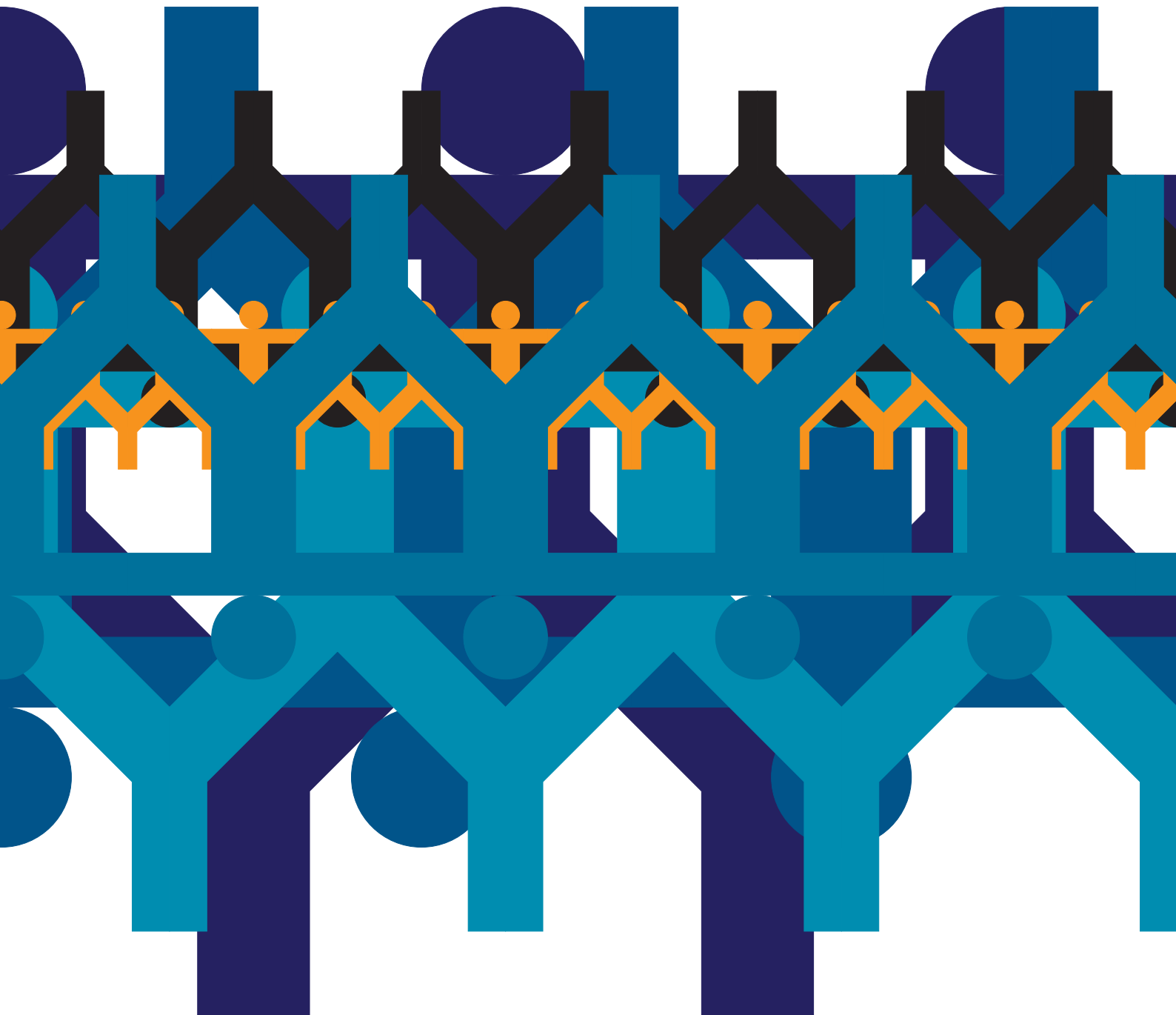


# Unchaining Value

## Innovative approaches to sustainable supply



SustainAbility



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## About Unchaining Value

*Unchaining Value* aims to spur the pursuit of greater environmental and social sustainability within corporate global supply chains.

The report seeks to begin a process of uncovering the barriers and challenges to driving sustainability improvements through global supply chains, as well as spotting the opportunities for achieving greater impact through partnerships and capacity-building.

The publication addresses the ambition of the United Nations Environment Programme (UNEP) and United Nations Global Compact (UNGC) to find ways to increase practical know-how, develop skills and capacity in developing countries, and raise levels of innovation and collaboration across and between supply chains.

In future, options for further cooperation in a collective effort between sectors and stakeholders will be examined, mindful of the role that UN-business cooperation can play in advancing learning, good practice innovation and the improved application of recognised standards.

## Publication Details

**Unchaining Value**  
First Edition 2008

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**ISBN**  
978-1-903168-23-3

**Publisher**  
SustainAbility, UNEP and UNGC

**Designer**  
Rupert Bassett

**Printer**  
Pensord Press

**Paper**  
Robert Horne  
Revive 100 Offset

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## Foreword

Today's global companies are increasingly aware of the challenges and trade-offs that face their evermore complex, competitive and transparent supply chains. Supply chain strategies that focus narrowly on the cost- and time-efficient movement and coordination of goods and materials from upstream suppliers to downstream consumers do so at their own peril. Smart business strategists must equip themselves to anticipate and manage an array of dilemmas and trade-offs — such as the degree to which their particular supply chain may deplete natural resources or the challenge of delivering accountability for good labour practices, not just among first tier suppliers in emerging economies, but among their suppliers' suppliers and in tiers beyond that.

While such challenges undoubtedly present unprecedented opportunities to create and add essential long-term value, many of the solutions require new forms of collaboration, engagement and innovation that can — in the short-term — seem disruptive to business as usual. However, these days 'business as usual' is tenable only to a naïve few.

The need to address resource scarcity and development issues worldwide, the challenge to mitigate and adapt to climate change, and the demand for markets to operate more openly and accountably all have consequences for globalised supply chains. Increasingly, companies and their suppliers are being called upon to meet ever-tighter international expectations for good conduct and responsible performance, requiring new levels of capacity, collaboration and shared vision.

Capturing opportunities to create long-term sustainable value, shared across different tiers of suppliers, customers, consumers and shareholders, through innovative thinking and collaboration, remains significantly underdeveloped. A creative, proactive, empowered supply chain can help drive down costs, mitigate risks and uncover innovative new approaches to developing products and services, sharing the risk — and indeed the rewards — across many different players.

We are committed to playing a role in helping to drive supply chain transformation through partnerships and best practice. Your comments on this publication — and your participation going forward — will be vital to the success of this project.

"A defining element of our ever more global economy is the intricate web of supply chains being woven by multi-national business, stretching across the world's political, economic and cultural boundaries. In many instances they prove transformational — creating economic growth and fostering development and helping to manage scarce resources sustainably while creating business value and contributing to long-term resilience. Together with UNEP and UNGC, we see supply chain sustainability as an area of growing importance, and we urge companies and their suppliers everywhere to grasp the opportunity to transform their approach — to the great profit of all."

**Mark Lee**  
CEO, SustainAbility

"I am delighted that UNEP is spearheading this new initiative, in partnership with SustainAbility and the UN Global Compact. Our aim is to help companies address complex environmental and social responsibility challenges in their global supply chains. *Unchaining Value* seeks to uncover emerging best practice and to stimulate partnering and capacity building in developing countries that will enable companies to meet their challenges. The environmental agenda today includes critical matters such as climate change, resource efficiency and responsible chemicals management and presents a range of responsibility issues that cross borders between countries, producers and consumers. Today, it is essential and urgent for business to move beyond traditional arms-length, 'command-and-control' supplier relations towards greater collaboration and partnering with suppliers — to achieve collective gain for business and society alike."

**Achim Steiner**  
Under-Secretary-General and  
Executive Director, UNEP

"The United Nations Global Compact aims to make business part of the solution to today's most pressing global challenges. Ever since the initiative was launched nearly eight years ago, more than 4,000 companies worldwide have pledged to make the Compact's ten universal principles part of their strategy, culture and day-to-day operations. But the supply chain sustainability challenge will require a whole new level of collaboration. Looking ahead, it will be vital to move beyond the narrow self-interest of any one company and to advance the business case for responsible practices along the entire corporate supply chain. If this can be achieved, the benefits to business, to the environment and to societies everywhere will be enormous."

**Georg Kell**  
Executive Director, UNGC

## Introduction

Today's modern global supply chains have the delivery of value at their heart. The supply chain manager's challenge is typically to make the suppliers of components and services work as effectively, efficiently and economically as possible to meet customer demand.

Analysts and business writers encourage the pursuit of qualities such as 'agility, adaptability and alignment'<sup>1</sup> within supply chains, and warn against an overly linear top-down approach, advising managers to mine and hone the horizontal and diagonal relationships within their 'value grid'.<sup>2</sup> Some raise worries that the pursuit of supply chain efficiency has left little redundancy in the system and speculate on associated risks. Others emphasise the importance of good 'event management' to ensure problems are anticipated and handled with minimal interruption to business as usual.

In tandem with this developing 'best practice', high profile scrutiny of business behaviour – particularly with regards to labour practices and environmental impacts in emerging economies – has led to an expectation that corporate responsibility should also extend to encouraging and implementing responsible practices at every step in a supply chain, wherever it may be in the world.

