> </li> <li>▶ Creating education, vocational and career opportunities for local community members</li> <li>▶ Bringing new business to local communities</li> <li>▶ Increasing minority purchasing power due to the growth of minority-owned businesses</li> </ul>
<p><b>Outcome: stronger corporate value chains</b></p>	<p><b>Outcome: stronger local communities</b></p>

# Finding 3: companies tailor their approaches and governance to create sustainable supply chains.

Accountability for supply chain sustainability resides within a range of different functions.



## Ownership of sustainability in the supply chain

For almost half of the companies interviewed (47%), supply chain sustainability is owned by the procurement or supply chain function. For 26% of companies, it is owned by the corporate sustainability team, with the remaining companies leveraging marketing, risk, legal, finance or operations to drive efforts.

**Executive ownership** from the chief procurement officer (CPO), chief financial officer (CFO), chief executive officer (CEO) and board is critical to establishing sustainability as a priority in an organization. Even beyond this senior management commitment, more can be achieved when the right stakeholders are around the table; for example, having a director from supply chain and the sponsoring business unit director will enable supplier and product decisions to be made.



See [A New Agenda for the Board of Directors: Adoption and Oversight of Corporate Sustainability](#) for recommendations on board adoption and oversight of corporate sustainability.



For more information, see [The Roadmap for Integrated Sustainability](#) for guidance on integrating sustainability-related goals and strategies across the organization. Refer to the [Guide for General Counsel on Corporate Sustainability](#) for examples of the emerging role in-house counsel has as key change agents in advancing corporate sustainability issues.



## Organizational models for integrating sustainability into the supply chain

Siloed	Hybrid	Integrated
<ul style="list-style-type: none"> <li>▶ Supply chain sustainability responsibility is segregated from core supply chain management.</li> <li>▶ Sustainability criteria are developed and managed separately.</li> <li>▶ In some cases, limited dialogue among functions occurs, but this is not formalized and often occurs on an ad hoc basis.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Sustainability function collaborates with procurement or supply chain to provide input in supply chain management process.</li> <li>▶ Typically, sustainability function will establish strategy, governance and process.</li> <li>▶ In many cases, a cross-functional working group will facilitate the collaboration.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Sustainability is embedded in procurement, category management and sourcing processes.</li> <li>▶ Sustainability is weighted and considered along with traditional supply chain factors (price, quality).</li> <li>▶ Programmatic integration of sustainability issues goes across business units (training, measurement, standards).</li> </ul>
<b>24%</b>	<b>39%</b>	<b>37%</b>

The **hybrid model** is the most common and 39% of the companies have adopted it. It can take a range of different formats and some examples are provide below:

- ▶ Some companies leverage parts of the business, including quality, to manage risk and governance; corporate social responsibility (CSR) to communicate outcomes and stories; and the commercial team to manage the execution.
- ▶ Other companies utilize working groups to support cross-function engagement. For example, a large oil and gas company uses working groups to identify and integrate sustainability issues, such as resource scarcity or social impacts, for each category. Working groups typically comprise account directors, category managers and sustainability representatives. As articulated by one UK-based company, leveraging working groups facilitates engaging many people across the business, despite having only a small group dedicated to supply chain sustainability.
- ▶ One technology company trains a selection of procurement ambassadors to support the integration of sustainability into the procurement function.

- ▶ For a utilities company, even if procurement is leading, it is critical to rely on subject-matter experience throughout the business, or even at the supplier, to understand where there are alternative ways of designing or procuring products or services.
- ▶ For many sectors, including oil and gas, chemicals and construction companies, the supplier relationship is often owned by contract managers in operations, so engagement among procurement, operations and sustainability is required to facilitate management of issues. One financial services company uses working group centers of excellence to manage high-risk suppliers or procurement exercises, while remaining companies are managed by the business groups.

Establishing formalized lines of communication and reporting among sustainability specialists and sourcing or procurement is critical for the success of this hybrid model.



For an **integrated model**, companies combine sustainability with traditional supply chain criteria such as price, quality and innovation to streamline the management of suppliers and include supplier self-assessments and scorecards for measuring performance and selection criteria. Managing their supply chain in this way allows companies to achieve a truly sustainable view of the supply chain – one that balances the priorities and expectations on suppliers to complete an order on time at lowest price without undermining or shortcutting valuable social and economic expectations.

In these cases, responsibility is often shifted to the buyers to confirm that sustainability criteria are met. Companies managing the supply chain in this way can expect to see a more streamlined process and reduced duplication of effort across the business for managing suppliers.

An integrated model may take the form of having a stand-alone sustainable procurement function that reports directly to procurement while maintaining reporting to the sustainability function. This model allows the function to maintain sustainability subject-matter knowledge while working closely with the mainstream purchasing and supplier management functions to embed decisions and resolve any supplier issues.

An Asia-Pacific real estate company indicated that streamlining questions or requirements with standard supplier evaluation or sourcing processes reduces the level of effort for project managers to engage with suppliers. A utility company noted that for them, integration is evolving category by category and tends to happen faster when category managers demonstrate a personal passion for sustainability or where a particular category is more impacted by sustainability, such as in packaging or fleet. One global, Europe-based retail company highlighted the challenge of working in a decentralized sourcing environment. Although sustainability is integrated within the sourcing unit for each brand, having more than 20 brands leads to multiple and often varying approaches.

Engagement with functions outside supply chain and procurement is also critical where companies are looking beyond opportunities to source from the highest-performing suppliers, but reassess product design or end use. In these cases, product design teams or logistics will also be critical stakeholders to explore opportunities for innovation in ingredients or design processes to maximize product life cycles or minimize end-of-life waste.



For more information, see Chapter 6 of the [Supply Chain Sustainability – A Practical Guide for Continuous Improvement](#) for practical guidance on internal responsibilities and performance management for supply chain sustainability.

