

Sustainability in Global Supply Chains



Information and Guidance for Companies

econsense Discussion Paper

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econsense is an association of leading, globally active companies and organisations of German business specializing in the area of sustainable development and corporate social responsibility (CSR). Founded in 2000 on the initiative of the Federation of German Industries (BDI), the goal of econsense is to provide a dialogue platform and think tank, with the

objective of advancing sustainable development in business and assuming social responsibility. The econsense project group "Sustainability along the Supply Chain" has worked successfully for many years together with internal and external experts on the various challenges involved in the promotion of sustainable supply chains.



Summary

Many of the challenges and opportunities associated with corporate sustainability cannot be tackled by individual companies on their own – but only by collaboration along the global supply chain. This co-operation requires a general consensus on the key aspects of corporate sustainability.

The members of econsense – Forum for Sustainable Development of German Business – hope that this brochure can contribute to foster this consensus and facilitate the dialogue on sustainability along the supply chain.

The brochure presents the consensus of the econsense members on the key aspects of corporate sustainability in global supply chains.

It is closely aligned with recognised international standards. The brochure is intended in particular for companies which have not yet established a systematic sustainability management system, with the aim of helping them to anchor sustainability in their core business. For practical implementation, however, companies should complement the guidance provided by this brochure with the more concrete requirements of their business partners and stakeholders.

Development of requirements and expectations in supply chain management

Corporate sustainability requires companies to take into consideration the environmental and social consequences of their core business operations as well as implement and maintain good corporate governance. This involves various aspects of corporate environmental protection, safeguarding the interests of employees, and combating corruption, amongst other things.

Corporate sustainability has already been incorporated on a broad basis in transactions involving supplier selection and co-operation. This is mainly attributable to the growing awareness that the environmental and social challenges associated with business operations along the supply chain cannot be solved by individual companies but only via co-operation with business partners. Companies, and their purchasing departments in particular, have to tackle this challenge by working together with their suppliers to ensure that certain environmental and social standards are maintained along the entire supply chain. Many suppliers are therefore requested by their clients to verify their compliance with certain environmental and social standards. The information-gathering process frequently involves filling in questionnaires or standardised exchange of data via online platforms. Such activities can mean additional work and expenses for suppliers, especially if they are not yet prepared accordingly.

Transparency and sustainability 'inhouse' and along the supply chain

Many companies have been doing what they can voluntarily to fulfil their environmental and social commitments for quite some time now. However, the willingness to tackle these issues 'inhouse' as well as along the supply chain has increased significantly in recent years in response to evolving framework conditions (e.g. politics, changing values, etc.) and strategic orientation of companies. These developments are discussed briefly in the following:

Evolving framework conditions and expectations of external stakeholders

- The environmental and social framework for business has become much more stringent in recent years on all political levels. For instance, companies are being assigned increasing responsibility to ensure that their suppliers comply with human rights conventions, (e.g. UN Guiding Principles on Business and Human Rights, or 'Ruggie

Framework') or the regulations governing the extraction of natural resources (e.g. Dodd-Frank-Act)¹. Furthermore, the EU is planning to expand financial disclosure of medium and large-sized European enterprises to "non-financial information" (i.e. environmental and social risks and opportunities). The objective of such measures is to broaden the sphere of responsibility of companies to the supply chain. It is expected that the regulatory framework will be modified further in the near future in response to urgent global challenges (e.g. climate change, natural resource shortages, and demographic change).

