

# Sustainable supply chain

Fitness check for executive and  
supervisory boards



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# Managing sustainability across your supply chain

## What is the challenge?

Traditionally, supply chain management has focused on sustainability topics in the economic, environmental, ethical and social areas.

Due to an increased focus on sustainability, public scrutiny of and pressure on companies has intensified. For sustainability, companies need a management approach that focuses on creating long-term shareholder and brand value that positively impacts the environment and the social community in which the company operates. In order for companies to become more

sustainable, their supply chain has to evolve. This is the case since the supply chain is key to addressing global environmental and social challenges.

Most European companies already have processes and procedures in place to address these sustainable topics.

However, these supply chain sustainability issues need to be constantly reviewed and revised accordingly due to new trends and increased external pressure. This can include emission reduction and more complex inbound processes, which need to be integrated into the supply chain strategy and operations.

## What are the key questions to answer?

1. How should you respond to new sustainability pressures and build the corresponding measures into your supply chain management?
2. How should you manage complexity, both horizontally and vertically, within your entire supply chain network?
3. How should you determine, on a timely basis, if resources are being wasted within your end-to-end supply chain process?

## Starting point: Supply chain sustainability assessment



- Stakeholders**  
Who are your stakeholders (e.g., customers, investors, regulators, employees, community, insurers) and what do they expect with regard to climate change and sustainability in general?
- Regulations**  
Are you in compliance with minimum sustainability regulations?
- Risks**  
Are any of your operations at risk due to climate change and if so, do you know the financial implications of the exposure?
- Opportunities (revenue, costs and brand)**  
Will you improve your operations in order to achieve 'green' economic benefits such as an improved corporate reputation and better identification of new market opportunities?

Companies need to align their supply chain with their business and sustainability strategies. Supply chain managers are the frontline players for developing and implementing new sustainable supply chain strategies. In the past, the supply chain strategy balanced costs and service levels. Nowadays, sustainability is a third element in the supply chain strategy that addresses the environmental, ethical and social areas.

Our supply chain sustainability assessment builds on an analysis of your company's current sustainable supply chain performance, the expectations of your stakeholders and opportunities for

improvement. After aligning your supply chain strategy with your overall sustainability strategy, each of the operational supply chain components (stakeholders, regulations, risks and opportunities) described above will be assessed in detail through workshops and interviews. This will give us a clear picture of where each component stands in terms of both environmental and social responsibility. The identified maturity levels and gaps will be the basis for developing appropriate sustainability improvement initiatives, prioritizing them and finally presenting them using a business case.

## Your benefits

A supply chain sustainability assessment, as outlined above, has numerous benefits. They can be classified into the following categories: revenue and market share, asset and capital management, earnings and operating margins, and reputation and brand.

### Revenue and market share

- ▶ Innovation can be supported
- ▶ A solid sustainable resource base can be developed for new markets and to increase margins
- ▶ Better position your company with your customers
- ▶ A solid base can be built to better position and brand your products

### Asset and capital management

- ▶ Asset allocation can be improved by markets/regions
- ▶ Investment security can be improved
- ▶ Sustainability aspects can be taken into consideration when making your investment decisions

### Earnings and operating margins

- ▶ Real cost calculations can be made
- ▶ Energy efficiency can be improved to lower costs
- ▶ Quality assurance costs can be reduced
- ▶ Increase your negotiation power with your suppliers

### Reputation and brand

- ▶ A solid base can be built to better position and brand your products
- ▶ Stakeholder expectations can be addressed across the entire supply chain
- ▶ Readiness to react to sustainability pressure from your stakeholders can be enhanced
- ▶ The entire supply chain can be transparent

## A task for executive and supervisory boards

With growing legislation and increasingly vocal consumers, sustainable supply chain management will continue to grow in importance as an opportunity for forward thinking companies and as a threat to their competitors who fail to act. Business leaders are now looking beyond risk management to reputation enhancement and gaining a competitive advantage. Companies need to have the right controls in place to manage the risks presented by the sustainability agenda.

By integrating sustainability into the supply chain operating model, certain risks can be addressed before they jeopardize the achievement of corporate goals. These risks include: 1. Consumers starting to avoid certain products due to the poor sustainability performance of the company, 2. Shareholders taking steps to force a company to implement sustainability initiatives, 3. Governments increasing sustainability regulations, and 4. Competitors exploiting opportunities to use the poor sustainability performance of other companies against the companies.

Executive and supervisory boards need to build on the current performance of their company as well as its aspirations and its stakeholders to define the company's sustainable supply chain strategy. At the same time they need to take into account the category requirements of their business and the regional context.

## Market expectations and observations

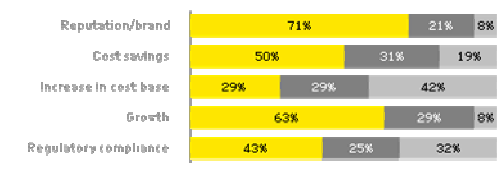
The survey of executives from US\$1 billion plus corporations indicated a high level of awareness of sustainability, with an appreciation of the opportunities it offers within the supply chain. This is coupled with concerns regarding complexity and the cost of addressing sustainability issues.

