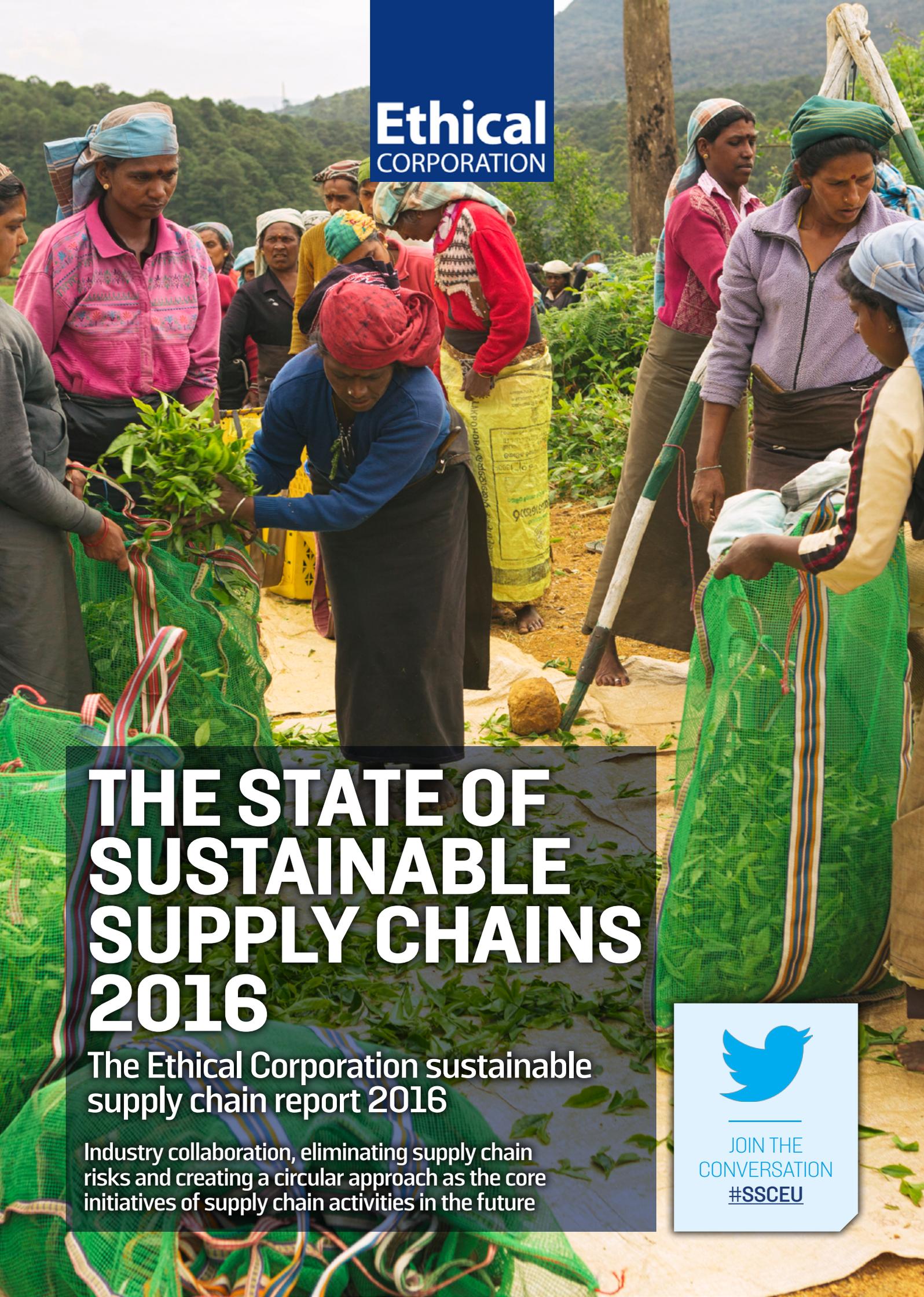




Ethical
CORPORATION



**THE STATE OF
SUSTAINABLE
SUPPLY CHAINS
2016**

The Ethical Corporation sustainable supply chain report 2016

Industry collaboration, eliminating supply chain risks and creating a circular approach as the core initiatives of supply chain activities in the future



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INTRODUCTION

Welcome to the first Ethical Corporation State of Sustainable Supply Chains Report. Through original research, this whitepaper will identify the critical issues for both sustainability and supply chain departments. Over 500 professionals from around the globe contributed to our research via a survey conducted during a two-week period in June 2016.

We'll highlight key trends and opportunities for the coming 12 months. In some instances, we separate responses to distinguish the differences and nuances in priorities and focus between those working in sustainability to those working in supply chain management.