The concept of 'traceability' – the capacity to track products and their ingredients or components back to their original source – is enabling unprecedented levels of transparency and, with it, heightened expectations of accountability. For example, pressures from climate change are spurring debate over the pros and cons of locally sourced and produced goods versus imports. Related to this are the demands being made of transnational logistics and distribution systems to go beyond traditional 'greening of the supply chain' to reconsider core business models.

To varying degrees, social and environmental considerations have already been incorporated into many management systems for many supply chains around the world and a variety of best practices have proven to deliver a range of business benefits (see Box 2). However just back-engineering sustainability considerations into existing supply chain strategies will not achieve much more than incremental problem solving. It may deliver some efficiency benefits, but will not substantially shift failing markets or business models.

### Box 1 Terminology

Supply chains and value chains have clear definitions in business literature and operational thinking. Where a supply chain typically refers to the chain of suppliers inputting to a final product, value chain also encompasses thinking about the value created by the chain, particularly for end-use customers.

In reflecting on how sustainability is incorporated into conventional supply chains, Unchaining Value essentially begins to consider the wider context of the value of that activity – to the suppliers themselves, but also to the end-use customer and a range of other stakeholders, including communities and governments. This report, therefore, sits in the overlapping zone between supply chain and value chain – it draws from both concepts and hopefully also adds new dimensions that draw them closer together.

For the sake of simplicity, we use the term 'supply chain' in the report.

Tinkering with supply chain management processes is less likely to yield substantial sustainability gains than looking more deeply at supply chain inputs – both in terms of supplier and consumer relationships and contributions – and taking care to assess the broad strategic context of a supply chain's position in an increasingly resource constrained world. From such a perspective, the following challenges – and the opportunities to address them – are clear:

- Very few individual suppliers, particularly in emerging economies, fully experience the business benefits of the many standards and codes of conduct that are required of their work, and so rarely realise or pursue the benefits of collaborating with partners to improve mutual sustainability performance.
- At the other end of the supply chain, public awareness of environmental and social challenges is rarely actively engaged to help innovate sustainable solutions early on in product or service development cycles. This misses a crucial business opportunity to explore and frame customer needs and so help develop awareness and demand for solutions that offer alternative sustainable market approaches.

– Globally, the recent controversy around first generation biofuels development, and the contention that it 'snatches food from the mouths of the poor',<sup>3</sup> has illustrated a profound lack of awareness of how the needs of quite different supply chains may clash, quite fatally, over potentially limited resources. The head of the IMF described the challenge as 'a moral problem',<sup>4</sup> with great care needed to ensure 'balanced' priorities.

This report by SustainAbility, UNEP and UNGC explores how supply chains function in order to identify new approaches to building sustainability capacity at the local supplier level, as well as identifying initiatives that will encourage and enable consumer demand for more sustainable solutions. The analysis also considers the challenges facing supply chains when it comes to making responsible choices in the face of competition for limited natural resources.

The paper is organised to review macro-trends before drawing on a variety of illustrative case studies to explore innovative approaches and identify insights and opportunities for greater capacity building and partnership.

The analysis draws on a range of sources, including first-hand research into different supply chain strategies in the Food & Beverage sector and in the Information and Communication Technology (ICT) sector.

The recommendations outline a basic framework for companies seeking to appraise their approach to integrating sustainable value into supply chains, and outline next steps for business and with regards to further research.

The paper has the following chapters:

- 
- 1 **Meta-trends**  
Moving towards sustainable supply chains

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  - 2 **Best practices**  
Macro and micro approaches to sustainable supply

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  - 3 **Conclusions & recommendations**  
Steps towards unchaining value

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  - 4 **Next steps**

"Chief executives own final accountability. Shareholders want strong profit growth and minimum volatility. Regulators and the press expect social and environmental responsibility. Customers demand someone deliver on promises made to them. Supply chain management has become the key to meeting all these commitments."

**Kevin O'Marah**

'Supply Chain Management'

*Financial Times*

10 December 2007

## Meta-trends

### Moving towards sustainable supply chains

#### From linear focus and narrow goals toward networked resource strategies

Since 2004, AMR Research has published an annual report titled: 'The Supply Chain Top 25'. The list features companies that have, according to the *Financial Times*, "advanced supply chain management from its roots in logistics, material handling, and purchasing towards the modern demand-driven value network needed in our globalised, internet-enabled, 21st century business environment."<sup>5</sup> Nokia was top of the most recent list, with runners-up including Procter & Gamble, Coca-Cola, Nike, IBM, Cisco Systems, Wal-Mart and Toyota.

To earn its position, the *FT* states: ". . . each company has succeeded for shareholders by integrating processes that allow them to operate as demand-driven value networks: orchestrating players up and down the supply chain with a combination of information, visibility, cross-cutting metrics and market discipline . . . The Top 25 has outperformed broader stock market indices by almost 100 percent in the year since publication of the last report, indicating at least some link between good supply chain management and increasing shareholder value."<sup>6</sup>

As corporate supply chains grow in scale and complexity globally, supply chain management has evolved from having a company-centric emphasis on least-cost purchasing and efficient logistics to having a network-centric emphasis on collaboration with supply chain partners to maximise value and minimise cost. Competition can sometimes be as intense between supply chains as between companies. As one writer notes, "Perhaps one of the most significant breakthroughs in management thinking in recent years has been the realisation that individual businesses no longer compete as stand-alone entities, but rather as supply chains."<sup>7</sup>

Today's successful supply chain managers must focus on costs and benefits across an entire supply chain and think beyond short-term financial considerations to ensure reliable supply – in terms of quality, quantity, reliability and cost. They achieve this by managing trade-offs, aligning incentives, sharing information, and coordinating relationships across functions to achieve a lower 'total cost of ownership'.

Sustainability is fast becoming a key consideration for supply chain managers with the gamut of environmental and social impacts and (in)equities that it represents, and the risks and opportunities involved.

"In many parts of the world, the lack of government involvement in enforcing social and environmental standards makes it difficult for companies to ensure that good business practices prevail across their global supply chains. As a result, corporate buyers find themselves having to address issues that lie outside their core competencies and remit as private institutions, but which they have to shoulder to ensure business continuity and competitiveness."

**ICC Guidance on Supply Chain Responsibility**  
October 2007

#### Box 2

##### Benefits of responsible supply chain management

- 1 Better working conditions reduce turnover and improve quality and reliability.
- 2 Environmental responsibility improves efficiency and profitability.
- 3 Risks are anticipated and managed, costs reduced and productivity enhanced.
- 4 Corporate brand and consumer confidence are protected and enhanced.
- 5 Communities, consumers and shareholders benefit.
- 6 Personal, community and corporate values of respect and equity are empowered.

- On the opportunity side, a strategic approach to sustainability enables the development of far stronger supplier relationships to deliver added-value, ensure reliability, enable innovation and provide sustainable 'stories' for communication to consumers to help build brand trust and loyalty. Beyond strong supplier relationships, a strategic approach can secure licence to operate within communities, legal systems and governments that might otherwise be antagonistic. It gives permission for experimentation, exchange of ideas and the essential ingredients for innovation.
- On the risk side lies the reputational challenges of underestimating consequences, of failing to anticipate local community and opinion-former perceptions of environmental and social impacts, and of not realising the potential for mass media to mobilise global opposition and opprobrium with extreme speed. For instance, both Nestlé and Coca-Cola have faced high profile campaigns and lawsuits to close their bottled water plants in the USA and India, respectively, due to alleged social and environmental misconduct.

Failure to manage resource depletion can of course also have hard operational consequences, such as disruption to supply, increased cost and fundamental lack of key raw materials. For instance, Anheuser Busch has experienced shortages in key production inputs, including grain and aluminium, as a result of water shortages affecting its suppliers.