The remaining quarter of companies' organizations are operating with a **siloed model**. In these instances, the sustainability team typically has little or no contact with the supply chain. This is frequently found in companies with a decentralized structure.



# Finding 4: leading companies are establishing a shared commitment with suppliers.

## Leading companies work with their suppliers to address risks and capture opportunity.

Companies adopt a variety of approaches to operationalize sustainability in the supply chain, from defining and setting expectations, conducting assessments and audits, to the leading practice of establishing shared commitment with suppliers. The interview results show that these approaches can be categorized in 5 major groups: basic, improving, established, mature, and leading. Most of the interviewed companies are in the improving or established categories.

Several interviewed companies are recognized as leaders in supply chain sustainability and they increasingly consider suppliers as an extension of the business, rather than having a more traditional view as vendors. Companies that focus on creating shared value with their suppliers are likely to achieve a mutually beneficial relationship that takes advantage of higher quality. In turn, suppliers achieve stability of longer and larger contacts.

A global agriculture company noted that while its direct water usage footprint was not substantial, when taking into account the water consumption of its supply chain, its water usage increased tenfold. The company recognizes that to enhance water optimization, they need to partner with suppliers and growers to:

- ▶ Provide education on irrigation practices, soil health and water quality
- ▶ Include irrigation and water use criteria in the supplier scorecard assessments
- ▶ Award more business to growers and suppliers with higher performance

Leading companies work with their supplier to create meaningful frameworks for performance monitoring and improvement. For example, for a company in North America that manages suppliers who operate across a range of sectors, a one-size-fits-all approach did not provide a meaningful way to assess and manage capability or supplier performance. Suppliers from the professional services industry will need to be managed differently from suppliers in the manufacturing sector. The company is working collaboratively with its different supplier groups to develop relevant criteria for each group.

Overall, leading companies are not looking to “police” suppliers and terminate those that underperformed. While audits provide a compliance snapshot at a point in time that can be used to understand the baseline and address performance issues, to enhance performance, audits must be combined with efforts to build capacity and create a shared business case with suppliers for embracing sustainability. Many companies are finding that once they start a conversation with their suppliers, they can learn a lot on how to address issues and improve the sustainability of their products and services. However, beyond the promise of continued or additional work, few companies are providing incentives to their suppliers, with most continuing to establish minimum standards.

While the maturity levels of companies within sectors vary, the categorization of distinctive maturity levels is clear within the overall picture of supply chain management. The automotive and transport industry, which leads the way, practices full integration of ESG criteria in forming and sustaining supplier relationships. The chemicals, life science, mining and metals, and telecommunications sectors also demonstrate strong commitment to supply chain sustainability. At the other end of the spectrum, organizations rely on basic policy for governance and compliance architecture in developing their supplier relationships. We summarize leading and differentiating approaches on the following pages.





Refer to [Supply Chain Sustainability – A Practical Guide for Continuous Improvement](#) for steps on engaging with suppliers on supply chain sustainability.

## Maturity model

Leading companies are operationalizing sustainability in the supply chain by establishing a shared commitment with suppliers.

Basic	Improving	Established	Mature	Leading
<ul style="list-style-type: none"> <li>▶ Minimum standards or guidelines</li> <li>▶ Poor understanding of supplier risks</li> </ul>	<ul style="list-style-type: none"> <li>▶ Focus on risk and compliance</li> <li>▶ Assess against supplier code of conduct or contractual terms and conditions</li> <li>▶ Focus on audit approach for high-risk areas</li> <li>▶ Transactional relationships with suppliers</li> </ul>	<ul style="list-style-type: none"> <li>▶ Understand the significant issues to prioritize suppliers based on risk</li> <li>▶ Optional or mandatory processes in place to screen, select and manage suppliers based on sustainability criteria</li> <li>▶ Focus on short-term risks</li> <li>▶ Include site visits of suppliers in monitoring</li> <li>▶ Reporting KPIs on sustainable supply chains</li> </ul>	<ul style="list-style-type: none"> <li>▶ Sustainability requirements globally aligned, adopting the highest standard</li> <li>▶ Apply leading standards and certification programs</li> <li>▶ Monitoring and visibility beyond Tier 1</li> <li>▶ Process to screen, select and manage suppliers based on sustainability criteria – integrated with other processes</li> <li>▶ Suppliers segregated based on performance, impacting spend allocation</li> <li>▶ Conduct training</li> <li>▶ KPIs for measuring supply chain sustainability performance – integrated scorecard</li> <li>▶ Work with suppliers to identify areas for improvement</li> <li>▶ Engaged with government to develop regulation</li> <li>▶ Rely on suppliers to cascade requirements on to suppliers</li> </ul>	<ul style="list-style-type: none"> <li>▶ Sustainability part of the company’s culture and DNA</li> <li>▶ Suppliers considered an extension of the business</li> <li>▶ Engaged more in asking and less in telling</li> <li>▶ Make sustainability part of the upstream design or purchasing decisions</li> <li>▶ Work with suppliers to build capacity and embed a culture of sustainability</li> <li>▶ Selecting suppliers based on sustainability criteria (even where cost is higher)</li> <li>▶ Focus on long-term risk and opportunity</li> <li>▶ Prominent lead in industry initiatives and working groups</li> <li>▶ Ahead of emerging regulation</li> <li>▶ Transparency about performance – reporting metrics beyond number of audits to include outcomes</li> </ul>