- **Civil society / NGOs and media** are closely monitoring the environmental and social impact of business activities on the national and international level. Actual or assumed deficits are frequently sanctioned with public criticism and the associated loss of reputation. In this situation it is not enough for a company to merely point out that its activities are all being carried out on a "legal" basis. Companies are now coming under increasing pressure to establish their "legitimacy" (licence to operate) and their social acceptance by virtue of their responsible actions.
- The expectations of **financial market** actors with regard to corporate sustainability performance are growing constantly. Because many investors consider the future viability of a company to be associated with its attitude towards environmental and social risks, the implementation of a systematic sustainability management is already today rewarded by – for instance – lower cost of capital.
- The **purchasing behaviour of consumers** has gained considerably in importance in recent years. New sales opportunities can be generated by fair and responsibly produced products, whilst products which consumers associate with high environmental and social costs are increasingly seen as a burden on the market. Changing consumer behaviour has also an impact on upstream value chain steps since procurement departments attempt to minimise the associated environmental and social costs of purchased materials and components.

Strategic orientation of companies:

The rewards of corporate sustainability

- Sustainability and responsible business conduct have a strong positive effect within a company. In fact, these are among the key factors for the attractiveness of an employer in the eyes of current (> motivation) and future (> acquisition of new talent) **employees** – and therefore for the company's future competitiveness.
- **Product development and marketing/sales** can benefit substantially from the integration of sustainability into corporate strategy. Leading companies have demonstrated how a focus on sustainability can stimulate innovation and create an impulse for developing new markets.

- Anchoring environmental and social principles within corporate strategy has in many cases proved to be an effective measure for minimising risks for the company and helping its business activities proceed more smoothly.

Sustainability in global supply chains: "Orientation aid" for companies

Companies of all sizes face the challenge of satisfying the rising expectations with regard to transparency and sustainability. However, international and cross-sectoral processes and systems for the necessary exchange of sustainability-related data along the supply chain are not yet available to the required extent.

These observations motivated econsense to develop a joint "orientation aid". **This "orientation aid" represents a consensus of the econsense member companies on the key aspects of sustainability in global supply chains which need to be discussed and verified with suppliers in the context of sustainability management.** The content is closely related to recognised international standards such as the ILO Core Labor Standards (International Labor Organisation), the Ten Principles of the UN Global Compact, and the OECD Guiding Principles for Multinational Companies.

The aim of the "orientation aid" is to establish a basic consensus amongst large and smaller companies on corporate sustainability in a global context, and to simplify dialogue on sustainability along the supply chain. In particular, it can assist companies which have not yet established a systematic sustainability management system in integrating sustainability into their business activities.

The degree to which each of the elements is implemented by companies depends on various factors including the size of the company, the particularities of the sector, and the requirements of customers and stakeholders. The "orientation aid" is aimed at providing companies with initial information and guidance which can then be complemented by more concrete requirements tailored to the company's business partners and stakeholders.

The "orientation aid" includes five categories: three thematic categories (environment, social and human rights, as well as corporate governance) and two process-related categories (management process, monitoring and results).

¹ Section 1502 of the Dodd-Frank-Act of the US Securities and Exchange Commission requires all companies listed in the USA to report on the extent to which their products contain certain natural resources from the Democratic Republic of the Congo or neighbouring regions. Companies in other countries are also affected via subsidiaries or customers listed in the USA which pass on the required verification of origin to their suppliers.

„Orientation Aid“ for Corporate Sustainability

Thematic categories			Process-related categories	
Environment	Social issues and human rights	Governance	Management process	Monitoring and results
<ul style="list-style-type: none"> • Environmental protection • Climate protection • Resource efficiency • Hazardous substances • Plant and transport safety 	<ul style="list-style-type: none"> • Social standards and working conditions • Health and safety • Social impact 	<ul style="list-style-type: none"> • Management roles and responsibilities • Management pledge • Anti-corruption measures 	<ul style="list-style-type: none"> • Management systems • Escalation and development process in case of violation of rules • Employee trainings • Passing on of principles to the supply chain 	<ul style="list-style-type: none"> • Certification • Documentation, monitoring and reporting • Sanctions

Environment

This category is concerned with the protection of the environment, the climate and natural resources.