Key issues and opportunities in this report were echoed over the past few months in our routine conversations with leading sustainability and supply chain practitioners. These opportunities and issues form the key focus at the upcoming [11th Annual Sustainable Supply Chain Summit](#), which is taking place in London on the 20th and 21st October. The summit, Europe's leading event that focusses on driving sustainable and responsible supply chains, features an un-rivalled speaker line-up from both sustainability and supply chain departments with a cross-industry perspective from the likes of; Cisco, Interface, the OECD, Ethical Trade Initiative, Primark, Skanska, New Look, Cotton Connect, Ericsson and AstraZeneca to name a few. If you find the content of this white paper useful, then please do take a look at the conference: ethicalcorp.com/supplychain

METHODOLOGY

The survey was based exclusively on findings from an online survey of the Ethical Corporation community in June 2016.

The survey was sent to people from the Ethical Corporation database that had either sustainability or supply chain related job titles, or, had actively tagged themselves as interested in supply chain related issues.

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INDUSTRY
COLLABORATION
IS THE BIGGEST
OPPORTUNITY IN
2016/2017

KEY TAKEAWAYS

As part of the build up to the [11th Annual Sustainable Supply Chain Summit](#), we wanted to gauge the top trends and issues both now and looking into 2017. So we reached out to our community to get an understanding of the global patterns.

The below key findings provide a brief snapshot of some of the stand-out findings from this report, helping you get a quick digest of some of the key takeaways.

- » **Eliminating supply chain risks is the main driver:** Over 34% of executives polled said they are incentivised by eliminating supply chain risks
- » **Human rights is the number priority:** 47% of our community identified this as the number one issue. Supplier diversity is the least important issue in 2016.
- » **Industry collaboration is the biggest opportunity in 2016/2017:** 20% of respondents stated that industry collaboration is the single most exciting opportunity. The second most exciting is creating a circular economy and third is resource efficiency, at 17% and 12% respectively.

More detailed analysis of the nuances between supply chain and CSR departments is outlined throughout the report.



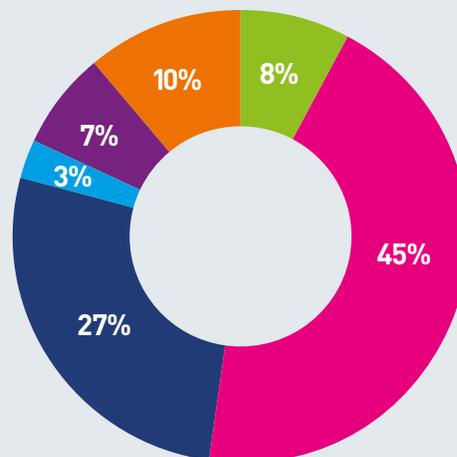
SETTING THE SCENE

Over a two-week period in June 2016, Ethical Corporation conducted a survey of its global community to identify key issues and opportunities around sustainability and supply chains.

There were 533 respondents in total from a variety of companies, industries and locations.

RESPONDENT SECTOR:

-  **ACADEMIC**
-  **CORPORATE / BRAND**
-  **CORPORATE / BRAND – AGENCY / SERVICE PROVIDER / CONSULTANT**
-  **GOVERNMENT**
-  **NGO**
-  **OTHER (PLEASE SPECIFY)**

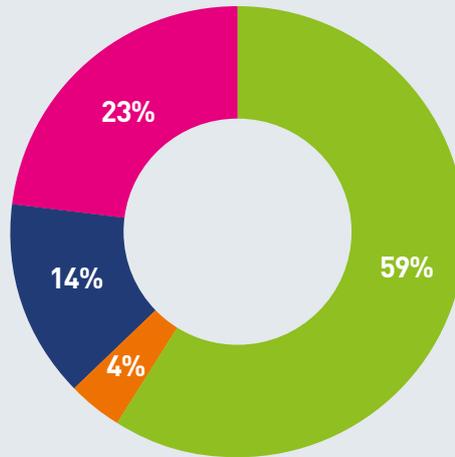


**Nearly three quarters of the respondents that replied 'Other' stated trade association or media*

Somewhat unsurprisingly, the majority of our respondents are Ethical Corporation's core audience – the corporate/brand professionals working for large corporations. Therefore the insights we identify in this report will give a good gauge of trends faced by corporate practitioners.

RESPONDENT COMPANY TYPE

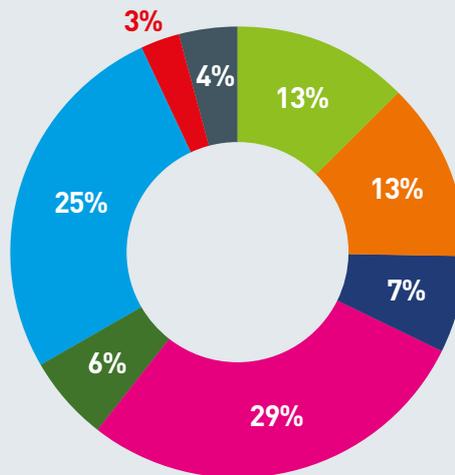
- B2B
- B2C
- B2B AND B2C (EQUALLY)
- OTHER (PLEASE SPECIFY)



Over 50% of our respondents work within B2B organisations, 14% work within B2C organisations and a further 23% work for a split B2B and B2C focussed organisation.

