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How every member of the C-suite can use supply chain data to transform your company's sustainable and responsible sourcing efforts.

'All In' on Responsible Sourcing

For companies large and small, CSR is now baked into the organizational DNA. Consumers demand transparency, responsible sourcing, and sustainable business practices throughout the product lifecycle — from the type of fertilizer used to grow the coffee to the recyclable cup in which its served. And as regulators raise the bar on reporting requirements, investors are developing their own metrics that reward businesses whose responsible sourcing pledges translate into profitability.

To succeed in this new business reality, **companies need to radically deepen their commitment to prioritizing responsible sourcing across every corporate department.**

Gone are the days when an eco-friendly marketing campaign was enough to legitimize a corporation's commitment to sustainability. Today's consumers can smell greenwashing a mile away, and the blowback is particularly fierce when a company's empty words clash with news reports of forced labor or environmental disasters.

The only way to exceed consumer and regulatory demands while keeping investors happy is by harnessing a business-wide commitment to responsible sourcing. Every department must understand that responsible business practices are not only the "right thing to do," but are the best strategy for long-term growth and profitability. It starts with unwavering buy-in from the CEO and extends to every member of the C-suite, not only the chief sustainability officer, but also top-tier leadership in procurement, risk management, marketing and more.

Companies that have made a true pledge don't just talk; they back up their promises with data. And nearly all of the high-impact areas related to CSR commitments are found within the supply chain. It's no longer an option to ignore the environmental or ethical standards of a third- or fourth-tier supplier halfway across the world. Consumers and regulators will accept nothing less

Corporate social responsibility is no longer just a buzzword.

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than full transparency and so must corporate leadership. For that reason, every department has something to gain from improving supply chain responsibility and closely tracking supply chain performance and compliance data.
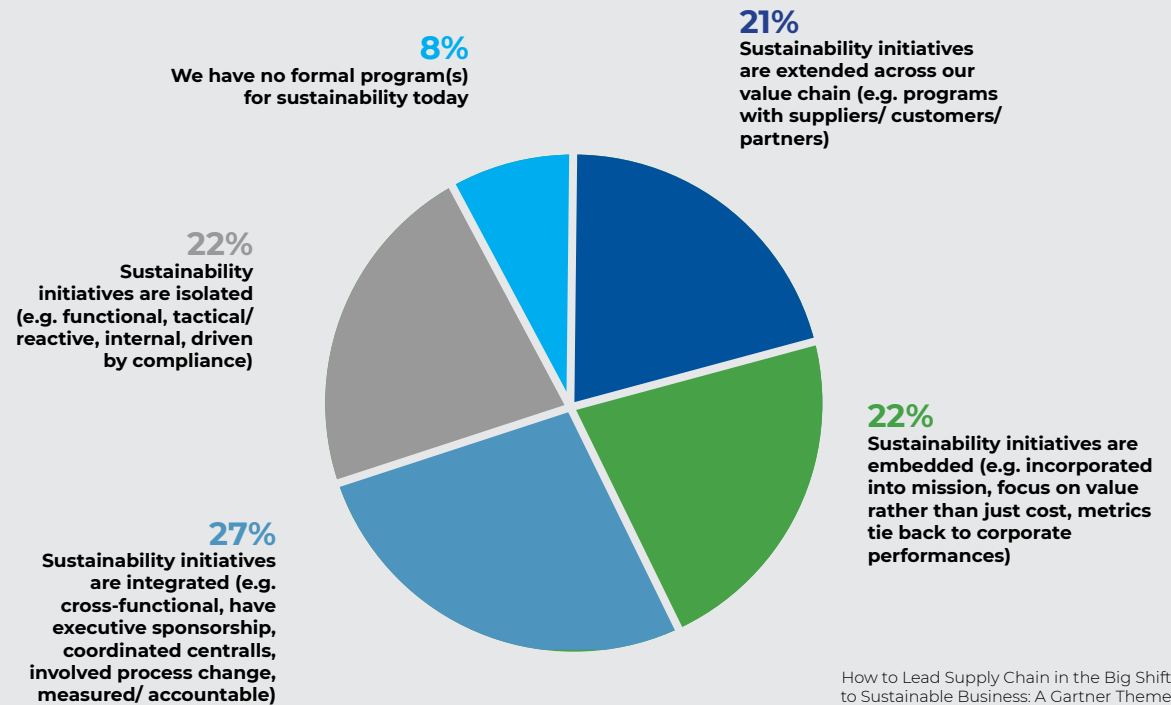
Relatively few companies have reached this level of business-wide commitment to supply chain transparency. According to Gartner's March 2018 report, "How to Lead Supply Chain in the Big Shift to Sustainable Business: A Gartner Theme Insight Report," only

27% of participating companies said that their sustainability initiatives were integrated

meaning they had executive sponsorship, were coordinated centrally, were cross-functional, involved process change, and were measured and accountable. A full 30% of the respondents said that they have no or low-maturity sustainability initiatives.