- Corporate **environmental protection** includes aspects such as the implementation of environmental guidelines, recycling systems, pollution prevention, and barring unauthorised materials from products and production processes.
- Corporate **climate protection** includes aspects such as defining targets and measures for the reduction of greenhouse gas emissions.
- **Resource efficiency in the handling of materials, energy and water** requires the development and implementation of targets and measures for saving and recycling resources (reduce, reuse, recycle).
- The use of **hazardous substances** requires careful identification, storage and handling, as well as measures to reduce the use of toxic substances.
- **Plant and transport security** is concerned with authorisations and clearly regulated responsibilities, as well as the definition of clear instructions for specified normal operation of all installations.

Additional information:

ProgRes – German Resource Efficiency Programme
www.bmu.de/fileadmin/bmu-import/files/pdfs/allgemein/application/pdf/progress_en_bf.pdf

UN Global Compact: Caring for Climate
 (Voluntary initiative for companies)
www.caringforclimate.org

Carbon Disclosure Project
 (Initiative for publishing information on e.g. greenhouse gas emissions and water consumption)
www.cdproject.net

REACH (EU chemicals directive)
www.echa.europa.eu/web/guest/regulations/reach

European road map for a resource-efficient Europe
www.ec.europa.eu/environment/resource_efficiency

WBCSD Greenhouse Gas Protocol
 (Standard for recording greenhouse gas emissions)
www.wbcsd.org/work-program/capacity-building/ghg-protocol.aspx

Social issues and human rights

This category addresses the responsibility of companies with regard to employees as well as society as a whole.

- Maintaining **social standards and working conditions** includes aspects such as complying with minimum wage levels and regular working hours, as well as measures to avoid and sanction violations of human rights (including child and forced labour), and discrimination against employees with respect to ethnic origin, skin colour, sex,

Additional information:

ILO Core Labor Standards
www.ilo.org/global/standards

ILO Occupational Safety Programme
www.ilo.org/safework

UN Guiding Principles on Business and Human Rights
www.business-humanrights.org

religion, political opinion, national origin, or social background. Companies should orientate their conduct to codes of ethics or standards such as the ILO Core Labor Standards, the UN Guiding Principles on Business and Human Rights or the UN Global Compact.

- Responsible **occupational health and safety** includes that workplaces satisfy legal requirements and the usual industry standards.
- The **impact on the social environment** can be determined and improved by measures such as undertaking regular risk and acceptance assessments and by implementing appropriate measures.

Governance

This category deals with the responsibility of senior management for anchoring sustainability in a company's core business activities.

- The **management responsibilities** for anchoring sustainability in the company's core business must be clearly defined. This includes aspects such as appointing an executive responsible for CSR and sustainability.
- A key role is also played by an unequivocal **management pledge** to assume social and environmental responsibility and fighting corruption.
- **Fighting corruption** successfully requires the establishment of effective systems and the implementation of suitable measures on all levels.

Management process

This category focuses on the processes and systems involved in corporate sustainability management.

- A systematic sustainability management is supported by **management systems, standards and guidelines**. ISO 26000 provides a comprehensive overview of corporate sustainability (without being a certifiable standard). With respect to environmental issues, environmental management systems such as ISO 14001 or comparable systems have proven successful. Management systems such as OHSAS 18001 or comparable standards cover occupational health and safety aspects. Risk management systems have also proven helpful in this context.
- **Escalation and development processes** can provide assistance when deviations from the standards defined by a company are identified. This includes the development of systems and instruments for undertaking regular auditing and correction measures.

