

Paths to Sustainability in Supply Chain Management

A Nordic Partnership
SSCM Self Diagnostic Tool
Version 1.0 August 2004



Foreword



Most companies operating on both local and global markets are both suppliers and customers. As globalisation increases supply chain complexity, it also increases social awareness and expectations on companies to take responsibility for what they buy, sell and produce and how they go about it. There are many different approaches to tackling Sustainable Supply Chain Management (SSCM), and it can be difficult to ascertain exactly what the different approaches entail and why one approaches is better for a one company than another.

The Nordic Partnership SSCM diagnostic is a practical tool for businesses considering embarking on SSCM. It clearly and simply outlines the issues you need to think about in your particular business situation and the most appropriate approach for SSCM for your organization.

The diagnostic is intended to be used as a ‘stand-alone’ tool, although we anticipate an updated version 2.0 with more case studies and corporate feedback.

Even if you already have a sustainable supply chain system, working through this tool will renew your overview of both your own approach to SSCM as well as the others available, and provides valuable input to the further development of your approach. Ensuring sustainability through the supply chain will help your company minimize risks, improve operational performance and efficiency and improve competitiveness. Any feedback that you may have on the tool would be appreciated. Please send your comments and suggestions to nordicpartnership@wwf.dk



Project brief

The Diagnostic

The Nordic Partnership SSCM Self Diagnostic is based on three basic parts

- Relevant questions to consider before embarking on SSCM,
- A list and description of various approaches to SSCM, and
- The combined reflection determining which approaches to choose, what to aim at, and how much resources to spend.

The Development Process

The Diagnostic was developed in a process which involved Nordic Partnership companies, NGO's and relevant institutions to ensure a wide applicability.

In April 2004, the first draft of the tool was presented and discussed at a multi-stakeholder workshop at WWF in Copenhagen. Participants came from NGOs, academia, companies, consultancies and government to discuss and refine the diagnostic. Read more on <http://www.nordicpartnership.org/7250029>.

A second draft of the tool was presented at seminar organized in conjunction with UNIDO and Globalt Ansvar – the Swedish Partnership for Global Responsibility in Stockholm in June 2004.

It was attended by over 60 participants including companies, NGOs, academia and government organizations in the Nordic region. Read more on <http://www.nordicpartnership.org/7b10029>.

Project Facts:

The Sustainable Supply Chain Management project is a project within the Nordic Partnership.

The project group consists of representatives from Volvo Cars, Novo Nordisk, Novozymes, Danisco, Brdr Hartmann, P&G Nordic, ITT Flygt, Posten AB, Cowi, ERM and Unido, managed by Iver Drabæk, Drabæk Consult on behalf of the Nordic Partnership Secretariat.

The core group have drawn on own expertise and membership inputs and have been inspired by a variety of resources of which only a few will be mentioned, i.e. "Buying your way into trouble?", Insight Investment and Acona, 2004; "The Corporate Responsibility Code Book", Deborah Leipziger, Greenleaf Publishing, 2003; "The Global Apparel Value Chain", Gary Gereffi and Olga Memedovic, Unido, 2003.



Introduction

- The need for a diagnostic
- What you need to consider
- Why SSCM is so complex!

List of abbreviations

SD – sustainable development

CSR – corporate social responsibility

SCM – supply chain management

SSCM – sustainable supply chain management

Throughout the document we do not distinguish between SD and CSR and instead just write SD/CSR





Why is the Nordic Partnership developing a Diagnostic?

There is a need

How to integrate sustainable development into the supply chain is an evolving discipline that is becoming more complex, sophisticated and challenging, see box. Many different approaches for SSCM are available, but on closer inspection of these we found limited information on why a certain approach is better for one company than another, and what the different approaches entail. Often using a combination of two or more approaches might be appropriate for certain situations and companies

What you need to consider

The decision on which approach(es) to adopt will depend on a number of things such as the company's business management culture, the characteristics of the company's supply chain(s), the types and urgency of the pressures faced by the company, the available building blocks within the company and the resources needed and available for adopting a particular approach.

Why SSCM is complex!

- Globalisation, outsourcing and new types of business joint ventures, and business integration are beginning to blur the boundary lines between suppliers and producers
- Responsibility for the performance of suppliers is perceived by NGOs and large part of the society to rest with the company that designs and markets the end product
- Environmental and social issues with the potential to seriously affect company reputation, often arise somewhere in the supply chain
- Many things are (perceived as) outside your control and not within your responsibility
- Your supplier base might seem overwhelmingly large in numbers
- Many approaches for managing environmental and social risks along the supply chain imply big human and financial resource demands
- It immediately adds costs and sometimes the benefits are hard to quantify and will only be accrued in the distant future

Introduction	The Diagnostic and how to use it	Diagnostic - Entry point questions	Diagnostic - Approaches to SSCM
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The Diagnostic and how to use it

- An Emerging Diagnostic Tool
 - Objective
 - Target Group
 - Concept
- The Structure
- Reflections and Directions
 - The Process
 - Cases
 - Options for Development





An emerging Diagnostic Tool...

