

NO WRITING ON WALLS

Making Sustainability a Rewarding Business

The *Nordic* Partnership





Discussion paper based on a Nordic Partnership Survey

Sustainable Development as a Business Principle in the Supply Chain

Abstract

Sustainability is in itself a complex concept and supply chain management is usually a complex management process. Bringing these two together certainly does not add clarity to the sustainability discussion. Nevertheless this is where business, value creation and sustainability meet reality, in difficult-to-manage and increasingly globalised and commoditised supply chains. Sustainability in the supply chain is fundamentally about identifying problematic social, environmental and H&S issues throughout the supply chain, assessing their impact and risks, and then trying to improve them.

The Nordic Partnership has undertaken this paper, in order to identify some of the dilemmas and barriers to sustainable supply chain management, whilst balancing the business and NGO perspectives. While the results of this survey illuminate some key issues in the process of integrating sustainability into the supply chain, it concludes that there is currently no writing on the wall. It seems that consumers don't really care; governments hesitate and lack the political will and motivation to act; investors are interested, but lack tools for handling the issues, whilst international business deems it desirable but cannot see a clear business case for doing it.

The survey also illustrates the willingness shown by international NGOs and leading international companies to create partnerships, in order to learn and to change current practice in supply chain management. However, business and NGOs alone cannot change the way international trade

regulations and practices - the 'rules of the game' often disfavour sustainability. Multi-company/multi-NGO partnerships could be one way to address these issues and enter into dialogue with other important stakeholders in the supply chains e.g. producers and their advocates (trade unions or NGO's), governments/authorities and investors, in order to instigate changes in the long term.

Why undertake this survey?

Traditional supply chain management focuses on the streamlining of the supply chain by cutting down on supplier numbers, reducing the collaboration costs and getting better deals with the remaining suppliers. The main aim has been cost-cutting and the tools used focus on logistics, IT and systems thinking. Many companies have experienced that an additional mechanism is needed to ensure that suppliers also meet certain standards within environment, health & safety (EHS), and more recently within human and labour rights. Companies do this in order to protect the brand value of their own EHS and sustainability work and to satisfy demands from their customers. The main objective is to maintain control with the associated difficulties of establishing exactly what to control and ensuring that the costs are kept at a level where the company is still competitive. The framework for this is also systems thinking, and the tools used are checklists and audits.

On the other hand, dealing with the supply chain provides a strategic opportunity to learn more about both current and future markets. Many companies have started to look more strategically at supply chain management as a source of



innovation. Rather than seeing supply chain management as merely a control and cost cutting concept, these companies look for partnerships in specific supply chains, have relatively few suppliers and put the emphasis on the values and vision that bond such partnerships together.

The Nordic Partnership believe that integrating sustainability into the supply chain takes the more strategic approach to supply chain management. However, for sustainability to become a part of supply chain management, three conditions must be met:

- The process must be **rewarding for all involved**
- It should be undertaken in **partnership with others**
- The **market “rules” must support** the efforts made to improve sustainability along the supply chain, (which is definitely not the case today.)

This is why making sustainability a business principle in the supply chain is a priority area for the Nordic Partnership. In our multistakeholder approach to sustainable supply chain management, we forge dialogue and partnerships in order to address areas in specific supply chains where companies and NGOs can best partner with Governments and authorities to change the ‘rules of the game’. The present survey builds on this idea and aims at providing insights into current business and NGO thinking about barriers and dilemmas to sustainable supply chain management. For practical reasons the survey has been limited to a cross section of the members of the Nordic Partnership (Novozymes, Brdr Hartmann, Procter & Gamble Nordic, ITT Flygt, UNIDO) and selected NGOs (WWF International, Amnesty International Sweden, Ibis, Consumer Council Denmark)².

Why don't things just happen? Barriers and dilemmas

THE NON-EXISTENT BUSINESS CASE!

“There is an utter lack of a sound business case; it is simply not there in practice. That is one of the primary reasons why things are happening slowly”, “...but you still need the business case to convince the board”

Nordic Partnership member

“In general do not try to define the business case; often it is difficult to demonstrate it and it takes too much time”

NGO representative

Many companies, NGOs and authorities agree that it is important and necessary to aim at achieving sustainability in all stages of the supply chain. If this is the case why doesn't it happen to a far greater extent?

There are few obvious reasons:

- Sustainable supply chain management is still too complex and there is too little knowledge available. Sustainability itself is an ambiguous concept, thus the idea of creating sustainability in the supply chain is one that provides a serious management challenge.
- There are no easy win-win scenarios! The consumer market is not really interested in sustainable supply chains per se. It appears to add control cost and even for the last company in the supply chain it is impractical to add the



cost to the price unless you can get a brand premium.

→ There are no low-hanging fruit! Unlike the early introduction of environmental management, where to some extent savings on resources and waste taxes could balance efforts, the low-hanging fruit for sustainable supply chain management are not yet ripe. And the environment-related fruits have been picked already!