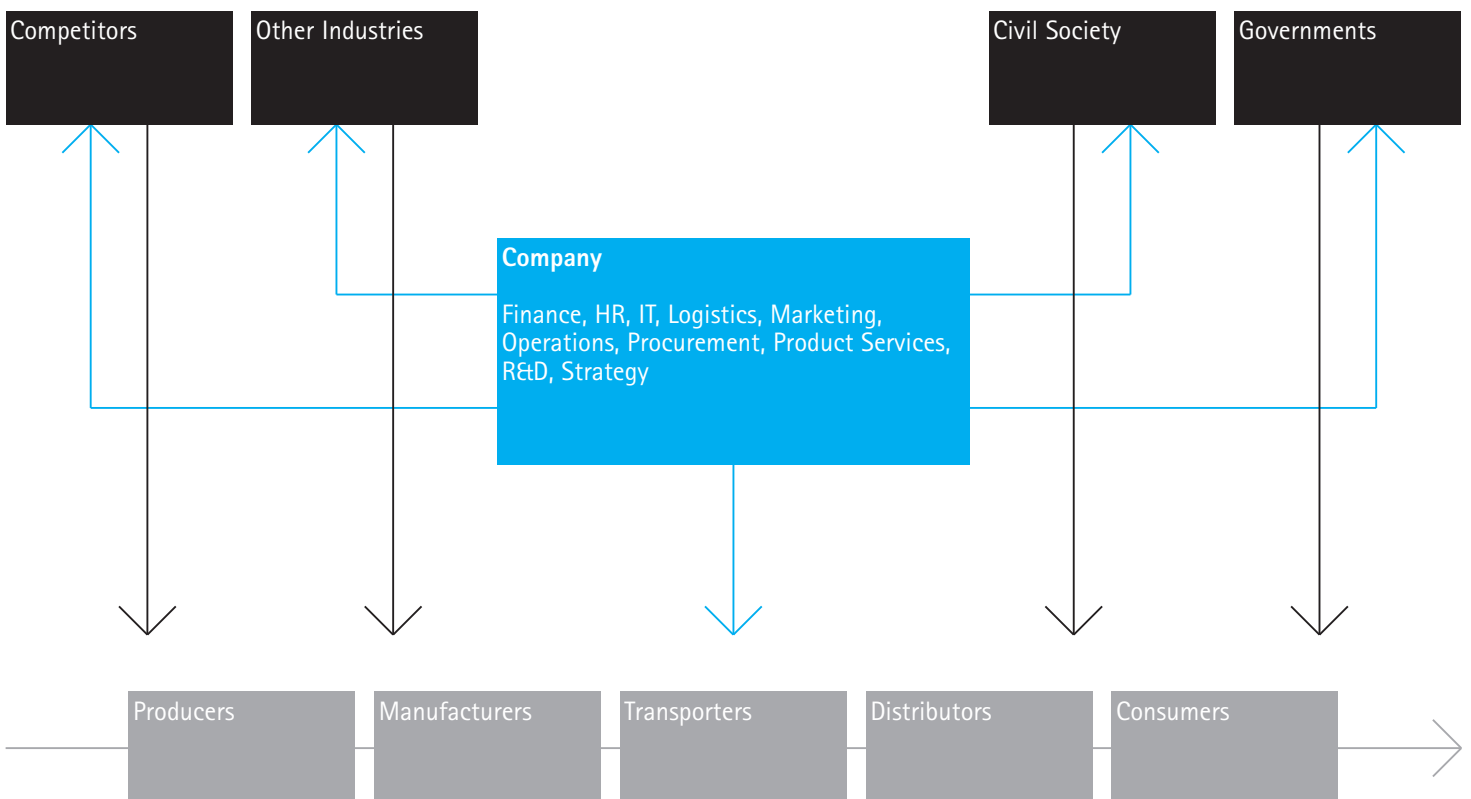
Managing a *sustainable* supply chain involves all the established practices of managing total costs and benefits across the chain, but – crucially – over a longer time horizon than the typical quarter and across a broader 'chain' of participants and considerations. In hindsight, it seems obvious that Coca-Cola, Nestlé and Anheuser Busch should take careful strategic consideration of water scarcity issues and ramifications within the communities and countries where their suppliers operate – but, at the time, their focus was much narrower.

The lesson that companies can take from such experiences is an appreciation of the need to shift their supply chain management goal from a narrow focus on creating more value at less cost for the company, to a broader focus of creating more value for all supply chain participants at a lower cost to constrained global resources. Such a shift is essential to deliver long-term, global sustainability goals *and* to guarantee the shorter-term traditional supply chain goals. Using resources more efficiently can only result in cost savings, and building new sources of capacity can only help create resilience and cut supply chain risk.

**From top-down management to integrated solutions**

A 2007 A. T. Kearney and Institute for Supply Management survey revealed that in a group of respondents where nearly 60% had corporate sustainability strategies, just half had written guidelines or policies around sustainability in the supply chain and even fewer had a formal supply management sustainability strategy in place.

Figure 1  
Company influence on supply chain



Although this would suggest that business focus on sustainability in supply chains is not widespread, there is a great deal of evidence drawn from a variety of sectors – from electronics to apparel, food, furniture and pharmaceuticals – that the world’s leading global businesses have evolved an array of strategies, tools, technologies and systems to help them better integrate sustainability aspects into their supply chain management. For instance:

- Codes of conduct have enabled clarity on the environmental and social standards expected of suppliers, articulating expectations of labour standards, wages, working hours and environmental performance.
- Clear internal and third-party audit procedures have helped establish greater transparency and accountability.
- Engagement with NGOs and other stakeholders on codes of conduct, particularly regarding controversial issues, has helped build mutual understanding of expectations and challenges.

- Lifecycle analysis has helped make visible all aspects of a product or service ‘lifecycle’ from raw material production through to manufacture, distribution, use and disposal, including all intervening transport steps.
- Risk assessment has enabled the identification of key issues at each step of the supply chain.
- Proactive use of social and environmental reports has provided a mechanism for communicating realities, problems and achievements.

In addition to these established tools and practices, a variety of new managerial and technological solutions are also evolving. There is growing recognition that all functions of a company need to be coordinated to ensure the sufficiently strategic and broad focus essential for integrating sustainability considerations into the supply chain – not just logistics managers and buyers, but also R&D and marketing. Figure 1 and Table 1 illustrate how different functions within a business can influence the supply chain to be more sustainable.

### Knowledge transfer and capacity building

A key requirement for embedding sustainability within a supply chain is to work collaboratively with suppliers to develop and implement effective sustainability standards.

Many companies in different industries engage with their suppliers to build capacity. In the auto industry, for example, Ford developed and provided ISO 14001 Awareness Training to allow its suppliers to benefit from Ford’s experience of achieving certification at its own plants. Renault has also developed a process and tools to train suppliers on its Toxics Standard that ensures processes to prohibit use of toxic substances.

At an international level, UNEP and the UN Industrial Development Organization (UNIDO) are coordinating National Cleaner Production Centres in 24 developing countries to help small- and medium-sized enterprises (SMEs) improve resource efficiency in their production processes.<sup>8</sup>

**Table 1**  
Corporate functions and related sustainability considerations for the supply chain

| <b>R&amp;D</b><br>Product design and development   | <b>Procurement</b><br>Planning and managing inventories, pricing and margins   | <b>Logistics</b><br>Designing the chain network  |
|--|--|--|
| <ul style="list-style-type: none"> <li>– Reduce material use.</li> <li>– Substitute materials (to lower resource-intensiveness, cost or impact).</li> <li>– Use more sustainable inputs (e.g. recycled, Fairtrade).</li> </ul> | <ul style="list-style-type: none"> <li>– Include social and environmental criteria in procurement contracts.</li> <li>– Provide advice and support on sustainability issues.</li> <li>– Develop enforcement mechanisms (consider collaborative enforcement solutions such as joint onsite evaluations and training).</li> <li>– Share information with supply chain partners and set up supplier networks (to increase efficiency, avoid unnecessary transport or resource use and prevent discontinuities of supply and demand).</li> <li>– Provide incentives to avoid unnecessary competition (e.g. between dealers, between marketing and sales).</li> <li>– Promote transparency in economic arrangements.</li> <li>– Set prices and margins to promote efficiency and profitability across the chain.</li> </ul> | <ul style="list-style-type: none"> <li>– Choose lower-carbon transport modes.</li> <li>– Consolidate distribution (e.g. batch sizing) to enable efficient economies of scale.</li> <li>– Foster collaboration among suppliers.</li> <li>– Plan distribution and delivery to improve efficiency.</li> </ul> |

UNEP and its Wuppertal Collaborating Centre on Sustainable Consumption and Production (CSCP) are also developing a training package for SMEs – *Life Cycle Management Navigator* – to help small suppliers apply lifecycle thinking to enhance business performance. This follows the *Efficient Entrepreneur* programme with its guidance for SMEs in introducing environmental performance management.<sup>9</sup>

As well as initiatives by individual companies, certain industry sectors are working together to coordinate standards and share best practices. For example, there are a number of initiatives within the ICT and Food & Beverage sector that aim to deliver sustainability through the supply chain.

**ICT sector**

The Electronic Industries Code of Conduct (EICC) was developed between Dell, HP, IBM and the electronics manufacturers Solectron, Sanmina-CSI, Flextronics, Celestica and Jabil to improve conditions and foster a culture of social responsibility in the electronics supply chain. Since its release in 2004, Intel, Microsoft, Sony and Cisco have joined the effort and taken on board input from a range of stakeholders.

In October 2005, the EICC Group established a partnership with the Global e-Sustainability Initiative (GeSI), representing information and communications technology companies in Europe, North America and Asia and, with the support of UNEP, dealing with matters such as e-waste. The EICC-GeSI partnership aims to develop common implementation tools for supply chain management and broaden the impact of the collaborative effort. The EICC and GeSI are driving discussion and progress on buyer codes of conduct within the Supply Chain Working Group (SCWG) and through the so-called E-TASC (Electronics – Tool for Accountable Supply Chains), which is based on the following elements:

- A supplier risk assessment tool, consisting of ten high-level questions for companies to evaluate the level of risk of a particular supplier in the area of corporate responsibility.
- A self-assessment questionnaire, available in multiple languages including Chinese and Spanish.
- A common audit methodology, which suppliers, participant companies and approved third-party auditors can use to obtain the benefits of a common audit approach.

The methodology toolkit includes communication templates, supplier preparation guidelines, a facility audit question set, audit report templates, and auditor guidelines and training modules.