Objective

The NP project aims to help companies think through what might be the most appropriate SSCM approach for their particular situation

Target group

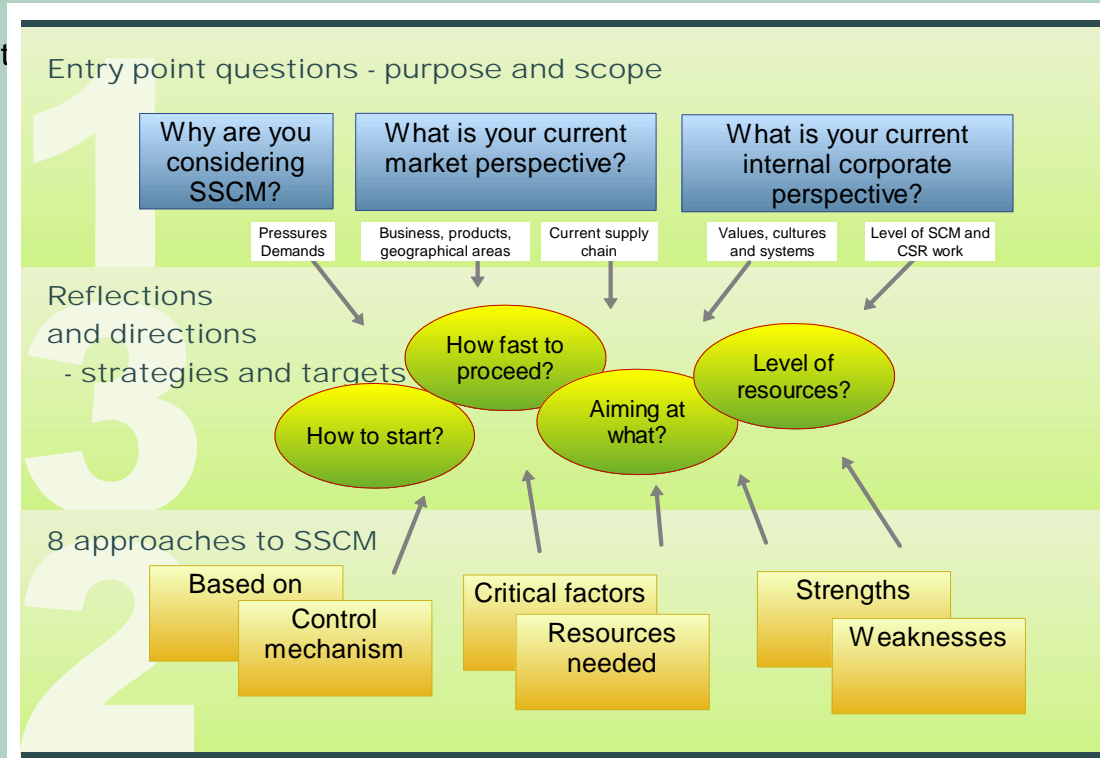
Typically, the SD or CSR responsible in international companies, but also NGOs engaging with these companies

Concept

The concept is based on mapping the company's specific situation to the different options for SSCM via:

- A number of 'entry point' questions
- A characterization of various approaches to SSCM

so that management can decide how to start, what to aim at, how fast to proceed and what level of resources will be needed.



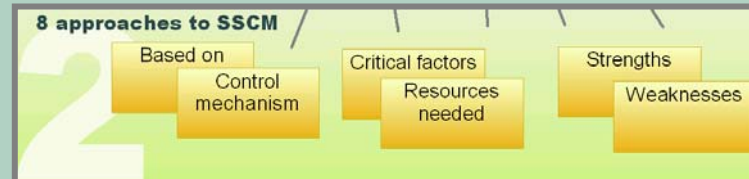


The structure



The entry point questions are divided into three blocks, covering:

- Pressures and demands for SSCM, e.g.:
 - Why are you considering SSCM in the first place?
 - How urgent are the pressures you are facing?
 - Etc
- Your current market perspective, e.g.:
 - What are the characteristics of your business, your market, and your products?
 - Who is driving demands in your supply chain?
 - How is the supply chain characterized?
 - Which geographical areas are relevant for you?
- Your internal corporate perspective e.g.:
 - What is the general business management approach in your company (e.g. values, brand, risk or stakeholder-driven)?
 - What is your current approach to supply chain management and to sustainable development and CSR?
 - etc



The identified SSCM approaches are organised according to a set of parameters, including, for example:

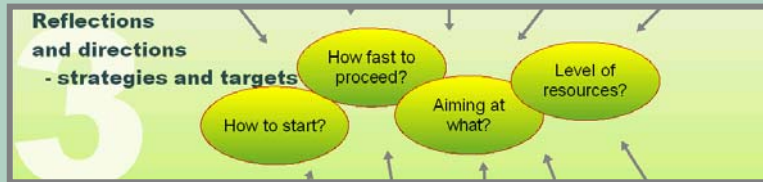
- Whether the approach takes its point of departure in a published Code Of Conduct, or in a more ad hoc or project specific values
- Whether the approach is designed for broad application, i.e. a generic approach, or whether it is designed to meet the needs of a specific company or sector
- What type of control mechanism is included, e.g. informal dialogue vs external or stakeholder audits
- Whether the approach confines itself to a fixed and limited set of issues, or whether issues are broader or situation specific (Codes of Conducts will always operate with a specific list of issues)
- Whether the approach dictates very specifically what compliance entails. Some Codes dictate, for example, the number of fire escapes or the level of salary paid

Introduction	The Diagnostic and how to use it	Diagnostic - Entry point questions	Diagnostic - Approaches to SSCM
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Reflections and directions



Thus reflections and directions emerge as you go through the Diagnostic. The strategy and targets you decide will probably be unique for your company and your situation.

