

WHY WE NEED TO ADDRESS SUPPLY CHAINS TO DELIVER A SUSTAINABLE FUTURE

By Shaun McCarthy OBE
Director
Action Sustainability

We are living in a time of unprecedented technological change that will have massive implications for how we work, live and interact with one another. Global mega trends such as climate change, changing demographics and population growth, rapid urbanization and globalization mean it is impossible for current economic models to remain stable or continue growing without radical, adaptive change. It is no longer acceptable for organisations to emit excessive greenhouse gasses, damage human health (and the health of other species) through pollution, clutter our oceans with plastic or ignore abuses of human rights. We need a transition to a more sustainable, ethical and circular model. But how many organisations are

adequately preparing for this 'seismic shift'? How are organisations re-thinking their business strategy in order to stay relevant in an ever-changing market? Creative destruction, a term coined by Joseph Schumpeter in 1942, describes the process of industrial mutation which new technologies, new kinds of products, new methods of production and new means of

distribution make old ones obsolete, forcing existing companies to quickly adapt to a new environment or fail. Technology is changing business and this can help deliver a more sustainable business model. Think about how on-line streaming and on-demand entertainment has changed the way we consume TV entertainment. Blockbuster CEO's once passed up the opportunity to buy Netflix for only \$50m and 14 years on it had a market valuation of \$32.9 billion and over 50million subscribers of its paid service

So how are organizations preparing to re-invent themselves? How will they deliver the sustainable goods and services needed to cater for a population estimated to reach 8 billion by 2024? And how can this be done without abusing human rights or exceeding the earth's capacity to provide us with the raw materials and eco-system services needed to sustain life?

Driving sustainable business solutions needs top-level commitment and we



“ We know that sustainability can go hand in hand with business growth and there is an increasing body of evidence demonstrating the business case for sustainable products and services ”

Sustainability is expected to become as big and disruptive in every sector over the next 15 years as digital technologies have become over the past 15. These two disruptive forces will increasingly converge .
(World Economic Forum 2016)

need business leaders to spearhead this transition. However we cannot do this alone and must understand the role that our suppliers and associated supply chains will play in our success. Many are still not convinced about the business case, continuing to place short term profitability ahead of long term sustainable growth.

Around 40-80% of an organization's revenues are typically re-spent through its supply chain. So to deliver sustainable business solutions it is critical that suppliers and sub-contractors are properly engaged to support organizational goals and deliver business success. **We need more than just senior management 'buy-in'; we need them to lead.**

Sustainability – a driver for growth

We know that sustainability can go hand in hand with business growth and there is an increasing body of evidence demonstrating the business case for sustainable products and services. Businesses are moving from 'doing less harm' to redefining products, brands and services for positive impact and seeing remarkable return on investment for doing so. For example, Unilever has claimed there's a £853bn opportunity for brands that make their sustainability credentials clear. Its 'Sustainable Living brands' combine a strong social or environmental purpose, with products which contribute to achieving the Unilever Sustainable Living Plan goals. They are driving unprecedented value and growth for the business, with 18 Sustainable Living brands in the top 40 Unilever brands in 2016. This increased from 12 in 2015. Strong consumer demand saw these brands deliver 70% of its turnover growth, growing 46% faster than the rest of the business in 2017.

Paul Polman, Unilever CEO, said: *"We have made great progress. Our results show that sustainability is good for business, with increasing evidence that our 'sustainable living brands' do better..... There is no doubt that the Unilever Sustainable Living Plan is making us more competitive by helping us to build our brands and spur innovation, strengthen our supply chain and reduce our risks, lower our costs, and build trust in our business. It is helping Unilever to serve society and our many consumers, and in doing so, create value for shareholders."*

Unilever have also commissioned consumer research to help gain a better understanding of the issues that are driving people's purchasing habits and behaviour. The research showed that over half of all consumers already buy or want to buy sustainably. One in three (33%) already purchase products with sustainability in mind, and a further 21% do not currently but would like to.