RESPONDENT SENIORITY

- BOARD LEVEL / BUSINESS OWNER
- C-SUITE
- DIRECTOR / VP / HEAD
- MANAGER
- EXECUTIVE
- CONSULTANT
- PROFESSOR
- RESEARCHER



49% OF
RESPONDENTS
ARE DIRECTOR
LEVEL OR ABOVE

There were a good number of representatives across the business hierarchy, from C-suite to junior executives.

The most represented group are the 'directors / VPs / heads' which ensures we have a good indication of future direction and impacts, as these respondents will be either directing or help shape their departmental strategies.

The second most represented group are 'managers', comprising one quarter of respondents. There's a considerable drop off from this point to our next groups – 'board level / business owner' and 'consultant' – both groups representing 13% of respondents.

Drive supplier collaboration. Create a bigger positive impact for stakeholders



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Driving supplier collaboration:

Understand what industry-wide supplier collaboration looks like to find long term sustainable solutions for key stakeholders

Working with procurement:

Embed a sustainability mind-set and motivate purchasing teams to make responsible purchasing decisions

Managing risk beyond 1st tier:

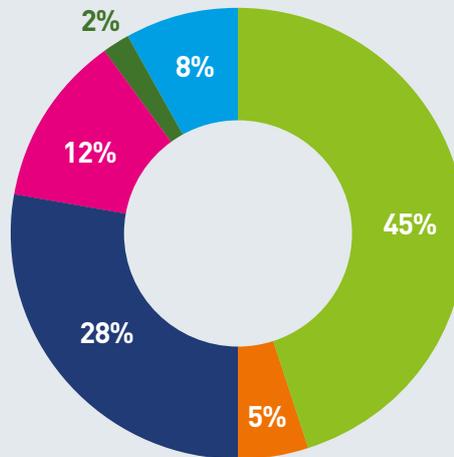
Be in control of your hidden risks beyond your 1st tier of suppliers

Plus exclusive insight from the following leaders:



RESPONDENTS DEPARTMENT:

- CSR / SUSTAINABILITY
- OPERATIONS / LOGISTICS
- SUPPLY CHAIN
- PROCUREMENT
- SOURCING
- OTHER



We asked our respondents to select the department within which they work. The most represented group is the CSR / sustainability department. The ‘other’ group represents just under a third of our respondents – a result of having a large number of respondents working in NGOs, academic institutions, Government and other sectors. Beyond that is procurement, supply chain, logistics and finally sourcing.

Moving forward in this report, we combine responses from those that selected procurement, supply chain, logistics and sourcing all under the one category of ‘supply chain management’. We also focus upon and highlight responses from those that work within the CSR / sustainability. We do this to identify gaps and trends between these two different business units.

Does the supply chain department see sustainable issues as being critical? Are the sustainability and supply chain departments incentives aligned? What do both departments see as being the biggest sustainable supply chain opportunities in the coming 12 months?

We look forward to shedding some light on these questions in the coming pages.

OPPORTUNITY TO LEARN MORE

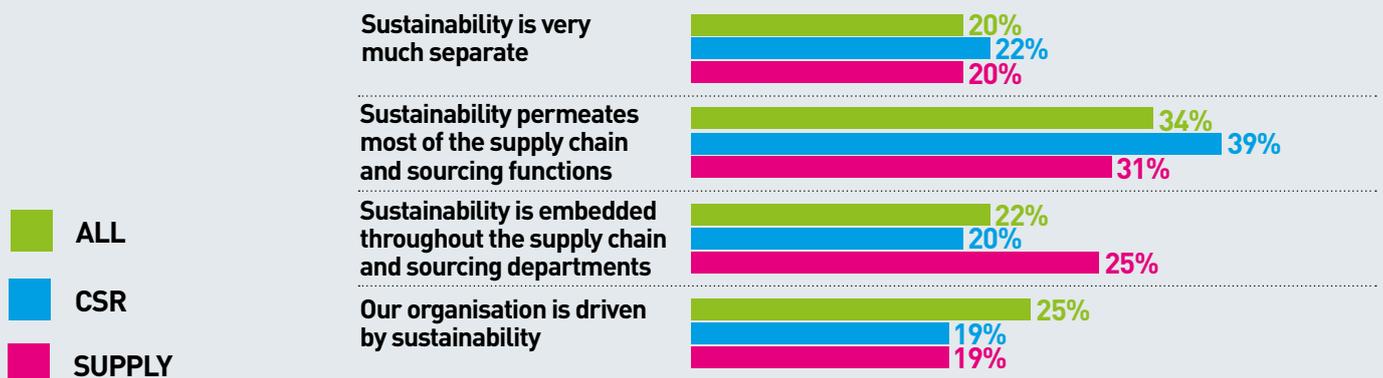
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EMBEDDING A RESPONSIBLE CULTURE