The process

There is no 'correct' way to use the Diagnostic. It can be used by single persons but we recommend that you discuss the questions in a group with both SD/CSR persons and representative for the SCM in your company.

Typically you would start with the 'Entry point' questions to get a feeling for the pressures, urgency and risks you face, and compare these with the resources available and internal barriers to be overcome.

After having an idea of purpose and scope, you could consult the description of approaches, which you might already have been through as general background information. From these, you may be able to rule out some of the approaches because they do not fit your situation or you might find the mix of approaches that will match your various suppliers.

Cases

After the section on approaches, we have included short cases from the Nordic Partnership members. Hopefully the cases will provide inspiration for others; feel free to contact the respective Nordic Partnership members for more information.

Options for development

Some approaches are suited as predecessors of others, e.g. 'informal dialogue' -> 'stated expectations' -> 'self-evaluation/questionnaire approach' and can be used as milestones in a development plan.

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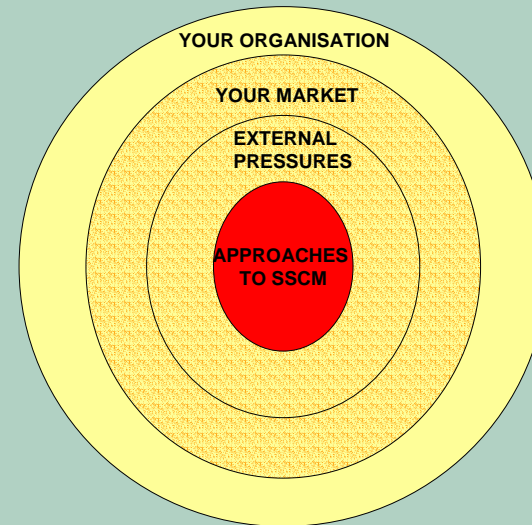




Diagnostic

- Entry point questions

- Why?
 - The pressures
- Your current market perspective
 - Your business characteristics
 - Your supply chain characteristics
- Your current internal corporate perspective
 - Your business model approach
 - Your current supply chain management focus
 - Your building blocks – SD/CSR approach





The pressures (1)

P1:	Do you face the immediate risk of losing an important customer(s) because your company lacks a coherent approach to SSCM?
	<i>You have probably met SD/CSR demands from customers before. It's important to understand exactly what these demands are and what are the drivers behind them. Often these customers will grant you some leverage to plan and implement approaches to SSCM, but in some cases demands can be setup as hurdles which require short term actions and systems to stay on the scene. This, for example, could be the case for certain public tenders.</i>
P2:	Are you experiencing negative media exposure about the social or environmental performance of your suppliers?
	<p><i>What is the nature of this media exposure,</i></p> <ul style="list-style-type: none"> - <i>Is it e.g. part of an NGO campaign or is it a one-off event?</i> - <i>Is it restricted to local press coverage in a particular country or has the issue hit international headlines?</i> - <i>Do you have effective responses?</i> - <i>Is it impacting on your customers?</i> - <i>Does it affect your employees?</i>
P3:	Are you about to enter new markets and/or are you contemplating a business strategy change?
	<i>When a company enters new markets, it invariably encounters new stakeholders, cultures and environmental and social issues. The same is often true in the event of a business strategy shift, which might mean a complete rethink of how the SD/CSR agenda influences the company's business activities and how this is best managed.</i>





The pressures (2)

P4:	Are 3rd parties asking environmental and social questions concerning your products or suppliers?
	<i>Questions by NGOs should not necessarily be viewed as a threat or a problem. Depending on the NGO approach and your ability to sit down and enter into a constructive dialogue, it can be a first indication of an issue that needs to be looked into more carefully. It can be an opportunity to engage positively with different stakeholders about contentious issues.</i>
P5:	Are investors (both private and institutional) asking questions concerning supply chain risks?
	<i>The market for Socially Responsible Investment is growing. In addition to this, many of the large investment funds are beginning to ask basic questions about a company's SD/CSR commitments and performance; partly because they now regard it as a potential risk area but also because good SD/CSR management is an indication of a well-managed company. Many rating companies now include questions on supplier relations.</i>





Your business characteristics (1)

