

SUPPLY CHAIN SUSTAINABILITY

A Practical Guide for Continuous Improvement

Second Edition



United Nations
Global Compact



BSR

The **United Nations Global Compact** is a call to companies everywhere to voluntarily align their operations with ten 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. The UN Global Compact is a leadership platform for the development, implementation and disclosure of responsible corporate practices and policies. Launched in 2000, it is the largest corporate sustainability initiative in the world, with over 8,000 companies and 4,000 non-business signatories based in 160 countries.
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The revision of this guide was also made possible thanks to the input of the UN Global Compact Advisory Group on Supply Chain Sustainability with special contribution from its ad hoc Task Force and the UN Global Compact staff.

The original guide was written by Cody Sisco, Blythe Chorn and Peder Michael Pruzan-Jorgensen, with significant editorial input from Cecilie Hultmann, the UN Global Compact Office staff, BSR staff and the UN Global Compact Advisory Group members in 2010, also listed on Page 4.

Innovation Norway, Nokia and Ford offered their generous support for the development of this guidance in 2010.

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Foreword

Since the original launch of *Supply Chain Sustainability: A Practical Guide to Continuous Improvement* in 2010, companies have continued to extend their commitment to responsible business practices to their value chains, from subsidiary to suppliers. The business case for supply chain sustainability has evolved significantly. An increasing amount of companies have realized the crucial importance of incorporating sustainability requirements into their supply chain programme in order to secure their own brand value, manage legal, regulatory and reputational risks as well as foster product innovation and explore new markets. Moreover, businesses consider the many rewards supply chain sustainability can deliver in terms of creating more inclusive markets and the contribution they can make to advance sustainable development in the spirit of the United Nations' missions.

As the UN is expected to adopt the Sustainable Development Goals, business has an enormous opportunity to step up and take a broader view of their role in society, explore how they can do more to support their suppliers on corporate sustainability and use their value chains as a source of increasing their positive impact on people and the environment.

A large number of initiatives, standards and resources have been developed in the recent years to complement and/or build on the mission of the UN Global Compact. The Guiding Principles on Business and Human Rights, endorsed by the United Nations Human Rights Council in 2011, have provided further detail on the corporate responsibility to respect human rights, which is part of the UN Global Compact Principle 1 and how businesses can know and show that they are meeting it, both within their company and in the supply chain. In the meantime, the UN Global Compact's Advisory Group on Supply Chain Sustainability, which was formed on the occasion of the original development of this guide in 2010, continues to maintain a leading role within the the UN Global Compact to support its overall strategy on this issue and contribute to the development of specific guidance on various issues.

This second edition of *Supply Chain Sustainability: A Practical Guide to Continuous Improvement*, developed in collaboration with BSR and the UN Global Compact's Advisory Group on Supply Chain Sustainability, is aimed at reflecting the new and emerging trends in this area since its original launch in 2010 as well as ensuring the inclusion of and alignment with relevant standards and initiatives. Featuring numerous updated and new examples of good corporate practice, the guide remains a valuable tool to provide companies with practical guidance on how to develop a sustainable supply chain programme based on the values and principles of the UN Global Compact and assists businesses in setting priorities for action that will lead to continuous performance improvement.

We hope this publication will continue to further the work of companies in collaborating with their suppliers to deliver tangible and lasting benefits to business, the environment and societies everywhere.

Georg Kell
Executive Director
UN Global Compact

Supply chains continue to be one of the most important levers for business to create positive impact in the world, with an estimated 80% of global trade passing through supply chains. By working together, buyers and suppliers in global supply chains and networks can advance human rights including labor rights, climate resilience, environmental protection, inclusive economic growth and ethical business practices.

Since the original guide *Supply Chain Sustainability: A Practical Guide for Continuous Improvement* was launched in 2010, supply chain sustainability has become mainstream for businesses and there have been significant promising developments. The UN Guiding Principles on Business and Human Rights have clarified business' responsibility for human rights in their own operations and supply chains. We have seen advances in the way companies work with their suppliers, moving from focusing heavily on auditing towards using new technologies and collaborative efforts to engage suppliers and workers in a more equitable approach to find joint solutions. We have seen increasing levels of transparency from companies, publishing lists of factories, openly reporting on the social and environmental performance of their supply chains and promoting transparency to their suppliers. We have also seen unprecedented amounts of collaboration among businesses and stakeholders in efforts to ensure that commodities, such as wood, cotton and fish, are traceable and sustainable.

BSR continues to work with our global network of 275 member companies and their supply chain partners around the world to develop, support and implement supply chain sustainability towards a just and sustainable world. We are proud to be a part of the launch of this revised guide on the fifteenth anniversary of the UN Global Compact Ten Principles.

The original version of this guide has helped businesses of all sizes around the world to understand what supply chain sustainability means and how to implement practices in their own business, industry and geographic contexts. The revisions made in this updated version reflect the advancements in the field; reinforce the core practices that are accepted minimum standards; and underline the needed areas for improvement.

We hope that this guide continues to make a significant contribution to advance fair and sustainable working conditions and environmental protection and performance for entire industries, geographies and market segments by:

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

BSR is very proud to have partnered with the UN Global Compact and we look forward to continuing to support it and its business participants around the world to make the vision of the UN Global Compact an even more powerful reality.

Aron Cramer
President and CEO
 BSR

United Nations Global Compact Advisory Group on Supply Chain Sustainability

In 2010, the UN Global Compact established an Advisory Group of UN Global Compact participants and stakeholders to guide its work on supply chain sustainability. The role of the Advisory Group is to provide input to the overall strategy and work done by the UN Global Compact on the issue of supply chain sustainability and to ensure that the guidance material developed is robust and addresses the needs of business. In addition to this guide, the Advisory Group has set up task forces to develop various tools and resources aimed at helping businesses to integrate the UN Global Compact Ten Principles into supply chain relationships.

The advisory group is chaired by Mr. Mads Øvlisen, Special Advisor to the Global Compact on supply chain sustainability and a former member of the UN Global Compact Board. We would like to thank Mr. Øvlisen and all of the members of the Advisory Group for their ongoing support to the supply chain sustainability workstream and the revision of this resource (members with an asterisk * have been part of an internal Task Force devoted to the in-depth revision of this version of the guide):

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- Mr. Jonathan Drimmer, Vice-President and Deputy General Counsel, Barrick Gold (Canada)
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- *Ms. Tara Norton, Director – Advisory Services, BSR (Global)
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- Dr. Gerhard Prätorius, Head of Coordination CSR and Sustainability, Volkswagen AG (Germany)

Additionally, we would like to thank the following organizations, who were also part of the Advisory Group in 2010 and supported the development of the original guide:

Det Norske Veritas (Norway); DiGi Telecommunications Sdn Bhd (Malaysia); Esquel Group of Companies (China); Global Compact Network Spain (Spain); Global Social Compliance Programme (GSCP) (Global); Grupo Pão de Açúcar – Companhia Brasileira de Distribuição (Brazil); Hewlett-Packard (USA); Hitachi Ltd. (Japan); Hyundai Motor Company (Republic of Korea); IKEA (Sweden); Innovation Norway (Norway); Integrated Contract and Supply Solutions – ISCS (United Arab Emirates); Philips Electronics N.V. (Netherlands); Nokia Corporation (Finland); STR Responsible Sourcing (USA); Takeda Pharmaceutical Company Limited (Japan); Tata Council for Community Initiatives (TCCI) (India); UBS AG (Switzerland); Unilever (UK).

Executive Summary: Practical Steps to Supply Chain Sustainability

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

What is Supply Chain Sustainability?

Supply chain sustainability is the management of environmental, social and economic impacts and the encouragement of good governance practices, throughout the lifecycles of goods and services. The objective of supply chain sustainability is to create, protect and grow long-term environmental, social and economic value for all stakeholders involved in bringing products and services to market. By integrating the UN Global Compact Ten Principles into supply chain relationships, companies can advance corporate sustainability and promote broader sustainable development objectives.

Why is Supply Chain Sustainability important?

Supply chains are the engines for today's global economy, serving to deliver goods and services around the world, connecting businesses and the individuals who work for them across geographic, industry, cultural and regulatory boundaries.

Supply chain sustainability provides that companies will continue to meet their needs in the future, in economic, social, ethical and environmental terms. It ensures compliance with laws and regulations as well as adherence to and support of international principles for sustainable business conduct. In addition, companies are increasingly taking actions that result in better social, economic and environmental impacts because society expects this and because there are business benefits in doing so.

By managing and seeking to improve environmental, social and economic performance and good governance throughout supply chains, companies act in their own interest, the interests of their stakeholders and the interests of society at large. By implementing supply chain sustainability programmes, companies engage with both direct and sub-tier suppliers, mainstreaming values and actions down to raw material producers and maximizing the overall social, environmental and ethical impact.

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

WHAT STEPS CAN MY COMPANY TAKE?

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

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



COMMIT

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

ASSESS

- Determine the scope of efforts focusing primarily on areas where there is the greatest actual and potential risk of adverse impact on people, environment and governance. (Chapter 4)

DEFINE and IMPLEMENT

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

MEASURE and COMMUNICATE

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



1. Introduction

Purpose and Target Audience

This guide is intended to help companies of all sizes, both those who are new to and those experienced in supply chain sustainability, to apply the UN Global Compact Ten Principles throughout their supply chains and to integrate sustainability into their business strategies. It is designed for individuals with oversight of and input on corporate sustainability, procurement and supply chain priorities and practices.

Case studies and examples throughout the guide provide an overview of how companies have implemented supply chain sustainability programmes. Advanced practices are highlighted in gray boxes entitled “On the Horizon”.

Supply Chain Sustainability Defined

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

WORKING DEFINITIONS

For the purposes of this guide, corporate

sustainability is defined as a company’s delivery of long term value creation in financial, social, environmental and ethical terms. This definition encompasses the role of business in addressing environmental, social (human rights and labour) and corporate governance issues, as covered by the UN Global Compact’s Ten Principles.

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

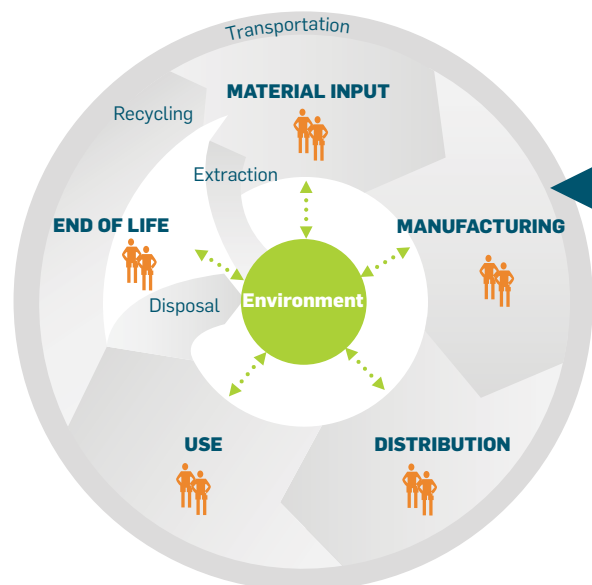
The objective of supply chain sustainability is to create, protect and grow long-term environmental, social and economic value for all stakeholders involved in bringing products and services to market. Through supply chain sustainability, companies protect the long-term viability of their business and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

For the purposes of this document, supply chain management professionals are defined as that group of individuals within a company that have the most direct contact with suppliers and are in charge of the acquisition of direct and indirect goods and services from external sources. We use this expression in the broadest sense, synonymous with other commonly used terms, such as “procurement,” “buying,” “sourcing” and “purchasing.”

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

In addition, this guide focuses on the question of whom companies buy from and how they source products, rather than what they buy. In April 2014, The UN Global Compact and BSR developed *A Guide to Traceability: A Practical Approach to Advance Sustainability in Global Supply Chains*. Traceability is a useful tool that provides information on the components of products, parts and materials and helps verify certain sustainability claims associated with products and commodities. More resources on traceability and other related topics may be the future focus of attention from the UN Global Compact Office. <https://www.unglobalcompact.org/library/791>

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



At every stage in the lifecycle of specific products there are social and environmental impacts, or externalities, on the environment and on people. In addition, governance, or the accountability of organizations to their stakeholders for their conduct, is important at every stage throughout the supply chain.

¹ From BSR.



About Supply Chain Sustainability & the United Nations Global Compact

The UN Global Compact encourages participants to engage with suppliers about respect for the Ten Principles and to advance sustainable development objectives as part of their commitment to the UN Global Compact, and, thereby, to spread good corporate sustainability practices throughout the global business community. As the table below outlines, the Ten Principles are intricately tied to sustainability in supply chains.

THE TEN PRINCIPLES OF THE GLOBAL COMPACT AND SUPPLY CHAIN SUSTAINABILITY

THE TEN PRINCIPLES	RELATIONSHIP TO SUPPLY CHAIN SUSTAINABILITY
<p>Human Rights</p> <p>Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and</p> <p>Principle 2: make sure that they are not complicit in human rights abuses.</p> <p>Labour</p> <p>Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;</p> <p>Principle 4: the elimination of all forms of forced and compulsory labour;</p> <p>Principle 5: the effective abolition of child labour; and</p> <p>Principle 6: the elimination of discrimination in respect of employment and occupation.</p>	<p>Companies have a responsibility to respect human rights. The baseline responsibility is not to infringe on the rights of others and address any adverse impacts that occur. The Guiding Principles on Business and Human Rights (the Guiding Principles), endorsed by the UN Human Rights Council in June 2011, provide a globally authoritative standard for how companies can meet this responsibility. The Guiding Principles state that companies should have in place policies and processes appropriate to their size and circumstances, including a process of continuous human rights due diligence, to “know and show” that they respect human rights. The Guiding Principles provide conceptual clarity and content to the corporate responsibility to respect human rights described in Principle 1 and 2 of the UN Global Compact. In other words, the corporate responsibility to respect human rights in Principle 1 of the UN Global Compact is the same one described in the Guiding Principles.¹ It should also be noted that the Guiding Principles include labour rights in the sphere of human rights for workers. Therefore, the responsibility to respect human rights also applies to Principles 1 to 6 of the UN Global Compact.</p> <p>Additionally, business can go beyond addressing harm to human rights by taking steps to support and promote the realization of human rights through core business activities, strategic social investment, philanthropy, public policy engagement, advocacy partnerships as well as collective actions, and there are good business reasons to do so. They should also establish operational-level grievance mechanisms as a key support tool to provide access to remedy for the rights-holders.</p> <p>Labour conditions in offices, in factories, on farms and at natural resource extraction sites such as mines often fall significantly below international standards and national regulatory requirements and can lead to serious human rights abuses. In these contexts, businesses should respect international labour standards within their supply chains, including by ensuring that suppliers respect the rights of freedom of association and the right to collective bargaining, abolishing forced and child labour and eliminating discrimination.</p> <p>In addition, workers in many countries may be vulnerable to other human rights abuses, including unsafe or hazardous work, excessive work hours, unpaid wages, degrading treatment by employers and inhibited movement. In order to avoid complicity in abuses, businesses should seek to ensure that they do not cause or contribute to the infringement on the rights of workers and that such infringements are not directly linked to their operations, products or services through their business relationships, including with respect to the right to freedom of movement, freedom from inhumane treatment, the right to equal pay for equal work and the right to rest and leisure. The rights of all peoples to work in safe and healthy working conditions and to have access to social protection measures are critically important as well.</p>

¹For more information about the relationship between the UN Global Compact’s Human Rights Principles and the Guiding Principles, please read *The UN Guiding Principles on Business and Human Rights: Relationship to UN Global Compact Commitments* (UN Global Compact, OHCHR, updated June 2014), available at https://www.unglobalcompact.org/docs/issues_doc/human_rights/Resources/GPs_GC%20note.pdf.

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

AN APPROACH TO THE POST-2015 DEVELOPMENT AGENDA IN GLOBAL SUPPLY CHAINS

In 2000, the United Nations established the Millennium Development Goals (MDGs), a set of eight globally agreed goals that range from eradicating poverty to promoting gender equality. Following the expiration of the MDGs in 2015, a series of consultations involving governments, private sectors, civil society and other stakeholders have led to the identification of priority areas of focus for the Post-2015 development agenda. The UN Global Compact has played a critical role of conveying the voice of responsible business to this global process and illustrating how corporate sustainability can effectively contribute to sustainable development.² Managing the social, environmental and economic impacts of supply chains is a key component for sustainable development and a means for businesses to scale up their sustainability practices. The implementation of sustainable supply chain policies and practices offers a significant opportunity for a company to contribute to the advancement of sustainable development, including inclusive growth, social equity and progress, and environmental protection.

²For more information about the role of the UN Global Compact in the Post-2015 consultations, please read the note *The UN Post-2015 Process and How the Global Compact Fits In* (UN Global Compact, 2014), available at https://www.unglobalcompact.org/docs/issues_doc/development/UN_Post2015_Process_Global_Compact.pdf.



SPECIAL INITIATIVES OF THE UN GLOBAL COMPACT AND SUPPLY CHAIN SUSTAINABILITY

The UN Global Compact has developed several initiatives, either alone or in partnership with other organizations, to build on the Ten Principles in relation to specific issues or to the rights of an underrepresented category of stakeholders. The issues and actions set by the special initiatives are relevant both to the company's activities and its supply chain.

The Women's Empowerment Principles (WEPs).