This whitepaper makes a strong business case for deepening and expanding supply chain-related responsibility initiatives across the traditional corporate arenas of sustainability, procurement, risk

Sustainability as a Priority

8%
We have no formal program(s) for sustainability today

21%
Sustainability initiatives are extended across our value chain (e.g. programs with suppliers/ customers/ partners)

22%
Sustainability initiatives are isolated (e.g. functional, tactical/ reactive, internal, driven by compliance)

22%
Sustainability initiatives are embedded (e.g. incorporated into mission, focus on value rather than just cost, metrics tie back to corporate performances)

27%
Sustainability initiatives are integrated (e.g. cross-functional, have executive sponsorship, coordinated centrals, involved process change, measured/ accountable)

How to Lead Supply Chain in the Big Shift to Sustainable Business: A Gartner Theme Insight Report, Published 21 March 2018

management, and marketing. To succeed, the effort must be truly cross-functional, with all parties sharing supply chain data that ensures regulatory compliance, improves supplier relationships and promotes authentic marketing stories.

SUSTAINABILITY

As the lead for company-wide CSR initiatives, the CSO needs to effectively collect and share supply chain data.

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When it comes to designing and driving a corporation's overall CSR initiatives, the CEO turns to the chief sustainability officer (CSO). The sustainability team is responsible for leading the development of institutional goals related to reducing the negative environmental and social impacts of the company's activities, including those found in the supply chain. Depending on the industry, those goals could include lowering water and energy consumption, ending deforestation, and eliminating forced or child labor. Many long-term initiatives are aligned with the U.N. Sustainable Development Goals (SDGs) for 2020 and 2030.

In addition to setting internal CSR goals, the sustainability team is often responsible for responding to an ever-expanding queue of external reporting requests. In 2014, for example, the European Union imposed new non-financial reporting requirements on larger companies, asking them to explain what steps were being taken to eliminate slave labor and other unethical practices from their supply chains. And at least a dozen international stock exchanges now have mandatory disclosure requirements for listed companies that include responsible sourcing and sustainability metrics.

But easily the largest sector for CSR and sustainability reporting is that occupied by global NGOs. Organizations like the GRI (Global Reporting Initiative) and the SASB (Sustainability Accounting Standards Board) are part of a fast-growing market for voluntary CSR and sustainability reporting, also known as ESG (environmental, social and governance) data. Until regulators and investors can settle on a single reporting standard, corporate sustainability teams are scrambling to collect and assemble ESGdata to satisfy myriad competing reporting requirements.

For these reasons and more, the sustainability team should be the fiercest advocate of collecting accurate and replicable supply chain data.

Before the marketing team can promote the success of an anti-deforestation campaign, the sustainability team needs the numbers to back it up. And before procurement and human resources can develop supplier and manager training programs to improve working conditions, the sustainability team needs to identify the key metrics and outcomes upon which those training programs will be judged.

All of this requires a fully transparent supply chain and a robust system for tracking and sharing supply chain performance data. With that data in hand, the sustainability team can lead business-wide efforts to enhance the company's reputation with regulators, influential NGOs, investors, business clients and customers.

PROCUREMENT

CPOs have the most direct influence on responsible sourcing initiatives, leveraging supply chain data to transform supplier practices and meet company-wide goals.

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Leading companies are making commitments on their most material issues, integrating sustainability throughout their whole procurement lifecycles, and actively leading in the global collaborations that are improving global supply chains.

Tara Norton,
Managing Director, BSR

The chief procurement officer (CPO) has emerged as a key player in implementing CSR and sustainability initiatives directly into the supply chain. In the past, procurement was a back-office role tasked with getting the best materials for the lowest price. Efficiency and cost savings were the top (if not sole) priorities of procurement, but

today's CPOs are looking beyond traditional metrics to forge supplier relationships that enhance the brand on multiple levels.