B1:	Are you a B2B or a B2C company or both?
	<p><i>The degree and sources of pressure on companies vary according to whether you are B2C or B2B and the particular sector you are in. As a B2C company, you are often more exposed and more vulnerable towards consumer pressure. This pressure, however, is very dependant on the types of consumer products you produce and will often be greater for large, branded companies. Many B2C companies therefore do not experience a lot of pressure from the market. Within B2B, pressure is often generated by the large multinationals through the supply chain. Many B2B companies will therefore experience this pressure. Because the multinationals are behind the pressure, this might be the case even within product areas where consumer interest is low.</i></p>
B2:	Is your branch facing large structural changes?
	<p><i>Globalization, IT developments, and outsourcing might completely change a supply chain within a very short time. Before deciding which approach to adopt for SSCM, it is important to understand what the trends are in your particular business sector and what these imply in terms of future supply chain management.</i></p>
B3:	Is your sector defined by seasonal or rapid changes in consumer tastes and demands?
	<p><i>In many sectors, e.g. textiles, rapid changes in consumer tastes dictate changes in product design. For some products, seasonality might be down to one month or less. This can have serious implications on buying practice and create a pressure on your suppliers or their suppliers, which is counterproductive to what you might want to achieve on SD/CSR (e.g. making it difficult for the suppliers to maintain decent working hours when production cycles and lead time become shortened). .</i></p>





Your business characteristics (2)

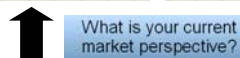
B4:	What is the relationship between price and product quality in your sector?
	<i>Producing socially responsible and environment-friendly products often implies increased costs of production. Can you pass these extra costs on to the consumer? Does a higher price signal a better quality product to the consumer? Understanding these issues has important implications for how you might approach the management of CSR issues in your supply chain e.g. How comprehensive and costly is a particular approach to adopt?</i>
B5:	How homogenous is your company?
	<i>Is your company involved in a number of different market sectors? What is the organisational structure (e.g. for purchasing) of your company and does it vary between markets, countries, regions? All of these sorts of issues will influence the effectiveness of the different approaches to SSCM that you might adopt.</i>





Your supply chain characteristics (1)

S1:	Are your supply chains producer- or buyer- driven?
	<p><i>In producer-driven value chains, large, usually transnational manufacturers play the central roles in coordinating production networks (including their backward and forward linkages). This is typical of capital and technology intensive industries such as automobiles, aircraft, computers, semiconductors and heavy machinery. Buyer-driven value chains are those in which large retailers, marketers and branded manufacturers play the pivotal roles in setting up decentralized production networks in a variety of exporting countries, typically located in developing countries. This pattern of trade-led industrialization has become common in labour-intensive, consumer-goods industries such as garments, footwear, toys, handicrafts and consumer electronics. Tiered networks of third-world contractors that make finished goods for foreign buyers carry out production.</i></p> <p><i>It is important for you clearly to identify who is the driving force in the supply chains you are part of. A better understanding of what drives the present demands will help you better foresee potential future demands, and will help you design approaches that fit your different supply chains.</i></p>
S2:	Is your sourcing global, local or a mix of both?
	<p><i>For many companies sourcing is typically a mix of local and global. You should carefully consider whether it might be best to use a mix of approaches to SSCM to deal with this.</i></p>
S3:	Do you subcontract part of your own products?
	<p><i>When you subcontract your own products, all your requirements for the suppliers increase including the SD/CSR requirements. Normally the risk to your reputation and your brand will increase because customers and society at large will judge you and your subcontractor by the same yardstick.</i></p>





Your supply chain characteristics (2)

S4:	How many suppliers do you typically have, how many are classified as 'strategic suppliers' and what's the proportional distribution of your suppliers between developed and developing countries?
	<p><i>Typically companies with a large number of suppliers will encounter the need to categorize on the basis of certain business criteria that define the strategic importance of each supplier to the company. Classification could reflect risk associated with the suppliers and will often be connected with the physical location of the suppliers. When considering SSCM, it is important to look carefully into the current classification system used for suppliers by your company and to assess whether you can build on this system or whether a different way of classifying suppliers needs to be developed and used. For example, do you know whether the suppliers that carry a large SD/CSR risk to your company are also rated as the important ones in your normal supply chain rating system?</i></p>
S5:	How much power and influence is your company able to exercise in the relationships with its key suppliers?
	<p><i>Your ability to influence the behavior of your suppliers (and their suppliers) is dependent on factors such as the size of your supplier companies (e.g. are you an important customer to them?); availability of alternatives; and whether the buyer controls the route to the market for the supplier, takes a very high percentage of the supplier's output and sources "own-brand"-products. But although you might have considerable influence on your suppliers, exercising it might prevent you from valuable lessons and even better solutions through dialogue. Conversely, even though your company might not have much power to influence its suppliers, there may still be ways to encourage them to change and improve their SD/CSR performance. Thus, understanding your company's 'power quotient' in its supply chain relationships is an aspect to considering, when looking at which SSCM approach(es) to adopt.</i></p>





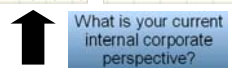
Your business model approach

	<i>Being able to understand and articulate clearly the way your company approaches the CSR agenda and the way in which it integrates it into its broader business strategy will be both helpful and revealing when considering which sort of SSCM approach to adopt. A useful exercise is, on a blank piece of paper, to visualize the your company's underlying business strategy and how it intersects with the CSR agenda. Some questions that might help with this exercise are given below.</i>
BM1	To what extent is your business model driven by your brand?
BM2	Does your company believe that stakeholder value creation is as important as shareholder value?
BM3	Does your company primarily take a risk approach to external pressures?
BM4	Is your company's business strategy and management culture a values-based approach?
	<i>There seems to be an almost universal agreement that a business is responsible for more than just profit, and to more stakeholders than shareholders alone. But the consensus is not clear as to the extent of the responsibility and the priorities between stakeholders.</i>
BM5	How far does your company's responsibility go in the supply chain? Does it stop after the first link in the chain or does it go the whole way back?
BM6	What exactly does your company consider itself responsible for, in terms of the social and environmental performance?