Co-developed by the UN Global Compact and UN Women, the WEPs are a set of Principles for business offering guidance on how to empower women in the workplace, marketplace and community. Principle 5 of the WEPs asks companies to expand relationships with women-owned/managed businesses, including small businesses and women entrepreneurs.

www.wepprinciples.org/

The Children's Rights and Business Principles (CRBPs).

The CRBPs are the result of the collaboration between UNICEF, the UN Global Compact and Save the Children. They are the first comprehensive set of principles to guide companies on the full range of actions they can take to respect and support children's rights, both within their business and throughout their supply chains. Principle 2 of the CRBPs requires businesses not to employ or use children in any type of child labour and to ensure that age-verification mechanisms are also used in the supply chain.

www.childrenandbusiness.org/

Child Labour Platform. An initiative coordinated by the UN Global Compact and the International Labour Organization, the Child Labour Platform is a multi-sector, multistakeholder forum for sharing experiences and lessons learned in eliminating child labour, particularly in the supply chain.

<http://www.ilo.org/ipec/Action/CSR/clp/lang-en/index.htm>

Caring for Climate (C4C).

Caring for Climate is the UN Global Compact, UN Environment Programme and the secretariat of the UN Framework Convention on Climate Change's initiative to advance the role of business leaders in addressing climate change. It provides a framework for business leaders to implement practical climate change solutions and help shape public policy. C4C signatories commit to continuously improve energy efficiency and usage, reduce the carbon footprint of products, services and processes, and build capacity to adapt to climate change in their operations and the supply chain.

www.caringforclimate.org

CEO Water Mandate (CWM). Launched by the UN Secretary-General, the CEO Water Mandate is designed to assist companies in the development, implementation and disclosure of water sustainability policies and practices. It seeks to make a positive impact with respect to the emerging global water crisis by mobilizing a critical mass of business leaders to advance water sustainability solutions throughout business operations and the supply chain – in partnership with the UN, civil society organizations, governments and other stakeholders.

www.ceowatermandate.org

Food and Agriculture Business Principles (FAB). The FAB Principles are the first set of global voluntary business principles for the food and agriculture sector.

They provide agreed global language on what constitutes sustainability in food and agriculture on critical issues ranging from food security, health and nutrition to human rights, good governance and environmental stewardship, as well as ensuring economic viability across the entire value chain.

https://www.unglobalcompact.org/Issues/Environment/food_agriculture_business_principles.html

Business for Peace (B4P). B4P supports companies in implementing responsible business practices that are aligned with the UN Global Compact principles throughout their business and supply chains in conflict-affected/high-risk areas and catalyzes collaborative action to advance peace in the workplace, marketplace, local communities and along their supply chain. This bottom-up, grassroots approach creates and maintains dialogues and working groups where companies and other stakeholders can share experiences and identify the factors critical to advancing sustainable peace along their supply chains within the country.

https://www.unglobalcompact.org/Issues/conflict_prevention/index.html

Business for the Rule of Law (B4ROL). The B4ROL initiative seeks to engage the business community to support the rule of law, as a complement to not substitute for, government action. It includes, among other things, a Framework which aims to provide guidance and support dialogue on how companies from around the world are able to take voluntary action to support the rule of law in their business operations and relationships, while reinforcing business respect for the UN Global Compact's Ten Principles and support for broader UN goals throughout its own business operations and supply chain relationships.

https://www.unglobalcompact.org/Issues/human_rights/business_for_the_rule_of_law.html



UN GLOBAL COMPACT SUSTAINABLE SUPPLY CHAIN RESOURCES

Supply Chain Sustainability: An Online Assessment and Learning Tool

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

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

Sustainable Supply Chains: Resources & Practices

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

www.supply-chain.unglobalcompact.org

Human Rights and Labour Working Group Good Practice Notes on Supply Chains

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

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

Embedding Human Rights in Business Practice – Case Studies Series

A collection of case studies about efforts by companies to integrate human rights principles into their practices and supply chains. Case Studies on ANZ, Ford, Telenor Group and Total include a focus on supply chain management.

Environmental Stewardship Resource

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

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

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

Stand Together Against Corruption

Developed by the Anti-Corruption Task Force of the Advisory Group on Supply Chain Sustainability, this resource provides short and practical guidance to companies on managing anti-corruption in the supply chain.

A Guide to Traceability: A Practical Approach to Advance Sustainability in Global Supply Chains

The guide presents practical steps for implementing traceability programmes within companies, features case studies, and maps relevant stakeholders, resources and sustainability issues related to key commodities. A product of the Traceability Task Force of the Advisory Group on Supply Chain Sustainability.

Webinar Series on Supply Chain Sustainability

A series of online events focused on the most pressing issues around supply chain sustainability. The presentation slides and video recordings from past webinars are available on the UN Global Compact website following the event.

All resources can be accessed at: www.unglobalcompact.org/what-is-gc/our-work/supply-chain

How to Use This Guide

This guide describes a holistic approach to supply chain sustainability that can help companies identify key issues and considerations for a supply chain sustainability approach that is aligned with the ten principles of the UN Global Compact.

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

In **Chapter 3**, we provide advice on designing a policy for sustainable procurement and a related supplier code of conduct that builds from the UN Global Compact Ten Principles and other recognized international standards, as well as how to put these policies to use.

Chapter 4 describes the key factors in determining the scope of a supply chain sustainability programme, such as mapping of the supply chain and prioritization.

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

Chapters 6 provides practical guidance on internal responsibilities and performance management for supply chain sustainability. It outlines concepts of internal alignment as well as the suggested roles for executive management and supply chain management professionals.

Chapter 7 describes how collaboration and multi-stakeholder partnerships, including with governments, can help extend the impact of supply chain sustainability programmes and some of the opportunities and risks associated with this.

Chapter 8 provides recommendations on goal setting and metrics to track internal and supplier performance in meeting companies' supply chain sustainability expectations. They also explore the importance of public reporting.

We welcome comments on the content of this guide and other deliverables as we seek to constantly improve the availability and alignment of supply chain sustainability tools for companies.

UN GLOBAL COMPACT AND BSR PARTNERSHIP ON SUPPLY CHAIN SUSTAINABILITY

Since 2010, UN Global Compact and BSR have collaborated on several projects to develop strategic guidance materials for business on the implementation of the Ten Principles in supply chain programmes and operations. This guide is a result of this coordinated effort.

Additionally, the UN Global Compact and BSR have developed the Quick Self-Assessment and Learning Tool for companies to check anonymously their current level of supply chain sustainability implementation against suggested global guidance and to learn how to make progress over time in implementing a holistic approach.

This interactive tool was released in 2011 and will be updated following the launch of the revised guide.



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

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

2. Getting Started on Supply Chain Sustainability

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

In addition, companies are motivated to act by expectations that they identify and address the impacts on people and the environment linked to their supply chain, whether or not these pose risks to the companies themselves. As an example, the corporate responsibility to respect human rights requires companies to avoid causing or contributing to adverse human rights impacts and to seek to prevent or mitigate any adverse human rights impact that is directly linked to their operations, products or services through their business relationships. This responsibility applies at any level of the value chain. Best practices require companies to address risks of adverse impacts in the supply chain from the perspective of the rights-holders, rather than limiting the scope of their policies and procedures to only cover those risks that are paramount to the business.

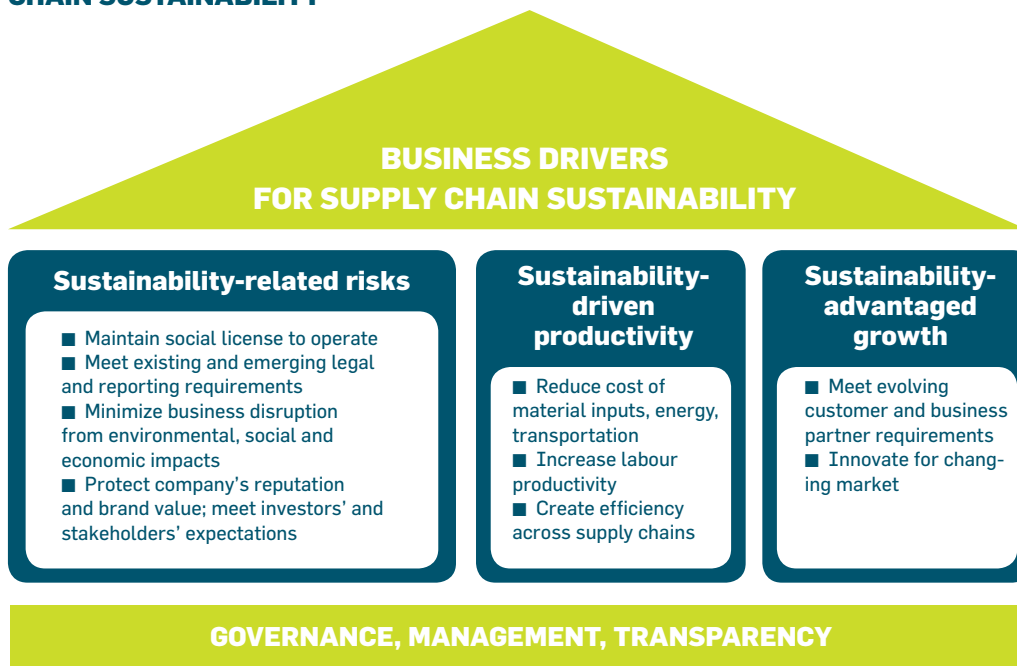
Developing the Business Case

There are many compelling reasons for taking action to improve social and environmental impacts throughout the supply chain. Many companies are driven by their corporate values and culture to address sustainability issues. For these companies, the fact that supply chain sustainability is the right thing to do and is a driver of social development and environmental protection helps create internal buy-in and commitment.

Having a strong business case helps a company to further build internal buy-in for their sustainable supply chain objectives. Many companies also identify specific business drivers for supply chain sustainability. The business case for a particular company depends on a variety of issues including industry sector, supply chain footprint, stakeholder expectations, business strategy and organizational culture. Supply chain sustainability management practices that respond to multiple drivers can maximize the value to business.

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

BUILDING THE BUSINESS CASE FOR SUPPLY CHAIN SUSTAINABILITY³



³ See *Value Driver Model* (2013, UN Global Compact LEAD, PRI), available at https://www.unglobalcompact.org/docs/issues_doc/Financial_markets/Value_Driver_Model/VDM_Report.pdf.

Meeting Business Objectives through Supply Chain Sustainability

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

Example of Sustainability-Driven Productivity Initiatives: Reducing costs without negatively impacting operations, such as shipping products via ocean freight rather than via air cargo when practicable.

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

SUSTAINABILITY-RELATED RISKS

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

Increasingly, customer and investor expectations and overall society are driving companies toward more responsible supply chain management. Strong management of social and environmental issues helps companies avoid and address adverse impacts to stakeholders, which can in turn help ensure that companies maintain their social license to operate by taking into consideration risks to surrounding communities. Effectively managing social and environmental risks can also help companies avoid potentially costly operational delays from conflicts with local communities and can help companies avoid reputational risks. Furthermore, companies now face a growing expectation to disclose information related to their supply chain as well as an emergence of legal requirements. In accordance with existing legislation, some companies have been required to prove the country of origin of imported timber (e.g. EU Timber Regulation, EUTR), report on the use of certain minerals that originate from conflict-affected countries (e.g. Section 1502 of the Dodd-Frank Act) or to report on their efforts to eradicate slavery and human trafficking in their supply chain (e.g. California Transparency in Supply Chains Act of 2010).

Finally, companies use supply chain sustainability to ensure that their suppliers can adapt to anticipated strengthening of environmental regulations (e.g. restrictions of hazardous substances regulations) and extended product responsibility legislation, to reduce potential future liability and to create a fairer, more sustainable environment to operate in. Additionally, end consumers' demand can be driven by the choice to buy products containing ethically sourced materials (e.g. paper from certified sustainable forestry, fair trade labels).

Westpac, an Australian bank, recognizes the importance of engaging closely with suppliers in order to address social, ethical and environmental impacts within the supply chain, protect the company's reputation and brand and ensure a growing source of value creation and innovation. Westpac manages these risks and opportunities through a defined sustainable supply chain management practice.

SUSTAINABILITY-DRIVEN PRODUCTIVITY

A focus on sustainability-driven productivity in the supply chain can reduce a company's procurement costs while also reducing the environmental footprint of the supply chain, such as energy, water and use of natural and synthetic materials. This may also reduce the harm to worker health and safety and improve worker motivation, productivity and cost efficiency.

Other benefits include:

- Increased understanding of key processes in the supply chain, including natural resource management and extraction, logistics and manufacturing and enables better management and stewardship of resources
- More efficiently designed processes and systems which reduce required inputs and lower costs.

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

In 2009, **Montepaschi Group**, a financial institution in Italy, launched its Sustainable Supply Chain programme as a key component of its overall CSR strategy. The company found that the implementation of the company's Supply Chain Sustainability Guidelines contributed to the positive advancement of a broad Cost Optimization Plan. This Plan



achieved savings in 2014 of approx. EUR 148 million compared to the 2013 baseline. It involved the entire cost base and impacted service models and supplier selection, focusing particularly on real estate, where actions were implemented to optimize the use of spaces and reduce energy consumption, generating 20% of savings; ICT, simplifying the software and hardware architecture through an open collaboration with suppliers, generating 21% of savings; logistics and security areas, actions focused on efficiency improvement processes to achieve a “paperless” office and optimizing service contracts in a sustainable manner generating 14% savings.

SUSTAINABILITY-ADVANTAGED GROWTH

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

In 2012, **Stora Enso**, a global provider of renewable solutions in packaging, biomaterials, wood and paper, renewed and endorsed its “Policy for Sustainable Sourcing of Wood and Fibre, and Land Management” to ensure that all of the roundwood, chips, sawdust and externally purchased pulp supplied to the company’s mills comes from sustainable sources. By using forest certification and traceability systems, Stora Enso checks that the wood has been harvested in compliance with the relevant national and EU legislation and in accordance with their own policy. In 2014 certified fibre accounted for 78% of all the fibre used by the company.

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

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

Labour Recruitment in the Supply Chain

In addition to looking at their product supply chain, companies have started to recognize that service-providing workforces such as labour recruiters and moneylenders, can carry several sustainability risks for both internal and international migrant workers. Human trafficking and forced labour are among the main issues associated with unethical practices of recruitment agencies. Since the initial development of a supply chain programme and strategy, companies should also take into account labour supply chains and address issues arising from exploitative recruiting and hiring practices.

Understanding the Landscape

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

INITIAL RISK ANALYSIS

In order for companies to ensure that the sustainable supply chain approach they establish is relevant to their particular industry, geography, risk profile and operational context, it is imperative that they understand the supply chain upfront. As a first step of their supply chain due diligence, companies need to form an initial understanding of the most salient risks and potential opportunities in their own supply chain and how those may impact business resilience. Getting a handle on this data and understanding the dynamics that exist in complex global chains will help to determine what the priorities are, and what the best engagement methods might be.

As part of this process, companies need to seek input from internal colleagues across different functions, as well as from external resources, to identify problematic areas within the supply chain, including those that are environmentally sensitive, targeted by NGOs/government as high risk or that have limited supply due to unique cultivation.

This initial risk analysis should, at a minimum, answer the following questions:

- What are you sourcing and from where?
- What are your key products and services? What is generally known about key risks and impacts in those products and services?

- Is the company sourcing directly or through third parties? How many third parties (a large or a small quantity)?
- In which sector/countries directly linked with the company's operations are the main risks of adverse impact on people, environment or governance most present? E.g. are there any geopolitical issues?
- What is the company's visibility beyond direct suppliers and how can it be improved?

In consideration of the large size and global reach of the supply base, **Ford Motor Company**, an American automaker, has decided to focus its training and assessment efforts in countries that pose the highest risk for sub-standard working conditions. Every year, Ford conducts a risk analysis to consider external data, including input from external stakeholders, and then compares it with the supplier footprint. Internal data include: 1) Annual spend, 2) Supplier Location, 3) Commodities being supplied, and 4) training and assessment history. The high-priority country list combined with prior training and assessment history and engagement with regional buying community is used to prioritize the company's global training and assessment efforts.

BENCHMARKING AGAINST PEER COMPANIES

Peer companies may have already begun addressing supply chain sustainability. Benchmarking against peers, customers, suppliers and even companies from other sectors may provide a more sophisticated understanding of the business value as well as ideas to

UN GLOBAL COMPACT ANNUAL IMPLEMENTATION SURVEY RESULTS RELATED TO SUPPLY CHAIN SUSTAINABILITY

Since 2007, the UN Global Compact has conducted an annual survey of its participants, including questions related to supply chain sustainability practices. The UN Global Compact Corporate Sustainability Report⁴ presents key findings of the Annual Implementation Survey Results, where the implementation of corporate sustainability in the supply chain has been consistently identified as one of the most challenging areas for UN Global Compact participants. In particular, the surveys found that although companies are increasingly setting sustainability standards for their suppliers, they are failing to implement and measure actions that hold suppliers to those standards. Overall, the trend shows that large companies lead the way in demanding greater commitment from their suppliers.