## Examples of differentiating practices

Value driver	Differentiating practices of leaders
Understanding issues and establishing expectations	<ul style="list-style-type: none"> <li>▶ Mapping the supply chain to identify the biggest risks and impacts</li> <li>▶ Focusing on all issues – across ESG areas</li> <li>▶ Working with supply chain partners to establish sustainability expectations</li> <li>▶ Keeping the supplier code as a living document, updated on a regular basis</li> </ul>
Screening, onboarding and auditing suppliers	<ul style="list-style-type: none"> <li>▶ Embedding sustainability criteria and zero-tolerance standards into the sourcing process; for example, setting a requirement for paper to be certified as sustainable in the RFX (procurement process)</li> <li>▶ Going deeper to find issues in the supply chain</li> <li>▶ Outlining termination clauses for major noncompliances</li> <li>▶ Eventually phasing out suppliers that fail to meet expectations</li> </ul>
Addressing buying and procurement practices	<ul style="list-style-type: none"> <li>▶ Integrating scorecards with broader supplier performance, whereby sustainability represents 5%-30% depending on the commodity or category</li> <li>▶ Training all procurement staff in social compliance, sustainability-related product risk and opportunities as well as responsible buying practices</li> <li>▶ Providing account management or procurement staff with the right information and guidance to enable responsiveness to suppliers</li> <li>▶ Addressing the responsibility of buying practices of procurement managers, so that unrealistic deadlines and cost expectations do not undermine social and environment compliance activities; linking procure-to-pay process to supplier onboarding and scorecards, so that purchase orders cannot be placed until the supplier has achieved compliance with established standards</li> </ul>
Engaging in capacity building	<ul style="list-style-type: none"> <li>▶ Tailoring questions to different supplier sectors and the information required to build capacity</li> <li>▶ Allocating time and effort to engaging with suppliers and developing capacity, to augment audit and compliance activities</li> <li>▶ Providing training and awareness building for both factory managers and supplier buyer and procurement counterparts</li> <li>▶ Leveraging supplier relationship plan for sustainability, so it becomes part of the usual conversation</li> <li>▶ Facilitating knowledge exchange with suppliers, so that we learn from our suppliers and our suppliers learn from us</li> <li>▶ Building engagement with factory workers and managers, allowing them to take ownership of capability-building initiatives and improvement standards</li> <li>▶ Leveraging on-site conferences with suppliers, podcasts and e-learning platforms to deliver training to suppliers on particular themes that require focus (e.g., traceability)</li> <li>▶ Addressing recurrent audit findings; supporting suppliers to mitigate identified risks via workshops, even after a supplier is terminated</li> </ul>
Using incentives	<ul style="list-style-type: none"> <li>▶ Using scorecards and audit programs to grade suppliers and allocate preferred suppliers</li> <li>▶ Less frequent audits for higher performance</li> <li>▶ Incentivizing high-performing suppliers with better terms or discounts, contractual lengths, increased volumes, less frequent audits (e.g., auditing every five years instead of every two years)</li> <li>▶ Supporting the payment of part or all of the supplier audit (for companies that pass on audit costs to the supplier)</li> </ul>
Reporting and tracking	<ul style="list-style-type: none"> <li>▶ Utilizing leading technology to track and trace issues along the supply chain</li> <li>▶ Providing transparency about the issues found and addressed in the supply chain; tracking and communicating performance metrics as well as audit metrics</li> </ul>
Having a diverse and inclusive supply chain	<ul style="list-style-type: none"> <li>▶ Leveraging supplier engagement with local and diverse suppliers, which has been shown by many companies to have benefits of job creation, revenue and income generation in local communities</li> </ul>



# Finding 5: technology enables visibility and influence beyond Tier 1.

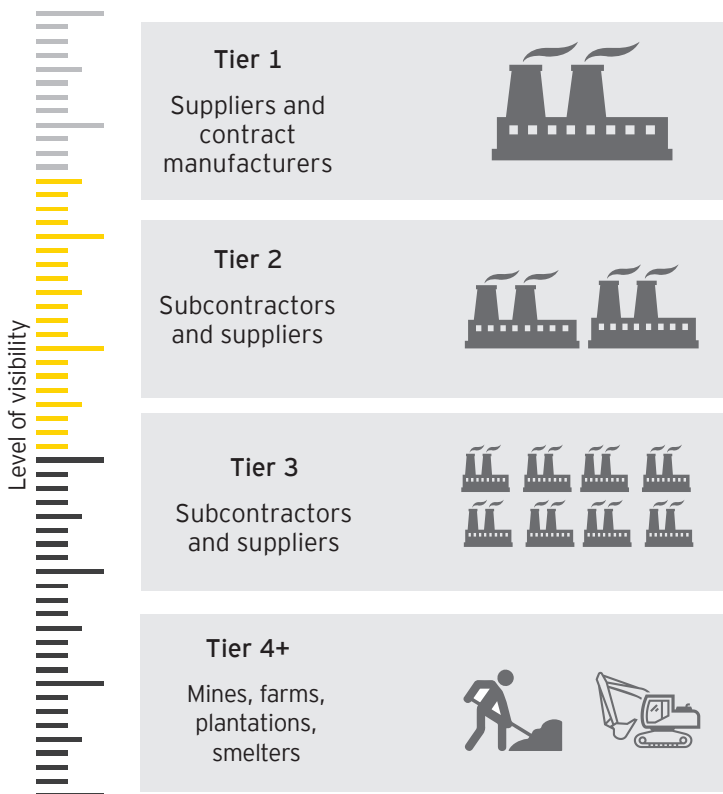
## Companies are leveraging technologies and collaborating to increase visibility and influence deeper in the supply chain.

The most significant and widely reported challenge is achieving transparency beyond Tier 1 suppliers – particularly in emerging markets. This challenge is exacerbated by the sheer number of suppliers deeper in the supply chain as well as the use of subcontractors and a myriad of standards and regulations.