Your current supply chain management focus

	<i>Your general supply chain focus will be influenced by your business model approach. In order to understand what to build on, it is also important to understand the current focus of your company's supply chain management. The following questions can help you to characterize it.</i>
SF1	Is improving production and quality standards a key focus area in your supply chain management?
SF2	Is cost reduction and reduction of the number of suppliers your main driver of your company's current supply chain management strategy?
	<i>It is important to recognize that increasing price pressure for corporate buyers and demands for greater flexibility and faster product delivery may be exacerbating labour standards problems. Are you aware of the potential implications that your company's current supply chain management strategy has for this issue?</i>
SF3	Is branding and the wish to be unique a key focus in your supply chain management?
	<i>If this is the case then your acceptable risk level is low and your case for including SD/CSR in supply chain management normally very good.</i>
SF4	Is looking for opportunities and partnerships with your suppliers a key focus area for your 'strategic' suppliers?
SF5	Are you applying a collaborative approach with your 'strategic' suppliers, providing incentives for them to cooperate and share knowledge?
	<i>Some companies, e.g. Toyota, have had good experiences with a collaborative approach. Including SD/CSR issues in such an approach or in a partnership approach seems straight forward. You should, however, be aware that the suppliers that have large potential SD/CSR impacts are not necessarily amongst your normal 'strategic' suppliers.</i>





Your building blocks – SD/CSR approach (1)

A1:	What was the reason for starting up your SD/CSR work and have the reasons changed?
	<p><i>If your company's SD/CSR work has just started, the reasons are probably pretty obvious. If your SD/CSR work has been on-going for a couple of years, it can be useful to reflect on why you started up in the first place and whether the reasons have changed or are likely to change in the near future. Focusing on SSCM work could, for example open up new justifications for your SD/CSR work, but changes - on the other hand - could also mean that it will be difficult to justify spending more resources on your SSCM work. SSCM will no doubt impose communication challenges when dealing with your local suppliers, but will also result in a better supplier understanding.</i></p>
A2:	How is the SD/CSR work organized in your company?
	<p><i>SD/CSR work is often organized very differently in different companies. When dealing with SSCM, it is important to find out who should be involved in the work, whether roles are well-defined and whether changes in the way things are currently organized would be helpful.</i></p>
A3:	How well anchored with top-management is your SD/CSR work?
	<p><i>Successful SD/CSR work needs top-management support, and embarking on SSCM most certainly does too. If you think that your SD/CSR work is not well supported enough by top-management, you must examine why and find ways to bring it back on the agenda. Arguments for getting it back could come from exploring pressures and business risks.</i></p>





Your building blocks – SD/CSR approach (2)

A4:	Is environment already a part of your SCM work and if yes, do you consider it useful to build on this?
	<i>Many company have already worked with environmental criteria for suppliers, often as part of their ISO14001 system. Piggy-backing on such a system would seem the obvious thing to do, but before doing it , you should carefully consider the pro's and con's, especially concerning the approaches and the organisation of the work. The same considerations should be given if contemplating integrating your approach into your quality management system.</i>
A5:	Do you already report on your SD/CSR achievements?
	<i>Including SSCM in your normal reporting is always a good idea. Make sure that your targets are realistic – SSCM work takes time, especially if you are want to create awareness amongst your suppliers. Think of Key Performance Indicators that can be used to show progress.</i>





Diagnostic - Approaches to SSCM

- Hot-spot approach
- Informal dialogue
- Statement/Stated expectations approach
- Self evaluation/Questionnaire approach
- Cases
- Company standards
- Sector multistakeholder standards
- Generic multistakeholder standards
- Commodity initiatives
- Labelling



Hot-spot approach

Description	The hot-spot approach is typically applied with the back against the wall, but can also be used when resources are limited. Often the company is forced to react on immediate reputational crisis or the risk of losing a big customer. The hot-spot approach is typically organised as a project and often involves partnering with a third-party organisation for fact-finding and creating credibility. The aim of the project is first of all to remediate the current problem, but normally precedes more extensive solutions. The hot-spot approach often serves as an eye-opener for the company and is subsequently replaced by one or more of the other listed approaches. Depending on the company various degree of transparency can be applied.
Stakeholders	The company itself and often selected NGOs.
Examples	Most often larger, branded companies.
Code of conduct	No - Value/dialogue-based. Within the project a code of conduct can be developed.
Application	Company specific.
Scope of issues	The issues related to the hot-spot problem.
Level of detail	Medium within the problem area.
Control mechanism	Project evaluation, sometimes in cooperation with the involved NGO.
Strengths	Can be established quickly and can demonstrate a responsible and credible response to the hot-spot problem. After having remediated the problem it can be a predecessor for other approaches.
Weaknesses	Is a response to a crisis situation with all its potentially negative consequences. Will not necessarily be seen as enough by your critics.
Resources needed	Require a reasonable amount of resources to run the project and draw heavily on management resources.