⁴ The UN Global Compact Corporate Sustainability Report is available at: https://www.unglobalcompact.org/docs/about_the_gc/Global_Corporate_Sustainability_Report2013.pdf.

incorporate into the design of the company's supply chain sustainability programme. Companies should seek to understand peers':

- Business case for supply chain sustainability
- Understanding of human rights, labour, environment and governance risks, opportunities and impacts and the resulting supply chain focus
- Internal structure for managing supply chain sustainability
- Codes of conduct, and the topics included
- Use of their code of conduct
- Approach and programmes to engage with suppliers
- Metrics to evaluate the success of their programme
- Reporting practices

In addition, suppliers themselves can often provide examples of good practices and can communicate their needs to customers. Some industries have established joint codes of conduct (see Chapter 3) and undertake aspects of collaborative supplier engagement, such as cooperation to conduct audits and training. Collaborative approaches and industry initiatives are covered in detail in Chapter 8. This information is critical to help avoid "re-inventing the wheel" of supply chain sustainability.

Understanding the Expectations of Stakeholders

Companies should also invest in identifying and understanding the expectations of their stakeholders including potentially impacted individuals and groups, national and local governments, workers', migrant workers' and employers' organizations and trade unions, nongovernmental organizations (NGOs), advocacy and activist organizations, academic and issue experts, community and specific stakeholder groups, such as women, children, older and/or disabled workers, indigenous groups and minorities as well as suppliers themselves.

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

Engaging stakeholders early and regularly in the process of designing a programme can help companies identify relevant standards and approaches to sustainable supply chain management.⁵ Some stakeholders are knowledgeable about, and sometimes even involved in the development of, different codes of conduct and certifications for suppliers. Examples include the Kimberley Process for jewelry, Forest Stewardship Council Certification for wood and paper products and the SA8000 for responsible labour practices across industries. They can help evaluate the credibility of different options and identify which might be relevant inputs for the company's programme.

Emerging risks and opportunities in supply chains. From customers and employees to activists and NGOs, stakeholders are often the first to identify emerging environmental, social, governance and economic impacts in the supply chain. Companies who engage early and regularly with stakeholders have the opportunity to take a proactive approach to these issues and to partner with stakeholders rather than discovering the issues through a public campaign. Early identification of issues through stakeholder engagement can also help companies take early leadership in comparison to peers.

In developing its initial code of conduct, **Westpac** consulted its Community Consultative Council, suppliers and NGOs. The company included feedback from organizations such as the Australian Conservation Foundation, Australian Consumers' Association, Australian Council of Social Security, Finance Sector Union and Human Rights and Equal Opportunity Commission. The Code was enhanced in 2014 to reflect developments and lessons learned in Westpac's own values and practices, including carbon management, agribusiness, accessibility and flexibility practices and indigenous inclusion. The Bank recognizes that the Code needs to remain relevant and current, and evolve with in consultation with key stakeholders as best practice becomes the normal expected standard.

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

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

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

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



⁵ For a human rights approach on this topic, see *Stakeholder Engagement in Human Rights Due Diligence* (October 2014, Global Compact Network Germany, Twentyfifty) available at http://www.globalcompact.de/sites/default/files/stakeholderengagement_in_humanrightsdue diligence_e_141030_screen.pdf.

Establishing a Vision

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

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

The output of the process should be a statement of vision and commitment that is anchored in the company's values and ethics.

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

At a minimum, a supply chain vision should state the company's commitment to operate in line with internationally recognized human and labour rights, and with relevant environmental standards. However, for most

companies, a vision will also include more ambitious targets and a longer-term outlook.

Based on the business motivations and objectives, the company can craft a vision statement that reflects what is considered long-term success for a programme. Some examples of company vision statements are on the next page. The vision for the company may change over time. An initial vision will help to frame how the company will build a strategy initially. As the company becomes aware of issues and begins to understand and gain experience, it may become necessary to "re-set" the vision.

Since its origins, **Grupo Arcor**, a food products and confectionary business based in Argentina, has developed a business model where economic progress is linked to social development and the preservation of natural resources. Over the years the company has deepened this commitment, developing a Sustainability Policy and Strategy to manage risks and opportunities and promote innovative business practices across the value chain, creating economic, social and environmental value for all actors involved. The specific strategy for sustainable sourcing focuses on:

- Aligning procurement and sourcing policy and practices with the company's sustainability requirements;
- Addressing key sustainability challenges, such as sustainable agriculture, prevention of child labour and sustainable paper sourcing;
- Creating inclusive market opportunities for enterprises in vulnerable conditions while expanding sourcing options;
- Training key stakeholders on main sustainability issues.

As part of Grupo Arcor's broader Sustainability Policy and Strategy, the initiatives carried out in the supply chain have been crucial for projecting a sustainable business with long-term vision.



Supply Chain Sustainability Vision Statements

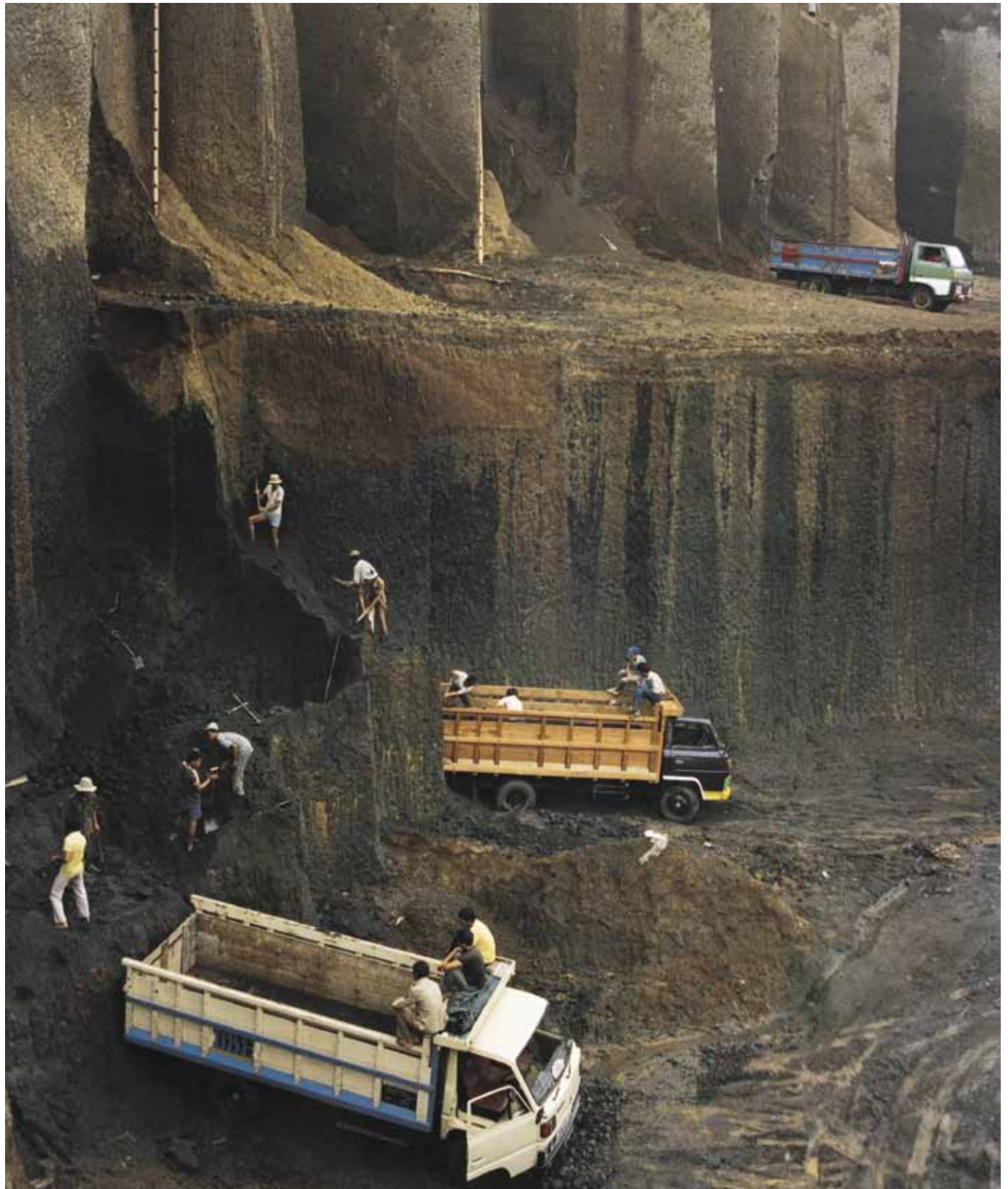
L'OREAL

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

NOKIA

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

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



3. Establishing Sustainability Expectations for the Supply Chain

As the company begins to solidify its vision for supply chain sustainability, an important next step is to translate expectations into a clear set of guidelines that will provide direction to suppliers and internal colleagues. At a minimum, the company should expect suppliers to comply with national laws and to take proactive measures to avoid environmental and social harm.⁶ The expectations on suppliers should be appropriate to their size and circumstances. They should also enable the company to be satisfied that its products, operations and services are not directly linked to adverse impacts caused by the supplier. This may require, for example, more formal reporting requirements for suppliers engaged in higher-risk activities.

Overview of Engaging Supply Chain Management Professionals⁷

It is critical for any business implementing sustainable supply chain practices to start thinking about their own internal approach to supply chain management professionals and related functions.

This involves first and foremost ensuring buy-in from the highest level executive in the company, and then creating a sustainable procurement policy and appropriate due diligence processes, engaging all supply chain management professionals and related staff to understand and implement the policies and processes. Ideally, the policy will cover buying/procurement ethics and describe how supply chain management professionals within the company should be engaged to ensure respect of the UN Global Compact principles. It will also be in alignment with the supplier code of conduct, as described in the section below.

Finally, depending on how large and complicated the company structure is, it may be helpful to establish internal policies and procedures to explain how the supplier code of conduct should be implemented by staff and systems of accountability. The effectiveness of the code depends on successful enforcement mechanisms, which can vary from company

to company. Some companies have dedicated staff to overseeing its correct use, while others assign implementation duties to personnel whose core responsibilities lie in other functions such as sourcing, quality assurance or production engineering.

Overview of Supplier Code of Conduct

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

For many companies, a supplier code of conduct is seen as a natural extension of corporate values statements to apply to an increasingly important part of the business and as an affirmation of existing expectations rather than a new set of requirements. As such, the supplier code of conduct should be endorsed by the highest level executive in the company by making a public statement of approval of either the document and/or the importance of the company's supply chain sustainability programme.

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

Adopting or Writing a Supplier Code of Conduct

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



⁶ *Guiding Principles on Business and Human Rights: Implementing the United Nations "Protect, Respect and Remedy" Framework* (Office of the High Commissioner for Human Rights, OHCHR, 2011), available at http://www.ohchr.org/Documents/Publications/GuidingPrinciplesBusinessHR_EN.pdf.

⁷ See definition on pg. 7.

However, there is a risk that joint codes do not address all the issue areas of the Global Compact, or will not meet specific concerns for the business. In this case, businesses should still adhere to the joint code, but be ready to supplement it with specific policies to address those uncovered risks. There is also a risk that adoption of industry codes will be the end rather than the beginning of the road to improved supply chain sustainability, so it is important that there is internal commitment and resources to integrate the code into supplier relationships.

If there are no joint codes that are comprehensive for a certain industry, or a company determines that they are not appropriate for their supply chain, there are several principles and initiatives that apply to supply chain management that should be referenced.

For the procedural elements of the code relating to social impacts, companies should refer to the UN Guiding Principles on Business and Human Rights, which outline the policies and processes that all companies, including suppliers, should have in place to ensure that they respect human rights (including labour rights).

For the social substantive elements of the code, companies should refer to the UN Declaration of Human Rights, the International Covenants on Civil and Political and Economic, Social and Cultural Rights, the International Labour Organization’s (ILO) Declaration on Fundamental Principles and Rights at Work as well as the Tripartite declaration of principles concerning multinational enterprises and social policy (ILO MNE Declaration), which establish common expectations on a broad

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

SAMPLE POLICY AREAS THAT ALIGN WITH THE UN GLOBAL COMPACT TEN PRINCIPLES		POTENTIAL SOURCES TO REFERENCE:
<p>Human Rights and Labour</p> <ol style="list-style-type: none"> 1. Forced labour 2. Child labour 3. Working hours 4. Wages and benefits 5. Humane treatment 6. Nondiscrimination and equality 7. Freedom of association and collective bargaining 8. Occupational health and safety 9. Emergency preparedness 10. Occupational injury and illness 11. Fire safety 12. Building structure and integrity 13. Industrial hygiene 14. Leave entitlements 15. Freedom of speech 16. Human trafficking 17. Privacy 18. Minority rights 19. Rights of specific stakeholder groups: indigenous people, women, children, older workers, workers with disabilities, migrant workers 	<p>Environment</p> <ol style="list-style-type: none"> 20. Material toxicity and chemicals 21. Raw material use 22. Recyclability and end of life of products 23. Greenhouse gas emissions 24. Energy use 25. Water use and waste water treatment 26. Air pollution 27. Biodiversity 28. Deforestation <p>Anti-Corruption</p> <ol style="list-style-type: none"> 29. Conflict of interest 30. Gifts, meals and entertainment 31. Bribery and kickbacks 32. Accounting and business records 33. Protecting information 34. Fair competition 35. Reporting misconduct 	<p><i>United Nations Global Compact</i></p> <p><i>Universal Declaration of Human Rights</i></p> <p><i>UN Guiding Principles on Business and Human Rights</i></p> <p><i>ILO Declaration on Fundamental Principles and Rights at Work</i></p> <p><i>ILO Tripartite declaration of principles concerning multinational enterprises and social policy (ILO MNE Declaration)</i></p> <p><i>ILO International Labour Standards on Occupational Safety and Health</i></p> <p><i>Women's Empowerment Principles</i></p> <p><i>Children's Rights and Business Principles</i></p> <p><i>OECD Guidelines for Multinational Enterprises</i></p> <p><i>The Rio Declaration on Environment and Development</i></p> <p><i>United Nations Convention Against Corruption</i></p> <p><i>ISO 14001</i></p> <p><i>ISO 26000</i></p> <p><i>SA8000</i></p> <p><i>OHSAS 18001</i></p>

* This list does not represent a comprehensive record of all existing issues under human rights, labour, environment and anti-corruption standards. Companies may need to consider additional areas depending on the circumstances.

range of issues concerning work, employment, social security, social policy and human rights. Companies should also include anti-discrimination policies to promote equal opportunity for women, young, older and migrant workers, and minority and indigenous groups working in the supply chain and establish benchmarks to evaluate their effectiveness as well as develop specific provisions to protect these vulnerable categories of workers.

Environmental topics that are most relevant will vary by industry, which makes dialogue and collaboration critical to identifying which issues are most important to cover in the code of conduct. The UN Global Compact's three Environmental Principles – to support a precautionary approach to environmental challenges, undertake initiatives to promote greater environmental responsibility and encourage the development and diffusion of environmentally friendly technologies – should form a central part of a company's code of conduct.

With regard to anti-corruption practices,⁸ it is important to review the relevant legislation both at national and international level for compliance and include in the code common corruption scenarios, so that suppliers can identify risks and are prepared to respond appropriately. It is also important to regularly assess the content of the code to determine whether updating and further interpretation is needed.

Key steps in development of a code include:

1. Gain commitment from Board of Directors and high-level executive management.
2. Consult with stakeholders, including civil society, suppliers and peers
3. Base expectations on existing international norms of behavior rather than inventing new standards to avoid undermining international law and prevent conflicting expectations for suppliers with multiple buyers
4. Draft the code with the involvement and support of key company managers from cross functional teams that are critical for getting buy-in for effective implementation and enforcement, including supply management, design, marketing, logistics, quality assur-

ance, compliance, legal, human resources, finance risk and strategy, diversity and inclusion, environment and health and safety

5. Consult with the cross functional teams, in particular supply chain management professionals
6. It is strongly encouraged to consider a requirement that suppliers cascade these expectations to their supply base to ensure they are applied throughout the whole supply chain
7. Consider consulting external credible written or online sources, when available, or refer to the external expertise of recognized professionals
8. Include clear expectations for informed workplaces
9. Include clear expectations around grievance mechanisms

Though products are increasingly delivered online, print publications are still a significant part of **RELX Group's** business, and the company purchases a large amount of paper. The company's challenge was to better understand the sustainability of the paper it uses. To ensure suppliers meet the ethical standards RELX Group set for its own behavior, the company began its Socially Responsible Supplier (SRS) programme in 2003. The cornerstone is the RELX Group Supplier Code of Conduct, which incorporates the ten principles of the UN Global Compact. Suppliers are asked to sign and prominently post the Code in their workplaces. It also helps suppliers spread best practice through their own supply chain by requiring subcontractors to enter into a written commitment that they will uphold the Supplier Code. RELX Group conducts an annual survey asking suppliers to communicate their performance on all elements of the Code and the ten principles, not only on key environmental issues but also on ensuring they do not use child and involuntary labour, avoid workplace discrimination and promote freedom of association. This data is complemented by information gathered through PREPS, a shared industry resource for paper sustainability. PREPS fosters positive engagement with paper suppliers and RELX Group is a founding member.

⁸For detailed discussion of anti-corruption in the supply chain, including model language for a code of conduct, refer to the Global Compact publication *Fighting Corruption in the Supply Chain: A Guide for Customers and Suppliers* (UN Global Compact, 2010), available at <http://supply-chain.unglobalcompact.org/> and *Stand Together Against Corruption* (UN Global Compact, 2013), available at https://www.unglobalcompact.org/docs/issues_doc/supply_chain/StandTogether.pdf.