Even within the Tier 1 landscape, companies have varying levels of visibility of their supplier base and the factories and regions for which their products are sourced. Companies typically rely on financial systems that may not provide a comprehensive view of the supplier base or aggregated spend, particularly to the factory level. Typically, companies are using a risk-based approach that provides them with some comfort that risks and opportunities associated with Tier 1 suppliers are being managed. However, many companies reported that moving into Tier 2 and beyond, to understand the landscape of subcontractors, mills, mines, plantations or smelters contributing to the company's supply chain, presents significant challenge and uncertainty.

Leading companies describe how partnerships across suppliers, industry and organizations built on engagement, trust and empowerment are central to managing supply chain risk. According to Sedex, a collaborative platform for managing and sharing supplier data based in the UK, leading companies are exploring ways to focus efforts on improving supplier performance beyond Tier 1. We heard from one company in Asia-Pacific that requires all suppliers to join Sedex, unless certain criteria are met. An automotive company based in North America has started to engage suppliers deeper in the supply chain by cascading requirements, such as the global terms and conditions, social responsibility, anti-corruption and environment to subtier suppliers. There is now an expectation for all suppliers to meet their supplier requirements. Similarly, mining companies that are members of the International Council on Mining and Metals are required to encourage business partners and goods and services suppliers to adopt principles and practices that are comparable to their own. In an effort to increase transparency beyond Tier 1, a life science company from Denmark encourages suppliers to join the UN Global Compact and use its reporting framework to communicate progress.

### Level of visibility Tier 1 and beyond



## How companies are addressing identified challenges

Challenge	How companies are addressing these challenges
<p><b>Lack of end-to-end transparency</b>  <i>Companies experiencing lack of visibility in subcontractor relationships, especially in Asia</i></p>	<ul style="list-style-type: none"> <li>▶ Some companies establish and communicate similar expectations to subtier suppliers; membership on preferred supplier programs contingent on suppliers cascading good practices on health and safety, environmental and workplace labor related to KPIs of suppliers and sub-suppliers.</li> <li>▶ Compliance with regulations, like Dodd-Frank Section 1502, and standards, such as Organisation for Economic Co-operation and Development (OECD) Guidelines for Multinational Enterprises, the UN Guiding Principles on Business and Human Rights and ISO 26000 Social Responsibility Guidelines that support enhanced understanding.</li> </ul>
<p><b>Demonstrating value to the business</b>  <i>Challenge quantitatively, measure outcomes of investing in social and environmental practices and translate into business value</i></p>	<ul style="list-style-type: none"> <li>▶ Strong leadership or company values make it easier to include sustainability in the dialogue. For example, a global construction and mining equipment company integrated Sustainability as a Value and extends this commitment throughout its value chain – from suppliers to end users. A utilities company in Australia finds their efforts to be supportive as sustainability is part of the narrative.</li> <li>▶ Some companies use emerging methodology to measure the impacts of sustainable supply chain initiatives.</li> <li>▶ Some companies tie employee performance to bonus pools.</li> <li>▶ Some companies keep it simple and always show sustainability value blended with business value.</li> <li>▶ Innovation with suppliers brings new, more resilient products to the markets and creates long-lasting relationships with suppliers, resulting in increased revenue or larger market share. A South American consumer products company is developing a grain that can withstand heat and grow in the desert, collaborating directly with farmers to bring this type of grain to the market.</li> </ul>
<p><b>High cost and effort of implementing sustainability programs</b>  <i>Lack of resources, data analytics and high cost of monitoring</i></p>	<ul style="list-style-type: none"> <li>▶ A utilities company found that in their experience, dedicated headcount (at least one) is critical to embed sustainability into operations in a meaningful way.</li> <li>▶ Some companies apply technology solutions to address data inadequacy with easy-to-use, comprehensive and standardized access to information technology that supports collaboration on supply chain sustainability.</li> <li>▶ Examples include Fair Factories Clearinghouse, Sedex, EcoVadis and Achilles. A German life sciences company includes the sustainability performance of its suppliers into the purchasing department’s annual scorecard and performance assessment using IT-supported industry initiative EcoVadis. The company’s purchasing department incentivized top suppliers for demonstrating better sustainability performance.</li> <li>▶ Some companies engage suppliers to exchange knowledge and leading practices.</li> </ul>
<p><b>Difficulty in integrating across the business</b>  <i>Misalignment between procurement and sustainability divisions and challenge to have all business units follow the same guidelines</i></p>	<ul style="list-style-type: none"> <li>▶ Some companies adopt language that aligns to the business and is easily understood by non-sustainability professionals.</li> <li>▶ Some companies develop internal resources to achieve alignment between sustainability and procurement functions. For example, a European technology company has a small group of three full-time employees that work closely with the purchasing department and different functional departments to identify improvement opportunities with suppliers. These opportunities include developing a “Purchasing Ethics Manual” that defines the criteria for meeting its requirements on responsible supply chains.</li> <li>▶ Some companies empower procurement to deliver against sustainability goals and engage internally and externally on initiatives and achievements.</li> <li>▶ Collaborating and sharing information through data platforms that combine procurement and sustainability supplier data is an approach for increasing trust and openness.</li> </ul>
<p><b>Information and knowledge</b>  <i>Barriers in understanding changing industry challenges, local contexts</i></p>	<ul style="list-style-type: none"> <li>▶ Companies are looking to adapt practices quickly and build teams that have the necessary knowledge and capabilities to understand evolving industry-specific issues and changing local contexts. Examples include participating in industry associations and shared platforms such as Sustainable Apparel Coalition (SAC), Sedex, Automotive Industry Action Group (AIAG) and partnership with like-minded peer companies in joint-monitoring programs.</li> </ul>



Companies are looking for smart connectivity with their IT solutions. They want to achieve transparency, enhance their supplier base and processes for managing suppliers, and improve the ability to assess and address issues at the supplier, factory, and mill and subcontractor levels.