How procurement can support sustainability goals

As a minimum an organisation has an obligation to manage the negative impacts of its business i.e. 'do no harm'. This should go beyond managing the negative impacts directly linked to its product or service provision and means managing all material impacts associated with its operations.

This includes addressing the ethical, environmental and social issues within its often long and complex supply chains. This responsibility has been made clear in a number of ways:

1. Increasing environmental and social national regulation such as the UK Climate Change Act 2008, Bribery Act 2010, Social Value Act 2012 and the Modern Slavery Act 2015
2. International consensus and societal expectations such as those provided by United Nations Conventions including the influential UN Guiding Principles on Business and Human Rights and UN Sustainable Development Goals
3. Customer, investor and other stakeholder pressures

However good procurement and supply chain management practices go beyond just identifying and managing the risks that may exist deep in supply chains that if exposed, could damage reputation, share price and revenues. Done well, procurement can help organizations deliver their sustainable business goals, provide commercial benefits, increased revenue and competitive advantage.

Effective sustainable procurement will assist organizations spend their money efficiently, effectively and ethically. This must look beyond 'up front' cost and should consider the entire life cycle of the product taking into account costs, social and environmental risks and benefits.

ISO 20400:2017 the world's first international sustainable procurement standard sums this up in its definition as 'Procurement that has the most positive environmental, social



UN Guiding Principles on Business and Human Rights The "Protect, Respect and Remedy" Framework rests on three pillars:



The first pillar is the state duty to protect human rights abuses committed by third parties, including business, through appropriate policies, regulation and adjudication. States have the primary role in preventing and addressing corporate-related human rights abuses.



The second pillar notes the corporate responsibility to respect human rights this means companies need a human rights due diligence process, whereby they become aware of, prevent, and address their adverse human rights impacts.



The third pillar requires greater access by victims to effective remedy, both judicial and non-judicial. Even where institutions operate responsibly, adverse human rights impacts may still result from a company's activities and victims must be able to seek redress. Effective grievance mechanisms play an important role in both the state duty to protect and the corporate responsibility to respect.

UN Guiding Principles on Business and Human Rights provides a framework that clarifies both state and organisational responsibilities in relation to human rights

ISO 20400 Sustainable Procurement Standard is one of many voluntary International Standards developed by the International Organisation for Standardisation (ISO) – it provides guidance on delivering sustainability objectives through an organisations' supply chain. The committee developing the standard supported development of a free online resource www.iso20400.org

The standard is designed for all organisations, in all sectors, of all sizes, on the assumption that all organisations procure something. It is a guidance standard like ISO26000, not a requirements standard like ISO 14001. This means an organisation cannot be certified for compliance but can be evaluated and/or advised by a competent third party.

& economic impacts possible over the entire life cycle.'

Launched in 2017, the committee developing the standard wanted to create a global community of practice around sustainable procurement to accelerate progress.

This has resulted in the launch in 2017 of the global web based learning and sharing resource, www.iso20400.org. This free resource delivered and funded by Action Sustainability Community Interest Company, a not for profit business, enables users to share videos, tools, articles and other learning resources, they can view content, contribute content and, as a result of a recent development, can self-assess and benchmark their organisation's sustainable procurement practice by answering 20 simple questions.

A recent benchmarking study by Action Sustainability using the tool, comprising 40 organisations with a combined spend of \$100Bn confirms that strategic sustainable procurement is still an emerging trend globally, with major differences between organisations. More than 50% of assessed organisations score below 2.5 out of 5, and only 12.5% are at a mature level, i.e. over 3.5 out of 5. The level of maturity of an organisation is mainly driven by its level of commitment: locations, industries and sizes are not a determining success factor.

It is a journey to arrive at a mature position on sustainable procurement. We have seen several organisations take that journey from basic to maturity and it is certainly not a quick process, taking around 3-5 years to get to a stage where sustainability is fully integrated into the organisation and its supply chain. If organisations, both public and private, who have not started on this journey, they had better start now, before it is too late.