Levi Strauss & Co. was the first multinational company to establish Global Sourcing and Operating Guidelines, which outline the company's commitment to responsible business practices everywhere it conducts business. These guidelines include two parts: (1) Country Assessment Guidelines, which help assess potential opportunities associated with conducting business in specific countries and (2) the Sustainability Guidebook (originally known as the company's Terms of Engagement or TOE), which help to identify business partners who follow workplace standards and business practices that are consistent with the company's values. The Sustainability Guidebook applies to all suppliers and is periodically updated to follow the progress of their standards. In 2014, updates included guidelines on migrant workers and fire safety and building integrity.

The **Electronic Industry Citizenship Coalition (EICC)**, an industry association of more than 100 of the leading companies in the information and communications technology industries, established a single supply chain code of conduct that provides a united voice for customer expectations, streamlines the oversight of supply chain conditions for both suppliers and customers and allows both to focus on changing social and environmental conditions. Each member company in the EICC has committed to adopting the code of conduct and implementing it in their supply chain. The EICC has worked to close the gaps between its code of conduct and the Guiding Principles on Business and Human Rights and, as a result, has added key issues to its provisions, including freedom of association, non-discrimination, peaceful assembly and other key issues.

Developed by the **International Trade Centre (ITC)**, Standards Map is a global publicly-available online platform which provides comprehensive information on voluntary sustainability standards covering a variety of issues, from labour rights to environmental criteria. The platform enables users to explore and compare more than 175 sustainability standards, identify opportunities for product diversification and new niche markets, and visualize standards requirements and scope. The main objective is to strengthen the capacity of producers, exporters, policymakers and buyers to participate in more sustainable production and trade.

Using the Supplier Code of Conduct

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

A new code needs to be shared throughout the company to raise awareness of the standards it describes. Supply chain management professionals will need to gain familiarity with the elements of the code in order to communicate it to existing and new suppliers and to detail how the company intends to work with them to ensure compliance and continuous improvement. The code should mirror the company's procurement policy, which covers the suppliers' performance. Possible avenues of dissemination include internal websites and ongoing trainings particularly to ensure new staff are aware of expectations and regular communications from senior management to reinforce the importance of the code.

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

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

It can also be useful to have supply chain sustainability representatives participate in these meetings if there will be interactions between those individuals and suppliers in the future as part of the engagement and evaluation process.

- **Annual supplier acknowledgement of supplier code of conduct.** Suppliers annually renew their commitments (online or in written form) to endorse customers' expectations with regard to sustainability.

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





4. Determining the Scope

An important step in designing a sustainable supply chain programme is to determine the its scope. Given the scale and complexity of most companies' supply chains, it is important to choose areas of the supply chain to focus on where a sustainable supply chain programme is likely to have the most impact.

The objective of this chapter is to provide guidance on how to identify which suppliers a company should engage with first and to what extent, noting that programme boundaries tend to change over time as companies become more sophisticated and capable to manage supply chain sustainability.

When developing a supplier programme, best practice requires companies to look at their supply chain as a whole, including suppliers beyond their first tiers (the sub-tier suppliers), and to identify the areas where sustainability challenges are most likely to occur. To do so, there are two general steps.

1. Supply Chain Mapping: Companies should ensure that there is the foundational knowledge within the company of who and where the suppliers are in the supply chain and, particularly, to understand as much as possible about their extended supply chain beyond the first tier.

2. Supply Chain Prioritization: Companies should then identify areas where the risk of adverse impact on human rights, environment and governance is the most significant. This prioritization will then allow companies to take the appropriate actions with different suppliers.

Vodafone, a UK-based multinational telecommunications company, conducts due diligence process in line with the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas to identify in the supply chain the use of minerals that directly or indirectly finance or benefit armed groups in conflict regions, commonly referred to as "conflict minerals". Both the smelters and

the mines from which these minerals are sourced are several steps away from Vodafone in the supply chain. Since the company does not manufacture any products or purchase metals directly, it works closely with suppliers and industry initiatives to ensure that products sold or the electronic equipment that is bought and used in its operations do not contain conflict minerals.

Pig iron, a key ingredient in steel production, is one of several products flagged by the U.S. Department of Labor as posing a potential human rights concern, primarily because of its historic use of forced labour. In response to these concerns, **Ford Motor Company** has taken steps to mitigate the use of human trafficking within the production of pig iron. In 2014, Ford reached out globally and sought assurances from its steel suppliers that forced labour was not employed anywhere in its value chain. This included an intensive mapping of five to six tiers of suppliers (including importers, exporters and trading companies) and requests for additional details regarding its Tier 1 suppliers' systems for safeguarding human rights throughout operations. The review did not reveal any issues within Ford's steel supply chain. The company plans to begin similar efforts for other commodities in future years.

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



Sample Supply Chain Risk Events for a Food Company*

Child Labour: Allegations of child labour on farms in supply chain surface.

Working Hours & Wages: Workers in food processing plants strike due to low wages and unpaid overtime wages.

Corruption: A supplier's management misuses revenues or royalties for corrupt purposes.

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

Indigenous People: Farming is undertaken on land that is sacred or otherwise essential to lives or livelihoods of indigenous people, mainly women, who are often the primary gatekeepers of natural resources and land and have little negotiation power.

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

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

Supply Chain Mapping

Companies should start by mapping their supply chain to have an understanding of where their suppliers are capturing that data in a common system and attempting to understand the relationships further down the supply chain. In some instances, regulation will compel companies to be able to map their supply chains to identify their impacts further down the chain.

To do this, it is often easiest to start with a picture of the generic supply chain for the industry or product/s that the company is selling and fill in gaps. A generic product supply chain is illustrated in the figure below.

In some industries, many companies cite that it is difficult to be able to map their supply chain much below the first tier. However, it is possible to conduct this mapping through shared data systems, category manager / buyer knowledge and by asking suppliers.

Companies with very large supply chains may use different filters to decide which areas to map first. In order to ensure they address the most problematic sections, best practice would require businesses to start looking at general high-risk areas, such as

products sourced from regions that are commonly recognized for sustainability issues or suppliers whose nature of the business activity is usually associated with a set of common sustainability risks. Additionally, companies can identify their largest categories of procurement spend and categories that are critical to business operations in terms of little or no availability of alternative options and impact of supply chain disruption.

For each area identified, companies should trace the flow of materials and information. The whole supply chain should be considered for this exercise — going back to raw materials and original suppliers. No assumptions should be made — it is important to understand the relationships and transactions as they actually exist. Category managers and suppliers can provide useful information. In some cases, agents or wholesalers may play key roles.

However a company manages this activity, at the end, they should have a map showing where and how the inputs, raw materials, and products and services that they buy are flowing around the world.

GENERIC SUPPLY CHAIN STAGES FROM A RETAILER PERSPECTIVE



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

– Kris Gopalakrishnan, CEO and Co-Founder of Infosys

Supply Chain Prioritization

With a good understanding of the supply chain map, companies can then identify and prioritize where the most problematic areas lie, and should focus on the areas that present the greatest risk of adverse impact on people, environment and government according to the country, sector, activity or type of relationship with the supplier. It is very likely that the key areas that need addressing are not in the first tier supply chain. For some industries, the highest risks may lie in the specific service they use; for others, it may be a country where they source one of their raw materials. For example, electronics companies are beginning to focus on minerals that are extracted from regions affected by social conflict and where human rights violations are present.

To identify the priorities in the supply chain, companies should gather information on environmental, social or governance issues and identify priority areas where risk of adverse impact on people, environment and governance is most severe. Actual and potential risk areas can be evaluated based on the country, sector, nature of the business activity or type of relationship with the supplier. Some of the recommended tools and resources to identify risks can be found in the textbox below.

TOOLS AND RESOURCES

Geographic risks:

- World Bank Worldwide Governance Indicator
- Amnesty International Country Reports
- US Department of State Country Reports
- Human Development Index
- Economic Freedom Index
- Corruption Perceptions Index
- Office of the High Commissioner for Human Rights website
- Business and Human Rights Resource Centre
- Guardian Sustainable Hub
- Freedom House website

- International Trade Union Confederation website and reports
- Human Rights Watch website

Commodity-specific risks:

- Industry & issue-specific reports from various international research institutions (e.g. US Dept' of Labor, Human Rights Watch, Oxfam, Anti-Slavery International)
- The Human Rights and Business Dilemma Forum

Supplier performance:

- Supplier self-assessment
- Audit results

Companies should first assess where are the biggest risks to human rights, labour, the environment and ethics in the company's supply chain. The severity and potential irremediability of risks to stakeholders should be the driving factor in prioritizing critical elements of the supply chain, particularly in the area of human rights. Severe risks or risks that may be irremediable should be "red flags" in a prioritization.

Additionally, other criteria can be considered, including but not limited to:

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

Both societal and business risk can be influenced by:

- **Country/area:** Which countries or areas do the company's suppliers operate in, and which of those countries/areas may be higher risk because of weak rule of law, prevalence of child or forced labour and other human rights abuse, high levels of corruption, conflict, etc.?
- **Supplier reputation and ownership:** What is the past record of performance, previous audit results, reputation of suppliers and what links, if any, do they have to governments?
- **Spend/leverage:** Which suppliers does the company have the highest spend with, including direct and indirect spend? For which suppliers does the business represent either a major or a small part of their business? Which suppliers does the company potentially have the most leverage with? This issue is particularly relevant to determining what the company can do in response to identified risk.
- **Category:** Which suppliers, including suppliers for products and processes, are most business critical for the company?
- **Tier:** Which suppliers sell to the company directly, and which are sub-tier suppliers?
- **Nature of transaction:** Does the transaction contribute to increased or decreased transparency and accountability for conditions in the supply chain? For example, sub-contracted labour, brokers, agents and

middlemen may lead to gaps in knowledge, awareness and influence.

There are two main steps to assessing risk and impact in the supply chain:

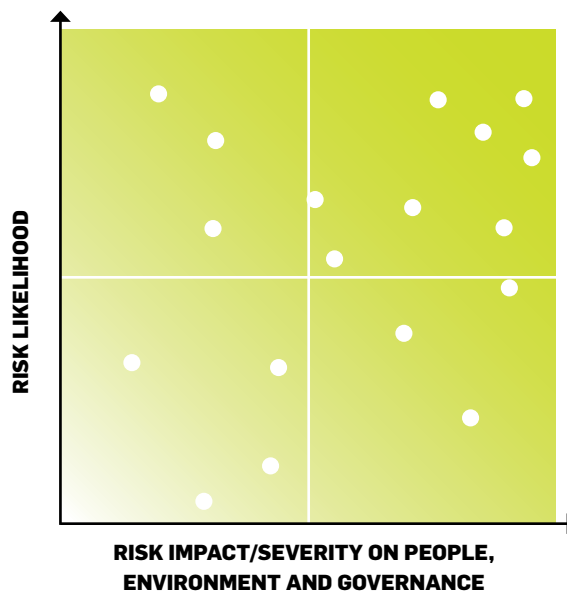
- 1. Identifying Risk Events.** Events, such as underpayment of wages at a factory in the company's supply chain, have a negative impact on workers and create risk for the business. Companies should draw on the expertise of internal staff and external stakeholders to identify social, environmental, economic and governance risks that have the most severe impact on society. Risk assessment should also involve meaningful consultation with potentially affected groups of stakeholders, paying special attention to groups that may be at risk of heightened vulnerability due to marginalization, including children, women, persons with disabilities, migrant workers, ethnic minorities, indigenous groups and the elderly. Internally- and externally-driven events that may not only be against the law, but also affect the achievement of the company's sustainable supply chain and business objectives must be identified. Risks to the business can include business continuity, regulatory, reputational, market acceptance and customer requirements risks.
- 2. Assessing the Likelihood and Severity of Risk Events.** Risk events should be analyzed to understand their likelihood and potential impact on people, environment and governance. This will determine how they should be managed under the company's supply chain sustainability programme.

Many companies find it helpful to plot each risk event on a grid, where the two axes are "Risk Likelihood" and "Risk Impact/Severity on People, Environment and Governance," as in the mapping to the right. The perspective of the stakeholders or affected groups should be taken into account when evaluating the "Risk Impact/Severity on People, Environment and Governance" and setting priorities for action. In evaluating human rights risks, risks to stakeholders should determine the severity rating rather than merely the magnitude of the risk to the company.

The company can use the placement of events on the grid to help determine the relative priority of the issues and the efforts and course of action needed to address them.

In 2010, **Maersk**, a global shipping and energy conglomerate, developed the Responsible Procurement programme including over 100,000 supplier participants. To find a broad and efficient way to gain transparency over its supply chain, Maersk chose at first to focus its attention on top spend suppliers, strategic suppliers in high-risk countries and suppliers delivering products and services produced in an operational context that requires attention. Four years after the development of its Responsible Procurement programme, the company has decided to adjust its focus on suppliers of services and products that have or may have a high risk of negative impact on people and environment, with assessments of social and environmental practices being made before a contract is signed. Three factors contributed to this change: 1) the company gained a clear overview of where the issues and risks lie, 2) requests from Maersk's buyers for clarity around which suppliers' practices must be assessed, and 3) desire to align with the provisions of the UN Guiding Principles on Business and Human Rights.

SUPPLY CHAIN SUSTAINABILITY RISKS:



Companies should be mindful that these two steps of mapping and prioritization may not be completed within a short timeframe, especially not when conducted for the first time. Allocation of appropriate resources, both internally and externally, will help perform this task in a more efficient timeframe and establish a framework that can be replicated to evaluate additional risk areas.

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

ArcelorMittal, a mining company based in Luxembourg, has a USD 50 billion supply chain extending from basic raw materials like iron ore to sophisticated downstream products and services. The company has mapped out the most significant sustain-

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

SUPPLIER CONTROL LEVELS

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







5. Engaging with Suppliers

Once companies have identified the scope of their programme and priority areas for action, the next step requires engaging with suppliers to address the most severe sustainability issues in the supply chain. The goal of engaging with suppliers is to develop a shared mindset about sustainability issues, to build supplier ownership of their sustainability vision, strategy and performance and to work more closely with suppliers with shared priorities.

This chapter explains different ways that companies can engage with and strengthen their influence on suppliers to address sustainability issues that are linked to the company's operations, products or services through supply chain relationships. The

mechanisms described in this chapter are focused on raising awareness and encouraging suppliers to integrate and drive sustainability into their business, setting expectations, ongoing monitoring and partnering with suppliers to overcome barriers to improvement.

The figure below shows the steps that should be taken by companies across a wide range of industries to continuously engage with suppliers on supply chain sustainability. Each has specific purposes and drives continuous improvement. These steps can be followed to effectively address issues in the first tier as well as with sub-tier suppliers.



SUPPLIER ENGAGEMENT & CONTINUOUS IMPROVEMENT

Monitoring, Evaluation, Accountability and Learning

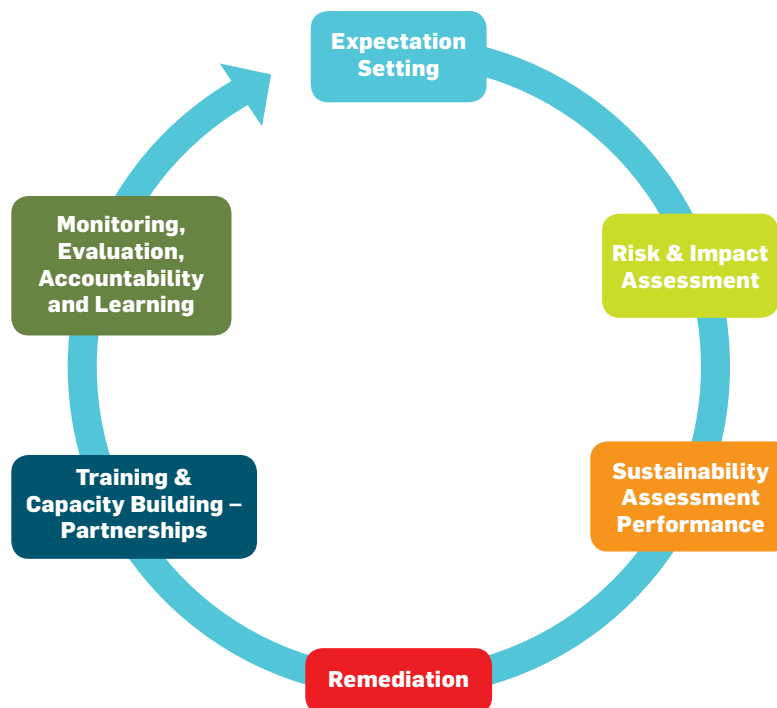
Monitor and assess the effectiveness of programme and its impact on people, environment and governance. Learn from experiences and increase accountability to different stakeholders.

Training & Capacity Building – Partnerships

Collaborate with others to build supplier ownership and understanding to remediate instances of non-compliance, as well as invest in management capabilities for continuous improvements. Support suppliers to address the root causes of poor sustainability performance.

Remediation

Collaborate with suppliers to address issues of poor performance. Define and incentivize continuous improvement.



Expectation Setting

Adopt code of conduct. Communicate about your sustainability expectations to suppliers. Incorporate expectations, including the code of conduct, into contracts. Establish clear benchmarks and incentives for consistently strong performance.