Traditional enterprise resource planning (ERP) and supplier management systems alone, according to Setlog, a technology solution provider, cannot provide these desired capabilities. IT solutions offered need to include a platform that provides an interface between internal legacy systems and external suppliers such as Setlog's vendor scorecard, which takes financial, supply chain performance and social metrics into consideration for rating a factory.

### **Role of technology and analytics**

Technology has opened up new frontiers in supply chain transparency and process automation and plays a critical role in enhancing the ability of companies to manage sustainability effectively. Companies cannot rely on the existing financial or supplier management systems to interface with suppliers on these subject matters. Although this can require investment and change management, companies are looking for ways to leverage and enhance technology solutions to support visibility, collaboration and communication.

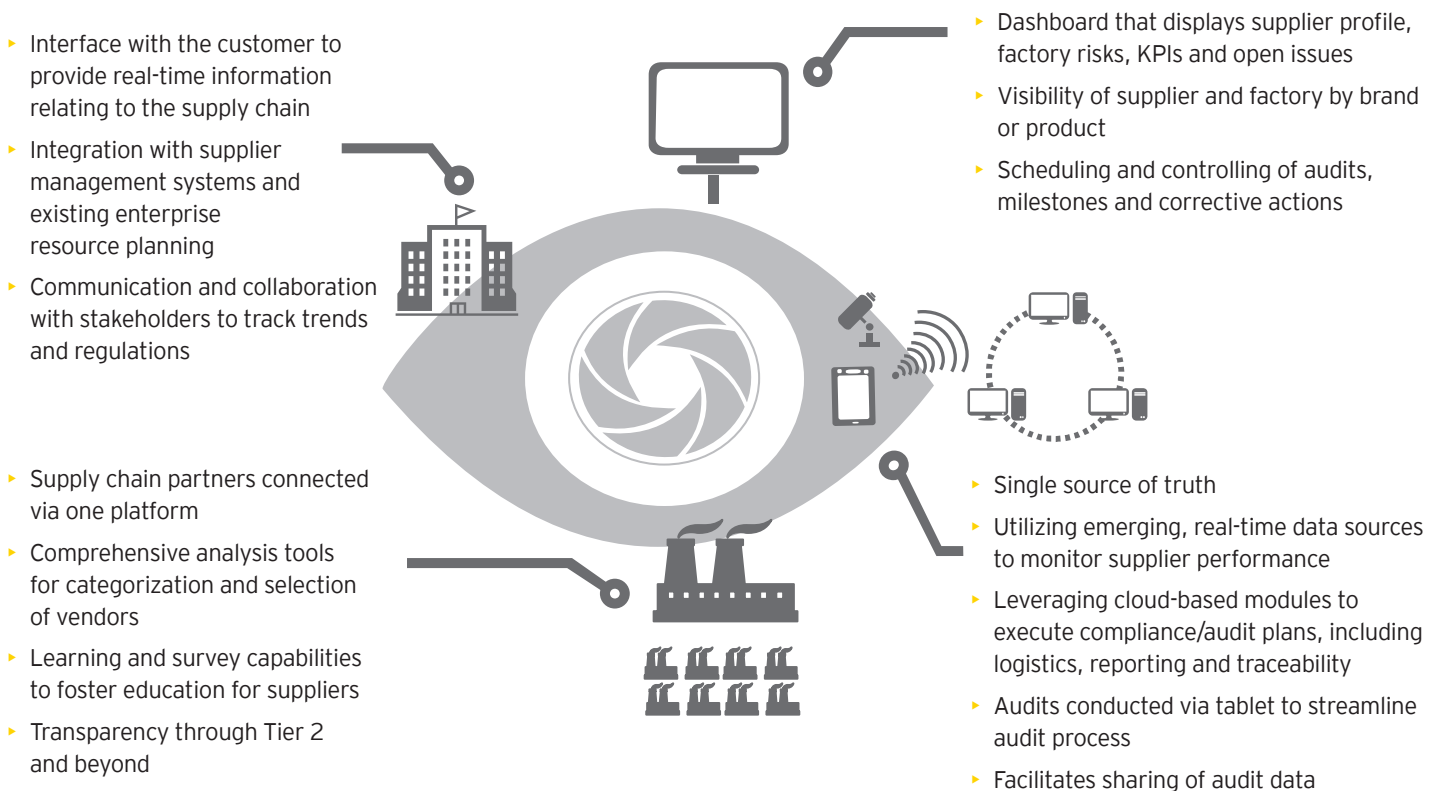
The global proliferation of mobile technology and cloud software systems has created a boom in supply chain technology solutions. Technology enables supply chain and procurement executives to better understand their supply chain characteristics, get a better handle on supplier performance, and more successfully manage sustainability risks.

Solutions vary significantly in their focus, capabilities and sophistication but overall are moving from data collection to verifications, communication and visualization of supplier inputs. The technology offerings are increasingly focusing on efficiency, accountability, resiliency and providing a single "source of truth" of supply chain information. Companies from the agricultural and food and beverage sectors, for example, use technology in their supply chain to improve business efficiency by tracking natural resources (e.g., water), commodities (e.g., grains) and chemicals (e.g., fertilizers).

Numerous solutions have been developed focusing on accountability, which is a huge component of sustainable supply chain. Companies like EcoVadis build supplier databases that rely on direct interactions with supplier inputs, leading to increased supplier engagement, as well as incorporating external sources such as government platforms and NGO campaigns, thus enabling a "360 watch approach" to collect and analyze data and derive real-time insights to guide better business decisions. For example, sources like the China Labor Bulletin provide lifetime data on factory labor conditions and strikes. Increasingly, information made available through social media, labor unions and environmental watch groups is being used to hold suppliers accountable for shifting sustainability. Some solutions are even starting to collect data inputs on labor conditions or environmental violations by workers themselves, using mobile phones and creating an unprecedented level of transparency in the supply chain. These more comprehensive approaches to assessing supplier performance lead to much more robust supplier profiles than those depending on self-assessment surveys or random inspections.