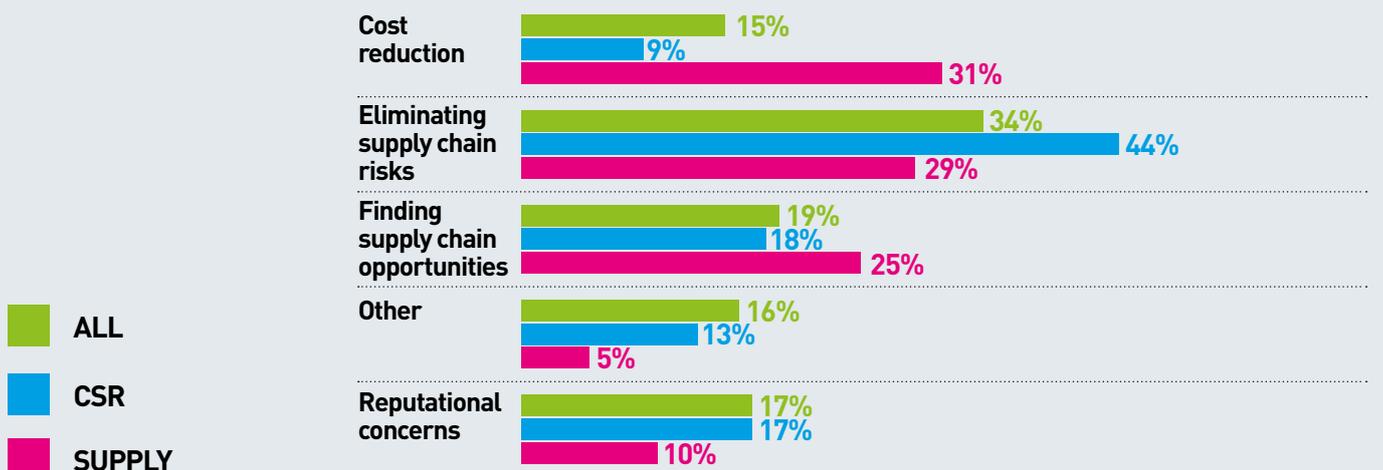
We asked our respondents the extent to which sustainability is currently embedded throughout their supply chain and sourcing department. Just over 16% stated this question was not applicable. For those that it was applicable, their responses were as follows:

THE LEVEL TO WHICH SUSTAINABILITY IS EMBEDDED WITH THE SUPPLY CHAIN:



Encouragingly 80% of our respondents state that sustainability is either mostly or fully embedded throughout their organisation's supply chain. Interestingly sustainability respondents are less positive. This could be as a result of the sustainability professionals wanting and perceiving there to be more work to be done in order to have a fully embedded sustainable supply chain, a testament to the core focus of their work.

WHAT OUR RESPONDENTS ARE INCENTIVISED / DRIVEN BY:



This question highlights the first notable difference in response between the two groups. Unsurprisingly 'eliminating supply chain risk' is the key driver for nearly half of our CSR respondents. The supply chain respondents are near evenly split along three key drivers; first is cost reduction (31%), second is eliminating supply chain risk (29%) and third is finding supply chain opportunities (25%). This split is no doubt a reflection of the more varied responsibility of the supply chain group in relation to supply chain specific issues.