Informal dialogue

Description	The informal dialogue approach typically covers ad-hoc, case by case dialogue with suppliers. The dialogue is typically initiated directly by customer requests or indirectly e.g. by media coverage of hot issues. In some cases the informal dialogue is more or less systematically integrated into the ordinary supplier dialogue.
Stakeholders	The company itself.
Examples	Often within SMEs, but also common amongst larger companies.
Code of conduct	No - Value/dialogue-based.
Application	Company specific.
Scope of issues	Often "hot" sector-specific issues.
Level of detail	Low.
Control mechanism	None.
Strengths	Easy to start up and easy to develop into a more systematic approach e.g. based on Stated Expectations. Flexible and can be tailored to individual company needs.
Weaknesses	Limited credibility and limited assurance towards critical customers/consumers.
Resources needed	Does not require much operational resources, but can (occasionally) draw heavily on management resources (in the case of a crisis).





Statement/Stated expectations approach

Description	In this approach the company confine itself to stating what it expects its suppliers to live up to. The statement can vary in extent and details from the very broad commitment type to very elaborated supplier codes.
Stakeholders	The company itself. Sometimes outside stakeholders have been consulted.
Examples	Johnson & Johnson (www.jnj.com)
Code of conduct	Yes.
Application	Company specific.
Scope of issues	Limited listed issues.
Level of detail	Low - Little or no details.
Control mechanism	None or informal dialogue.
Strengths	Demands limited resources and can be started up very quickly. Can be tailored to the individual company. Could be a first step in SSCM work to show commitment. Might also be considered for supply chains with little potential SD/CSR impacts or for companies with limited resources.
Weaknessess	Limited credibility and will not provide adequate assurance/documentation for critical customers or consumers.
Resources needed	Few add-on resources. Often part of an existing corporate code of conduct..





Self evaluation/Questionnaire approach

Description	As the name says this approach relies on the suppliers evaluating themselves through a questionnaire. Questionnaires vary in length and structure as do the follow-up and data handling.
Stakeholders	The company itself. Sometimes outside stakeholders have been consulted.
Examples	Novo Nordisk (www.novonordisk.com) – see case on page , Novozymes (www.novozymes.com) – see case on page.
Code of conduct	Yes.
Application	Company specific.
Scope of issues	Limited listed issues .
Level of detail	Medium - Scope for adjustment to local conditions .
Control mechanism	Structured dialogue, internal audits.
Strengths	Flexible. Transparent approaches are usually credible. Can be tailored according to company needs. Even more dynamic than company standards and allows companies to start up slowly and gradually develop their approach.
Weaknesses	Demands a very elaborated and transparent approach and sufficient follow-up the to handle problematic supply chains. If not it will have limited credibility. Although easy to start-up it will require some iterations of issuing questionnaire and handling data to get the approach in place. Lack of third party control could in some cases cause problems.
Resources needed	Require dedicated resources for development of a code of conduct, for dialogue and for follow-up





Case #1 – self-evaluation/questionnaire approach



Our approach

The Novo Nordisk approach to Sustainable Supply Chain Management is based on both company values and risk management. Novo Nordisk's values in respect to suppliers are informed by the UN Universal Declaration of Human Rights and the ICC Charter for Sustainable Development.

Novo Nordisk has developed its own programme consisting of a self-evaluation questionnaire and a contract insert, both explaining their expectations to their suppliers. Suppliers can be submitted to social and environmental audits, but all suppliers will not be audited.

Why we chose this approach

The majority of Novo Nordisk's suppliers are located in the Western world, i.e. they will be regulated on social and environmental issues by authorities and/or unions. Furthermore, for the large majority, products are made at its own factories. Actively promoting human rights and good environmental management as well as encouraging their suppliers to "spread the rings in the water" in partnerships, is how Novo Nordisk finds it can have the greatest impact.



Case #2 – self-evaluation/questionnaire approach



In 1996 Novozymes initiated integrating environmental assessment into our supplier evaluation procedures for raw material purchases and we are planning pilot environmental audits at selected supplier sites during 2004.

Our present main efforts

Novozymes is currently in the process of gradually integrating assessments on human rights and labour standards into our supplier evaluation procedures for raw material purchases. In 2004 we expect to cover 80% of the value of our raw material purchases for enzyme production on these issues.

Our suppliers receive yearly questionnaires, in which we ask them to confirm that they live up basic international principles on human rights and labour standards. We also ask our suppliers to include descriptions of systems in place to secure compliance with the principles.

Supplier evaluations are undertaken by our local purchasing teams, who have undergone training in engaging with suppliers on social issues. A team consisting of purchasers and social responsibility staff collects, consolidates and evaluates results. Each supplier receives a copy of their evaluation. If an evaluation is not satisfactory, we engage in a dialogue with the supplier with a view to offering our expertise and assistance in proposing appropriate systems to ensure compliance.

Why we chose this approach

When devising Novozymes' approach the main objective was to increase our suppliers' awareness of international rules on human rights and labour standards in a climate of trust and dialogue.

At the same time, we were keen on ensuring maximum coherence and integration with our standard business processes, e.g. our existing purchasing supply management systems.