## How companies use technology to create sustainable supply chains



Many technology solutions are evolving to create supplier scorecards and rankings, creating opportunities for reduced monitoring (fewer site audits), competitive advantage (increased selection by customers) and incentives (more business, better contractual terms) for the leaders. Ratings are being embraced by leading suppliers as they use them to attract more customers and capture business growth. Most of the interviewed companies already collect data in the course of their normal business operations, which could be used to reduce volatility and

uncertainty resulting from weather changes and geopolitical changes, labor conflicts, regulatory and other external impacts ultimately leading to increased resiliency of their supply chain. Technology can leverage this data to enable a rapid business response to dynamic changes in the supply chains, thus helping companies to adapt and capitalize on changing business conditions. Overall, for companies going beyond basic compliance, supply chain data analytics and technology are increasingly becoming critical for competitiveness and profitability.

# Finding 6: collaboration is critical for companies to achieve greater business and societal impacts.

## Working with peers, industry associations, standard setters and NGOs is critical for companies to achieve sustainability in the supply chain.

Complex supply chain challenges cannot be solved by the efforts of individual companies. More than 70% of the companies point to multi-stakeholder collaborations, which enable them to make progress toward more sustainable supply chains.

Leading companies have developed collaboration strategies, which include a variety of initiatives with suppliers, regulators, peers and with companies from other sectors. One of the interviewed US apparel companies, for example, works collaboratively with preferred suppliers to build long-term relationships and simultaneously partners with NGOs such as Verite, ILO's Better Work, Personal Advancement & Career Enhancement (P.A.C.E) program and industry associations, such as the SAC, to improve

its supply chain practices. In another example, a South American consumer products and retail company participates in a number of international standard setting organizations, like the OECD Guidelines for Multinational Enterprises, IFC Performance Standards as well as a sector-specific collaboration like the World Wildlife Fund (WWF) Roundtable on Responsible Soy, to help define its metrics for managing sustainability issues in the supply chain.



Refer to [Supply Chain Sustainability – A Practical Guide for Continuous Improvement](#) to learn how collaboration and multi-stakeholder partnerships, including with governments, can help extend the impact of supply chain sustainability programs.

### International standards, standard setters and NGOs

- ▶ Define values, goals and objectives for companies to meet
- ▶ Identify high-risk sectors and issues and propose solutions
- ▶ Bring credibility and common standards and influence governments to take action

### Government

- ▶ Set vision and targets
- ▶ Set effective regulation, incentives and education
- ▶ Enforce laws and penalize offenders

### Suppliers

- ▶ Develop preferred supplier relationships
- ▶ Drive supplier ownership of supply chain programs

### Company

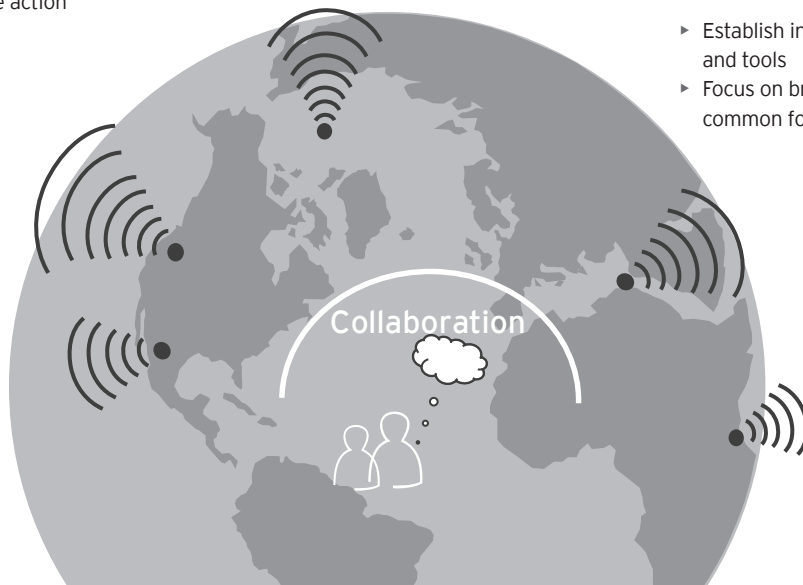
- ▶ Establish structure and processes for intercompany collaboration

### Industry initiatives

- ▶ Establish industry-wide expectations and tools
- ▶ Focus on broad or specific issues common for sectors

### Shared platforms

- ▶ Share market practices and supplier performance results (e.g., audit results)
- ▶ Participate in industry organizations that create common platforms



**78%**

of companies collaborate with NGOs, industry initiatives, governments and refer to global frameworks in developing programs around sustainable supply chains.





### Collaborating with suppliers

Companies are collaborating with suppliers via preferred supplier programs, supplier events and initiatives with the goal of achieving continuous improvement and capability building as a supplement to ongoing monitoring. Collaborative approaches continue to evolve by sector and in line with the needs of a sharing economy. For example, several of the interviewed companies organize annual vendor conferences where suppliers are presenting to their peers to disseminate leading practices and build awareness and the business case for sustainability. In addition to these efforts, an Australian retail company hosts podcasts on particular topics (e.g., traceability) addressing hot market themes and conducts supplier engagement surveys in order to better support suppliers' needs. Increasingly, companies are relying on suppliers to influence their suppliers and subcontractors, and promote sustainability deeper in their supply chain.

Companies are also recognizing that they can learn from the experience of their most sophisticated suppliers. One of the interviewed companies from the agricultural sector, for example, has partnered with one its suppliers from the chemical sector to leverage and learn from their supply chain sustainability expertise.

