

# Best Practices in Sustainability: Supply Chain

Key Steps to Building a Sustainable Supply Chain



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# Best Practices in Sustainability: Supply Chain

## Key Steps to Building a Sustainable Supply Chain

By Vijay Kanal CMC

Companies aspiring to be sustainable in their operations need to factor in their supply chain. Their impact on the overall environmental footprint may surprise you. Walmart says that **88%** of its carbon footprint is in the control of its suppliers— is it any wonder then that the world's largest retailer is spending so much of its time, money (and leverage), to get its suppliers to become more sustainable?

And yet, most companies (even some sustainability champions) have paid scant attention to what's going on with their suppliers, and the products they receive from them.

In a Best Practices study we conducted recently with 25 leading corporations — representing over \$800 Billion in market value — we found that sustainability in the supply chain was one of the major areas that the participating companies acknowledged needed improvement.

Part of the problem is that some companies are afraid to look under the proverbial rock for fear of what they might find. Others consider it too much work, or their requests for information and compliance from suppliers are met with a lot of resistance.

Certainly, there are challenges, but we believe that companies that choose to ignore the supply chain are missing tremendous opportunities to become more efficient by helping their suppliers become more sustainable. Not only will they reduce the overall environmental impact in their value chain, but in the process they will also reduce their own operations costs — for example, through improved packaging, reduced materials, and reduced transportation.

So what should companies do?

### Select and prioritize

Any mid-size to large company has hundreds, if not thousands, of suppliers providing goods and services. Pick the

top 15-20% representing the majority of your purchases (or source of environmental impact) and prioritize among this list based on what's known about the sustainability of their operations. If HP is a major supplier, you probably don't need to worry too much about whether or not it's focused on sustainability. (It is!)

### Set expectations through a Code of Conduct

With suppliers that don't quite fall into the HP reputation category, companies should communicate their code of conduct expectations about sustainability, and require a commitment in writing — and suppliers that refuse should be considered for replacement. In most cases, however, suppliers will commit, but may fail to comply. Periodic audits to ensure compliance with the code of conduct, or to identify areas for remedial action, are essential.

In some industries, major vendors have banded together to form coalitions, such as the Electronics Industry Citizenship Coalition (EICC) — to address issues around sustainability and CSR with their (often common) suppliers. An industry coalition not only makes the process of setting expectations more efficient and consistent, but it can also help provide a common format for reporting. In the case of audits, coalitions ensure suppliers will not be overly burdened with unique reporting requirements from each of their customers.

The coalition model may not be appropriate for all industries or companies, but it can at least serve as a starting point for establishing a dialog between customers and suppliers.

### Require suppliers to report GHG emissions and resource use

Another important step in assessing supply chain sustainability is to get major suppliers to report on their GHG emissions and resource utilization. When tracked over time, this can provide valuable information to customers on how their suppliers are improving (or not) in their sustainability efforts.

In order for this process to not be too burdensome on suppliers (with customers asking for different information in different formats), there is at least one organization, the Carbon Disclosure Project, which provides a common format and web-based tools which allow suppliers to provide their information for all to see.

### Develop a partnership

Leading companies in our study told us that their most productive relationships around sustainability with suppliers are as a formal or informal partnership. Working with their supply partners, they share a common purpose and objectives, and are in alignment on how to meet them. They set goals that are realistic and practical, and agree on metrics to measure performance. Suppliers provide reports on a periodic basis to measure progress and identify areas for improvement.

Leading companies also offer training (at their own cost) to their major suppliers, so that they are fully informed on what is expected and how to go about achieving it.

### Dig deeper

Beyond the relationship between customers and their direct suppliers (Tier 1), a truly sustainable company looks deeper - to their supplier's suppliers. Herman Miller, for example, expects some of its Tier 3 suppliers to follow its stringent code of conduct about the materials and chemicals they use that wind up in its

products.

“We reach down to 4th and 5th tiers at times to find the chemical formulas. When we first started that, we thought we were unrealistically optimistic” says Paul Murray, Director of Environmental Affairs and Safety at Herman Miller. “Yet the result is that we are now in a better position to meet other standards that are developing like REACH and RoHS. In the end, our first chair that went through that level was actually cheaper. So it worked out pretty well for us.”

**Provide transparent reporting**

Leading sustainability companies are not afraid to publicly disclose the issues and challenges they face in getting their supply chain to be more sustainable.

With more disclosure, there is a greater likelihood that the issues are going to be addressed, and less likely that neither the company, nor its supplier, will be accused of “greenwashing.”

In fact, a public disclosure of the challenges the company is facing (around supply chain, or any other issue for that matter) will add to the credibility of its claims in other areas.

HP, for example, has committed to provide GHG emissions from at least 75% of its suppliers in 2009.

**Stages of Evolution**

To give readers a framework to judge for themselves where they are relative to companies that demonstrate best practices, we have proposed four stages of evolution for sustainability in the supply chain. Leading companies at the stage-

Supply Chain Stages of Evolution	
Stage 4 (Next Tier, Transparency)	Stage 3 + Code of Conduct is signed by at least 50% of suppliers in next tier. Audits are conducted in next tier. Company or first tier supplier offers training to next tier. Company reports detailed metrics and issues in its supply chain.
Stage 3 (Training & Partnership)	Stage 2 + Training is provided to at least Tier 1 suppliers. Partnership model in which customer and supplier work together to resolve environmental sustainability (and other CSR) issues. Suppliers are required to report CSR KPIs on at least an annual basis. Suppliers provide goals and performance metrics.
Stage 2 (Audits, Reporting)	Stage 1 + Code of Conduct is signed by suppliers representing at least 80% of spend in Tier 1, and audits representing more than 50% of spend are conducted to verify practices. Some vendors dropped, or corrective actions taken and enforced through follow-on audits. Suppliers report on their emissions.
Stage 1 (Code of Conduct)	Code of Conduct expectations communicated to Tier 1. Few if any audits. Compliance may or may not be mandatory.
Stage 0	No communication to any tier of supply chain regarding code of conduct, no visibility into suppliers’ practices.

Leading



Emerging

four level took years and a lot of hard work to get there, so we are by no means suggesting that the journey is easy... only that it is necessary.

**Conclusion**

If you haven’t started looking at the sup-

ply chain for sustainability already, now would be a good time to start, since it is likely that some of your competitors are already down this path. The steps outlined here will not only help your company become more sustainable, it will likely also increase your competitive advantage.

**About Kanal Consulting**

Founded in 2003, we provide management consulting services focused on strategy, marketing, and sustainability. Our mission is to help clients grow sustainably. We have conducted dozens of engagements for Fortune 1000 companies, working with clients to identify and execute on new opportunities, develop partnerships, and understand how sustainability can contribute to the top and bottom line. Our sustainability practice for corporate clients includes services related to setting strategy and goals, product management and product marketing, stakeholder research, funding, operations, change management, and reporting. Please contact us for more information.

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