Risk & Impact Assessment

Map and segment the supply chain. Determine the scope of efforts focusing primarily on areas where there is the greatest actual and potential risk of adverse impact on people, environment and governance.

Sustainability Assessment Performance

Assess the sustainability performance of suppliers, using different processes for different needs (e.g., business relationship potential/ actual risk, impact on people, environment and governance). It can include self-assessments, audits, worker surveys, etc.

Selecting Communications Channels

The first step to improving sustainability in the supply chain is to raise awareness of your company's expectations for sustainability performance. Many companies use their codes of conduct to do so (as described in Chapter 3) and/ or include requirements to address and prevent sustainability issues in appropriate contract provisions. In many cases, binding requirements for suppliers in codes of conduct or contract provisions also require suppliers to implement the same criteria vis-à-vis their own suppliers. Some companies may require suppliers to sign binding agreements with sub-contractors/sub-suppliers.

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

CREATING INCENTIVES FOR STRONG SUSTAINABILITY PERFORMANCE

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

As the supply chain sustainability programme evolves, an increasing number of companies consider establishing clear benchmarks and rewards for consistently strong performance. Incentives could include:

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

*To help suppliers meet higher standards for health and safety and encourage them to invest in safer working environments, **Levi Strauss & Co.** partnered with the International Finance Corporation (IFC) to offer reduced loan financing to those suppliers with the strongest sustainability performance based on the company's Terms of Engagement. Levi Strauss offers direct financial incentive for suppliers to improve environment and social standards through IFC's \$500 million Global Trade Supplier Finance program. This program provides short-term finance to emerging-market suppliers and small- and mid-sized exporters.*

USING EXISTING CUSTOMER-SUPPLIER COMMUNICATIONS.

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

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

In order to power sustainability and transparency in its supply chain, **Mahou San Miguel**, a Spanish food and beverage company, developed a Supplier Portal to collect information about suppliers, including their alignment with the company's CSR policies. This open channel offers useful information to suppliers and allows the company to carry out an objective selection of them. Mahou San Miguel also developed a Training programme to help suppliers build their awareness about CSR, adding value to the business.

ADDING SUSTAINABILITY TO THE AGENDA OF SUPPLY CHAIN FORUMS.

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

As their supply chain sustainability programme evolves, companies can use these forums to also recognize suppliers for their strong sustainability performance.

As the first step in the development of its ethical procurement programme in 2006, **Fuji Xerox Co., Ltd.**, a Japanese imaging technology company, conducted an “ethical procurement study sessions” with its nine key suppliers’ executives. The study sessions included a five-day study meeting in Shenzhen, China with approximately 50 participants, including the executives of the suppliers, their factory presidents in Shenzhen area and Fuji Xerox of Shenzhen executives. The suppliers’ study group was critical to the successful launch of the company’s ethical procurement programme. In 2014, based on its successful experience in China, the company organized a seminar with its suppliers in Hai Phong, Vietnam before distributing the self-assessment questionnaire. Ongoing communication is maintained with key suppliers in Hai Phong to identify Vietnam’s unique sustainability risks and issues.

In 2009 and 2012, the **Coca-Cola Company**, a food and beverage company based in the United States, brought a group of top global suppliers to its Global Supplier Summit to participate with Coca-Cola’s senior management in a discussion about the need for business to embed sustainability as a critical element of growth plans. Rather than setting top-down directives, the company sought suppliers’ strategic counsel in ensuring long-term mutual success in improving sustainability in the supply chain. Following the first Summit in 2009, Coca-Cola received nearly 200 proposals from suppliers, including ideas and strategies related to sustainable packaging, logistics, sustainable agriculture, water stewardship and portfolio innovation. In 2013, building on the previous Global Supplier Summits, the company launched a Supplier Awards programme in conjunction with a global gathering held to engage suppliers on sustainability, innovation and other strategic long-term objectives. The company now gives awards to suppliers for Innovation, Sustainability, Quality, Value and an overall Supplier of the Year Award.

Monitoring and Evaluations

A monitoring system provides information on how well suppliers are performing on sustainability practices as well as specifically the degree to which they are complying with the codes a company has put in place. Monitoring systems can be effective in establishing baseline measurements and assessing recent and current performance relative to a code’s/ company’s requirements. Understanding how the supply chain performs against these base criteria is a crucial element and a core part of a company’s commitment to continuous improvement. However, compliance-based approaches to monitoring have resulted in concerns about costs, disruptions to production of suppliers, doubts about the accuracy of the information and potential risks to safety of workers. Companies should carefully consider what approaches to use and with which suppliers in order to get reliable information and avoid over-reliance on compliance audits. The goal of monitoring systems should be to understand whether issues are being addressed over time, and whether the supply chain programme and actions committed to by suppliers are having the desired effects.

SUPPLIER SELF-ASSESSMENTS

Many companies invite suppliers to self-assess their sustainability performance as an initial screen in selecting new suppliers or as part of a risk assessment for identifying which suppliers may require closer attention. Self-assessments can provide companies with useful information and also increase suppliers’ understanding of customers’ expectations. Many companies also find that self-assessments are a good starting point to cover a significant portion of the supplier base in a relatively short time frame and at relatively lower cost than audits.

It should be noted that, if used as a stand-alone method, self-assessments could lead to inaccurate data if the company has no other verification process in place. Reliable self-assessments depend on trust, a suppliers’ competency to gather information from disparate parts of their organizations and clear communications so that they understand what is being asked and how their information will be used. For example, the problem of double books is sometimes due to suppliers’ concern that their poor performance will result in immediate loss of business.



Protecting Workers Who Participate in the Monitoring Process

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

Hewlett-Packard (HP), a large information technology company and member of the Electronic Industry Citizenship Coalition (EICC), requests that suppliers identified as medium- or high-risk complete an electronic self-assessment questionnaire to identify potential social and environmental responsibility performance risks. HP reviews the results of the self-assessments and provides feedback to suppliers. Suppliers then create and implement an improvement plan, if required. In addition to helping HP evaluate risk, self-assessments have been shown to help HP suppliers become more familiar with HP's expectations of what it means to conform to HP's EICC Code of Conduct. HP uses three types of monitoring to further understand and influence supplier SER performance:

- 1) Audits: Annual audits are performed against HP's EICC Code of Conduct and follow-up audits are conducted when nonconformances are found. Suppliers are also encouraged to commission independent audits.
- 2) Assessments: Targeted assessments are conducted to supplement HP's comprehensive audits, focusing on specific risk areas including:
 - Vulnerable workers, such as student, dispatch and foreign migrant workers
 - Health and safety, including fire safety and emergency preparedness
 - Supplier SER management system maturity
 - Supplier environmental performance.
- 3) KPI program: Final assembly suppliers are required to provide data on working hours, student workers, core labor rights, critical health and safety issues and greenhouse gas emissions. Suppliers track data on a weekly basis and submit monthly. Such frequent monitoring helps HP to quickly identify and correct problems.

AUDITS

Traditionally, audits have been used as on-site evaluations of supplier performance against a company's policies and expectations. They can include management systems assessments, which gather information on the strength of suppliers' sustainability systems to manage minimum requirements. Auditing is mainly used for compliance purposes, to measure and then address labor standards within supply chains. In order to enforce their codes of conduct, companies have developed their own 'monitoring' mechanisms. There are several audit protocols in place in certain industries that can be leveraged. For example, the Global Social Compliance Programme has gathered audit process best practices in a set of reference tools that companies can adopt or can use as a benchmark for their own system.

Effective and appropriate auditing can meet a series of needs, including:

1. As part of the due diligence process, when screening new or potential suppliers to identify whether they meet the buying company's minimum standards as a basis for approving or rejecting a new supplier.
2. Establishing baseline information on working social, ethical and environmental conditions in an individual supplier and in the broader supply base.
3. Establishing a starting point for discussion with suppliers about current sustainability issues and necessary and appropriate corrective actions.
4. As a proactive tool to drive continuous improvement at a supplier that a company has a long-term business relationship with.
5. Monitoring progress over time — regular and consistent audits are a way of checking whether improvements in performance are being made or have been made over time at scale across large supply chains.

Audits can be a useful tool for identifying problems but, if used alone, do not necessarily create the change necessary to ensure sustainable improvement to practices. Leading companies are increasingly focusing on a two-track process, integrating the important diagnostic aspect of audit where due diligence of supplier performance is needed, with a growing emphasis on programmes that move beyond monitoring for more strategic suppli-

ers, enabling and supporting change at local level, with one process informing the other on an ongoing basis.

Audits can be conducted by the company staff, a secondary party, which is a body with a trading relationship with the site, such as a retailer, brand, vendor or agent, or by an independent third-party, such as an auditing firm, an NGO, a trade union, or even a group of these stakeholders. The questions of when, why and how to engage external auditors should be driven by the overall supply chain risk management objectives. Both external and internal auditors offer distinct advantages and there is no standard “right way.” In fact, best practice is to use a combination of both.

In deciding whether to rely on external auditors or to develop and maintain internal capacity for auditing, consider what type and level of expertise is needed to assess performance against company policies, such as environment or health and safety expertise and regional presence and capacity. Individual qualifications are also important and have an impact on the integrity and quality of the audit results. Some companies opt to hire specialized third-party auditors to conduct focused thematic assessments. Companies with substantial audit requirements should carefully consider the cost, feasibility and effectiveness of internal versus external investments. Finally, companies should be mindful of how suppliers will perceive and be affected by audits and how critical they are to the business.

In the event that audits are conducted by an external party, the company should receive a detailed report of the audit findings in order to make an informed decision concerning one of its suppliers and discuss an appropriate corrective action plan.

Effective audits are driven by a variety of factors including:

- Preparation and knowledge of factory, country, sector, workers and community prior to visit
- Maintaining independence from management for credibility with workers
- Selecting a random sample of workers – including all types of workers, including any vulnerable groups such as young workers, contract, migrant and female workers – during all parts of assessments
- The experience and auditing expertise

COMPONENTS OF AN AUDIT⁹

PLANNING

Development of a strategy, including timeline, objectives, nature and extent of the audit that will be performed.

PREPARATION

Gathering information on potential issues affecting workers and the surrounding community.

OPENING MEETING

Presentation of the purpose of the audit to supplier's management and workers and planning of the audit schedule.

FACILITY TOUR

Visual inspection of facility to identify obvious noncompliances.

RECORDS REVIEW

Checking employee files, timecards, health and safety records, etc.

MANAGEMENT INTERVIEW

Discussion of management systems, wages paid, working hours, etc.

WORKERS INTERVIEWS

With a representative sample of employees regarding working conditions.

ADDITIONAL INTERVIEWS (OPTIONAL)

As a growing practice in some sectors, stakeholder interviews with trade unions and NGOs may also be conducted in order to improve the quality of information.

PRE-CLOSING MEETING

Audit team reviews the elements gathered during the audit.

CLOSING MEETING AND SUMMARY OF FINDINGS

Communicate the findings to the supplier management.

REPORTING

Report the findings to the company.

⁹This list of components is based on Sedex Members Ethical Trade Audit (SMETA) Best Practice Guidance, (2012), available at http://www.sedexglobal.com/wp-content/uploads/2012/07/SMETA-Best-Practice-Guidance-4-Pillar-4_0-L.pdf.



of the auditor, including language and cultural skills and knowledge of local issues and industry specific challenges

- The extent to which an audit incorporates an assessment of both systems for managing performance as well as levels of performance, as well as an analysis of root causes of noncompliance.
- Holding informal conversations with workers during times and in locations where they are comfortable and secure
- Gathering enough information to ensure understanding of factory conditions
- Documenting information and assessment of workers' credibility
- Validating information from workers with other sources
- Always being aware of the need to protect workers' confidentiality and safety

ON THE HORIZON:

Beyond the Workplace - Indirect Impacts on Human Rights -

The scope of the Guiding Principles on Business and Human Rights covers human rights impacts caused both directly and indirectly by a company's own activities, and, therefore, organizations should be aware of potential and actual impacts within their own organizations and in the communities in which they operate. Companies should initially consider focusing on stakeholder engagement on human rights impacts rather than auditing within local communities.

SMETA – Social audits such as SMETA – Sedex Members Ethical Trade Audit, an open source methodology derived from a compilation of auditing best practices, include a focus on labour rights (human rights in the workplace), management systems and guidance around grievance mechanisms and freedom of association. SMETA is the most commonly used audit methodology worldwide and is a comprehensive methodology used by many companies to assess a supplier's current practices including areas for improvement, but also capturing current systems and processes as well as areas where the site goes above and beyond (good examples).

This audit methodology can be used as an assessment method for first-party audits, second-party audits as well as third-party audits.

Additionally, it gives guidance on the opportunity for an optional perimeter survey and has a section on community benefits, highlighting any positive impacts, which can provide additional information to understand local context and support insights into specific impacts on local communities.

L'Oréal, a French cosmetics company, informs suppliers of the company's expectations through an "Ethical Commitment Letter". This letter requires suppliers to comply with the ILO's Core Conventions as well as local labour laws. Certain environmental standards relating to hazardous emissions and contaminations are also included. All subcontractors are audited on these requirements wherever they operate, as are all suppliers of raw materials, packaging and all promotional-items suppliers located in "at risk" countries. Other suppliers are audited on a case-by-case basis, as necessary. Audits are based on SA8000 standard and carried out by a specialized, independent third party in the local language. 834 social audits were carried out in 2014, amounting to a total of 6,129 since 2006.

Over the past decade, **Nike**, a footwear and apparel company, launched a Manufacturing Index to evaluate new and continuing suppliers on four equally weighted criteria: cost, quality, on-time delivery and sustainability. To measure sustainability, Nike developed a Sustainable Manufacturing and Sourcing Index (SMSI) that scores on compliance as well as continuous improvement in energy, water, waste, health & safety, working conditions, human resources management practices and lean manufacturing adoption. Nike has committed to source 100 percent from contract factories rated bronze or better on the SMSI, reflecting a standard that adheres to the company's Code of Conduct and Code Leadership Standards.

SUPPLEMENTING PRACTICES

As due diligence processes evolve, companies are interested in gathering a wider series of indicators to inform the impact of their programmes. The following tools are sometimes implemented into the traditional audit process:

- 1. Impact Assessment** – impact assessment can include a number of Key Performance Indicators which give an overview of the impact of the company's sustainability programme. These often include worker turnover, number of accidents, etc.
- 2. Worker surveys** – these tools allow the entire workforce to provide feedback on their experience of the working environment. Survey results are evaluated by a third-party provider and then anonymous results are presented back to the factory management with areas and recommendations for improvement. These tools allow a larger part of the workforce to be included in the assessment of the site and are an in-depth (however resource-heavy) assessment which can be very effective in finding areas for improvement and engaging the entire workforce.
- 3. Sustainability Ratings Systems** – rating systems provide a detailed score or scores on multiple areas allowing both recognition of good and excellent performance and the setting of meaningful goals that suppliers can strive for.
- 4. Operational Grievance Mechanisms.** Both multinationals and SMEs are dealing with the challenging task of providing effective and adequate access to remedy for their workers and stakeholders. The third pillar of the Guiding Principles on Business and Human Rights states that companies should establish effective operational-level grievance mechanisms to handle complaints by stakeholders and workers for suppliers' adverse impact on people, environment and governance. Suppliers should be encouraged and, where appropriate, required to establish such mechanisms, and the company should have access to information about what grievances are submitted and how they are being resolved. Operational-level grievance mechanisms should serve as an avenue for resolving grievances at the earliest possible opportunity, but also as a feedback mechanism for suppliers to understand their impacts on stakeholders. Operational-level grievance mechanisms should comply with the effectiveness criteria outlined in the Guiding Principles on Business and Human Rights (Principle 31). Companies and suppliers may also have the opportunity to access formal grievance mechanisms adopted by industry associations to address sustainability issues arising in a specific sector and geographical area.

The Mexican labour advocacy organization Centre for Reflection and Action on Labour Issues (CEREAL) and the National Chamber of the Electronic, Telecommunications and Information Technologies Industry (CANIETI), decided to work together to address highly contentious relations between workers and electronics manufacturers in Mexico. The parties have made progress in mapping and resolving labour grievances and in working to prevent new ones. Since 2007, the established Grievance Escalation Mechanism has helped to solve an average of 800-1000 cases per year and the parties have estimated a decline in the occurrence of cases related to accidents or discrimination. Looking ahead, CEREAL and CANIETI are planning to focus on issues related to living wages, freedom of association and collective bargaining.

Remediation and Capability Building

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

Remediation can include a number of activities:

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

- Defining a roadmap for gradually increasing standards and expectations.
- Internal analysis of how company processes may drive supplier behaviours and whether corrective actions are needed internally to address adverse impacts.