**Food & Beverage sector**

In the agricultural sector, many industry and multi-stakeholder initiatives have sprung up that work directly with farmers to build capacity and to enable manufacturers to share best practices. Commodity-specific initiatives have been developed to help farmers meet industry-wide standards that include: the Common Code for the Coffee Community, the Ethical Tea Partnership, and the Roundtable on Sustainable Palm Oil, which convenes a range of industrial actors from the food, consumer goods, cosmetics and energy sectors who all use palm oil.

General agricultural initiatives include the Sustainable Agriculture Initiative, a food manufacturer’s group that has produced principles and practices for five commodity groups, and the Sustainable Food Lab, a multi-stakeholder group that designs and supports pilot projects around sustainable livelihoods in food supply chains and has also created a Commodity Standards Benchmarking Tool.

**Manufacturing**

Locating activities and selecting suppliers

- Analyse social and environmental standards prevalent in suppliers’ locale (to improve likelihood that supply will meet social and environmental expectations).
- When making consolidation decisions, consider a broader range of environmental and social issues, such as increased fuel usage and carbon emissions and impact on local employment.
- When selecting suppliers and developing management systems, consider the increasing importance of traceability for managing and communicating sustainability performance.

**Marketing**

Products, services and post-sale service

- Influence consumer choice by providing consumers with information on product sustainability impacts.
- Strengthen information on sustainable consumption to users (product information, labels, online forums, events).
- Consider product service systems to improve resource efficiency and reduce impact.
- Establish product take-back schemes.
- Provide maintenance services to encourage customers to repair rather than discard.

**Public affairs**

External engagement

- Collaborate with competitors to develop common approaches to monitoring suppliers.
- Work with government to drive regulation.
- Engage with civil society organisation to develop best practice solutions.

Table 2  
Selected sustainability initiatives  
in the Food & Beverage sector

|   | Knowledge sharing | Standards & guidelines development | Monitoring, verification or certification | Supplier capacity building & training | Buyer capacity building & training | Project piloting | Public & stakeholder awareness-raising | Research | Research clearinghouse |
|---|-------------------|------------------------------------|---|---------------------------------------|------------------------------------|------------------|--|----------|------------------------|
| <b>Commodity-specific initiatives</b>           |                   |                                    |   |                                       |                                    |                  |  |          |                        |
| Common Code for the Coffee Community            | ●                 | ●                                  | ●   | ●                                     |                                    |                  |  |          |                        |
| Sustainable Coffee Partnership                  | ●                 | ●                                  |   | ●                                     |                                    |                  |  | ●        |                        |
| International Cocoa Initiative                  | ●                 | ●                                  |   | ●                                     |                                    | ●                |  |          | ●                      |
| Better Cotton Initiative                        |                   | ●                                  |   | ●                                     |                                    |                  |  |          |                        |
| Marine Stewardship Council                      |                   | ●                                  | ●   |                                       | ●                                  |                  | ●                                      |          |                        |
| Forest Stewardship Council                      |                   | ●                                  | ●   |                                       |                                    |                  | ●                                      |          |                        |
| Roundtable on Sustainable Palm Oil              |                   | ●                                  | ●   |                                       |                                    | ●                |  |          | ●                      |
| Roundtable on Responsible Soy                   |                   | ●                                  |   |                                       |                                    | ●                |  |          |                        |
| Better Sugarcane Initiative                     |                   | ●                                  |   |                                       |                                    | ●                |  |          |                        |
| Ethical Tea Partnership                         |                   | ●                                  | ●   |                                       |                                    |                  |  |          |                        |
| <b>Multi-commodity certifications</b>           |                   |                                    |   |                                       |                                    |                  |  |          |                        |
| Fairtrade Labelling Organizations International |                   | ●                                  | ●   |                                       |                                    |                  | ●                                      |          |                        |
| GlobalGAP                                       |                   | ●                                  | ●   |                                       | ●                                  |                  |  |          |                        |
| Rainforest Alliance                             |                   | ●                                  | ●   |                                       |                                    |                  | ●                                      |          |                        |
| Utz Certified                                   |                   | ●                                  | ●   | ●                                     |                                    |                  | ●                                      |          |                        |
| <b>Other agriculture-related initiatives</b>    |                   |                                    |   |                                       |                                    |                  |  |          |                        |
| Ecoagriculture Partners                         | ●                 |                                    |   | ●                                     |                                    |                  | ●                                      | ●        |                        |
| IIED Race to the Top (UK)                       |                   | ●                                  |   |                                       |                                    |                  |  |          | ●                      |
| Keystone Future Generation Agriculture          | ●                 | ●                                  |   |                                       |                                    | ●                |  | ●        |                        |
| Sustainable Agriculture Initiative Platform     | ●                 | ●                                  |   |                                       | ●                                  |                  | ●                                      |          | ●                      |
| Sustainable Commodity Initiative                | ●                 |                                    |   |                                       |                                    |                  |  | ●        |                        |
| Sustainable Food Lab                            | ●                 |                                    |   |                                       |                                    | ●                | ●                                      | ●        | ●                      |

|   | Knowledge sharing | Standards & guidelines development | Monitoring, verification or certification | Supplier capacity building & training | Buyer capacity building & training | Project piloting | Public & stakeholder awareness-raising | Research | Research clearinghouse |
|---|-------------------|------------------------------------|---|---------------------------------------|------------------------------------|------------------|--|----------|------------------------|
| <b>Manufacturing-related initiatives</b>      |                   |                                    |   |                                       |                                    |                  |  |          |                        |
| Business Social Compliance Initiative         |                   | ●                                  | ●   |                                       |                                    |                  |  |          |                        |
| CIES Global Social Compliance Programme       | ●                 | ●                                  |   | ●                                     |                                    |                  |  |          |                        |
| Ethical Trading Initiative                    | ●                 | ●                                  | ●   |                                       |                                    | ●                |  | ●        |                        |
| International Standards Organization          |                   | ●                                  | ●   |                                       |                                    |                  |  |          |                        |
| <b>Other supply-chain-related initiatives</b> |                   |                                    |   |                                       |                                    |                  |  |          |                        |
| Responsible Purchasing Initiative             |                   |                                    |   |                                       | ●                                  |                  |  | ●        |                        |
| Responsible Purchasing Network                | ●                 |                                    |   |                                       | ●                                  |                  | ●                                      |          | ●                      |
| Social Accountability International           |                   | ●                                  | ●   | ●                                     |                                    |                  |  |          |                        |
| WBCSD/SNV Inclusive Business Alliance         |                   |                                    |   |                                       |                                    | ●                | ●                                      |          |                        |
| UN Global Compact                             |                   | ●                                  |   |                                       |                                    |                  |  |          |                        |
| UN Global Reporting Initiative                |                   | ●                                  | ●   |                                       |                                    |                  |  |          |                        |
| UNEP/SETAC Lifecycle Initiative               | ●                 |                                    |   |                                       | ●                                  |                  |  | ●        | ●                      |
| <b>Research</b>                               |                   |                                    |   |                                       |                                    |                  |  |          |                        |
| INFASA  |                   |                                    |   |                                       |                                    |                  |  | ●        |                        |
| Global Value Chains (Duke University)         |                   |                                    |   |                                       |                                    |                  |  | ●        |                        |
| Regoverning Markets (IIED)                    |                   |                                    |   |                                       |                                    |                  |  | ●        |                        |
| Value Chains for Development (RTI)            |                   |                                    |   |                                       |                                    |                  |  | ●        | ●                      |
| Value Chains Portal (DCED)                    |                   |                                    |   |                                       |                                    |                  |  |          | ●                      |

- CIES Food Business Forum (originally Comité International d'Entreprises à Succursales)
- DCED Donor Committee for Enterprise Development
- IIED International Institute for Environment and Development
- INFASA International Forum on Assessing Sustainability in Agriculture
- RTI Royal Tropical Institute
- SETAC Society of Environmental Toxicology and Chemistry
- SNV Netherlands Development Organisation
- UNEP United Nations Environment Programme
- WBCSD World Business Council on Sustainable Development

### Box 3 Transparency and traceability

In its 2004 Corporate Responsibility report (published in 2005), Nike disclosed a complete listing of the names and locations of the contract factories manufacturing its primary product line. It was the first company in the global footwear and apparel industry to do so. The initiative followed years of campaigning against the company for its use of 'sweatshops' and a US lawsuit (*Kasky v Nike*) that alleged the company's claims of corporate responsibility were misleading.

Gap similarly experienced criticisms for labour conditions in their supply chain and took steps to implement and assure new codes of conduct. Last May, *Fortune* magazine<sup>10</sup> reported how Gap has developed "one of the most extensive and transparent factory monitoring efforts of any U.S. brand". The company worked with the non-profit group Verité to assess its system of factory monitoring, including 92 full-time employees dedicated to factory compliance.

Beyond the clear brand protection and enhancement benefits, Dan Henkle, senior vice-president for social responsibility at Gap, said: "If people are treated with dignity and respect, they are going to be happier and more productive and less likely to leave the factory. If you can reduce turnover, you can also impact quality."

GRI (the Global Reporting Initiative) has led the field of sustainability reporting by setting standards and raising awareness of sustainability impacts through corporate practice. Since December 2006, the GRI and Germany's Gesellschaft für Technische Zusammenarbeit (GTZ) have collaborated on GRI's Transparency in the Supply Chain project. The project brings together DaimlerChrysler, Otto Group and Telefónica to explore the possibilities of coached reporting by SME suppliers.