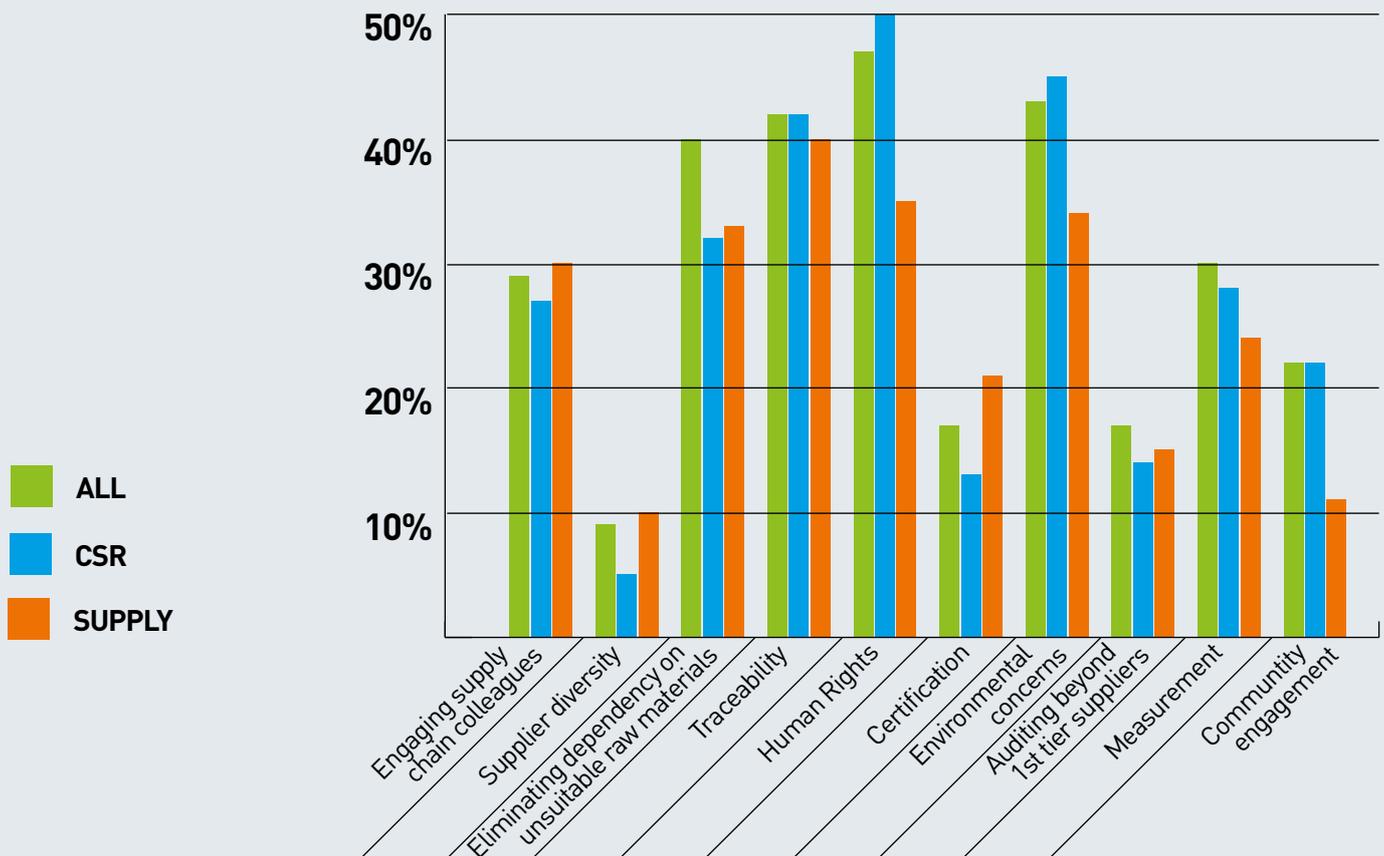


THE BIGGEST SUPPLY CHAIN ISSUES IN 2016

In a world where key stakeholder groups are more connected than ever before, and where corporate malpractice can be spread to thousands at just the click of a button, it is incredibly important for businesses to manage its supply chain risks and operations. To do so, companies must not only identify key risks, but also have a way of tracing the origins of their products to ensure they adhere to all environmental and social expectations and legislation.

There are five issues that over 30% of all respondents classed as 'essential' for the year ahead.

ESSENTIAL ISSUES FOR 2016:



The number one issue is 'human rights' – which 47% of respondents identified as an essential focus for 2016 and beyond.

Following that are 'environmental concerns' and 'traceability', with 43% and 42% respectively, and then 'eliminating dependency on unsustainable raw materials' and 'measurement' with 40% and 30%.



HUMAN RIGHTS:
47% OF
RESPONDENTS
IDENTIFY IT AS
AN ESSENTIAL
FOCUS IN 2016

Human rights is of course critical issue for business to understand and manage. From due diligence and engaging workers to understanding the legal environment and mapping human rights risks, businesses need to ensure they are managing their human rights risks. More CSR respondents perceive it as an essential issue in 2016, with 50% labelling 'human rights' as essential, 45% say the same for 'environmental concerns' and 42% see 'traceability' as being critical in 2016 and beyond. The number one issue for supply chain respondents is 'traceability', with 40% of respondents identifying it as essential. Traceability is closely linked with human rights as through tracing the complete journey of a product's inputs, a company can then identify potential risks including human rights. 35% of the supply chain community state 'human rights' as essential focus for 2016, followed by 'environmental concerns' with 34% labelling it as essential.

It is fair to say collaboration will be play an increasingly critical role in delivering secure and fully traceable supply chain that mitigates critical human rights risks and environmental impacts. The importance of collaboration is highlighted on page 13.