It is important that remediation requirements are communicated very clearly to suppliers and that there are established timelines and consequences for not meeting them and/or continuing performance. Remediation requirements should also be feasible, realistic and agreed with the supplier. If adverse impacts are not remedied in spite of efforts to address the issues and repeated notifications, a company may ultimately need to terminate the supplier relationship. Companies should identify zero-tolerance issues and explain their selection and consequences to suppliers

SUPPORTING SUPPLIERS' WORKERS' EMPOWERMENT TO ASSURE QUALITY WORKING CONDITIONS¹⁰

One of the biggest challenges for companies is to verify whether the rights of workers in their supply chain are respected and supported. By establishing programmes that support freedom of association, companies can empower workers to advocate directly for improvement of their conditions. These programmes not only ensure that the human rights of the workers are respected but create a better working environment that boosts productivity and minimizes risks of operational disruption. Recommended good practices to support workers in the supply chain include:

- Implement a support mechanism for workers to communicate concerns and assert human rights, such as operational-level grievance mechanisms, audits, worker-inclusive sustainability committee, etc.
- Conduct human rights-focused trainings for suppliers' workers
- Partner with NGOs or other stakeholders to implement worker empowerment initiatives

Better Work is a unique partnership between the International Labour Organization and the International Finance Corporation which aims to realize the rights of garment workers and for factories who uphold labour laws and standards to be profitable and productive. The organization's strategy involves working with major industry stakeholders and smaller factories at a global and local level. Better Work supports the establishment of strong relations between managers and workers who can then take ownership and responsibility for continuously improving working conditions and eventually competitiveness at the factory. Among its achievements, Better Work has ensured that migrant workers in Jordan were covered by the same protection and benefits as their peers, including the right to join a trade union. In 2015, the programme has reached more than one million workers and is present in factories across Bangladesh, Cambodia, Haiti, Indonesia, Jordan, Lesotho, Nicaragua and Vietnam.

¹⁰ For more information, read *Supporting Worker Empowerment - Including Support for Workers' Assertion of their Human Rights - in the Supply Chain, the Good Practice Note* endorsed by the UN Global Compact Human Rights Working Group, available at https://www.unglobalcompact.org/docs/issues_doc/human_rights/Human_Rights_Working_Group/WorkerEmpowerment_GPN.pdf.

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

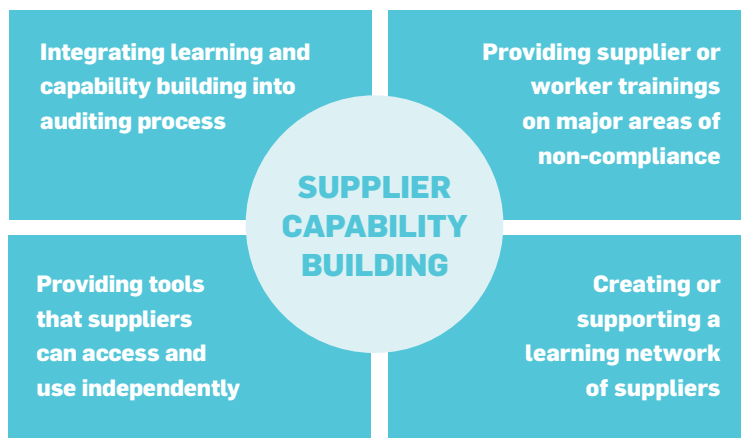
– Erik Engstrom, Chief Executive Officer, RELX Group

in advance. Terminating the business relationship should be considered as a last resort, and companies should take into account credible assessments of potential adverse impacts of doing so.

If a supplier relationship is critical to a company's operations, either because of the essential service or product that it provides or because of the lack of reasonable alternative sources, the company should consider the severity of the impact. The more severe the impact, the more quickly it will need to see a change before deciding whether to terminate the relationship. If the company decides to remain in the relationship, it should be prepared to demonstrate ongoing efforts at addressing the issue and to accept the potential reputational, financial and legal consequences of maintaining the relationship. The tools described in this chapter can be used to increase leverage on these critical suppliers.

Some suppliers located in high-risk countries may be challenged by an external environment that reinforces a behavior that is non-compliant with the prescriptions of the code of conduct. In this case, it is recommended to connect the supplier with the Global Compact Network within its country or other industry associations that can provide useful resources and a platform to engage in dialogue with peers and other stakeholders. Companies may also want to consider intensifying their engagement with the supplier to build a trusting relationship while working towards remediation.

OPPORTUNITIES IN SUPPLIER CAPABILITY BUILDING



De Beers, a diamond mining company, launched its bespoke Best Practice Principles (BPP) Assurance Programme to address social, employment, business, health and safety and environment issues throughout the diamond pipeline. De Beers' customers and their significant contractors, who range from diamond cutters and polishers to jewellery manufacturers to retailers, must comply with the requirements of these Principles. Where an infringement against the requirements is raised, the client or contractor is required to submit Corrective Action Plans (CAPs) to address the issue. Evidence is submitted online or the third-party auditor will re-visit the site to ensure that CAPs have been successfully implemented to close off any issues raised. In the event of any material or repeated transgressions of the BPPs, De Beers has reserved the ability to terminate its supply contract with a customer.

CAPABILITY BUILDING

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

In order to address the issue of a fair living wage in the textile industry, **H&M**, a Swedish multinational retail-clothing company, has developed the Fair Living Wage Roadmap, using a holistic approach that covers H&M, factory owners, factory employees and governments. One of the goals is to support factory owners to develop pay structures that enable a fair living wage and train their employees into a skilled workforce that can negotiate and annually review their wages. In parallel, the company reviews how to improve its own purchasing practices to ensure they cover the true cost of labor, and encourages governments to set a mechanism to annually increase

minimum wage levels. H&M aims to scale up pay structures to cover certain strategic supplier factories by 2018 and affect around 850,000 workers.

While some companies restrict their engagement to monitoring and remediation, there are limits to what these processes alone can achieve. Monitoring is not always the most effective tool for identifying and dealing with the root causes of issues. A growing number of leading companies in supply chain sustainability are shifting from a pass/fail compliance-based approach to build supplier ownership through the development of management systems. A deeper engagement, based on capability building and strategic partnerships, creates an open channel of communication with suppliers to better understand the issues they are facing and allow them to incorporate sustainability into strategic planning while demonstrating continuous improvement on their sustainability performance.

Below are some examples of how companies have taken steps to enable supplier ownership through the development of sustainability management systems:

- incorporate evaluation of management systems into audit protocols to raise awareness
- provide training and consulting for suppliers on sustainability management system design
- adopt improvement ladders which emphasize a continuous improvement approach to sustainability management systems development with increasing incentives and reduced auditing.

HP believes that investing in the skills and awareness of workers and supplier management through capability building is critical to achieving lasting solutions to labor issues. HP invests in worker development and empowers workers to improve social and environmental performance at their sites by helping them to develop a broad skillset. Since the start of the program, HP has directly reached over 533,200 workers and managers in China, South America and Southeast Asia. Examples of capability building programs include:

- Health education through HERproject. Business for Social Responsibility's (BSR) Health Enables Returns (HER) Project provides basic personal health training to

female workers. HP has brought health awareness programs using the HERproject methodology to 27 supplier sites across China, Malaysia, Thailand and Mexico since the programme's inception in 2007, reaching over 55,000 female migrant workers and empowering them to take ownership of their health.

- Occupational health and safety (OHS) training. In 2014, HP partnered with the International Commission on Occupational Health (ICOH) and Hong Kong University to train management from 15 suppliers on worker stress prevention, mental health awareness, combustible dust prevention and Participatory Occupational Safety and Health Intervention (POSHI). POSHI is an on-site program that engages workers and management in the process of identifying and solving OHS issues. Program participants reported that the training enhanced worker/manager communication.

CEMEX, a Mexican building materials company, launched its Supplier Sustainability Programme to extend the company's commitments, practices and beliefs to their suppliers and foster a sustainable, reliable network. Since the Supplier Sustainability Programme was created in 2010, more than 2,100 suppliers in 24 countries have been invited to participate. The programme consists of four key phases:

- Surveying suppliers against the company's sustainability and financial standards
- Enacting a communication campaign based on the survey results
- Reinforcing awareness of specific policies that incorporate aspects of sustainability including human rights, labor and antitrust, as well as the supplier Code of Conduct, based on CEMEX's Code of Ethics and the UN Global Compact Ten Principles
- Preparing a scorecard to track and incentivize suppliers with a record of strong sustainability performance.

Nestlé India, a food and beverage company, established a dedicated supplier development department in 2005 to promote sustainable production and processing of agriculture commodities like coffee and chicory, achieve compliance to local regulatory laws, cost savings by localisation of key imports and to create a wider, more flexible supply base. The



BUILD A MORE INCLUSIVE SUPPLY CHAIN

Inclusive sourcing presents an important opportunity for companies to support human rights and increase economic development by offering economically disadvantaged groups an equal opportunity to compete for business, enhancing their income and improving their business skills. It also makes business sense by broadening the vendor pool with loyal and flexible suppliers, enhancing competitive advantage and providing innovation. When engaging with suppliers and sub-tier suppliers, companies should identify and consider opportunities to work with businesses owned by certain underrepresented stakeholder groups, such as women, minorities, indigenous people, elderly and disabled workers to promote a more inclusive supply chain. Some companies do so by partnering with associations or organizations that represent and promote businesses run by these groups.

Cisco, a U.S.-based IT company, established the Diversity Business Practices (DBP) Program to increase inclusion and diversity among its global suppliers. The DBP team identifies potential diversity and inclusion supplier candidates and facilitates relationships between them and Cisco representatives. The DBP Program provides equal access to businesses owned by minorities, women, service disabled and veterans, as well as to companies in historically underutilized business zones (HUB zones). Activities within the DBP program include mentoring sessions, a business expo and workshops. It also offers corporate memberships in and collaborations with many domestic and international organizations focusing on minorities and encouraging diversity, such as WEConnect International, SupplyNation and the Canadian Aboriginal and Minority Supplier Council.

In 2014-15, as part of its commitment to empowering and investing in women entrepreneurs, **Boyer Group**, Turkey's largest fashion retailer, launched the Boyner Group Women Suppliers Academy in partnership with the International Finance Corporation (IFC). This project aims to raise productivity, performance and economic opportunities for women-led businesses, which compose 18% of Boyner Group's supplier base. This is to be achieved through a 12 week training programme for owners and managers of a first pilot cohort of 25 women-led businesses in Boyner Group's supply chain. The Academy will then train a second and third cohort, offering IFC Business Edge™ training modules, which have been adapted to specifically address the needs of women entrepreneurs. Through these efforts, the Academy plans to strengthen the overall ecosystem for women suppliers in Boyner Group's supply chain, focusing on their access to skills, markets and finance. To that end, the Academy has partnered with key organizations supporting women's entrepreneurship in Turkey.

company invests in working with suppliers through training programmes, knowledge sharing and by providing technical assistance to suppliers to close food safety and quality gaps and improve suppliers' management systems and products. As a result of these supplier development efforts, Nestlé India in the last 5 years has increased local sourcing of materials from 70% to 92% (by value), reduced single supplier situations from 26% to 14%, developed more than 50 new Indian suppliers able to meet Nestlé's specifications and saved \$US 10 Million. With these efforts many of the Indian suppliers have become Best Cost Origin Source for supplies to other countries. This initiative has also been replicated in China, Bangladesh, Brazil, Indonesia, Iran, Malaysia, Russia and South Africa.

Engaging with Sub-Tier Suppliers

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

Engaging with sub-tier suppliers may have additional complications beyond those described above, including lack of transparency in the supply chain and less leverage over the sub-tier supplier. To overcome these obstacles, companies are pursuing a number of strategies including:

- **Participation in industry collaborations:** Collaborating with other companies can increase leverage collectively. It can also help companies to share the costs and resources required to engage with these suppliers.
- **Engagement in public policy:** Many companies also overcome their lack of leverage by seeking legal and regulatory redress of sustainability issues, working with local governments or their home state either alone or in collaboration with other businesses.
- **Supply chain optimization:** Individual companies can also take steps to shorten their supply chains by grouping smaller suppliers into cooperatives and reducing middlemen. This can also increase the revenue that small suppliers earn.

When, through appropriate risk assessment, companies identify specific sub-tier suppliers who are responsible for adverse impacts on people, environment or governance, they should take appropriate steps to engage with the supplier and address the issue, using the tools described in this chapter. If this approach is unsuccessful, then the company should take steps to terminate the relationship, either directly or via intermediaries, or, if the supplier is critical to the company's operations, be able to demonstrate efforts made in addressing the issue in the same manner as described in the previous sections of this chapter.

In 2012, **Restaurantes Toks**, a Mexican food and beverage company, engaged in a pilot project with their coffee producers in Talquian, Chiapas by providing training, capacity building and equipment to the farmers. By building a relationship with and investing in coffee farmers in this community, the company ensured an increase in productivity, better product quality, tackled the main sustainability issues, including use of child labour, and improved worker conditions, resulting in higher salaries for the farmers and a return on investment for the company that nearly tripled its initial investment.

As part of its Cocoa Plan, **Nestlé** aims to enable cocoa farmers to run profitable farms, improve social conditions of cocoa-growing communities and ensure a long term supply of sustainable and good quality cocoa. Child labour on cocoa farms, especially in Côte d'Ivoire and Ghana, is a particular challenge for the whole industry. In 2011, Nestlé decided to partner with the Fair Labor Association (FLA) to address this issue. As part of the implementation of its Responsible Sourcing Action Plan, Nestlé started rolling out a Child Labour Monitoring and Remediation System (CLMRS) to help identify specific instances of child labour (monitoring) and enable the company to take appropriate measures to address them (remediation). Together with the Internal Cocoa Initiative (ICI), Nestlé's implementing partner for this project, the company is seeking to create an environment where child labour is recognized as a serious and complex issue that can only be addressed by leveraging each tier of the cocoa supply chain (tier-1 suppliers, farmer cooperatives, farmers, etc.) and through a comprehensive engagement of governments, NGOs and the local communities themselves.



ENCOURAGING SUPPLIERS TO JOIN THE GLOBAL COMPACT AND LOCAL NETWORKS

Companies should encourage their SME suppliers to join and participate actively in the Global Compact and its Local Networks around the world. Local Networks have a lot of useful resources and strategies for implementing sustainability and the Global Compact's Ten Principles. They create opportunities for multi-stakeholder engagement and collective action, and deepen the learning experience of all participants through activities and events to promote action in support of UN goals. Companies can also save costs on educating their suppliers on sustainability by promoting it collectively with other companies, for example through the Local Networks. Some

companies have asked suppliers to join the Global Compact as a condition of being their supplier. An important next step would be to check that the supplier remains an active participant by submitting their annual communication on progress (COP) to meet Global Compact requirements. The Global Compact offers a basic template for submitting the COP, which SMEs with limited resources have benefitted from.

Since 2005, **Schneider Electric**, a French electric components and equipment company, has asked its suppliers and subcontractors to join the Global Compact. Support of the Global Compact is one of the criteria for

becoming one of Schneider Electric's main suppliers. Schneider Electric has established a goal to source 60% of the company's purchases from suppliers who support the Global Compact by the end of 2010. By the end of 2009, 33% of the company's purchases were made with suppliers who had signed the Global Compact, and 1,153 of Schneider Electric's suppliers had signed the Global Compact. The company's purchasing teams were trained on the Global Compact Principles to better engage with suppliers on these issues. Moreover, it closely monitored which suppliers are in danger of being delisted from the Global Compact for failure to Communicate on Progress.



6. Determining Roles & Responsibilities

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

Internal Alignment

One of the most persistent challenges to supply chain sustainability is a tension in many companies between supply chain management professionals' commercial objectives and their sustainability objectives and commitment to the UN Global Compact. This tension is manifested in different objectives for sustainability and purchasing staff. Companies can potentially contribute directly to sustainability issues in their supply chain if their own business policies and procedures are not aligned with their sustainability requirements. Responsibility for the successful compliance with the supply chain programme lies with the company's internal functions as much as with suppliers.

A lack of internal alignment can have negative impacts on suppliers' supply chain sustainability performance, as they may be incentivized to cut corners to comply with the requests from the company. For example, last minute quantity changes can create significant time pressures that erode working conditions if suppliers are forced to increase worker overtime schedules to keep to compressed timetables.

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

Governance and Oversight: Executive Leadership and the Board of Directors

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

Executives should also support supply chain management professionals' communications with suppliers as appropriate.

THE ELEMENTS OF INTERNAL RESPONSIBILITY FOR SUPPLY CHAIN SUSTAINABILITY



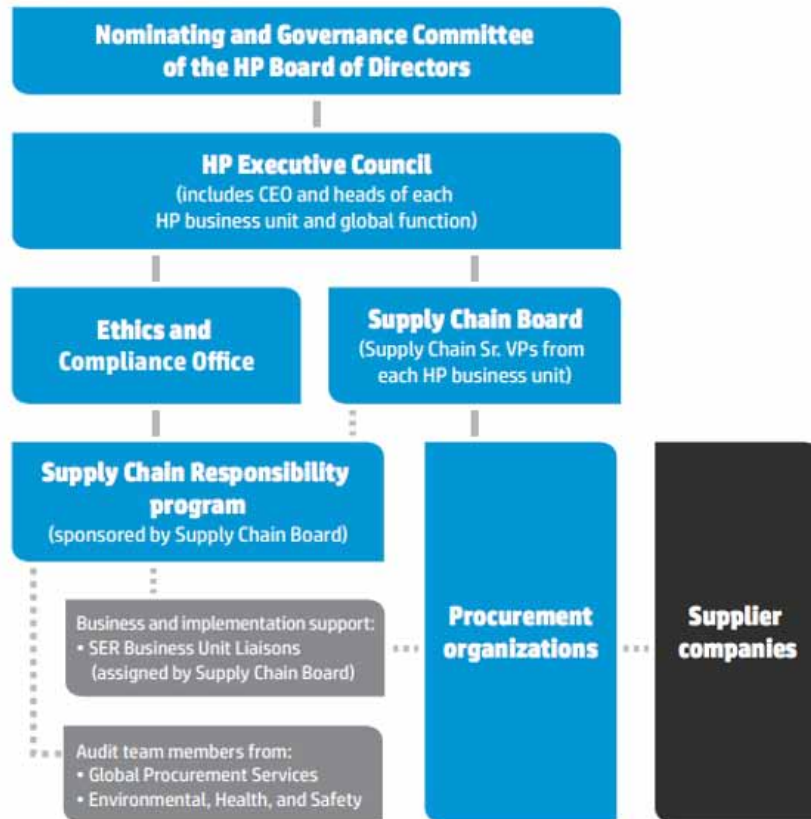
Executives at suppliers will appreciate the peer-to-peer interaction, and involvement of the company’s senior leaders will help to demonstrate the seriousness with which supply chain sustainability is undertaken at the company. As discussed in Chapter 3, executives can help communicate about the code of conduct. They can also participate in supplier meetings as an incentive for strong performance (see Chapter 5).¹¹

Cross-functional Coordination among Business Managers

Competing requirements from different functions internally can negatively impact supply chain sustainability. A wide variety of functions needs to work together to align their business requirements with the supply chain sustainability objectives that the company has committed to. They should therefore ensure that the company’s requests meet realistic expectations that encourage suppliers to maintain the required level of performance on sustainability.

