

SUPPLY CHAIN SUSTAINABILITY

A Practical Guide for Continuous Improvement for Small and Medium Enterprises

Supply chain sustainability is increasingly recognized as a key component of corporate responsibility, and customers and investors are beginning to set expectations for small and medium enterprises (SMEs). These may add to existing expectations, internal to SMEs, found in contract terms with suppliers or implicit in supply relationships. Effective management of the social, environmental and economic impacts of supply chains makes good business sense, but the challenge for many SMEs is efficiently utilizing existing resources to comply with existing and emerging regulations, meet stakeholder expectations and reach internal sustainability goals. To navigate this complex terrain, we offer a few baseline definitions and practical steps that SMEs 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 value for all stakeholders involved in bringing products and services to market.

WHY IS SUPPLY CHAIN SUSTAINABILITY IMPORTANT?

There are numerous reasons why companies start a supply chain sustainability journey. Primary among them is to ensure compliance with laws and regulations, to meet customer requirements, to differenti-

ate themselves and to support international principles for sustainable business conduct. In addition, companies are increasingly taking actions that result in better impacts because there are business benefits to doing so.

WHAT STEPS CAN MY COMPANY TAKE?

The recommended steps summarized below are based on the Global Compact Management Model, which is a flexible framework for continuous improvement for the mainstreaming of the Global Compact into strategies and operations. The steps described below are not linear. Rather they represent complementary actions that companies can take in order to achieve more sustainable supply chains.



COMMIT Understanding the External Landscape

Identify priority supply chain issues, evaluate risks and opportunities and build internal support.

- Understanding the Expectations of Stakeholders: Seek input from customers and investors. Invest in understanding the expectations of national and local governments, workers' and employers' organizations, NGOs, advocacy and activist organizations, academic and issue experts and community groups, as well as suppliers themselves.
- Benchmarking Against Peer Companies: Understand human rights, labour, environment and governance risks, opportunities and impacts and the resulting supply chain focus. Learn internal structures for managing supply chain sustainability, codes of conduct, approaches to engaging with suppliers, metrics, and reporting practices.
- Identify collaborative initiatives and opportunities.

Developing the Business Case

Supply chain sustainability management practices that respond to multiple drivers maximize value.

- Managing Risk: Protect your company from supply chain interruptions or delays. Improve brand value and reputation.
- Realizing Efficiencies: Reduce your company's supply costs while also reducing the environmental footprint of your supply chain. Improve worker health, motivation and productivity.
- Creating Sustainable Products: Collaboration with suppliers on sustainability issues can foster innovation to meet evolving market requirements.

Establishing a Vision

- Having a clear vision and objectives for your company's supply chain sustainability programme will provide direction for your strategy, help define your company's commitment, and act as a yardstick



in evaluating success. In crafting a vision statement, ask: What is the company hoping to achieve? What are some long-term outcomes you want to work toward? How will a sustainable supply chain support your company's business strategy?

- Adopting or Writing a 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. For many companies, a supplier code of conduct is a natural extension of corporate values statements and seen as an affirmation of existing expectations rather than a new set of requirements. A guide to key steps in development of a code is available through the UNGC website



ASSESS

Many companies chose to map their supply chains. This allows them to focus on key, strategic, and high-risk suppliers to identify which suppliers to engage with and to what extent. Note that programme boundaries tend to change over time.



DEFINE Raising Awareness

Many companies use their codes of conduct to raise awareness of expectations for sustainability performance through existing customer-supplier communications.

Monitoring and Assessments

A monitoring system establishes baseline measurements and assesses recent and current performance relative to a minimum. Monitoring can be conducted via supplier self-assessments or audits.

Remediation and Capacity Building

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



IMPLEMENT

Two of the most persistent challenges to supply chain sustainability are a lack of resources and an unresolved tension between commercial and sustainability objectives.



COMMIT

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

ASSESS

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

DEFINE and IMPLEMENT

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

MEASURE and COMMUNICATE

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

- Use the resources currently available. The avenues for addressing supply chain sustainability may already exist in current supplier relationships.
- Executives should clearly articulate the company's vision and approach to supply chain sustainability, and regularly review progress against objectives.
- Objectives should be backed by incentives and consequences.

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

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

Industry Collaboration & Multi-Stakeholder Partnerships

Collaboration and partnerships are important tools for advancing your company's supply chain sustainability objectives, particularly for issues that are too challenging and complex to tackle alone. Collaboration can increase the impact and overall efficiency of your company's efforts by extending your reach, pooling resources, reducing duplication and avoiding conflicting messages. Business can also work with local authorities to support local efforts and improve capacity to address the root causes for sustainability challenges. It is important, however, to evaluate both the opportunities and risks of collaboration.



MEASURE AND COMMUNICATE

Establishing Goals & Tracking and Communicating Performance

Goal setting should be a collaborative process that involves leadership from each of the functions that will have responsibility for meeting established objectives. It is also important to ensure sustainable supply chain objectives are aligned with business needs.

Communicating Progress and Reporting

Reporting can be a tool to stimulate and enhance sustainability and transparency in the supply chain. It also demonstrates the management of environmental and social impacts and the assurance of good governance in the supply chain to both internal and external stakeholders. An effective report should address all stakeholders simultaneously and eliminate the need for duplication.

UN Global Compact sustainable supply chain resources can be accessed at: www.unglobalcompact.org/Issues/supply_chain