This higher standard for CPOs is alternatively called SRP (socially responsible procurement), sustainable procurement, or responsible sourcing, and it places environmental and social impacts of the supply chain on the same level as financial returns. Because procurement teams often have the most direct contact with suppliers, they are in the unique position to help carry out transformative responsible sourcing initiatives on the ground.
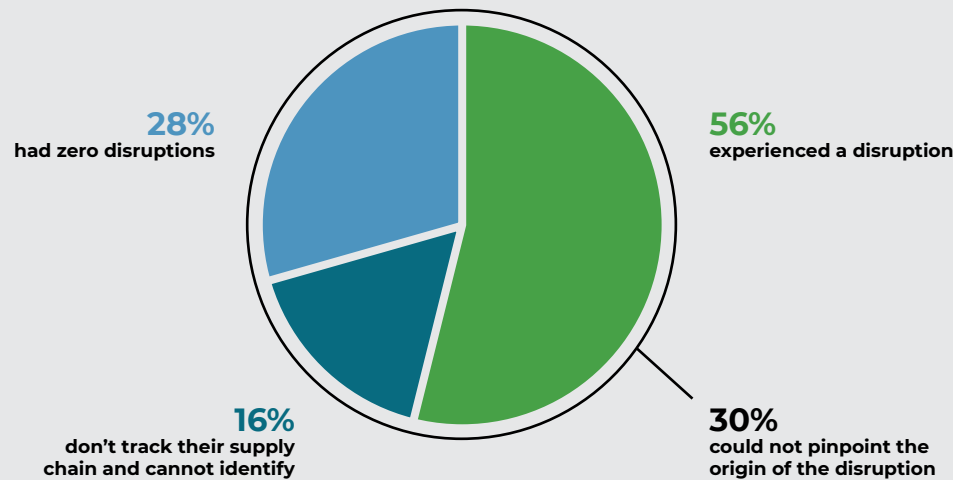
It starts with a supplier development strategy that incorporates responsible sourcing goals. New RFPs are written to emphasize the role of sustainability in the contracting process. New suppliers are not only chosen for product quality and pricing, but for shared values and proven responsible sourcing track records. As part of the onboarding process, the procurement team ensures that all new suppliers understand what is expected from them and that responsible sourcing

performance goals are explicitly written into supplier contracts.

Procurement teams are already accustomed to monitoring conventional supply chain metrics like on-time delivery of goods and price fluctuations, but socially responsible procurement requires a whole new data stream. Whether through self-reported supplier surveys, internal data collecting, or third-party audits, procurement teams need accurate data to track supplier compliance with corporate standards. Are all the factory workers of a legal working age and receiving a fair wage? Are the pulp mills sourcing legal timber?

If suppliers struggle to meet these new higher standards, procurement can then work hand-in-hand with human resources and the sustainability team to institute training and support programs. A critical part of this elevated procurement strategy is managing supplier relationships in ways that serve the brand while simultaneously serving supplier communities.

Of course, no improvements can be made to the supplier network if data isn't collected in a timely and accurate

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28%
had zero disruptions

56%
experienced a disruption

16%
don't track their supply
chain and cannot identify

30%
could not pinpoint the
origin of the disruption

the biggest supply chain-related risks aren't logistical, but reputational. According to one calculation, **brand value is worth 22% of a company's market capitalization.**

If that's true, then a front-page headline about bad actors in their supply chain could cost a Fortune 500 company billions in lost customer loyalty.

According to the Business Continuity Institute's "Supply Chain Resilience Report 2018," 56% of companies reported one or more supply chain disruption in the previous 12 months. (That number is likely on the low side, since 16% of respondents didn't track their supply chain closely enough to identify disruptions, and of those who did, 30% didn't pinpoint the origin of the disruption (tier 1, two 2, tier 3, etc.).)

Of those supply chain disruptions, 53% were blamed on unplanned IT or telecommunications outages and 41% were caused by adverse weather, but rounding up the list of most common causes were also "business ethics/ human rights" (11%) and "environmental incidents" (9%).

way. For larger companies, next-generation supply chain monitoring technology will be critical for gathering, analyzing and sharing responsible supply chain data across the organization.