HP’s Supply Chain Responsibility governance system clarifies reporting and responsibility across relevant HP businesses and functions. All HP businesses sponsor and support the Supply Chain Responsibility program through the Supply Chain Board, which meets monthly and reports directly to the HP Executive Council.

Supply chain governance structure



¹¹ See: *A New Agenda for the Board of Directors: Adoption and Oversight of Corporate Sustainability*, which contains inspiration and recommendations for Boards of Directors on adoption and oversight of corporate sustainability (<https://www.unglobalcompact.org/library/303>).

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

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

In addition to supply chain management professionals, product design, business development, legal, human resources/diversity and inclusion, finance risk and strategy, logistics, marketing and sales can all impact supply chain sustainability. Companies should consider how to bring together cross-functional representatives, as illustrated in the figure below, to get a clear picture of impacts and where they arise in company decision making.

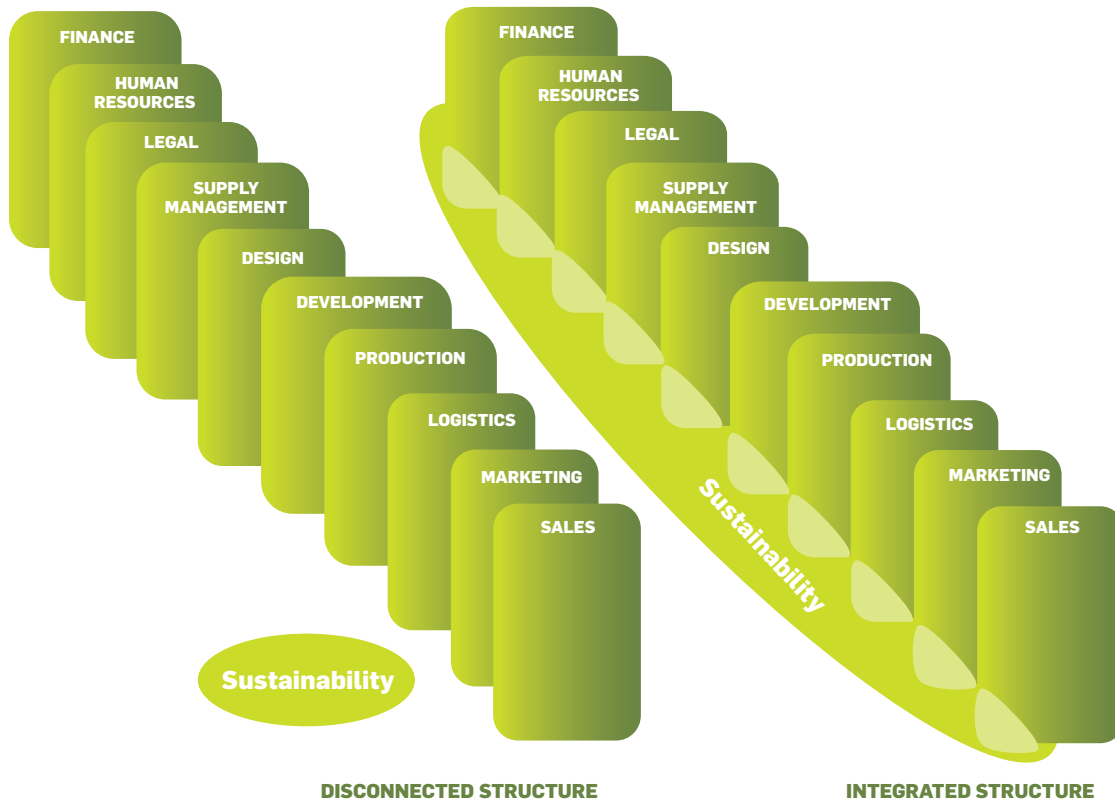
It is important that individual roles and responsibilities within the business are specified so that individuals can assume responsibility for implementing and meeting the vision and milestones set out by executives. These objectives should be backed by incentives and consequences.

Sustainable supply chain personnel should also provide input to strategic planning processes in functions throughout the company. To build sustainability into decision making processes, sustainability expertise should be

embedded in, or available to, every team with an impact on the supply chain.

Grupo Los Grobo, an agribusiness company with operations throughout South America, has established a supply chain committee led by the company's CEO and coordinated by the manager of supplies & outsourcing. Other participants include designated representatives of each of the areas of the company that have a strategic relationship with suppliers (outsourcing for commodity production services, logistics, agricultural inputs, etc.). This committee is responsible for establishing and setting objectives and goals through the design of a strategic plan. Objectives are checked and, if necessary, set every year. The results are analyzed and a new strategic plan is formulated. One of the latest things to be incorporated in strategic planning is the use of the ONUDI "supplier development platform". This committee interacts with more than 5,000 small and medium sized supply companies.

INTEGRATING SUSTAINABILITY ACROSS FUNCTIONS¹²



¹² From BSR.

The General Counsel of **Barrick Gold**, a global mining company based in Canada, was the primary author of the company's human rights policy, developed in consultation with a variety of internal stakeholders and external experts including leaders in the supply chain and sustainability groups. Following the development of the policy, legal counsel has assisted colleagues in the supply chain function to understand how human rights fits within supply chain policies, processes and activities. This is part of a comprehensive effort to ensure that each group within the company understands its actual and potential human rights impact. As a result, supply chain staff revised its Supplier Code of Ethics to include a greater focus on human rights and the overall Ten Principles of the UN Global Compact. This culminated in human rights due diligence becoming part of the supply chain's vendor onboarding standard and human rights audit protocols being used to evaluate potential suppliers.

Implementation by Supply Chain Management Professionals

Depending on the structure of the company, the group of individuals with the most direct contact with suppliers, referred to throughout this guide as supply chain management professionals, in most cases will have the most responsibility for communicating sustainability expectations to suppliers and holding suppliers accountable for meeting the company's expectations. In some cases a dedicated sustainable procurement manager directly reporting to the Chief Procurement Officer can be allocated. Sustainability performance objectives can also be embedded into buyers' performance objectives. Capacity building of procurement staff can be integrated into existing training programmes.

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

1. Selection of new suppliers with relatively high sustainability capabilities and practices
2. Working with existing suppliers to set and raise expectations and ensure continuous improvement in performance
3. Incorporate sustainability considerations when consolidating purchases and winding down product lines
4. Creation and communication of incentive processes to encourage suppliers to proactively own their sustainability programme.

SELECTING SUPPLIERS

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

Environmental and social criteria can also be integrated in a request for proposal (RFP) and ask potential suppliers to provide related information during the bidding process. A RFP can thus link social and environmental criteria along with quality and financial performance into a competitive offer.

WORKING WITH EXISTING SUPPLIERS ON CONTINUOUS IMPROVEMENT

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

- **Mutual transparency.** Companies should expect that suppliers will openly and honestly share information related to their sustainability performance. In return, companies should provide clear expectations and guidance as well as advanced notice of changing policies or practices to suppliers.
- **Realistic timelines.** Companies should carefully consider what their minimum requirements are, e.g. legal compliance, and what is a realistic timeline for improvements that go beyond the minimum requirements. In identifying appropriate timelines, companies should take into account the severity of identified risks — where risks are severe or impacts may be irremediable (such as, for example, permanent damage to land or

Relevance of Sustainability to Supply Management Professionals

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

— Institute for Supply Management



instances of child labour in the supply chain), suppliers will typically need to demonstrate that such risks are addressed more quickly. Collaboration with peers or audit firms is also important to communicate aligned timelines and send a consistent message to suppliers.

- **Continuous improvement.** Companies can work with suppliers toward management excellence for sustainability and should define excellence in this context. Companies can also help suppliers develop management capacity by providing access to resources.
- **Partnership.** Companies should commit to enabling open lines of communication with suppliers between decision makers of both parties. Customers can work in partnership with suppliers to clearly define roles and responsibilities and to create and achieve mutually agreeable goals.

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

INTEGRATION SUPPORT

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

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

The **Center for Sustainable Procurement (CSP)** is a BSR initiative focused on enabling sourcing, procurement and purchasing professionals to make more sustainable procurement decisions across industries and categories. The CSP's mission is to help buyers understand the value of sustainability to procurement and build buyer capabilities to make sustainable procurement decisions. Established in 2012, the CSP conducts research and works with companies to develop resources, tools, methods and processes to integrate sustainability into the procurement process.

Volkswagen Group, a German automaker, formulated its "Sustainability in Supplier Relations" programme in 2006 and has since gradually introduced this approach into corporate structures across the Group, as well as into production-related purchasing processes. The concept of sustainability in supplier relationships is comprised of three main pillars aimed at minimizing and/or preventing negative social, environmental and financial impacts along the supply chain:

- 1) An early warning system that identifies and minimizes risks along the supply chain.
- 2) Contractually mandated integration of the sustainability standards in the procurement process.
- 3) Supplier monitoring and development.

As an integrated part of this programme, both procurement staff and suppliers are offered online and in-person trainings on sustainability topics and suppliers are asked to fill out a self-assessment questionnaire. Additionally, suppliers can contact an email address when issues arise, and an "ad-hoc-expert" from the related department within Volkswagen will offer direct assistance and coaching to meet the requirements. Information is also made available to suppliers as a standard step in the procurement process.

In 2014, **Ford Motor Company** trained 175 new purchasing employees on Supply Chain Sustainability fundamentals. The company additionally provided training to the global Supplier Technical Assistance (STA) team on the fundamentals of its Human Rights and Working Conditions programme as these personnel interact with supplier plants on a regular basis. STA training reached almost 1,400 individuals globally and, by the end of 2015, Ford plans to train the broader Purchasing community.



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

– Federico Bernaldo de Quiros, CEO, Restaurantes Toks



7. Industry Collaboration and Multi-Stakeholder Partnerships

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

There are risks and opportunities to industry collaboration and multi-stakeholder partnerships that should be considered early in the development of the company's programme.

The Context for Industry Collaboration

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

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

For suppliers that work with multiple customers with their own codes, each may have its own unique approach for supplier engagement and monitoring. This can create a significant burden for suppliers that can divert resources from compliance and continuous improvement.

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

Gap Inc., an American clothing and accessories retailer, has executed a large-scale rollout of the Sustainable Apparel Coalition's Higg Index 2.0 at the third-party vendors that make its branded apparel. Gap Inc. first began working with a targeted group of seven vendors (representing approximately 50 facilities) in India to benchmark water use performance. The results quickly highlighted those facilities using best water management practices, which Gap Inc. then shared anonymously with other participating facilities. With this information, vendors and their facilities are able to more clearly understand their performance relative to competitors and peers, and learn what measures other facilities are taking or investing in to reduce their environmental impact.



Opportunities and Risks of Industry Collaboration

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

OPPORTUNITIES

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

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

RISKS

There are also some risks to industry collaboration to consider:

- **Internal commitment.** Industry collaboration can be challenging for some companies and could threaten the company's ability to get internal commitment to supply chain sustainability, particularly if potential partners in industry collaboration are seen as competitors or at markedly different stages of supply chain sustainability. To ensure buy-in, the company should get a clear understanding of which companies it will be partnering with and what their expectations are.
- **Resource draining.** While industry collaborations have the potential to create cost and time efficiencies for participants, they also require investment and may not always deliver results. For example, initiating shared action with partners and agreeing to common expectations and engagement processes can be quite time intensive, and these efforts may take significant amounts of time to mature and create substantial impact.
- **Unwillingness to change course.** For collaborative efforts that are more established, there is a possibility that internal colleagues or external partners will be unwilling to change approaches to get alignment.
- **Antitrust.** Part of the activities of industry collaborations require representatives of relevant companies in the same sector to hold meetings on various issues of common interest. Such gatherings may lead to inadvertent violations of antitrust laws if sensitive topics, such as prices and commercial strategies, become part of the discussion. Reading an antitrust statement that includes prohibited subjects of discussion at the beginning of each meeting can help minimize risks of antitrust liability.

PARTIAL LIST OF INDUSTRY COLLABORATIONS¹³

AIM-Progress

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

Pharmaceutical Supply Chain Initiative

The Pharmaceutical Supply Chain Initiative (PSCI) is a group of major pharmaceutical companies who share a vision of better social, economic and environmental outcomes for all those involved in the pharmaceutical supply chain. The PSCI created the Pharmaceutical Industry Principles for Responsible Supply Chain Management. These Principles address five areas of responsible business practices: ethics, labor, health and safety, environment and management systems.

Business Social Compliance Initiative (BSCI)

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

Railsponsible

Railsponsible is an industry initiative focused on sustainable procurement, with the aim to continuously improve sustainability practices throughout the railway industry supply chain. The initiative is open to all railway operators and companies across the railway industry value chain, along with key industry associations, that share its vision, mission and commitments.

Electronics Industry Citizenship Coalition (EICC)

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

Ethical Trading Initiative

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

Global Social Compliance Programme (GSCP)

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

Fair Labor Association

FLA is a multi-stakeholder initiative made up of companies, universities and civil society organizations dedicated to improving conditions for workers around the world. Participating brands and suppliers (including apparel, footwear, electronics and agriculture companies) commit to the FLA Workplace Code of Conduct, and the FLA has created a process for workplace assessment, remediation, verification and investigation of third-party complaints to ensure that companies are meeting the code's standards.

ICTI-Care

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

Social Accountability International (SAI)

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



¹³ For information on industry collaborations, partnerships and initiatives, visit the UN Global Compact's portal Sustainable Supply Chains: Resources and Practices at https://www.unglobalcompact.org/docs/about_the_gc/Architecture.pdf.

The Importance of Partnerships to Implement the Post-2015 Development Agenda¹⁴

Partnerships can help optimize and scale up sustainability efforts in the supply chain as well as contribute to corporate participation in the broader multi-stakeholder efforts to achieve UN goals. This collaboration requires engagement and co-investment by a broader group of business partners and key stakeholders to further strengthen the various global and local initiatives and platforms that have been developed. Through partnerships and the pooling and sharing of resources, these opportunities can be fully realized for the benefit of all. There is an increasing number of platforms and initiatives focused on sustainability, or on a particular sustainability challenge, that companies can join, including business sector initiatives, Global Compact Local Networks and UN-led multistakeholder partnerships such as Sustainable Energy for All or Every Woman and Every Child.

De Beers, a diamond mining company with headquarters in Luxembourg and a presence in locations including London and Johannesburg, works with other organizations in the industry to address a range of historical challenges including conflict diamonds, a lack of commercial transparency and improving working conditions in factories in major cutting and polishing centres. Although the Kimberley Process Certification Scheme and the World Diamond Council System of Warranties were launched in 2003 to address the issue of conflict diamonds, no single standard existed to verify full ethical practices throughout the diamond pipeline addressing social, employment, business, health and safety, and environmental issues. De Beers saw an opportunity to establish a benchmark for best practice not only within the diamond mining sector, but also through the cutting, polishing and jewellery manufacturing pipeline. To this end, De Beers launched the Best Practice Principles (BPP) Assurance Programme in 2005 and made compliance to the standard a contractual condition of supply to De Beers' customers and a requirement for all entities within the De Beers Group.

Multi-Stakeholder Partnerships

In addition to collaborating with industry peers, many companies are recognizing the value of working with a broader range of stakeholders. Chapter 2 described a range of groups that could provide input on the company's supply chain sustainability strategy, including national and local governments, workers' and employers' organizations, non-governmental organizations, advocacy and activist organizations, academic and issue experts, community groups and stakeholder groups, such as women, indigenous people, minorities, elderly and persons with disabilities. Many of these groups are knowledgeable about sustainability issues and can be useful partners, beyond just sharing perspective and advice, by working closely to address supply chain challenges. For example, entering into multi-stakeholder partnerships with organizations that promote women's participation in the supply chain can promote their inclusion in the company's supply chain.

In recent years, more and more stakeholder groups have demonstrated willingness to partner with companies. They can assist with understanding the context for sustainability challenges, help with designing effective responses and act as local implementing partners. They can also bring a wealth of information on best practices and learning from other companies who have faced similar issues in the supply chain. In addition, they can bring resources and legitimacy to supply chain sustainability efforts.