→ Fear of NGOs! Partnerships between business and NGOs may be a way to get things going. The majority of business, however, still have a simple, antagonistic view of NGOs and vice versa!

CARE FREE CONSUMERS!

“Consumers rate materiality over values; they would rather spend money on cook books and kitchens than on quality food”

Nordic Partnership member

“You should not put the pressure on the consumer, but on the producer”

NGO representative

“The responsibility is the retailer’s, those that have the goods on the shelves and not those that take them off”

NGO representative

→ Companies are generally too small to matter! Even for international companies it takes a lot of effort to make supply chains more sustainable. When it comes to commodities, no business alone can accomplish the changes needed!

→ The business of business is business. Unless there is a clear indication that dealing with sustainability in the supply chain will benefit business, it will take more than just business and NGOs to make it roll.

→ The long-term/short-term perspective. Working with sustainability is for long-term reasons, while business – especially during recessions - pursues short-term economical interests.

Ultimately, sustainable supply chain management should add value to the consumer, with the consumer rewarding that value with a (small) price premium. However, environmental and social values are normally not ‘visible’ for the consumer and sustainability is not a visible product quality that sells by itself. Currently consumerism is geared more towards materiality than values, and at best consumers punish companies for doing wrong rather than rewarding them for doing well. Thus balancing between cost and control can become precarious and often unviable in business terms, unless you have a brand to protect.

Facing the future

Facing all these problems and dilemmas one might be tempted to conclude that integrating sustainability in the supply chain is simply too difficult. Yet lots of companies are taking action in this direction, because they believe sustainability is a necessity for long-term business and that it is the right thing to do. To these companies, if you want to remain in business, you must think in terms of sustainability in the supply chain. Some global companies are setting the pace of change in this way, often in partnership with NGOs.



However, as yet the writing on the wall just isn't there. Current regulation does not require companies to take a lot of initiative, and most consumers are not really willing to pay for it of their own free choice. It's important to acknowledge that companies view sustainability in the supply chain as a potential risk, therefore the risk of not acting must be high enough to warrant companies to act. Potential risks could come from future legislation, investors' demands, or a push/pull effect from the business-to-business segment. Perhaps the consumer society will become increasingly dissatisfied over the impact of the products they buy? For that to happen more honest information is needed, and clearly transparency and trust are key issues for all actors in the supply chain.

MUTUAL RESPECT

"It is precisely through networks and partnerships you can identify problems and solutions on difficult and complex aspects that everybody can back up. It demands rules between business and NGOs, and that you show respect for each other."

Nordic Partnership member

IT TAKES TIME!

"There is a lot of potential value added, but the aspect of timing should not be underestimated. Basically the NGO/business partnerships rely on two parties that have not worked together before. Just to understand each other's language will take time. We therefore recommend spending more time on understanding and scoping; the importance of this part is often underestimated. It is more easy to find technical solutions."

Nordic Partnership member

OPPORTUNITIES

"Opportunities do exist for companies that can turn good rhetoric into actions.."

NGO representative

Sustainability in the supply chain requires more than just the producer involvement, and goes beyond the businesses in the supply chain. Supply chains today are increasingly global and the outsourcing of production to countries with cheap labour, differing values, and human and labour rights issues is part of the picture. In addition, factors such as international institutions and regulations and the development need of countries targeted for outsourcing add to the complexity of the issue. Partnerships between business and NGOs are important to help identify the problems and bridge the knowledge gaps, as well as find the relevant stakeholders and ensure that long-lasting solutions are forged.

Sustainability in the supply chain is not a one-size-fits-all concept, applicable to anyone. It is a journey with its own learning curve. The concepts are taken up slowly inside companies and rewarded externally even more slowly. But time must be invested in building transparent and democratic relations between stakeholders for significant changes to be achieved. At this point, companies can manage their risk, whilst getting new insights into the process and finding business opportunities. All the NGOs and businesses involved in this survey favoured the idea of engagement in a mutual process that involved all stakeholders under the headline: 'Let us examine this supply chain to find sustainability/business opportunities'.



Some of the key long-term issues include the need to:

- **Build trust through increased transparency,**
 - **Keep on pushing the sustainability agenda into business school curricula**
 - **Develop an increased understanding of the barriers and dilemmas connected to sustainability and business that are so evident in supply chains,**
 - **Identify and highlight the situations where current rules and regulations favour unsustainable solutions**
- Initiate and engage in a dialogue with authorities, governments and other stakeholders on the necessary changes to the ‘rules of the game’.**

It is true, however, that business has practical limits for being transparent. Business must have thought through the potential consequences and possible remedial actions before acknowledging a problem otherwise they risk harsh media attention and consequential ‘punishment’ by financial analysts.