#### Advantages to collaboration:

- ▶ Allow companies to speak with a common voice
- ▶ Minimize burden on suppliers
- ▶ Learn from sector leaders
- ▶ Standardize tools within and across sectors
- ▶ Reduce cost and level of effort for managing supplier assessments and audits
- ▶ Create innovative solutions

### Working with international organizations, standard setters and NGOs

The role of international organizations, such as the UN Global Compact, is seen as important in helping establish a longer-term vision, connect to megatrends in society, provide practical guidance and assist companies to prioritize their supply chain sustainability goals. Even companies that are not signatories to the Ten Principles indicated that the UN Global Compact is helpful to support the development of sustainability supply chain programs and highlight good practice.

The number of voluntary sustainability standards for monitoring, measuring and tracking sustainability performance has grown rapidly in number and importance in global commodity markets. However, it can be challenging for companies to determine the appropriate standard or standard setting organizations to align with.

**Standards, certifications and ecolabels include Forestry Sustainability Certification for sustainable forestry and paper, EnergyStar for energy-efficient products and the Marine Stewardship Council certification for sustainable seafood.**

The forthcoming ISO 20400 will standardize guidelines and principles for purchasing processes to demonstrate good practices for sustainable purchasing. This international standard provides guidance to public and private organizations integrating sustainability into procurement, independent of their activity or size.

Companies are increasingly engaged with NGOs, such as WWF or Amnesty International. These organizations play an important role for companies to keep companies honest and maintain awareness of sustainability issues or trends on the horizon that will impact the supply chain.

## Industry collaborations

Almost all interviewed companies participate in collaborations with their peers, industry associations and cross-industry partnerships focused on supply chain sustainability. These initiatives offer collaboration opportunities that are either broad in scope, such as the AIAG, the Electronic Industry Citizen Coalition (EICC) and Pharmaceutical Supply Chain Initiative (PSCI), or focus on specific industry challenges such as the Zero Discharge Hazardous Chemicals (ZDHC) Programme in the apparel sector.

Many of these collaborations help suppliers meet industry expectations by establishing and communicating formal industry guidelines about ethics, labor, health and safety, and the environment; by creating common assessment and audit tools; and by offering opportunities for knowledge sharing and capacity building. Many industry collaborations establish a common set of principles supported by implementation frameworks, have clear governance models, engage with stakeholders on behalf of the members and facilitate innovation.

### Broad industry collaborations

- ▶ The chemical industry sustainability initiative, Together for Sustainability (TfS) has developed and implemented a global program to assess, audit and improve sustainability practices within the supply chains of the industry. The initiative was founded by chief procurement officers of six multinational chemical companies. Now it has grown to 17 members and two onboarding members. They collaborate to develop industry standards and engage with suppliers to improve working and environmental conditions.

### Specific issues-focused collaboration

- ▶ ZDHC has grown from a small number of founding brands to 18 global apparel brands. Members work to integrate higher standards of environmental and business practices for their industry by eliminating the use of 11 classes of hazardous chemicals from textile production by 2020.

Collaborative initiatives set new transparency standards. For example, the Alliance for Bangladesh Worker Safety, composed currently of 28 members, publishes publicly the audit reports of all its member factories in Bangladesh.

These initiatives can have major positive impacts in the local communities from which commodities and products are sourced. For example, a group of major European utilities established a non-profit initiative called Bettercoal to promote the continuous improvement of corporate responsibility in the coal supply chain. The Bettercoal Code has been developed through an intensive consultation process involving coal producers, trade unions, social and environmental organizations, governments, mining-related service providers and utility companies. The initiative aims to make a real, on-the-ground difference for workers, communities, local companies and the environment impacted by coal mining by leveraging the buying power of energy utilities and industrial users, such as cement and steel manufacturers. Building such a joint platform has a particular importance in commodity markets, where the flow of goods is often not transparent and suppliers are large organizations. Several of the interviewed companies also participate in cross-industry collaborations, such as the [Global Social Compliance Program](#), which work across sectors to continuously improve working and environmental conditions in global supply chains. Given the overlap in objectives of industry collaborations and supplier base between sectors, these organizations offer valuable opportunities to sectors to learn from each other and work together on a range of common issues. An automotive company, for example, noted that as many of their suppliers provide goods and services to the technology sector, the company is now collaborating with both the automotive associations as well as the EICC to engage their full supplier base.

### **Shared platforms**

Shared platforms are transforming the way companies collaborate and share suppliers' performance and market practices with peers. The PSCI, for example, created a shared audit approach for its members by developing a consistent audit process and tools. The Higg Index Product Footprinting Tool, developed by SAC, aims to make conducting product life cycle assessments faster and more cost effective for its members. Similarly, the EICC allows companies to access shared tools and resources – such as an e-learning academy with training modules, events and shared social compliance audits – to lower costs and increase efficiency. Many of the shared platforms deploy technology solutions that enable the collaboration process. They often work as repositories for assessment and audit results, for supplier information and virtual training and capacity building modules. They can include a social media component that allows members and stakeholders to share feedback and build on the collective thinking of the group and spur innovation. For example, EcoVadis provides the CSR assessments of over 4,000 suppliers to the 19 member companies of TfS. Suppliers receive one request from TfS instead of multiple requests from each individual customer. TfS members share the results, reducing supplier fatigue, audit costs and sustainability risk and enabling the customers and suppliers to focus on performance improvement.

Notwithstanding the progress in the standardization of audit criteria for some industries, many companies are still using their own audit standards or criteria. This leads to duplication of effort at the company level, not to mention supplier fatigue for responding to multiple requests from customers for information and corrective action. The technology players and industry associations expect to see further alignment of audit standards within and across industries in the future. There is also opportunity for greater alignment on sharing not only audit criteria and results among suppliers, but also corrective action plans to reduce multiple requests to suppliers to address areas of noncompliance.