Interestingly, while CSR respondents agree with the response of the broader community in all five essential foci, the supply chain management group differ in one area. Supply chain practitioners put 'measurement' 6th on their list of priorities, and replace it with 'engaging supply chain colleagues', which 30% identify as 'essential'. We confess this has surprised us as we believed engaging supply chain colleagues would be a higher priority to the CSR group – who are trying to encourage more sustainable thinking and behaviour in supply chain activities. However, a probable reason for it being higher priority to our supply chain respondents is the fact they work with and engage their supply chain colleagues on a daily basis.

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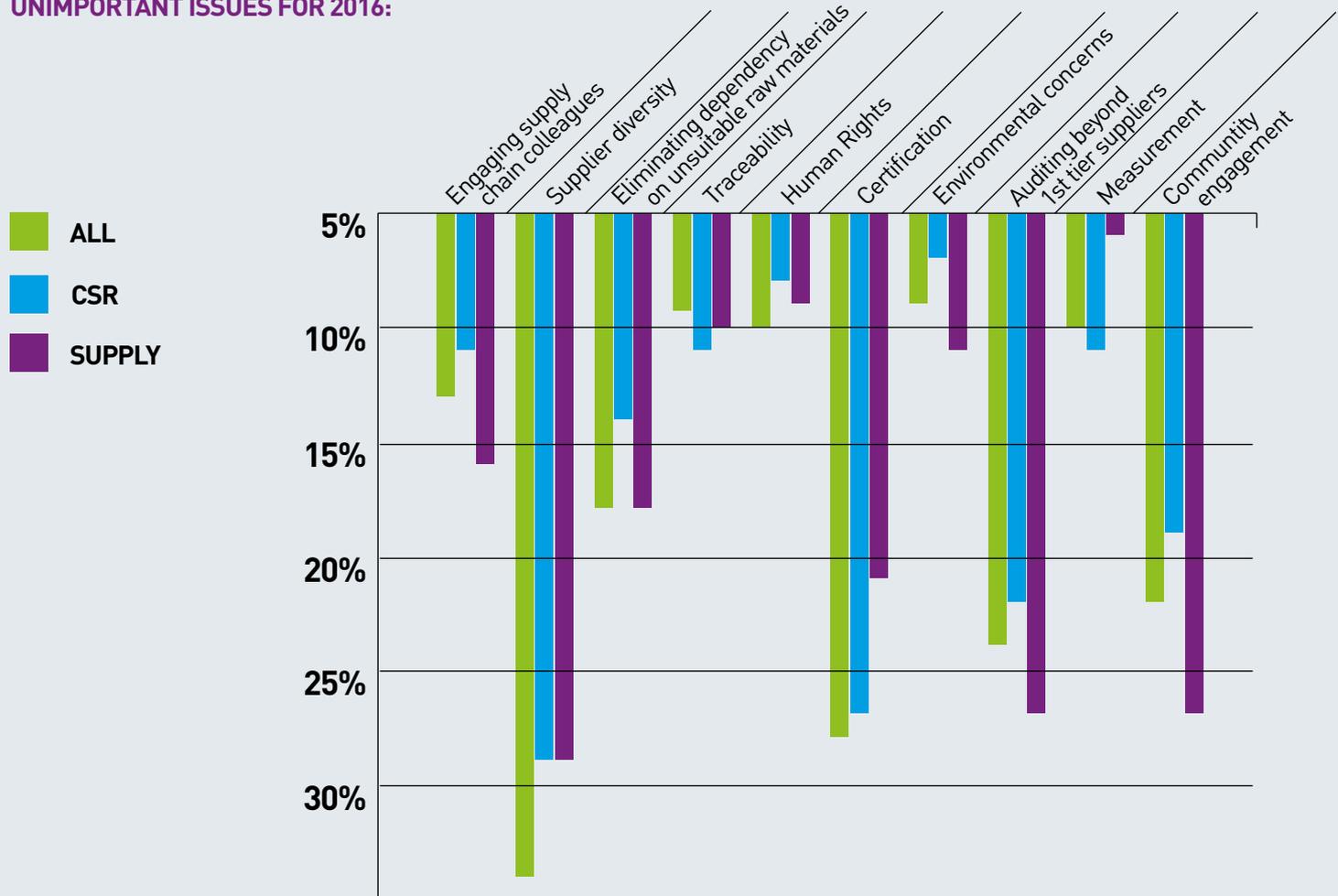
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WHAT'S NOT IMPORTANT

When we flip the question, and identify the topics deemed of 'little importance' or 'no importance' by our 500+ respondents, we find that there's a strong (and somewhat unsurprising) relationship between the CSR, supply chain and overall findings.