The involved multinationals are each working with three or four of their suppliers in emerging economies to help them start a reporting process based on the GRI's G3 Sustainability Reporting Guidelines and its SME Handbook, which provides SMEs with practical guidance on sustainability reporting. By February 2008, ten out of 12 participating SME suppliers had completed their first sustainability reports through the project."

Technological advances and international agreements between sectors have seen step-changes in the traceability of products back to their point of origin. Consumers, in some circumstances, are now able to track the farm that grew the tomatoes they buy in their local supermarket. Retail buyers can find out where a shipment of fish was landed, and even dealers in jewels can ascertain whether a diamond came from a mine in a conflict area or not. As the technology advances further, increases in transparency and accountability will be both powerful and empowering.

### From Suppliers' Burden to Inspiration

In spite of the many corporate and sectoral efforts to integrate sustainability into supply chains, the experiences and benefits for many suppliers and their workers still remain unclear, particularly in emerging economies.

A seminal 2003 World Bank study estimated that at least 1000 different codes of conduct exist in the business environment. Some suppliers in the World Bank study reported being subjected to over 50 audits per year – some being monitored by the same audit company on behalf of a range of suppliers, where each Code of Conduct can specify different implementation and audit requirements – some focused on management systems, others on performance data, some on both. Randomly interviewed workers, in certain cases, showed a total lack of awareness of any efforts to achieve better labour and environmental practices in their workplace, and indeed western media and NGOs regularly highlight such breaches between grassroots working practices and corporate claims. A recent EIRIS<sup>12</sup> report found that over 90% of Asian companies demonstrate no evidence of supply chain labour standards.

A pass-fail mentality to auditing tends to encourage supplier behaviour that meets the so-called letter but not the spirit of the law. And relying purely on buyer demand to drive sustainability is not always a sufficiently compelling business case. At a recent conference on labour rights, a representative from a US-based apparel company noted: "One of my Bangladeshi textiles' suppliers told me that his sustainability strategy is to stop supplying to Western markets. Instead, he plans to sell to Indian and Chinese companies – where the demand is growing, and where standards are less stringent."

It should be troubling when the apparent strength, cohesiveness and efficiency of supply chains from a multinational perspective is at odds with the confusion and inefficiency apparently experienced at the suppliers' end of the chain. While it is clear that multinational companies may well be tapping and managing their suppliers effectively as far as their own business-as-usual needs are concerned, they may not always be giving sufficient thought either to other burdens placed on those suppliers by other sectors, or to the possibility that certain disillusioned suppliers can choose to take their business to the competition elsewhere.

Multinationals can work with suppliers in their supply chain to:

- Prove the business case and help suppliers see and experience the benefits to their own business of social and environmental improvements.
- Tackle issues around compliance and certification in a way that ensures requirements are mutually effective and reasonable.
- Partner with suppliers, distributors and retailers to coordinate training and information that will help improve standards, quality and performance.
- Implement effective collective action and partnering, while avoiding free-rider problems, whereby all companies in a sector benefit from the leading practices and investments of a few.
- Be responsive to consumer perceptions and priorities, without depending on consumers to determine the social and environmental practices that are applied in the marketplace and the supply chain.

## From resource pinch-points to collaborative solutions

In the *MIT Sloan Management Review* article: 'Evolving from Value Chain to Value Grid',<sup>13</sup> authors Frits K. Pil and Matthias Holweg advocate 'pinch-point mapping'<sup>14</sup> – or the identification of potential bottlenecks and threats to key upstream inputs – to anticipate potential supplier problems and enable the negotiation or innovation of alternative services or components.

The writers concede that: "pinch-points that span different industries are particularly tricky to monitor, because it is difficult to anticipate demand or use for a component or service in another industry". For example, silicon is a vital input to both ICT products and solar energy panels and the increased demand for both uses is leading to heightened competition in both sectors. Competition between communities and companies over limited resources is even trickier.

While some companies and consumers may increasingly benefit from tightly orchestrated supply chains, and while some suppliers and workers may benefit from improved standards, there is room for improvement when it comes to ensuring more sophisticated anticipation of global resource needs to enable collaboration in the development of just, sustainable solutions. In particular, companies need to understand and account for cross-sectoral competition for limited resources.

Some approaches are already used to identify various pinch-points of conflict – or sweet spots of potential opportunity – at a micro and macro level. Most draw on genuinely collaborative engagement to develop new ways of thinking and devising sustainable solutions. For instance:

### – Working with suppliers

Design For Sustainability (or D4S) is an approach that integrates supplier expertise at the product design phase, when 70% of cost is effectively pre-determined. In the USA, successful efforts are shown to have decreased costs by one-fifth, improved quality by a third, and halved time to market.<sup>15</sup>

### – Working with consumers

Product service systems (PSS) thinking is helping to reframe how businesses think about societal and consumer needs. The approach seeks to dematerialise consumption patterns by moving away from a focus on the sale of specific products and services towards the provision of more integrated and functional solutions.<sup>16</sup> For example, Italian utility AMG charges its customers for hot water rather than for the methane used to heat that water – incentivising AMG to maximise energy efficiency rather than unit volume sale.<sup>17</sup>

### – Working with other industries

Business coalitions spanning different industry sectors are being formed to raise sustainability standards for shared resources. Examples include the Roundtable on Sustainable Palm Oil (includes food and personal care companies) and the Better Sugar Initiative (includes food and energy companies). UNEP has also been involved in the launch of cross-sector initiatives focused on issues such as sustainable mobility and sustainable building and construction.

### – Working with multi-stakeholders

One Planet Business is a WWF initiative to convene business leaders, policy-makers, investors, consumer groups and other NGOs in a multi-stakeholder process to understand and help facilitate the system changes needed to make market economies sustainable. The approach has ten guiding principles ranging from zero carbon and waste to equity and happiness. It draws on a four-level framework that assesses resource consumption according to ecological footprint, carbon dioxide emissions and material flow analysis. The process seeks to identify where interventions would have greatest positive impact across a supply chain.<sup>18</sup>

The following section looks at some of the approaches and strategic partnerships being developed by selected multinationals to build sustainability into their supply chains and business models.

## Best Practices

### Macro and micro approaches to sustainable supply

This section explores a variety of best practices, drawn from different sectors, to explore how multinationals like IKEA, Unilever and Hewlett-Packard are working with suppliers towards a shared understanding of the role of sustainability in supply chain management and the mutual value to be achieved.

It also considers the text book example of Nokia's approach to supply chain event management, with a view to assessing if there are lessons for pinch-point mapping when it comes to natural resource management in supply chains, and looks at how Coca-Cola is tackling this challenge from a water resource perspective.

These case studies and others illustrate a range of benefits that companies – and their supply chain partners – can realise from a collaborative, proactive and sustainability-minded approach to management across the chain, such as:

- Improved engagement & communication.
- Capacity building.
- Efficiency improvement.
- Resilience.
- Risk avoidance.

For the purpose of identifying 'best practice', we have looked for examples of companies that have gone beyond traditional risk management strategies to proactively innovate and incentivise continuous improvement in building sustainable value into their supply chains.

#### Case study Coca-Cola<sup>19</sup>

#### Project Water resource strategy

#### Illustration Risk avoidance

Water scarcity poses significant risks to a company whose single biggest input is water. Following pressures in countries like India, Coca-Cola recognised how trends in water supply and use could pose financial, operational and reputational risks. The company launched its Global Water Initiative in 2004, with the aim of making the company 'water neutral' within its manufacturing and bottling operations.

The project began as an investigation into the state of global freshwater resources. Partnerships were established with a number of organisations, including the UN Development Programme (UNDP), United States Agency for International Development (USAID), CARE, World Wildlife Fund and many others. At the heart of the challenge was the need to develop a global approach that would also meet the unique needs of local situations and communities. The solutions proved to be a combination of risk management and value creation.

Coca-Cola initially conducted an in-depth survey of each of their plants in 20 regions and used the results to develop an innovative risk assessment framework. Six primary categories of risk were identified, for which monetary values were assigned. These values were built into a scenario planning tool that could be used by strategic planners at all levels of the company to drive investment decisions.

Cola-Cola then developed local water stewardship initiatives, engaging communities across its regions of operation. These were based on an assessment of local water dynamics and ranged from addressing water access and contamination to watershed protection and post-disaster water system rehabilitation. The company took an inclusive approach to engagement and invited both friends and critics to help explore the opportunities for improving sustainability practices across its entire supply chain.

Insights:

- Natural resources, however plentiful they may seem today, are excluded from supply chain management at any company's peril.
- Understanding the implications of natural resource inputs to a supply chain, be it grain or water, requires strategic knowledge and insight of that resource at a multitude of levels from global to local.
- Anticipating natural resource pinch-points requires considerable strategic foresight, possibly mapping trends and scenarios over decades and not just years or quarters.
- Constraints on resources will come from more than one sector or company, and collaboration across sectors, communities, experts and governments may be needed.