The importance of internal data sharing cannot be underestimated. We know of a case where the sustainability team at a large international company had identified a supplier that was dangerously overworking its employees. Unfortunately, that data wasn't shared with procurement, which had been demanding increased production from that same supplier, thus exacerbating the issue. A centralized

data-tracking solution would vastly improve communication and collaboration between procurement and other departments.

RISK MANAGEMENT

The only way for today's CROs to accurately identify and mitigate supply chain risks is through careful analysis of on-the-ground data.

Global corporations already understand the financial impact of failing to identify and mitigate conventional risks to the supply chain like weather disruptions and civil unrest. But modern chief risk officers (CRO) also understand that some of

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As with procurement, it's not enough for risk departments to focus solely on traditional risk factors that can disrupt the supply chain and slow production. Forward-thinking CROs elevate CSR-related threats like forced labor, underpaid workers, and toxic environmental practices to the same level as traditional disruption threats, and take proactive steps to limit the potential reputational fallout from bad supplier behavior.

The only way to understand the true nature and extent of ESG-related risk is to monitor supplier compliance with internal labor and environmental impact standards. Again, this is where data-sharing and collaboration across multiplecorporate departments is essential. Working with procurement, the risk management team can reduce the likelihood of a brand-damaging event by ensuring that all suppliers at every tier are visible, trained, and supported in the latest compliance and responsible sourcing efforts.

One of the newer risks to corporate image is simply an outgrowth of the rising consumer and regulatory demand for greater supply chain transparency. As corporate teams like sustainability race to report ESG data to regulators and global NGOs, more and more tiers of the supply chain are being exposed for public scrutiny. Risk management teams are under pressure to stay one step ahead of these disclosures and work with their marketing counterparts to frame potentially negative events as proactive learning experiences.

MARKETING

Today's savvy consumers can see through slick marketing campaigns. CMOs need data to prove that the brand is making good on its promises.

Marketing messages that promote sustainability and transparency have a proven track record with consumers. In one food industry survey, 94% of respondents said they would remain loyal to a product that offers complete transparency — full list of ingredients, in-depth nutritional information, information on how the food is responsibly sourced and produced —

and 39% said they would switch to a competing product if it provided even more transparent information.

As SupplyShift reported in our whitepaper, "The Sustainable CMO," today's chief marketing officers are being called on to champion responsible sourcing and sustainability efforts in new and expanded ways. CEOs now rely on the marketing team to capture a vision of the company's more responsible future and lead business-wide efforts to make that future a reality.

Forward-thinking CMOs embrace transparency, leveraging robust supply chain data to tell authentic success stories centered around responsible sourcing. Consumers and investors are more than aware of the serious environmental and labor challenges facing global corporations, and they won't settle for greenwashed marketing campaigns. They want to see the company working hard to support supplier communities and protect the environment, and they want assurances from trusted third-party certifications (Forestry Stewardship Council, Fair Trade Certified, the Better Cotton Initiative, etc.) that the company is indeed making progress toward its ambitious goals.

For brands to tell those kinds of eye-opening stories, the marketing team needs compelling and highly targeted supplier data. The CMO should be part of the core team (along with the CSO, CPO and CRO) that

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finances projects and decides exactly what type of data the brand needs. The more data that marketing teams gather about the impact of their

sustainable sourcing efforts, the better chance that the brand will get high marks from ranking and performance-rating organizations like CDP, Global 100, the Bloomberg ESG Disclosure Score and more. While consumers may not pay much attention to these ratings and lists, investors increasingly do, with "73% of professional investors considering sustainability standing before deciding to invest," according to Gartner's February 2018 report "Sustainability Represents an Opportunity for Supply Chain Sourcing."

By taking on a more active and collaborative role in planning and executing a company's responsible sourcing initiatives, this new "sustainable CMO" will do more than shape the consumer-facing brand; she will also lead an internal cultural shift. An authentic commitment to responsible and sustainable sourcing is contagious and will spread to every level of the coporation and its global supply chain.

Conclusion

The challenges of responsible sourcing are real, but so are the opportunities. Consumers and investors reward brands that place responsible sourcing and sustainability at the top of the mission statements, and back up their commitments with results-based, human-centered initiatives. Success in this new corporate reality demands a company-wide transformation, and no single department can accomplish it alone. By sharing supply chain data across the organization, brands can capture vital insights that allow each department to do their jobs even better and with a renewed sense of purpose.

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