UNIMPORTANT ISSUES FOR 2016:



The least important topics in 2016 according to the entire community are 'supplier diversity', 'certification', 'auditing beyond 1st tier suppliers' and 'community engagement'.

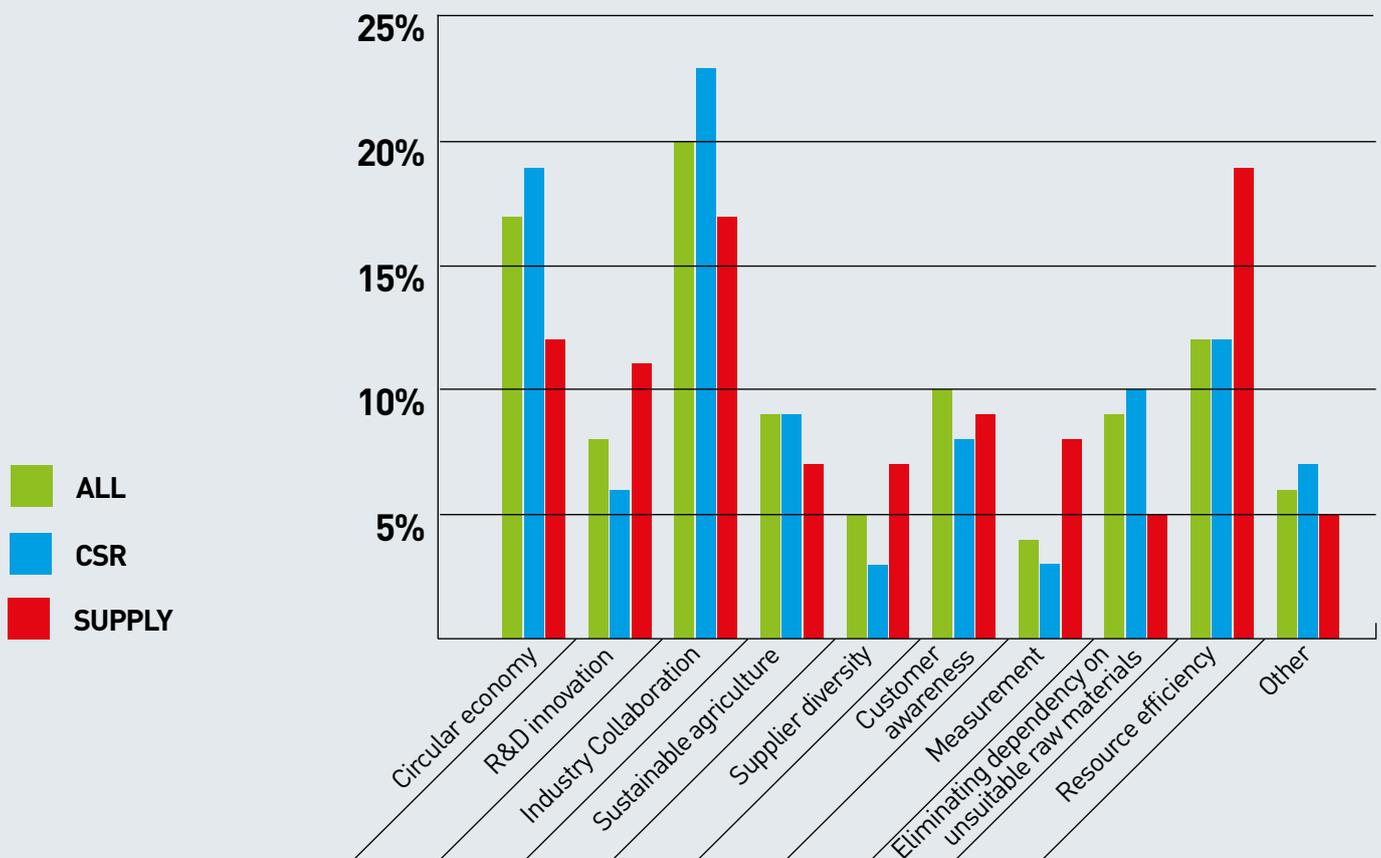
For the CSR department there is no difference in the order. For the supply chain management team, the order is a little different. Whilst 'supplier diversity' is of least importance to all three groups, supply chain respondents state 'community engagement' as the next least important issue, whereas both the CSR and general groups identified 'certification' as the 2nd least important priority.

Whilst it is somewhat surprising to see 'supplier diversity' as of little or no importance to so many of our respondents (by 29% of the community, and 24% of both CSR and supply chain practitioners). It needs to be highlighted that in all three groups no more than 2% stated it as 'no importance' which implies there is some focus on this issue.



BIGGEST SUPPLY CHAIN OPPORTUNITY IN 2016/2017

BIGGEST OPPORTUNITY FOR 2016/2017:



The number one supply chain opportunity in 2016 and 2017 is 'industry collaboration' – which was identified by one in five of respondents as the biggest opportunity for their organisation.