Reputation improvement, cost savings and revenue growth were the top three widespread opportunities cited by more than half of the respondents. So, regardless of the pace of legislative reform, there is already a strong business case for sustainability. Energy and material intensive supply chains typically account for 75% of a company's emissions - where there is carbon there is cost. Together with varying environmental and labor standards across global suppliers, particularly in the developing world, supply chains can make or break a company's reputation.

An increased cost base was also highlighted as one of the greatest risks, suggesting that anticipated operational and energy savings would be offset by the increased cost of capital and price increases from suppliers. Similarly, regulatory compliance was reported as both an opportunity and a threat, indicating that there will be winners and losers, depending on the company's preparedness to stay ahead of new legislation.

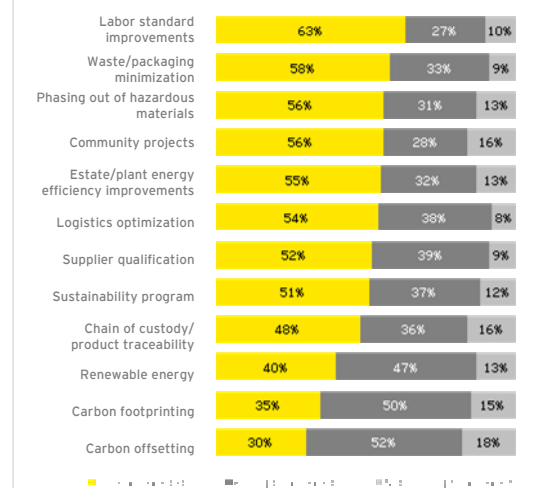
### Question to executives

How does your organization view the impact of sustainability, green and carbon related issues on its supply chain and sourcing in the following areas?



### Question asked to executives

Which of the following initiatives have you implemented or are you planning to implement within your organization?

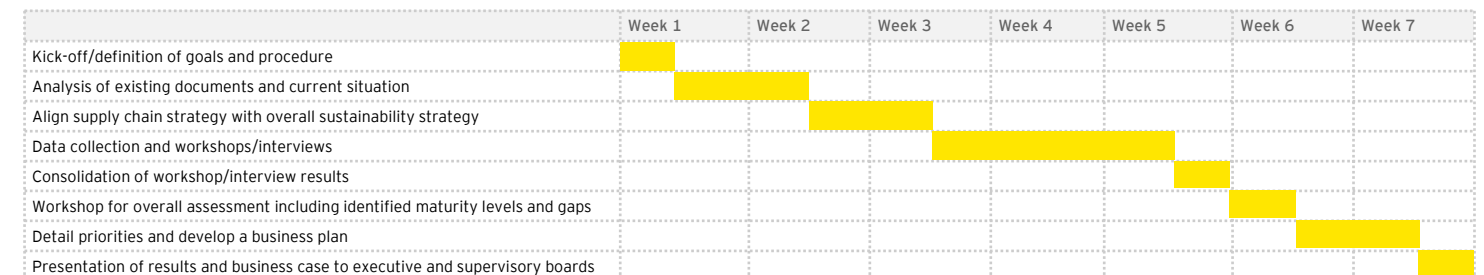


Source: Ernst & Young and The Economist Intelligence Unit survey, Green for Go (2008)

## Fitness check for your executive and supervisory boards

1. Do you have transparency across your entire supply chain and do you know the impact sustainability issues could have on your supply chain?
2. Does your company have a supplier code of conduct in place or does your corporate code of conduct address supplier issues?
3. Do you periodically check your suppliers from countries with low environmental, social or labor standards?
4. Are you aware of all the sustainability related costs within your supply chain?
5. Does your supply chain compliance monitoring program take ethical issues into account?
6. Does your risk management include the analysis of ethical issues in the supply chain?
7. Does your company have an effective and efficient rapid response process in place to handle reputation risks?
8. Does your governance structure include board level responsibility for ethical issues in the supply chain?

## Possible procedure for a supply chain sustainability assessment



## Why Ernst & Young

We are very experienced in the field of sustainability-focused advisory and assurance services and have worked with numerous international firms to address sustainability issues. Our professionals have extensive knowledge regarding strategies, processes, performance measurements and external reporting. Our methodology for the assessment of supply chain sustainability is based on our approach to efficient supply chain management. It is therefore, compatible with various supply chain procedures. Additionally, we play an active role in national and international organizations, which focus on the development of criteria and standards in the area of sustainability. We can therefore keep you up-to-date on current trends and developments. Furthermore, we can offer you global reach and scale through our worldwide network of sustainability professionals. We would be happy to meet with you and further discuss your needs. Please find our contact information on the back cover.