Where we are going to take it

Pilot social audits will most probably be carried out in 2005. We are also considering approaches to devising a training programme for suppliers.



Case #3 – self-evaluation/questionnaire approach



Our approach

Since 1997 Hartmann has made the structured environmental evaluation of suppliers an integral part of its strategic management models. However, emerging issues and new expectations have meant that since 2004, Hartmann now undertakes a full sustainability evaluation of our suppliers.

Hartmann is developing its own 'Internet based Supplier Evaluation System', based on our 10 corporate sustainability principles. It consists of two phases: The first phase focuses on the gathering of "need to know" data on e.g.. Environmental and social responsibility, health & safety, quality and performance, based on internal and external demand. All participants receive a small report, which illustrates their performance compared to the others.

The second phase focuses on establishing 'win-win' partnerships within the reviewed topics or product development between the supplier and Hartmann.

Why we chose this approach

At present, external demands from customers and other stakeholders, internal demands from management systems, and the underlying concept of good business-sense in Hartmann's sustainability strategy, are the key drivers for the development of a new framework for supplier assessment.

By establishing this system, Hartmann is able to fulfil the intent of our sustainability strategy, promote sustainability among suppliers, whilst simultaneously establishing new partnerships to promote sustainability in the supply chain.



Case #4 – self-evaluation/questionnaire approach



Our Approach

•The internal structure of Danisco consists of 8 different divisions, working with completely different products, raw materials and suppliers. Therefore, it is necessary to have individual approaches to SSCM for each divisions, as they are involved in different types of business. There is also a common framework of a sustainability guideline for all suppliers. All raw materials suppliers have to sign up our "General requirements" which also includes ILO's labour standard requirements.

•Danisco is now working on a global concept, which will enable the same framework for auditing suppliers. All audit reports and plans for supplier audits will be gathered in a common database. A corporate procedure describes how the actual audits are conducted, supported by a checklist of relevant issues. It also describes how we definitions of a 'major' supplier and what must be audited, as a minimum.

Supplier complaints will be treated in a common system and there will be coordination of audits of suppliers shared between more divisions.



Case #5 – self-evaluation/questionnaire approach



Our approach:

ITT Flygt's approach to Sustainable Supply Chain Management is based on long term relationship with our strategic suppliers. About one third of the suppliers are "strategic suppliers" with the requirement to have certified environmental management systems. This requirement came 2000 and the goal has been to have all strategic suppliers certified before end of 2004. So far 60 % of the suppliers have succeeded to get ISO 14001 certificates. Social and ethical requirements are added to contracts when there is a "reason to believe" through the supplier evaluation that these issues are foreseen. So has been the case recently with suppliers in East Europe and in China. The supplier evaluation process is comprehensive - introducing the contract very early in the process, and then a supplier self assessment including environmental questions and then a detailed questionnaire for the purchaser when visiting the supplier.

Why we chose this approach:

A majority of our suppliers have been our suppliers for many years. They are situated in Sweden, where we have our main factory with more than 90 % of the total production, and in Europe. It has been natural to concentrate on environmental issues and to only ask suppliers to follow laws and regulations in general. Now we have an increasing number of suppliers in Asia and therefore we have reconsidered the approach.

The future:

We have developed a common supplier website where the Code of Conduct is accessible, and in the near future there will be links to social, ethical and environmental right which we adhere to. We are considering training for target purchasers to further raise awareness about sustainability issues. We are also discussing the possibility to do social audits, but there are no decisions taken to what extent and when to start.



Company standards

Description	Company standards are typically highly prescriptive performance standards that large, branded companies enforce on their suppliers. The most well known have been put in place by companies having experienced serious reputational problems.
Stakeholders	The company itself. Sometimes outside stakeholders have been consulted.
Examples	Nike (www.nike.com), Adidas (www.adidas-salomon.com)
Code of conduct	Yes.
Application	Company specific.
Scope of issues	Limited listed issues .
Level of detail	High – very limited scope for interpretation/local adjustments.
Control mechanism	Internal and/or external audits.
Strengths	More flexible. Transparent approaches are usually credible. Can be tailored according to specific company needs. They are therefore more flexible than external standards and can be better anchored in the company culture.
Weaknessess	Very resource intense and needs dedicated resources. Always at the risk of being judged not to be objective enough.
Resources needed	Require substantial resources and time for development of the standard and for establishing and maintaining an audit programme. Typically developed on top of a self-avaluation/questionnaire approach.