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

Many companies have created cost efficiencies by undertaking efforts to reduce accidents and illnesses and improve the overall health of workers in their supply chains. **Levi Strauss & Co.**, a U.S.-based apparel company, has implemented a number of worker rights and well-being programmes, such as health education training programmes at its suppliers' factories in partnership with civil society organizations. These programs are designed to improve worker well-being and ensure worker rights are respected and have also helped suppliers achieve savings through increased productivity and reduced absenteeism. Additionally, Levi Strauss & Co. includes workplace standards and worker rights as an integral part of all bilateral, regional or multilateral trade negotiations. Levi Strauss & Co. publicly advocates for linkage of trade and labor, incorporating key workplace standards and worker rights provisions within the context of trade agreements through congressional testimony, meetings with senior government officials, trade negotiations and multi-stakeholder initiatives.



¹⁴ For more information, see *Architects of a Better World: Building the Post-2015 Business Engagement Architecture* (2013), available at <https://www.unglobalcompact.org/resources/441>.

Accord on Fire and Building Safety - The Accord on Fire and Building Safety in Bangladesh (the Accord) is a five year independent, legally binding agreement between global brands and retailers, NGOs and trade unions. With more than 200 signatories and over 1,500 factories covered by the agreement, the Accord is designed to maintain a minimum safety standard in the Bangladeshi garment industry. The aim of the Accord is the implementation of a programme for reasonable health and safety measures to ensure a safe and sustainable Bangladeshi Ready-Made Garment industry over a period of five years. The Accord was signed on 15 May 2013, in the aftermath of the Rana Plaza Building collapse that led to the death of more than 1,100 people and injured more than 2,000. It is governed by a Steering Committee equally composed by signatory companies and trade unions with a neutral Chair provided by the International Labour Organisation (ILO). The Accord is implemented through six key components, including an independent inspection programme supported by companies in which workers and trade unions are involved. To date, all 1,500-plus factories covered under the Accord have been inspected for fire, electrical and structural safety. In some cases, the Accord has acted immediately where inspections found safety problems which posed imminent danger to workers' lives. In all factories, the signatories and factories are developing and implementing Corrective Action Plans to remediate all identified safety hazards. Other integral components of the Accord are a comprehensive worker participation programme with workers and factory owners and a safety and health complaints mechanism.

- **N Brown Group**, a UK-based retail company, was the first medium-sized company to sign the Accord on Fire and Building Safety in Bangladesh as one of the founding participants. The company has been part of the Accord's Steering Committee, participated in two delegations to Bangladesh and represented the Accord at a number of events. The company will continue to invest time in the partnership as it is a concrete example of how to work together to improve worker safety in the garment industry in Bangladesh

- **Inditex**, a Spanish multinational retail company, is a signatory of the Accord on Fire and Building Safety in Bangladesh as part of its commitment to open dialogue and ongoing cooperation. The company was one of the first signatories and participated actively in drafting the Accord. Inditex also served in the Accord's Steering Committee together with other business representatives, NGOs and unions. Inditex considers the Accord a pioneering agreement to bring about sustainable improvement in working conditions in Bangladesh's textile sector.

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

— Jon Fredrik Baksaas, President & CEO of Telenor

GLOBAL COMPACT LOCAL NETWORKS

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

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

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

The Global Compact Network Spain has organized several trainings, conferences and roundtables around supply chain sustainability topics. Since 2011, the Network has developed several partnership agreements with large companies aimed at reinforcing their commitment to sustainability and the UN Global Compact Ten Principles throughout their supply chain. This collaboration engaged suppliers of these companies in a number of activities, including: development of in-person and online training sessions, access to a reporting platform to assist in drafting and submitting their annual Communication on Progress (COP) to the UN Global Compact and access to consultations with a CSR specialist to address specific issues. Several companies have partnered with the Network on this project and encouraged more than 1,000 suppliers to become participants of the UN Global Compact. In 2009, it also published a guide on implementing the Ten Principles in the company's supply chain.

http://pactomundial.org/wp-content/uploads/2015/03/Cadena_suministro-alternativa-de-gesti%C3%B3n.pdf

The Global Compact Network Japan has convened a Working Group on Supply Chain Management in which more than a dozen Japanese companies from different sectors participate. In 2013, the members of the Working Group published a *Vision of Desirable CSR Activity in the Supply Chain – a Proposal from the Supply Chain Working Group* on how companies can engage more effectively with suppliers and realize the win-win-win potential of sustainable supply chain management – for buyers, suppliers and societies.

<http://www.ungcjp.org/activities/topics/detail.php?id=117>

The Global Compact Network Italy and its Sustainable Supply Chain Working Group developed a self-assessment questionnaire for suppliers based on the UN Global Compact Ten Principles as well as international agreements, conventions and standards. The questionnaire was uploaded to an online platform: the TenP – Sustainable Supply Chain Self-Assessment Platform, a tool to support companies in self-evaluating their sustainability strategies and practices, tracking their progresses, benchmarking their sustainability performances against peers and sharing the self-assessment results with the TenP Platform Partners being able to monitor who has access to their data. The tool is publicly available on the Italian Network's website.

<https://www.tenp.globalcompactnetwork.org/PortaleGCNI/>

The Global Compact Network Germany has supported the development of the Sustainability Compass, a one stop shop for companies who wish to align their procurement practices with international sustainability standards. The Sustainability Compass, which is available in German, offers guidance to SMEs on how to identify risks in their supply chain and address them. It also includes best practices by other companies as well as a list of internationally recognized tools and standards.

<http://kmu.kompass-nachhaltigkeit.de/>



8. Establishing Goals & Tracking and Communicating Performance

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

The Process of Goal Setting

Goal setting should be a collaborative process that involves leadership from each of the functions that will have responsibility for meeting established objectives of effectively preventing and addressing adverse social and environmental impacts. It is also important to align sustainable supply chain objectives with business needs, whenever that is possible. Review the company's business strategy and objectives and identify places where the supply chain objectives that the company has defined support the company's overall business objectives. The company's executive leadership should endorse the goals.

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

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

Goals for Impact

Along with setting goals designed to address social, environmental and governance issues in the supply chain, companies have the opportunity to have positive impacts on people, the environment and governance through their supply chain. Goals for impact should be adapted to the risks in the supply chain and be developed to help the company address such risks. Furthermore, based on the company's vision for supply chain sustainability, objectives for business impact should be fairly straightforward. These can include meeting customer and other stakeholder expectations, reducing costs and expanding into new markets.

When setting goals for impact, companies should pay particular attention to how specific groups may face different risks or impacts than others, for example due to marginalization in society. Companies should set goals that can track and measure how the supply chain programme addresses impacts on specific stakeholders groups, including women, children, persons with disabilities, elderly, minorities and indigenous people. The goal-setting process can also be an opportunity to identify ways to support human rights and inclusiveness; where applicable, companies should also set targets for the inclusion of the relevant stakeholders groups in the supply chain.



Restaurantes Toks operates 130 restaurants in 84 cities throughout Mexico, providing more than 10,000 jobs and serving more than 25 million consumers each year. In an effort to integrate poor rural communities into its supply chain, the company has initiated a project working with a strawberry marmalade production group formed and managed by 13 women in Santa Rosa de Lima in Central Mexico. In 2005, the per capita income in Santa Rosa de Lima was less than \$US 60 per month, and the town's population was disproportionately female due to high rates of illegal immigration by men to the United States.

Restaurantes Toks has incorporated strawberry marmalade supplied by the Santa Rosa de Lima Enterprise into its menus, successfully integrating the community into the company's supply chain. Before beginning to sell to Restaurantes Toks, the Santa Rosa de Lima Enterprise provided an income of \$US 2,500 to all the families in the community. The Santa Rosa de Lima Enterprise now sells more than \$US 500,000 worth of strawberry marmalade to Restaurantes Toks each year, radically increasing the community's per capita income. Furthermore, Restaurantes Toks is working with the company to increase production capacities to enable it to enter additional markets.

Due to the demonstrable impact of this model on protecting and promoting human and economic rights, Restaurantes Toks has duplicated the approach with 40 other community food and handicraft production groups.

Goals for Supplier Performance

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

Goals for suppliers should be formulated with inputs from management across functions, especially supply chain management, to ensure broad commitment and realistic goals. They should establish objectives for overall supplier performance against the expectations

set by the company and adapted to address specific risks that may be relevant to particular suppliers or parts of the supply chain. Goals should enable the company to track how successful the supplier is at addressing relevant risks over time. For example, companies often set goals for the number of suppliers completing corrective action plans after they've been audited (see Chapter 5). Companies should also set goals for performance in specific areas such as human rights, labour, environment, ethics and supplier management systems of suppliers—the internal policies, practices and organizational structures that enable suppliers to proactively manage for sustainability.

Goals for Internal Performance

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

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

One of the key objectives of **Montepaschi Group** is to embed the principles of its Sustainable Supply Chain programme within its standard sourcing processes. For some years, the Bank has practiced a policy of monitoring and continuous improvement of the CSR profiles of firms included in its supply chain. It implements product and service procurement strategies under competitive economic conditions, ensuring that throughout the related life cycles environmental impacts are minimised and all potential violations of human rights and workers' rights as well as rules to prevent corruption and conflicts of interest are avoided. The objectives that the Montepaschi Group pursues by implementing this policy are: 1) identifying opportunities to minimize environmental and social impacts in the supply chain; 2) contributing to reducing operational and compliance risk and consequences impacts to our reputation; 3) improving the management of costs associated with procurement processes and logistics aspects; 4) promoting the growth of suppliers, stimulating innovation in sustainable products and processes.

Measurement Processes and Practices

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

WHAT DATA TO COLLECT

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

SUPPLIER DATABASES

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

Suppliers Ethical Data Exchange (Sedex): Sedex (sedexglobal.com) works with buyers and suppliers around the world to deliver improvements in responsible and ethical business practices in global supply chains. Sedex's mission is to drive collaboration, increase transparency and build the capacity that's needed to raise standards across all tiers of the supply chain. Sedex has over 38,000 members worldwide and offers the world's largest collaborative platform for managing and sharing ethical supply chain data, along with leading-edge services which companies use to understand, monitor and manage supply chains risks and improve standards.

Ecovadis: EcoVadis operates the Supplier Sustainability Ratings platform, an online system allowing companies to access CSR ratings of suppliers covering 21 indicators and 150 spend categories. Over 120 multi-national companies are using EcoVadis to assess and improve environmental, social and ethical practices of thousands of suppliers across 110 countries.

tion on the same topics it is captured in a unified way. Where data is collected about addressing specific social or environmental risks, or risks to a specific stakeholder group, it is good practice to involve the relevant impacted group in defining what data to collect and how to collect it. Whenever possible, companies should also include collection of sex-disaggregated data for analysis, measurement and measurement of progress on inclusive sourcing.

HOW TO COLLECT DATA

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



In addition, transparency of supplier information across functional and organizational boundaries is often limited, and companies often struggle with a lack of effective communication and understanding between companies and their suppliers on the information they need to exchange. Many companies are exploring information technology platforms that will enable comprehensive data collection and management. Cross-functional business managers can be helpful in aligning internal systems and processes. Collaboration with suppliers may also be useful since they will be inputting data and may be more inclined to engage with the company's programme if they feel that they've had a hand in shaping it. As far as possible, companies should strive to consult with impacted groups to collect data, so as to understand whether interventions are successful in addressing risk from their perspectives.

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

HOW TO USE DATA

Finally, the company needs to plan for how data will be used. Companies must be ready to share at least some of their data externally, including in the form of public reporting, which will be analyzed more in-depth in the next section. As data is collected over time, the company's executive leadership should receive regular updates on progress. Supply chain management professionals in particular will use much of the data on supplier performance in decision making as described in Chapter 3. All communications should be of a form and frequency that reflects the company's social and environmental impacts and are accessible to stakeholders. They should also include necessary details for stakeholders to evaluate how the company addresses those impacts while being framed in a way that would not put affected stakeholders or personnel at risk or expose commercially sensitive information.

Johnson Controls Inc., an American instrumentation company, has created a Supplier Sustainability Rating to quantitatively measure a supplier's environmental impact. The questionnaire contains questions related to human rights, working conditions, employee safety, energy management, if the supplier is publicly reporting data such as its greenhouse gas emissions and, specifically, if the supplier is reporting to the Carbon Disclosure Project. The questionnaire is completely electronic and resides on Johnson Controls' public website so that all suppliers have easy access to the questionnaire. Once suppliers complete the questionnaire, the respective Procurement managers are provided the results. The managers then determine the ranking of the supplier and, as appropriate, work with the supplier to ensure they are fully compliant with the expectations defined by the company's Ethics Policy. Johnson Controls has policies and procedures in place for removing unethical suppliers from its approved vendor lists if they don't or won't comply.

Timberland, an American footwear company, has created a "Green Index" environmental rating system that measures and communicates critical aspects of environmental performance in a simple format to inform product design and development. The Green Index rating system drives alignment of product design and development with Timberland's corporate environmental strategy. The company aims to reduce impacts in three broad areas: climate, chemical use and resource consumption. By providing clear environmental measures in these areas, product creation teams can choose processes that require less harmful chemicals and increase the use of less carbon-intensive materials, as well as recycled, organic and renewable materials.



Communicating Progress And Reporting

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

Companies should be prepared to communicate publicly on how they address risks where concerns are raised by or on behalf of affected stakeholders. Where a company may have a high-risk supply chain, for example if it is dependent on sourcing from conflict-affected areas, companies should report formally on how supply chain risks are addressed.

UN Global Compact signatories are furthermore required to publicly communicate with stakeholders on an annual basis on their progress in implementing the ten principles. This annual communication, or Communication on Progress (COP), is an important demonstration of the company's commitment to the UN Global Compact and its principles. Depending on the level of disclosure, each COP is categorized as GC Learner, GC Active or GC Advanced. Information on a number of specific areas beyond those minimum requirements will account for a GC Advanced level.

Beyond the COP, sustainability reporting is the most common way for companies to communicate progress with stakeholders. Sustainability Reporting is the practice of measuring and disclosing, and being accountable to internal and external stakeholders for organizational performance towards the goal of sustainable development. Sustainability reporting is a logical last step after having implemented a supply chain sustainability approach and, as the process requires companies to consider their progress against goals and to be transparent to stakeholders, will help to improve it continuously.

Many companies report using the GRI framework, one of the world's most widely used standards for sustainability reporting. GRI is one of the recommended reporting languages for UN Global Compact participants to communicate with stakeholders on their progress in implementing the UN Global Compact Ten Principles. The last iteration of the GRI framework, the G4, includes Standard Disclosures related to supply chain.

While traditionally sustainability and financial reporting have been kept separate, it should be noted that integrated reporting is emerging as a way to combine information on the company's environmental, social and ethical performance with financial information. The International Integrated Reporting Framework establishes Guiding Principles and Content Elements that govern the overall content of an integrated report and explain the fundamental concepts that underpin them.

In all cases, communication should be of a form and frequency that is commensurate with risks and impacts and be accessible to the intended audience. As mentioned above, communication should be sufficient for stakeholders to evaluate the adequacy of a company's response to address risks, but should not pose risks to affected stakeholders, personnel or legitimate requirements of commercial confidentiality.

EXTERNAL ASSESSMENT OF SUSTAINABILITY REPORTS

When all data has been collected, it is important to ensure its credibility before disclosing it to the public. External assessment, a review by a credible third party of the information in the sustainability report, can strengthen the value of the reported data as well as drive improvements in corporate sustainability performance. There are two ways to conduct an external assessment: assessment by stakeholders, through a stakeholder panel or peer review, and third-party assurance providers, specialized professionals such as sustainability service firms, engineering firms, accountants and consulting firms. When possible, the use of third-party assurance providers is recommended as the best suited to ensure reliability and accuracy of the information reported.

Companies reporting at the GC Advanced level not only disclose information against advanced criteria and best practices, but also use some type of external assessment for their reports.

Acknowledgements

A wide range of stakeholders were consulted throughout the revision process of this guide including UN Global Compact staff, UN Global Compact Local Network focal points, UN Agencies, issues experts and civil society and members of BSR staff. We wish to thank the following individuals for taking the time to review and comment on the drafts of this revised version of the guide:

Ms. Lene Wendland, Head of Business and Human Rights and Ms. Ragnhild Handagard, Consultant on Business and Human Rights, Office of the High Commissioner for Human Rights (OHCHR); Mr. Michael Rohwer, Project Director, Electronic Industry Citizenship Coalition (EICC); Ms. Beth Jensen, Director of Corporate Responsibility and Ms. Nikki Hodgson, Corporate Responsibility Coordinator; Outdoor Industry Association (OIA); Mr. David Lawrence, Executive Director, AIM-Progress; Ms. Isabel Garro Hernandez, General Director and Ms. Cristina Sanchez Garcia, Project Coordinator, Global Compact Network Spain; Ms. Margherita Macellari, Programme Manager and Analyst, Global Compact Network Italy; Mr. Philip Bleckmann, Economy and Human Rights Advisor, GiZ/Global Compact Network Germany; Mr. Philip Hunter, Program Director, Verité; Mr. Pierre-Francois Thaler, Executive Director and Mr. Simon Gargonne, Senior CSR Analyst, EcoVadis.

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The Ten Principles of the United Nations Global Compact

HUMAN RIGHTS

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

LABOUR

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

ENVIRONMENT

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

ANTI-CORRUPTION

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