### **Cross-functional collaboration**

Finally, neither the procurement nor sustainability function can drive supply chain sustainability alone. Integration and collaboration with representatives from legal, product development, sales and marketing, and corporate affairs are all critical to realizing how to manage the risk and realizing the organization's strategic benefits.



## Integrating the SDGs into supply chains

The SDGs call on companies everywhere to advance sustainable development through the investments they make, the solutions they develop and the business practices they adopt. In doing so, the goals encourage companies to reduce their negative impacts while enhancing their positive contribution to the sustainable development agenda. The 17 long-term goals provide a common set of goals and targets covering a wide spectrum of topics such as poverty, health, education, climate change and environmental degradation.

Thirty-seven percent (37%) of the interviewed companies have started to integrate the SDGs into their sustainability programs or plan to in the future. For these companies, the SDGs signify “global momentum” that provides a strategic framework external to their business to focus on. Many of the remaining companies are looking forward to greater guidance on how to measure their impact or understand their personal responsibility.

The companies we interviewed are in the early stages of using the SDGs. A European transportation and energy company created sustainability key performance indicators focused primarily on the human rights, diversity and poverty goals to measure and improve their social performance. A North American apparel company stated that it is using the SDGs to develop long-term goals for 2020 and beyond. A global mining company uses the SDGs as a guiding framework to reach consensus across business functions on the criteria for responsible and sustainable suppliers. The company leverages the SDGs particularly for development of criteria in evolving areas such as gender equality, earning wages and benefits, access to basic goods and services, and recruitment, training and employment of local community members.

The UN Global Compact, WBCSD and GRI have developed tools such as the SDG Compass to provide practical guidance on how to measure and manage their program contributions to realize SDGs. The WBCSD’s SDG Business Hub provides access to information for business relating to the SDGs.

As awareness and interest grow, we expect that companies will be collaborating with their stakeholders to meet the SDGs, including protecting labor rights, ending poverty and creating sustainable production in their supply chains. The ILO’s Conventions are used by many interviewed companies to underpin their codes of conduct, and the OECD’s guidelines were particularly useful to implement the conflict minerals legislation (Section 1502 of the Dodd-Frank Act).

# What does the future hold?

We live and operate in a very dynamic world with quickly changing social, demographic, geopolitical and environmental conditions. It is difficult to predict what the future holds for the corporate procurement, supply chain and sustainability functions; however, we believe several trends will continue to dominate in supply chain sustainability in the next decade:

## **Procurement and supply chain functions will be managed in a comprehensive manner formally integrating sustainability**

The corporate procurement and supply chain functions are quickly evolving – now they tend to rely on primarily qualitative analyses (supplier audits, risk registries, heat maps, etc.), and they tend to focus on discrete, disruptive and non-likely events. In the future, we believe these functions will rely on complex quantitative models and techniques and will focus on day-to-day risk monitoring and evolution as much as on disruptive, low-probability scenarios.

A decade from now, the leading procurement and supply chain organizations will employ sustainability as a lens to comprehensively manage risks, spur product and business model innovation, and connect more effectively with customers and consumers. As younger generations of consumers enter prime purchasing age, social and environmental considerations will rise in importance since these generations have high sustainability awareness, unprecedented access to information and increased demands for transparency. We expect that by 2025, consumers will consistently give preference to products or services whose impacts have been found to be less damaging to the environment, human health and society – when compared to competing products or services.

As a consequence, the procurement, supply chain and sustainability functions will be much more integrated. Sustainability methodologies such as Total Cost of Ownership Analysis and Life Cycle Analysis will be embedded into the regular procurement process. Likewise, in the acquisition of services, procurement organizations will increasingly employ sustainability screens at the vendor level rather than just at the product level.

These changes will require different competencies, meaning that the already complex procurement and supply chain functions will become even more demanding. We expect that the new procurement and supply chain professionals will come from different educational and professional backgrounds – financial experience and analytical skills will be as important as sustainability awareness, global mindset and technology competencies.

## **The quest for extreme transparency will continue**

Stakeholder transparency expectations will continue to evolve due to the rise of social technologies and sharing tools, while the concepts of corporate and trade secrets will continue to diminish. Companies will increasingly face sustainability questions, from supply source location and pricing to labor practices, human trafficking, climate impacts and sourcing of raw materials from conflict areas. Technology solutions will enable the collection, tracking, monitoring and management of data and will help companies proactively share their success beyond compliance.

However, the procurement and supply chain professionals will need to embrace not only technology but also new ways of communicating and connecting with the stakeholders to respond to this new, sometimes disruptive, level of transparency. CPOs will be expected to become public corporate figures, able to lead discussions with consumers, regulators and the press on all aspects of procurement activities in the firm. For the teams supporting these leaders, many processes and events that today are internal will in the future be closely followed by numerous stakeholders.



For more EY insights on the future of supply chain, see [Infinite Possibilities: Procurement in 2025](#).

## **Enabling sustainable procurement in a circular economy**

The next 10 years will see the transition to procurement in a circular economy, where procurement organizations have to balance the creation of economic and social value in equal measure.

By 2025, procurement functions will be asked to move beyond cost management and to create economic and social value. This psychological shift will result in a movement from a “linear economy” of consumption and disposition to a “circular economy” of continuous use and reuse.

Key characteristics of the circular economy will be customer access to a product versus actual ownership; business model evolution from individual transactions to managed relationships; reverse distribution cycles; innovations in material, component and product reuse; and products designed for disassembly and serviceability. This evolution will also result in a major re-evaluation of comprehensive sustainability risk identification/mitigation.

As a result of generation shifts, sustainability will increasingly become a higher priority for business, which will set the stage for a truly circular economy where the starting point will be economic value creation aligned with environmental improvement, not degradation.

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