Sector multistakeholder standards

Description	Sector standards are most widely known from the textile sector. They are predominantly performance-type standards with a heavy involvement from trade unions. The standards focus very much on creating commitments from large producers/buyers and often on creating consumer awareness.
Stakeholders	Typically trade unions, NGOs and businesses and/or industry associations.
Examples	Ethical Trading Initiative (www.ethicaltrade.org), Clean Clothes Campaign (www.cleanclothes.org), Fair Wear Foundation (www.fairwear.nl), Worldwide Responsible Apparel Production (www.wrapapparel.org), The Workers Rights Consortium (www.workersright.org), Fair Labour Association: Workplace Code of Conduct (www.fairlabor.org)
Code of conduct	Separate code of conduct for each initiative.
Application	Sector-specific, e.g. apparel, garments, footwear.
Scope of issues	Limited listed issues.
Level of detail	High - Limited scope for interpretation/local adjustments.
Control mechanism	Audits (Fair Labour Association also provides a certificate to participating US companies).
Strengths	High credibility. Based on strong alliances between trade unions, NGOs and businesses. Overseen by independent organisations.
Weaknesses	In SSCM only an immediate option if your product(s) fit with existing initiatives. Requires a very large effort to start-up if sector not already covered. Normally very prescriptive. Fee-based .
Resources needed	Will depend on how far the company has come on CSR issues. Typically requires a large initial effort, a dedicated focus in the organisation and reasonable time for implementation.





Generic multistakeholder standards

Description	The most well-known standard is SA8000, i.e. a global, verifiable standard designed to make workplaces more humane. This standard combines key elements of the ILO conventions with the ISO management systems. Typically such certifications standards are overseen by an independent organisation and updated through multistakeholder dialogues. Certification is given to the actual factory. Other initiatives are the European Business Social Compliance Initiative for international retailers (an initial step towards SA8000 certification). Within HSE First Point Assessment provides a qualification system for suppliers to the oil and gas industry.
Stakeholders	Standard organisations and its stakeholders (trade unions, businesses, academics and NGOs)
Examples	SA8000 (www.cepaa.org), BSCI (see e.g. www.ethicalcorp.com), First Point Assessment (www.fpal.com)
Code of conduct	Normally companies asking for certificates have their own code of conduct
Application	Generic; typically for suppliers to prove performance towards heavily branded buyers.
Scope of issues	Limited listed issues
Level of detail	High - Limited scope for interpretation/local adjustments
Control mechanism	Certification and audits
Strengths	High credibility. But for companies embarking on SSCM more an optional demand than something you use on your own company. Relying on a management systems secure that the standard is embedded into daily practise. The generic nature and the heavily support from stakeholders creates credibility towards a large number of potential buyers. The performance part of the standard allegedly has lead to business benefits.
Weaknessess	Takes time to implement. For most companies it is not a realistic supplier demand. SA8000 is generally seen by many as a very rigorous. The process part of SA8000 favours companies that already have management systems and often disfavors smaller companies. The Business Social Compliance Initiative on the other hand aims at suppliers not being checked two or three times by different retailers using different codes of conduct. Fees must be paid by the certified company
Resources needed	For certification: Depending on how far the company has come on CSR issues. Large initial effort required.

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Commodity initiatives

Description	These initiatives are often the results of incidents that have created massive public attention. They are heavily supported and often driven by an industry sector and are at the same time multistakeholder initiatives involving NGOs and governments as well. Typically they are project-like initiatives with stated objectives, timetables and with associated immediate actions.
Stakeholders	Multistakeholder initiatives; often business/NGO driven.
Examples	Sustainable Cocoa Programme (www.chocolateandcocoa.org), Roundtable on Sustainable Palm Oil (www.sustainable-palmoil.org)
Code of conduct	No - impact or mission driven; specifically designed to the project.
Application	Sector specific.
Scope of issues	Broad-based/holistic, beyond traditional Code of Conduct-issues.
Level of detail	High - with case specific guidelines.
Control mechanism	Project Evaluation/Impact Assessment..
Strengths	High credibility. Involves the important stakeholders around a commodity supply chain. Multi-year, action oriented, typically remediating affirmed problems.
Weaknesses	Demands large efforts by many companies and organisations to establish. Long time perspective and often only an option for those companies where initiatives already exists. Therefore this approach typically can only be part of an overall SSCM strategy.
Resources needed	Demands dedicated resources for project participation; participation often possible at various levels.





Labelling

Description	The core component in the labelling approach is the product label. The right to carry a product label on one's products is granted by independent organisations such as the Fair Trade Labelling Organisations International or Rugmark International. The labels described here certify that certain criteria in the supply chain from raw materials to importers are respected. Typical product areas are coffee, tea, rice, carpets and wood. Within environment and energy a variety of labels exist.
Stakeholders	Multistakeholder initiatives; often NGO driven. Environment and energy labels can also be rooted in public organisations.
Examples	Fair Trade/Max Havelaar (www.fairtrade.net), Rugmark (www.rugmark.org), FSC (www.fscoax.org), EU Flower (europa.eu.int/comm/environment/ecolabel)
Code of conduct	No - impact or mission driven; specifically designed to the project
Application	Product label; typically within specific sectors. Mostly applied by producers towards buyers, but can also form part of an overall SSCM strategy.
Scope of issues	Broad-based/holistic, beyond traditional Code of Conduct-issues
Level of detail	High - with case specific guidelines
Control mechanism	External or stakeholder audit/Impact Assessment
Strengths	High external exposure towards customers. High credibility. Strong co-branding.
Weaknesses	Only applicable if you have matching products. Not easy to establish new product categories. Typical products are more expensive than average.
Resources needed	Significant documentation must be provided from the company seeking labelling and most often granting the label will be accompanied by a fee. In a SSCM strategy you might decide that certain procured product categories preferably should be labelled with certain types of labels and use this as part of your overall approach.