The role and responsibility of NGOs and business

THE RESPONSIBILITY OF BUSINESS

“It is natural to place the responsibility at the producer and difficult to say where the responsibility stops. If there are problems you need to be aware of them and to do something. You must always look at the first level of suppliers and if there is problems you must go further back; you cannot necessarily be pro-active except for the first level, but should definitely be reactive”

NGO representative

There are many reasons why businesses and NGOs should partner for sustainable supply chain management. Business stands to:

- **Obtain knowledge, understanding and insights that otherwise would be difficult to get**
- **Get a political perspective and a reality check outside company borders.**
- **Get help from NGOs with many of the issues that business cannot control.**
- **Present a better image**
- **Get help from NGOs to catalyze change in the company.**
- **Forge common positions with NGOs towards politicians**

NGO’s RESPONSIBILITY

“NGOs should provide expertise to problem identification and to making things less complex. NGOs should also provide some of the solutions”

NGO representative

“Even if it is a NGO responsibility to demand that also implies a responsibility to solve. The serious NGOs will participate in this difficult part”

Nordic Partnership member

NGOs on the other hand share the same responsibility for sustainability as business and have to involve themselves with those that they regard as the primary drivers of globalisation.



NGOs thus can:

- Contribute to lasting solutions better anchored in industry
- Get more insight on how a business is managed
- Get a better understanding of what companies can and cannot achieve
- Get common positions with the businesses towards the politicians

In the supply chain, there is a shared responsibility to identify and solve problems. Most stakeholders find that business and especially the producer has a bigger ownership of sustainability problems; as one NGO put is: "Whenever a problem exists in the supply chain it is the responsibility of the company, no matter where it is in the chain". It is, however, acknowledged that it is difficult and not always possible for companies to be pro-active beyond the primary suppliers. NGOs also feel that company responsibility in some way is directly proportional to the size of the business and to economical leverage. The responsibility of the NGOs is primarily to be watchdog, to give credible and transparent information, to make sure that problems are raised and put on the corporate radarscreen. They should, however, also be realistic and understand that the transition to sustainability takes time, and that they have a role to play in engaging with business in finding solutions.

ACCOUNTABILITY?

"...it would be more interesting to discuss with those that have the power. Often they hide behind screens."

NGO representative

"It is always difficult to find out if the person that you speak with can take a responsibility on behalf of the NGO."

Nordic Partnership member

For NGOs, the increased interest for partnering with business also entails paradoxes. You must keep your watchdog profile and not become too business orientated/friendly, a situation experienced by some companies primarily interacting with the personnel at large NGOs dedicated to handle business relations; often these people pat the companies on the back, when the companies would rather like to be challenged and have their weaknesses spotted.

NGOs can also experience the difficulties in creating dialogue with the power base in the companies, because of large businesses' inclination for 'departmentalising' soft aspects like sustainability.

Other stakeholders to involve

Even business and NGOs acting in partnerships will still not be enough to accomplish the necessary changes. In order to change the 'rules of the game' other actors must be brought in, e.g.:

- Governments/authorities because 'rules of the game' are often related to regulations
- Investors because they are an important stakeholder that can provide a clear writing on the wall for business.

Businesses also need to involve the internal stakeholders relevant to value creation and supply chains apart from production, i.e. procurement, logistics, sales and marketing. In doing so businesses will be forced to look at and bridge many of the internal barriers and dilemmas involved in the transition to sustainability.

Challenges and Possible Next Steps

There is a need to address sustainability in the supply chain. Many companies, institutions and NGOs are working with this and many interesting partnerships have already been made. The Nordic Partnership believes that you have to address the value creation for all stakeholders in the supply chain, including customers and that you should bring in all stakeholders in the partnership in the long run for changes to happen. However, as a first practical step we propose that this project should:

- **Build the first platform for a partnership addressing sustainable development in supply chains,**
- **Provide a focus by selecting a supply chain and/or specific issues related to that**
- **Identify and engage key actors in selected supply chains for project platform**
- **Map the competence gaps of NGOs as well as businesses to act together in partnerships on sustainable supply chain management. Initiate competence development in the respective organisations**

→ Develop recommendations for the stakeholders to act upon to ensure there is writing on the wall, to make sustainability in the supply chain a rewarding business

The original aim of this survey was to extract experiences and gather opinions from the selected NGOs and companies about opportunities and barriers to sustainable supply chain management. However, the results of the dialogue raised some interesting issues that pertain to more than just supply chain managers - in fact to all those in the business and sustainability field. These findings will be used in the second phase of the Nordic Partnership Sustainable Supply Chain Management / Rules of the Game project.

For further information about the Nordic Partnership Supply Chain – Rules of the Game Project is available from our website www.nordicpartnership.org

The survey has been financed by Procter & Gamble Nordic, Novozymes, and ITT Flygt. Jens Schierbeck, Deloitte & Touche and Kevin Flowers, ERM has assisted in making the survey. For further information on the Nordic Partnership, please visit www.nordicpartnership.org.

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