

# Supply Chain Moves Into the Spotlight

As sustainability strategies have evolved, more and more companies have recognized that their supply chains are a critical aspect of their corporate responsibility profile.

Traditionally the focus was on quality, efficiency and cost. A few years ago, the primary concerns of the sustainability community and socially responsible investment funds were human rights in the workplace, including worker conditions, hours, child labor and similar issues.

The companies who addressed these issues and developed programs to examine their performance saw a genuine benefit in terms of attractiveness to investors and consumers – and often identified new opportunities and efficiencies.

Now companies are expanding their supply chain programs to address environmental concerns – from water intensity and emissions to supply side carbon footprints. With this expanded base of factors to be considered, sustainability teams need to develop new partnerships both within and outside their organizations.

Closer collaboration between your procurement and sustainability teams provides the first building block of an effective supply chain strategy. Purchasing agents have a series of business objectives to consider as they evaluate vendors – and these may be at odds with CSR goals. A primary focus, for example, on cost or pressure to ramp up production on very short notice can easily translate into supplier shortcuts that work against your sustainability aspirations.

Understanding these factors – and looking closely at procurement policies -- will help your teams to begin to identify the areas of possible improvement.

Engagement with external stakeholders, while often challenging, can provide your organization with a knowledgeable circle of advisors as you address these issues. A number of NGOs specialize in factory and supply chain issues and the best can offer a reality check on your practices – and a clearer view of what improvements are possible. This external push often helps to generate the needed momentum to gain buy-in from managers across your organization.

Industry coalitions also provide new opportunities for improvement. While competitive issues and traditional reticence can make working with others in your industry difficult, it also offers the potential for key efficiencies through harmonized factory standards and audit programs.

Along with factory audits more and more companies are using supplier questionnaires and surveys to gain information on core social and environmental compliance. For many companies, this effort employs a standard set of queries for each supplier – from whether they have specific product certifications to whether they produce their own sustainability reports. The latest developments in this area include a move to certification programs using third party organizations to provide assurance for these supplier submissions. There are not yet however commonly accepted standards and companies will still have to evaluate their options carefully in selecting such an outside program.

One external development which companies will want to take a close look at is the new section of the GRI G3.1 which includes specific information on supply chain human rights factors. Launched in late March, this new version of the reporting framework addresses incorporates recommendations of the Human Rights Working Group. These new GRI indicators include:

- Percentage of significant suppliers, contractors, and other business partners that have undergone human rights screening, and actions taken.
- Operations and significant suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and actions taken to support these rights.
- Operations and significant suppliers identified as having significant risk for incidents of child labor, and measures taken to contribute to the effective abolition of child labor.
- Operations and significant suppliers identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of all forms of forced or compulsory labor.



Responses to the Carbon Disclosure Project's Supply Chain program are also increasing in importance with participating companies doubling in number from 2009 to over 600 in 2010. The CDP notes that some of the benefits participating companies identify include:

- Increased awareness of emissions hot spots in order to begin to reduce them
- Cost savings by identifying areas where there is scope for energy efficiencies
- Ability to benchmark against peer groups and showcase successes
- Business protection by understanding the risks from climate change

These expansions of the boundaries of sustainability clearly present new challenges for corporate management – but like all aspects of evolving sustainability practice, these challenges are balanced by a greater understanding of the risks and opportunities for your company.

Managing this expansion of sustainability focus and collecting the data needed to measure performance and report on it, whether through the GRI 3.1, CDP's Supply Chain framework or for your own programs, requires data management tools that can accommodate the new requirements. Companies need both ways to circulate, collect and analyse their supplier questionnaires and product level data on components and certifications. And ideally these tools will integrate seamlessly with your existing sustainability data management systems. As always, the flexibility to adjust to changing requirements remains a key capability to look for in any system selected for deployment.

credit360 has been working with several clients to meet just these requirements. From product analysis systems for Boots and Rainforest Alliance to supplier survey systems for the likes of Novo Nordisk, we have been providing effective, easy to use tools for our client's evolving programs. We'd be happy to give you a tour of our supply chain offerings – just contact your credit360 office.

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