### Case study Hewlett-Packard

**Project**  
Focused supplier improvement  
in China and central Europe

**Illustration**  
Efficiency improvement

Hewlett-Packard (HP) co-launched the Electronic Industry Code of Conduct (EICC) in 2004 and is working to extend social and environmental standards to its suppliers, which number around 600 across 1,000 different sites. Although the company has made good progress, it still faces non-compliance in areas such as working hours, emergency preparedness, and wages and benefits. Capacity building programs have been central to HP's approach to this challenge. In 2006, it initiated the Focused Improvement Supplier Initiative (FISI) in China and the Central Europe Supplier (CESR) Project. In China, the project was a joint initiative with expert organisations like Business for Social Responsibility's China Training Institute. In Central Europe, the project was similarly devised in partnership with the Copenhagen Centre for Corporate Responsibility (now part of the Danish Commerce and Companies Agency; DCCA) and the Copenhagen Business School. In China, the FISI program provided monthly social and environmental management training sessions to 30 of HP's key suppliers in China, who employed approximately 100,000 people.

Factory managers, as well as managers in quality, human resources, and environment, health & safety received two to four days of mandatory training for a year. The training sessions covered increasing productivity, working hours, wages and benefits, worker communications, management systems, root cause analysis, Chinese laws and regulations, the environment, and health and safety. Suppliers provided HP with monthly progress reports of corrective actions, improvements and metrics.

In Central Europe, HP worked with a group of first- and second-tier suppliers in an 18-month initiative to help develop their expertise in social and environmental responsibility. As in China, the goal was to help suppliers understand the connection between improved standards and business efficiency. At the beginning of the project 20 suppliers in the Czech Republic, Hungary and Poland were assessed and, based on the evaluation, received focused trainings on the EICC and its requirements, management systems and best practices on labour, and environment, health & safety provisions. The project report was published in January 2008.

As well as capacity building with small suppliers, the CESR project also developed skills within HP's top tier of direct suppliers, with regard to how to manage second-tier suppliers and encourage the cascade of social and environmental good practice down the supply chain. HP plans to start similar capacity building projects in Thailand, India and Mexico, and is currently engaged in CSR Europe's 'Responsible Supply Chain Management' laboratory where it is sharing lessons learned.

Insights:

- Capacity-building with first tier suppliers is important, but appropriate intervention and training at the second tier is also powerful in encouraging a cascade of good practice.
- Partnerships are essential to a credible training process.
- Lessons learned can help shape best practice across the sector and beyond.

### Case study IKEA

**Project**  
'The Staircase Model'  
for continuous improvement

**Illustration**  
Improved engagement  
and communication

Authors Daniel Esty and Andrew Winston describe IKEA as "a true environmental pacesetter" in their recent book *Green to Gold*.<sup>20</sup> Much as Nike and Disney suffered in the early 1990s, Esty and Winston describe how IKEA was attacked on a range of fronts for supply chain issues such as child labour, the use of woods from endangered forests and the presence of formaldehyde in one of its products.

In response, the IKEA Management Team developed a supply chain management system known as 'The IKEA Way on Purchasing Home Furnishing Products' – or IWAY. The initiative is resourced by some 80 employees, who work around the world, visiting suppliers and rating them on their social and environmental performance. A further 18 employees are foresters by training and work exclusively on understanding the sourcing for all wood in IKEA's products.

Central to IKEA's approach is 'the Staircase Model', which encourages continuous improvement from its suppliers by establishing four levels of progressive achievement. Every new supplier must be audited against the Staircase Model before delivering its first shipment. Level 1 of the staircase is basically unacceptable and means the supplier must have an action plan for reaching Level 2, IKEA's minimum standard. Level 3 is a progressively higher standard, and Level 4 suppliers must meet strictest third party standards, such as those of the Forest Stewardship Council.

IKEA audits are not limited to 'tick-box' exercises, but – as their 'Notes to auditor' set out – each auditor must take care to "check that procedures work in reality". Auditors are required to "explain the IKEA philosophy and check that the supplier understands the key environmental impacts and has started to measure and follow-up". If necessary, IKEA will step in to raise standards. Esty and Winston give the example of a loan made by IKEA to a Romanian furniture supplier so that it could invest in modern ventilation and air filters, and a machine to turn briquettes from waste to energy and profit.

The auditors are subject both to internal audits by IKEA and third party audits. The IWAY Council, which oversees the operation, is chaired by IKEA's CEO.

Insights:

- A staircase approach to standards drives continuous improvement.
- Good auditors are also coaches, enabling understanding of mutual benefits.
- Good relationships enable investments to help raise supplier standards.
- Suppliers can experience progress, benefits and long-term stability.
- All of the above helps to anticipate and solve potential problems.
- Leadership from the top is a powerful calling card and enabler.

**Case study**  
McDonald's

**Project**  
The McDonald's Agricultural Assurance Program

**Illustration**  
How to help suppliers to meet standards

McDonald's buys most of its agricultural products on the spot market, other than potatoes and chicken, which it buys from contract processors. So to influence agricultural practices in its supply chain, McDonald's focuses on providing long-term technical assistance to its direct processors and convenes supplier working groups. In turn, these first-tier suppliers communicate good practices to growers further down the chain.

To demonstrate to its suppliers what it considers best practice in food safety and quality, traceability and ethically acceptable agricultural practices in its supply chain, McDonald's Europe has established a set of voluntary minimum agricultural standards known as the McDonald's Agricultural Assurance Program (MAAP). In order to allow suppliers to build on existing work, the MAAP standards are benchmarked against over 100 European farm assurance schemes.

The MAAP standards have two levels – 'best practice' and 'aspirational' – which are annually reviewed and updated, allowing McDonald's to set continually rising standards while giving its suppliers time to make improvements.

One of the more widely used European farm assurance schemes is EurepGAP (now GlobalGAP), developed in the late 1990s by a group of European food retailers. It is a relatively complicated scheme and can be difficult to achieve for small farmers, but achieving it has become a requirement for entry to European retail supermarket supply chains. Beginning in 2002, McDonald's worked with one of its European potato processors, Farm Frites Poland (FFP), to establish a simplified version of EurepGAP known as FARMAAP. FFP's four dozen small family farmers were required to comply with the requirements. In turn FFP made financing and consulting services available and conducted audits. As of 2007, all FFP growers had reached FARMAAP requirements, while 14 had achieved EurepGAP certification. FFP is seeking to achieve EurepGAP certification for all of its growers.

Insights:

- Clear standards enable continuous improvement.
- Technical and financial support is essential to support small scale suppliers to meet sustainability standards.
- There needs to be a trickle down effect of standards and support.
- Suppliers enjoy enhanced security of contract and a right to access to new markets.

**Case study**  
Nokia

**Project**  
Event management and lessons for scarce resource

**Illustration**  
Resilience

This is a textbook example of supply chain event management, included here for its potential lessons with regard to anticipating and managing scarce natural resources. The example is drawn from Martin Christopher's book, *Logistics and Supply Chain Management*.<sup>21</sup>

In March 2000, lightning caused a fire in a semi-conductor plant owned by Phillips Electronics NV, in New Mexico, USA. The fire was brought under control, but silicon wafers for thousands of mobile phones were destroyed, and smoke contaminated the factory's entire stock of chips. Two of the factory's main customers were Nokia and Ericsson, who accounted for 40% of its sales.

Almost immediately, Nokia supply chain managers detected a problem and, within two days of the fire, knew something was badly amiss. Nokia contacted Phillips, learned of the incident, and immediately put key components on a 'special monitor' list.

It was soon clear that supply could be disrupted for months, and Nokia put pressure on Phillips at the highest level to find and use additional capacity in its other plants. Nokia also sent representatives to other suppliers in Japan and the USA to secure priority status for all available supplies of chips and to persuade them to speed up production. Nokia also set about reconfiguring its products to take slightly different chips from other sources.

Ericsson was oblivious to the fire until three days after the event, when a Phillips technician called to notify them about the fire and reassure that it was a minor event. Ericsson did not recognise the need to act until early April, by which time Nokia had secured all its supplies. Because Ericsson had made a strategic decision to single source key components in order to simplify its supply chain, it had no alternative sources and lost an estimated USD400 million as a result. Nokia was able to maintain production levels and secure its position as European market leader.

Insights:

- Supply chains can be extremely vulnerable to disruption and discontinuity.
- Vigilance and proactive management are essential to anticipate and manage problems.
- Vigilance requires foreknowledge of the key variables or components to track.
- Natural resource components and/or 'moral' conflicts that may constrain access to natural resources should be seen as key variables, warranting great vigilance and strategic management within any supply chain.

**Case study**  
 Unilever

**Project**  
 Farmer field schools and Lipton tea

**Illustration**  
 Capacity building

Unilever is the world's largest buyer of black tea and purchases 12% of the global supply each year. It sources from a variety of growers: independently owned estates, smallholder farms and its own estates. In 2002, Unilever published sustainable agriculture guidelines for tea cultivation and has been working to roll these out, but faced difficulties in reaching geographically widespread smallholder farmers, particularly in Kenya, the world's largest exporter of black tea.

Some 60% of Kenyan tea is grown by smallholders, whose output is almost 40% lower than large estate yields, largely thought to be due to the high cost of farm inputs, poor husbandry practices and low farmer morale. Adoption of good practices to improve yield was slow as the main communication route to farmers was via the Kenyan Tea Development Agency (KTDA), where each 'field officer' dealt with at least 1,000 farmers.

Unilever developed a program to work with KTDA to transform its outreach to smallholders by developing farmer field schools, which would serve to roll-out Unilever's tea sustainability guidelines and help smallholders achieve better financial returns as a result. The program is managed and funded in collaboration between Unilever, KTDA and the UK Department for International Development (DFID).