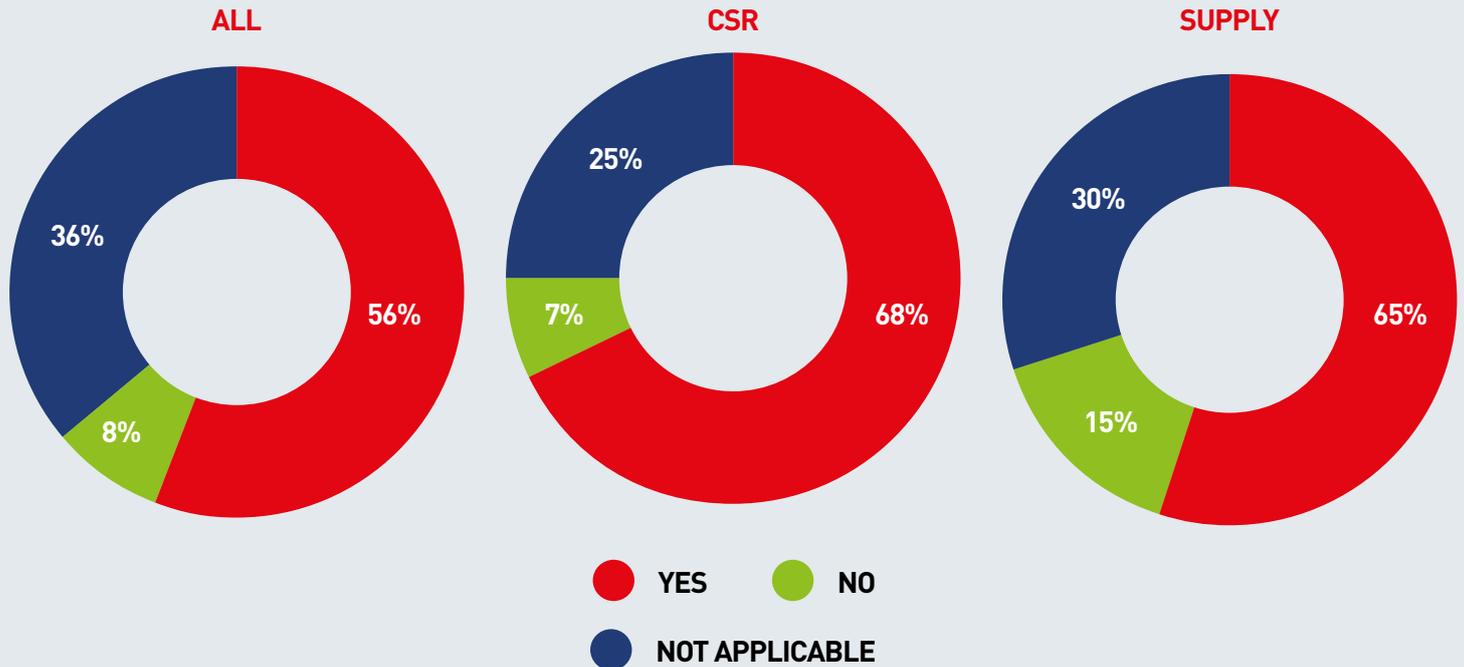
The 2nd and 3rd biggest opportunities are 'circular economy' and 'resource efficiency' identified by 17% and 12% of our respondents respectively. It could be argued that circular economy is the optimum point of resource efficiency as organisations will be creating multiple products from the resources originally used for just one product.

The CSR community agree with the general consensus as to the order of the three biggest opportunities, with slightly more optimism in 'industry collaboration' and 'circular economy'.



Supply chain professionals agree with the three biggest opportunities in 2016 and 2017, however they perceive 'resource efficiency' as the number one opportunity, second is 'industry collaboration' and third is 'circular economy'. It appears supply chain professionals will place increasing focus on understanding how to create more whilst using less and having a smaller impact on the environment.

SHOULD THERE BE MORE COLLABORATION BETWEEN THE SUPPLY CHAIN AND SUSTAINABILITY DEPARTMENTS:



Taking a closer look at collaboration we looked to ascertain the appetite for more internal collaboration between the sustainability and supply chain departments. Over half of all respondents feel there could be more collaboration. CSR professionals are more keen to see increasing collaboration between the two departments with over two thirds stating yes. Supply chain professionals are less enthusiastic with just over a half stating there should be more collaboration between the two departments. This result is to be expected when considering on page 9 we found that supply chain respondents were more positive in stating that sustainability is fully embedded throughout the supply chain and sourcing department.

It is clear to see that both internal and external collaboration will be critical in creating and managing more sustainable and responsible supply chains.

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