*UN Global Compact: 10 Principles
(Voluntary code and initiative for companies)*
www.unglobalcompact.org

*BMU – Brochure on Risk Management and CSR
(in German)*
www.bmu.de/fileadmin/bmu-import/files/pdfs/allgemein/application/pdf/broschuere_csr_verantwortung_bf.pdf

Additional information:

BME Code of Conduct and Compliance Initiative
www.bme.de/Code-of-Conduct.44959.0.html

*IDW PS 980
(Testing standard for compliance management systems)*
www.idw.de/idw/portal/d589242/index.jsp

*World Economic Forum – Partnering Against Corruption
(Corporate anti-corruption initiative)*
www.weforum.org/issues/partnering-against-corruption-initiative

*Transparency International
(NGO focusing on transparency and corruption prevention)*
www.transparency.org/topic/detail/private_sector

Additional information:

ISO 26000 (Corporate Social Responsibility Guidelines)
www.iso.org/iso/home/standards/management-standards/iso26000.htm

OHSAS 18001 (Occupational Health and Safety Management System)
www.ohsas-18001-occupational-health-and-safety.com/

ISO 14001 (Environmental Management Standard)
www.iso.org/iso/iso14000

EMAS (EU Eco-management and Audit Scheme)
www.emas.de/meta/english-summary

*SA 8000 (Social Accountability)
(Standard for social and working standards)*
www.sa-intl.org/

- Doing business responsibly and sustainably requires the involvement of the whole workforce and can be promoted by measures such as **employee training** on the environment, social affairs, codes of conduct, safety and conduct during emergencies.
- Purchasing departments play a central role in corporate sustainability management. Sustainability principles specified by a company can be successfully transferred to organizations along the **supply chain** by taking into consideration environmental and social aspects when **selecting new and developing established suppliers**.

Monitoring and results

This category addresses the monitoring and documentation of corporate sustainability.

- In addition to internal monitoring with the help of suitable processes and systems, verification of a sustainability management system can in many cases be provided by **certificates and verifications**.
- **Reporting** on sustainability in a company's core business has proven in many cases to have positive internal and external effects. However, it requires a continuous internal and external documentation of relevant measures, targets and metrics.
- Credible and efficient **sanctioning of violations** against standards and procedures defined by a company can be guaranteed by establishing suitable systems and processes on all levels of the organization.

Practical implementation

This "orientation aid" is intended to provide companies a starting point to develop their own sustainability strategy and to successfully meet the increasing expectations with regard to transparency. If an appropriate strategy is already in place, the "orientation aid" may provide a useful benchmark of relevant aspects.

The references and links listed in this "orientation aid" refer to detailed information on the individual sustainability aspects. In addition, business associations and sustainability initiatives can provide assistance to interested companies.

Close co-operation with business partners along the entire supply chain is crucial for the development and implementation of appropriate sustainability measures. The sales and marketing department, for instance, should monitor what

BMU – Brochure on Risk Management and CSR (in German) (see chapter "Social affairs and human rights")

Regarding "supply chain":

Business Social Compliance Initiative – BSCI
www.bsci-intl.org/

UN Global Compact – Sustainable Supply Chains
www.unglobalcompact.org/Issues/supply_chain/index.html

Additional information:

BMU Risk Management and CSR (in German) (see chapter "Social affairs and human rights")

Global Reporting Initiative (Voluntary reporting standard)
www.globalreporting.org

EFFAS-DVFA (Voluntary reporting standard)
www.effas-esg.com

German Sustainability Code (Voluntary reporting standard)
www.nachhaltigkeitsrat.de/en/home

UN Global Compact "Communication on Progress" (Voluntary progress report)
www.unglobalcompact.org/COP/index.html

Carbon Disclosure Project (Investor initiative for publishing greenhouse gas emissions)
www.cdproject.net

customers are specifically looking for in terms of sustainability and pass this information on to the responsible officers within the company. The purchasing department should talk to suppliers about complying with environmental and social standards in order to minimise reputational risks and interruptions in the supply chain.

Informing their customers, employees, as well as the general public on concrete activities undertaken to enhance sustainability and minimize negative external effects has proven beneficial to many companies. The publication of sustainability reports is a particularly useful measure in this context.

econsense is available for discussions with interested companies and institutions on the aspects of corporate sustainability presented in this "orientation aid".