Before launching the three-year program in March 2006, Unilever spent five years building the relationship with KTDA and seeking a public sector funding partner, which was not easy given the scale of the initiative. Part of DFID's contribution has been funding for a baseline study and experienced trainers to enable Unilever to expand the scope of the initiative to a far wider audience.

The first farmer field school was started in August 2006, with another 20 launched over 2007, with sites chosen for their geographic reach and accessibility. Over the next three years, Unilever will assess the impact of the farmer field schools against the DFID funded baseline study. So far, three of the four established farmer field schools have shown substantial potential for generating higher income, with the fourth being fairly successful from the start. Unilever also believes the initiative has helped imbue a sustainable agriculture philosophy throughout its operations.

On the back of the success of the farmer field schools, the Unilever black tea sustainability program added another commitment in the summer of 2007: to achieve Rainforest Alliance certification of its Lipton brand tea globally by 2015. Believing that consumers now see sustainability as a brand enhancement, Unilever's Lipton marketing team decided to find a way to communicate credibly to consumers the work that the organisation was already engaged in.

It chose Rainforest Alliance for its comprehensive approach to social and environmental issues, its ability to work on an international scale with both large plantations and small farmers, and its market-based approach.

The existing relationship between Lipton and KTDA helped to facilitate discussions on Rainforest Alliance certification, as KTDA did not initially trust the certification process. Rainforest Alliance auditors have begun making site visits to Kenyan growers, and other tea farms in Kenya, Tanzania, Malawi, Indonesia, India and Sri Lanka will follow.

Insights:

- Indigenous expertise can be greatly enhanced with the right type of thoughtful corporate intervention.
- Effective capacity building needs to combine locally relevant initiatives and partners with the benefits of scale and reach.
- Successful supply chain sustainability initiatives can lay essential ground for developing brand-enhancing partnerships that will help drive consumer loyalty.

## Conclusions and recommendations

### Steps towards unchaining value

The case studies in the previous section effectively span a spectrum of approaches to the integration of sustainability into supply chains — from approaches that still, fundamentally, serve to enhance business-as-usual (such as IKEA's Staircase Model) through to business models built on the idea of sustainable supply and market solutions (such as Lipton tea). In each instance, however, the pursuit of sustainability involves a combination of attention to the small and local (such as Unilever's farmer field schools in Kenya) along with attention to the large and global (such as Coca-Cola's Global Water Strategy).

This skill of thinking as broadly and strategically as possible, as well as focusing on accurate, real-time local detail, is at the heart of success for most leading global businesses. People with this skill are sometimes described as having a 'helicopter quality' — the ability to both pull back and see the big picture as well as focus to examine the detail.

Successful supply chain management, to some extent, already does just this — connecting the large corporate value proposition with the many small and dispersed components that must synchronise smoothly to make it happen. As such, conventional supply chain management arguably doesn't need a new tool or framework to improve its sustainability performance. The tools for gathering information and ensuring adaptability, agility and alignment — from supplier to customer — already exist in many instances.

Rather than creating new systems, the challenge seems more to be one of enabling a type of mindset and intelligence that works to cascade sustainability insights, learnings and opportunities to create new value.<sup>22</sup>

— In the same way that supply chain managers are equipped to track product quality and delivery lead times, they also need to be equipped to track sustainability risks and opportunities, at a micro and macro level. This typically involves linking up big-picture thinking, often undertaken at a corporate level, with the supply chain and procurement management divisions and suppliers themselves to ensure that the correct criteria and triggers for discussion and innovation are in place. It often requires collaborative efforts to partner with suppliers in building capacity, driven by a collective or 'chain business case'.

- Corporate functions themselves, such as public affairs and business planning, also need to be exposed to the sustainability pressures within supply chains to ensure that their own activities — such as lobbying, financial planning, CSR, scenarios development and risk mapping and so on — are aware of key pressures and supportive of proactive initiatives and engagements.
- Similarly, marketers who focus exclusively on the consumer value proposition need to be exposed to the possible consumer benefits of building greater sustainability into supply processes, such as opportunities for product or service development, new types of third party endorsement and brand building. Further, marketers can themselves contribute research and — through communication and engagement activities — help to name and frame and so shape trends in consumer expectations regarding alternative market solutions.

Table 3, below, proposes a ladder of business approaches to the integration of sustainability value within supply chain thinking and identifies three main 'steps': Incremental, Strategic and Transformational. For each step, we identify the mindset that is likely to be guiding organisational thinking, the driving priorities and types of activities that are likely being undertaken, including capacity-building and partnership activities.

The ladder suggests that a business's approach to integrating sustainable value is likely to be incremental, but this isn't necessarily so. It is perfectly possible for an initiative to leapfrog straight to the Transformational step. That said, the ambition is for all corporates to realise the value of pursuing the highest rung and — as an essential part of that — to enable their suppliers, and others, to collaborate with them in the pursuit of its achievement.

Table 3  
Supply chain management  
and sustainability value –  
steps to integration

| Phase and Philosophy   | Drivers  | Characteristic  |
|--|--|---|
| <p><b>1 Incremental</b><br/>Our suppliers provide essential components to products and services and need close, efficient management.</p>  | <ul style="list-style-type: none"> <li>– Business value: Short-term viability, reliability and quality of supply; risk management related to product safety, regulatory compliance and reputation.</li> </ul>  | <ul style="list-style-type: none"> <li>– Heavy focus on supplier standards.</li> <li>– Cost minimisation and 'policing' approach to auditing.</li> <li>– Limited knowledge of various demands made of suppliers and any associated sustainability consequences.</li> </ul>  |
| <p><b>2 Strategic</b><br/>Collaboration within the supply chain and beyond can help drive efficiency improvements and add value.</p>   | <ul style="list-style-type: none"> <li>– Business value: cost savings (e.g. energy or material use reduction); improved productivity; strengthened demand from customers or consumers for ethically or environmentally sourced products; build brand name and image.</li> </ul>                              | <ul style="list-style-type: none"> <li>– Capacity-building at the individual / community level: training programs, technical assistance.</li> <li>– Supplier engagement in developing standards and approaches.</li> <li>– Guidelines and learning.</li> <li>– Philanthropy.</li> <li>– Active marketing and branding of more 'sustainable' products and services.</li> </ul>   |
| <p><b>3 Transformational</b><br/>The supply chain is a global network of relationships and opportunities for shared learning, technology transfer, risk and opportunity identification, innovation of solutions and creation of value.</p> | <ul style="list-style-type: none"> <li>– Business value: New market creation; brand enhancement; long-term viability of supply; premium quality supply. In addition, creating value and innovation throughout the supply chain, e.g. developing sustainable livelihoods; shaping consumer demand.</li> </ul> | <ul style="list-style-type: none"> <li>– Re-engineering the supply chain around innovative partnerships or chain networks that create value for all participants (shared profit and risk; shared planning, decision making and information management; leveraging complementary abilities or scale; product service systems).</li> <li>– Multi-stakeholder collaboration to raise the level of the entire industry (leveraging complementary abilities or scale, creating shared pull).</li> <li>– Institutional capacity building (industry-wide or national guidelines, assessment tools, approaches to competitiveness).</li> <li>– Efforts to measure outcomes (rather than inputs).</li> </ul> |

### Next steps for business

While this paper does not seek or claim to be exhaustive, we hope businesses use it as an input or provocation to inspire reflection on their current approach to building value into their supply chains and the role that sustainability thinking may (or may not) currently play and the potential opportunities to be tapped.

Businesses may wish to undertake the following activities to this end:

### Assess the current situation and efforts

- 1 Assess the current approach to supply chains within your business against the framework set out in Table 3. Appraise instances where an 'incremental' approach currently exists, as well as identify any initiatives which may be 'strategic' or 'transformational'. Bring different parts of the business together for this exercise – possibly as a task force – so that diverse viewpoints can feed the appraisal. Also bring key suppliers into this exercise, so as to give you access to a diverse range of external perspectives.
- 2 Identify the critical natural resources that input to your supply chain and understand where there may be competitive 'pinch points'.
- 3 Benchmark your current approach both against competitors in your sector and those who may be from a different sector, but draw on similar key resources.
- 4 Appraise the strengths and weaknesses, risks and opportunities of your current strategy and competitor positioning – are you a leader or laggard – and develop a vision for moving forward, guided by a roadmap of clear priorities. Consider a pilot initiative where collaborative partnerships are central to shaping solutions.

