

## 1 FUNCTION DESCRIPTION

The Supply Chain & Procurement (SC&P) function encompasses all activities involved in the acquisition of direct and indirect goods and services from outside external sources. Supply chain and procurement management focuses on efficiently interacting with providers so that products are produced in the right quantities, at the right quality, at the right prices, and delivered to the right locations at the right time, in order to minimize system-wide costs while satisfying service-level requirements.

## 2 VALUE PROPOSITION

In today's globalized economy, outsourcing business operations doesn't mean outsourcing responsibilities and risks. Responsible companies understand that they have an important and very active role to play in managing the environmental, social and economic impacts of their supply chains, and extending sustainability throughout the supply chain is often considered the number one barrier for advancing sustainability strategies in large companies. Fully engaging the SC&P function is thus essential at both early and more mature stages of sustainability integration.

Beyond reducing legal risk and protecting the company's reputation, integrity and brand, companies increasingly incorporate sustainability into SC&P with a view to in order to achieve sustainability-based improvements and innovations with respect to operational efficiency, productivity, and business continuity. Taking a more strategic approach, sustainability can also help SC&P build stronger and more long-lasting relationships with suppliers, and to tap the innovative capacity of suppliers to develop products and services achieve positive differentiation among existing customers or help to reach entirely new segments.

## 3 STRATEGIC INTEGRATION

In order for it to achieve its potential as a driver of performance and innovation, sustainability must be rooted in the company's vision and strategy and be championed from the top.

The strategy and goals for SC&P must align with this vision and help define the stated purpose of the function. It should be based on the input of company leaders from all parts of the business related to supply chain. It is also important to define specific objectives and potential barriers or risk events affecting their achievement. Conflicts between sustainability and the traditional supply chain parameters of success - price, quality and efficiency - must be meaningfully addressed and any trade-offs between the two should be minimized. Instead, companies should focus on their areas of expertise to build sustainable supply and procurement chains that positively contribute to sustainable development priorities thereby positively differentiating themselves from others.

## 4 OPERATIONAL INTEGRATION

SC&P must be integrated with the oversight and management of sustainability overall, and work very closely with the Sustainability function. Supply chain sustainability can be integrated at an operational level by creating a sustainable procurement policy and appropriate due diligence processes, engaging all supply chain management professionals and related staff to understand and implement the policies and processes. Ideally, the policy will cover buying/procurement ethics, and describe how supply chain management professionals within the company should be engaged to ensure alignment with sustainability priorities and a supplier code of conduct. Codes of conduct are critical to establishing and managing expectations for both customers and supplier. They create a shared foundation for sustainability from which supply chain management professionals, suppliers and other actors can make informed decisions. Once all of the relevant policies and procedures for the SC&P function are established and the corresponding auditing system is implemented, SC&P sustainability operational integration can be achieved by including the above-mentioned code of conduct into supplier contracts and setting up an onsite audit system to track progress and impact; collecting data from suppliers through a benchmarking questionnaire that will provide an understanding of the starting point; developing specialized training and capacity building programs through partnerships with key suppliers; engaging in bilateral and industry innovation initiatives with suppliers and promoting cross-functional cooperation and contributions. Performance incentives and a well-defined accountability structure are effective internal implementation methods. One of the great contemporary barriers to supply chain stability is the lack of international standards with respect to specific types of supplies and systemic challenges in terms of policy, market structures or infrastructure that makes it virtually impossible for any one company to find a workable solution on their own. Facing such obstacles, SC&P should consider the opportunities to join, or even take the

initiative to form, relevant sector-specific coalitions or crop-based multi-stakeholder initiatives that can help deliver more systemic solutions.

## 5 CULTURAL INTEGRATION

Given the inherent multilayered nature of the SC&P function, the importance of internal and external cooperation with suppliers cannot be overemphasized. Cost, quality and delivery considerations based on contractual agreements are at the core of the supply chain culture. Critical to the successful management of relations with suppliers is the ability to effectively interact and communicate in diverse operating contexts and environments. Mutual expectations and benchmarks ought to be established in accordance with unambiguous, objective criteria. Building a community of interest between the company and its suppliers will promote the joint development of new products and solutions. Local community partnerships are essential in establishing effective and meaningful communications. A common interest in improved working conditions, enhanced environmental practices and higher safety levels at the suppliers' end provides insight into their processes. In turn, this leads to a greater transparency, which expedites the flux of information on issue areas and facilitates the optimal implementation of new processes. To make internal sustainability in the supply chain integral to their daily routines and business practices, companies need to figure out how to bring together cross-functional representatives and align their responsibilities with the sustainability strategy, making sure that the different roles are made clear and attributable to specific individuals.

## 6 EMERGING TRENDS AND INNOVATIONS

### **Collaborative relationships**

By engaging in collaborative rather than a hierarchical dynamic with suppliers, companies are replacing the traditional monitoring and control approach with relationships that are grounded in dialogue and collaboration. These cooperative relationships foster commitment among parties and provide the optimal environment for joint problem-solving and innovation to advance sustainability objectives.

### **Industry collaboration**

By working in a pre-competitive environment, peer companies with similar supply chains are sharing best practices, setting common standards and allowing suppliers to be evaluated on the same metrics across the industry. This enables them to extend their company's reach and leverage, pool resources, reduce duplication and avoid conflicting messages. It also represent a way for smaller companies with fewer resources to contribute to further supply chain sustainability.

### **Traceability program**

Companies are increasingly using traceability schemes as a useful tool to gain and convey information about the components of products, parts, and materials, as well as their transformation throughout the value chain. Consumers and regulators are increasingly demanding more information about where products come from and the conditions in which they were made. Innovations and technologies supporting traceability are also on the rise, and advances in this area will allow traceability to become the norm.

### **Promoting a living wage across the supply chain**

In order to address the issue of a fair living wage across a supply chain, leading companies are supporting suppliers in developing pay structures that enable a fair living wage and train their employees. For some companies, this also includes reviewing internal purchasing practices to ensure that they cover the trust cost of labor.

### **Building a more inclusive supply chain**

Leading companies are increasingly looking to inclusive sourcing models as a means to support increased economic development by offering economically empowered or otherwise disadvantaged groups an equal opportunity to compete for business, enhance their income and improve their business skills. It also can make business sense by reducing costs, broadening the vendor pool with loyal and flexible suppliers and stimulating innovation.

### **Small supplier financing incentives**

Small- and medium-sized suppliers in developing countries often struggle to finance their operations, including the upgrades necessary to comply with social and environmental requirements from those that they supply. As a result, suppliers often exploit the "natural" capital of the environment or their workers directly in order to stay afloat. In exchange for improving their performance across a number of sustainability metrics, companies are rewarding small- and medium-sized suppliers with lower interest rates on working capital provided through special incentive programmes.