- 5 Research internal and external stakeholders – from supplier communities through to consumer groups, NGOs, government departments, specialists and others – who could help form an innovative, collaborative partnership to bring insight and address priorities. If you're not involved, find out about One Planet Business.
  - 6 Appraise the levels of investment needed to build supplier capacity to a standard that allows innovative collaboration and risk and benefit sharing. Consider the risk of failing to make such an investment.
  - 7 Assess consumer knowledge of your sustainable value proposition and the degree to which marketing activities can help build awareness and insight to possible innovations, as well creating appetite and demand.
  - 8 Tap into your own and your colleagues' personal values and inspiration to challenge a corporate status quo that may be resistant to thinking about opportunities to create new markets around sustainable value.
  - 9 Evaluate the scale of opportunity and value to be created by tackling some of the world's most pressing sustainability challenges and consider if it is really sustainable – for markets or society – to pursue business-as-usual (see Table 4).
- 
- Work directly with suppliers and collaborate with other companies**
- 10 Collaborate with competitors and suppliers to develop common standards and monitoring efforts in order to minimise the burden of compliance and monitoring on both suppliers and buyers – especially for issues that are pre-competitive and can raise the bar for the entire industry. Examples include the Electronics Industry Code of Conduct, Global e-Sustainability Initiative, the Progress food manufacturers' forum or the Publishers Resolution for Ethical International Manufacturing Standards.
  - 11 Develop standards and monitoring approaches that foster continuous improvement rather than a pass-fail tick-box approach to compliance. Examples include IKEA's Staircase Model and McDonald's and Starbucks' agricultural standards.
  - 12 Build the capacity of suppliers to manage social and environmental impacts – and, if appropriate, to manage their own suppliers. Examples include Unilever's work with Kenyan tea plantations and HP's supplier programs (see case studies).
  - 13 Collaborate with other buyers to generate demand for the more sustainable supply item; e.g. the World Resources Institute's Green Power Market Development Group aims to convene a group of companies to raise demand for renewable energy.
  - 14 Make use of databases and dashboards such as UK's SEDEX<sup>23</sup> or France-based Ecovadis<sup>24</sup> that collect and disseminate supplier audit data and (in the case of Ecovadis) provide buyers with a one-stop tool for evaluating suppliers against a set of sustainability criteria.
  - 15 Partner other organisations to reach more effectively suppliers such as NGOs, trade associations, local authorities and financial institutions, or intermediaries such as UK-based Achilles that pre-screen suppliers. Examples include Marks & Spencer's partnership with the Shell Foundation and the UN's work to build SME capacity.
  - 16 Report to drive transparency and accountability.

Table 4  
Ten global sustainability  
divides and opportunities<sup>25</sup>

| Divides              | Realities  | Opportunities   |
|----------------------|--|---|
| <b>Demographic</b>   | The world is heading to a population of 9 billion by 2050, with 95% of growth expected in emerging economies.      | Meet the needs of billions of people affected by market failures in developed and developing countries. |
| <b>Financial</b>     | 40% of the world's wealth is owned by 1% of the population, while the poorest 50% can claim just 1% of the wealth. | Help the have-nots become bankable, insurable and entrepreneurial.                                      |
| <b>Nutritional</b>   | The world produces enough food for everyone, but over 850 million people still face chronic hunger every day.      | Address the needs of those with too little food, or too much.   |
| <b>Resources</b>     | 60% of ecosystem services, such as freshwater and climate regulation, are being degraded or used unsustainably.    | Enable development that uses the earth's resources in a sustainable way.                                |
| <b>Environmental</b> | The loss of biodiversity, droughts and the destruction of coral reefs are just some challenges facing the globe.   | Create markets that protect and enhance the environment.  |
| <b>Health</b>        | Millions of people have no access to affordable medicine or healthcare.  | Create markets that encourage healthy lifestyles and enable equal access to healthcare.                 |
| <b>Gender</b>        | Two-thirds of the world's 1 billion illiterate people are women.   | Enable and empower women to participate equally and fairly in society and the economy.                  |
| <b>Educational</b>   | About 100 million children in emerging economies are not enrolled in primary education.                            | Provide mechanisms to transfer and share knowledge and learning that empowers all levels of societies.  |
| <b>Digital</b>       | Only 4% of Africans and 11% of Asians have internet access.  | Develop inclusive approaches to technology that allow much greater shared benefits.                     |
| <b>Security</b>      | Inequity and exclusion fuel prejudice, anger and conflict in many parts of the world.                              | Work to promote security and reduce conflict based on inequity and exclusion.                           |

## Next steps

SustainAbility, UNEP and UNGC regard this publication as a stepping stone in the discussion of best practices and how sustainability can be successfully integrated into supply chains to deliver value to consumers and suppliers, as well as to society as a whole when it comes to managing constrained natural resources.

There are many areas that could be further researched – such as methods for influencing sustainable consumption and the use phase, how branding and labelling could help generate greater consumer pull, how other organisational functions might be involved in developing sustainable solutions, how stakeholder collaboration could be made more effective, and how incentives could be better aligned, to name but a few.

UNEP will be exploring creation of an industry cluster initiative that could help to address challenges explored in this paper, working in close collaboration with committed companies from around the world. Such an initiative would build on UNEP and UNGC's extensive experience working with various sectors to convene and coordinate learning and practice development.

As always, the challenge is to create the conditions that will put the potential of more sustainable business into practice. Visionary sector leadership, good tools and experienced partners can help make it happen.

We look forward to continuing this conversation. Feedback on the content of this paper and advice on other best practices would be welcome, and can be shared with us at the contact details below.

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### Notes

<sup>1</sup> Hau L. Lee, 'The Triple-A Supply Chain', *Harvard Business Review*, October 2004.

<sup>2</sup> Frits K. Pil and Matthias Holweg, 'Evolving from Value Chain to Value Grid', *MIT Sloan Management Review*, Summer 2006.

<sup>3</sup> AFP, 'Biofuels Under Attack as World Food Prices Soar', 20 April 2008.

<sup>4</sup> Ibid.

<sup>5</sup> 'Supply Chain Management' special report, *Financial Times*, 10 December 2007.

<sup>6</sup> Ibid.

<sup>7</sup> Martin Christopher, *Logistics and Supply Chain Management: Creating Value-adding Networks*, Prentice Hall, 2005.

<sup>8</sup> The network is described online at [www.unep.fr/scp/cp/network](http://www.unep.fr/scp/cp/network)

<sup>9</sup> See [www.efficient-entrepreneur.net](http://www.efficient-entrepreneur.net) for the guidance in English and French.

<sup>10</sup> Marc Gunther, 'How Companies Fight Sweatshops', *Fortune*, 3 May 2006.

<sup>11</sup> [www.globalreporting.org/current/priorities/supplychain/project+news/transparencynews.htm#reportsready](http://www.globalreporting.org/current/priorities/supplychain/project+news/transparencynews.htm#reportsready)

<sup>12</sup> [www.eiris.org/files/research%20publications/stateofespbusiness\\_execsumsep07.pdf](http://www.eiris.org/files/research%20publications/stateofespbusiness_execsumsep07.pdf)

<sup>13</sup> Frits K. Pil and Matthias Holweg, 'Evolving from Value Chain to Value Grid', *MIT Sloan Management Review*, Summer 2006.

<sup>14</sup> A pinch-point is the level of inventories of a commodity or product below which consumers of that commodity or product become concerned about security of supply. When inventories are below the pinch-point, small changes in the balance of supply and demand can cause large changes in the price of the commodity or product.

[http://en.wikipedia.org/wiki/pinch\\_point](http://en.wikipedia.org/wiki/pinch_point)

<sup>15</sup> See UNEP, 'Design for Sustainability: A Practical Approach for Developing Economies', 2006, at [www.unep.fr/scp/design/publications](http://www.unep.fr/scp/design/publications)

<sup>16</sup> On product service systems and sustainability opportunities see [www.unep.fr/scp/design/pss.htm](http://www.unep.fr/scp/design/pss.htm)

<sup>17</sup> Ibid.

<sup>18</sup> [www.wwflearning.org.uk/one-planet-business](http://www.wwflearning.org.uk/one-planet-business)

<sup>19</sup> Case study drawn from SustainAbility, *The Social Intrapreneur: A Field Guide for Corporate Changemakers*, April 2008.

<sup>20</sup> Daniel Esty and Andrew Winston, *Green to Gold: How Smart Companies Use Environmental Strategy to Innovate, Create Value and Build Competitive Advantage*, Yale University Press, 2006.

<sup>21</sup> Martin Christopher, *Logistics and Supply Chain Management: Creating Value-adding Networks*, FT Prentice Hall, 3rd ed., 2005.

<sup>22</sup> On mindsets to achieve change, see SustainAbility, *The Social Intrapreneur: A Field Guide for Corporate Changemakers*, April 2008.

<sup>23</sup> [www.sedex.org.uk](http://www.sedex.org.uk)

<sup>24</sup> [www.ecovadis.com](http://www.ecovadis.com)

<sup>25</sup> See SustainAbility's recent work, *Raising Our Game: Can We Sustain Globalization?*, 2007, for more in-depth coverage of the ten divides, available at [www.sustainability.com](http://www.sustainability.com)

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## Acknowledgements

This report would not have been possible without the contribution of a number of people and we are thankful to them all for making their time and knowledge available to us. Many people at Sustainability contributed to this report. We would like to recognise Frances Buckingham, Philip Gounev, Judy Kuszewski, Alexander Nick, Kavita Prakash-Mani and Patrin Watanatada. Our special thanks to Yasmin Crowther for her coherent writing and to Rupert Bassett for his design input.

We would like to acknowledge UNEP's Division of Technology, Industry and Economics for its key contribution, and in particular Cornis van der Lugt for his vision and determination – the report would not have happened without him! – as well as the UN Global Compact for its support. Michael Kuhndt and the UNEP/Wuppertal Institute Collaborating Centre on Sustainable Consumption and Production provided invaluable insights that made the report more robust – we thank them for sharing their research. Many people enriched this report by sharing their experience and expertise. We would like to acknowledge their contribution not just to this report but to the evolving field of sustainable supply chains.

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