



**Sustainable  
Supply Chain  
Relationships**



## Stewart Investors

### About the authors

The Institute for Sustainable Futures (ISF) was established by the University of Technology, Sydney in 1996 to work with industry, government and the community to develop sustainable futures through research and consultancy. Our mission is to create change toward sustainable futures that protect and enhance the environment, human wellbeing and social equity. For further information visit: [www.isf.uts.edu.au](http://www.isf.uts.edu.au)

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# 1. Key insights summary

This research was commissioned by Stewart Investors to understand how companies are implementing sustainable supply chain relationships to address supply chain resilience and vulnerability, and to generate research insights on important issues for sustainable supply chain relationships more generally. The report presents an assessment of nine companies against a performance framework developed for the project, based on interview or survey and review of publicly available information. The report also incorporates findings from literature review, interviews with three supplier companies and five representatives from intermediary organisations.

Below is a summary of the key insights on sustainable supply chain relationships (SSCR) and the features of high and low performing companies identified from the research.

## RESEARCH INSIGHTS

### **Regional regulatory context can have a strong influence on sustainable supply chain relationships**

The governance of retailer-supplier relationships by authorities in government-controlled economies means that retailers do not have much incentive to include social and environmental sustainability issues among the responsibilities of suppliers or retailers. This was confirmed by the findings from our research on a company within a government-controlled planned economy. Our conclusion is that retailer-supplier relationships are driven by very different influencers in planned economies than in free market economy contexts, and that regulation in that context can act as a barrier to SSCR.

In South Africa, supplier relationships also appear to have been strongly influenced by regulation, specifically the Black Economic Empowerment (BEE) program. Based on our research on two South African companies, this regulatory context has had a positive impact on social sustainability in supplier relationships.

### **Publicly available information may not represent reality**

For several of the companies included in this study, publicly available information, for example on websites or in CSR reports, implied that reasonable to good progress had been made in implementing sustainable supply chain relationships. However, survey or interview information provided a less positive picture of the status of implementation. We also found that strong performance against the assessment framework does not necessarily guarantee a positive view of the reality of the buyer-supplier relationship from the supplier perspective. Strong public commitments to SSCR do not always translate into consistent implementation. In highly competitive sectors, price considerations may override other aspects of the management of relationships with suppliers. Insights from interviews with intermediary organisations confirmed that publicly available material is not considered reliable, and that often product labelling can give a better insight into supply chain sustainability, particularly in regard to the sourcing of raw materials.

### **Engagement of intermediary organisations is a growing and positive trend**

The growth of SSCR practices has led to the emergence of intermediary organisations, such as Sedex and FTA, that manage supplier engagement and ethical and environmental assessment and compliance processes. This trend has benefits for both buyer and supplier companies, particularly for the additional robustness that comes from specialist external assessment and the streamlining of compliance processes. It appears that the original focus on compliance is now shifting to an emphasis on remediation and continuous improvement.

Other intermediary organisations interviewed for this study included international training providers who work with retailers, supplier factories, governments and NGOs to build capacity and improve the conditions and practices in factories. While these training providers are critical of approaches that emphasise compliance through audits and assessments of the effectiveness of capacity building by numbers rather than outcomes, they seek to provide bespoke human-

and business-centred support which is increasingly funded by factory owners themselves rather than the retailers or brands. There is some criticism from intermediary organisations of the effectiveness of audit processes and a view that over the last twenty years, voluntary standards have been the most influential factor in bringing about a shift in SSCR best practice (e.g. FSC, Dow Jones Sustainability Index, Responsible Palm Oil etc.).

### **SSCR is a sensitive area for companies**

As noted in the methodology section of the report (Section 2), some companies were reluctant to participate in this research project and disclose their SSCR performance. This may be because companies lack confidence in their performance in this area, either because they have not yet made sufficient progress, or because they are unwilling to be compared to higher performing competitors, or to subject their brands to scrutiny by the public and NGOs. Leading organisations can have a positive sectoral influence by creating a benchmark that competitors attempt to emulate. Conversely, they may be reluctant to be transparent about performance. Supplier relationships require an understanding of complexity, and an ability to deal with it. Companies may therefore find these relationships more challenging than logistical sustainability issues.

### **Sub-contracting in the supply chain is a growing SSCR issue**

Sub-contracting by suppliers has been identified as a significant risk factor by intermediary organisations. One such organisation reported that: “*Subcontracting is the most significant risk currently facing supply chains*”. This is an issue most commonly encountered in manufacturing, and increasingly in the fresh food sector. Sub-contracting compromises supply chain transparency because sub-contractors may be outside the purview of the buyers (who tend to focus on Tier 1<sup>1</sup> (direct) suppliers) and intermediary organisations, and this potentially exposes the buyer to unforeseen risks.

In a climate of low margins for goods and services, particularly in the fresh food industry, there is a tendency for suppliers to over-promise to secure tenders, especially with large retailers. In order to meet these commitments, mostly in peak times, suppliers turn to sub-contractors to fill the gap, which can lead to offshore sourcing and manufacturing.

The underlying concern is that these sub-contractors fall out of the monitoring and assurance process and expose buying organisations to risk in the supply chain. Buying companies have mechanisms in place to monitor the transparency of contracted Tier 1 suppliers and those sub-contractors explicitly specified in contract documents. Most organisations have clauses in their Codes of Supplier Conduct which strictly prohibit sub-contracting. However it is now considered to be a growing under-the-radar practice. Presently, most companies only look to Tier 1 suppliers, and the expectation is that compliance is then passed on through to Tier 2 organisations. This is a significant risk for retailers because they have very little idea of who is touching their products.

### **Major trends impacting SSCR**

Two significant trends were identified by the research participants that could impact SSCR in the near future:

- The rise of raw materials traceability initiatives supported by regulations and guidelines from organisations such as the OECD and the EU are expected to permeate every industry sector. This trend, combined with the application of blockchain technology to increase the traceability of raw materials and production processes from the source to the finished product purchased by consumers, is expected to create a major transformation in supply chain sustainability. Other technology innovations such as on-farm and in-factory surveillance with real-time cameras are also expected to positively impact SSCR.
- Legislation such as the Modern Slavery Act in the UK and Due Diligence legislation in France has been identified as a major contributor to improving supply chain relationships.

1. In the context of supply chain relationships, tier one companies are direct suppliers to the buyer company. Tier two companies are the key suppliers to tier one suppliers. Tier three companies supply tier two companies. For example, Kingsland Drinks is a tier one supplier of wine to Marks and Spencer. Kingsland in turn sources wine from a range of tier two vineyards.

## SUMMARY OF COMPANY SSCR PERFORMANCE

In total nine companies were assessed in the research. Three of these requested to remain unidentified and are referred to as Company A, B and C. Of the nine companies assessed, five fall into the low end of the performance framework (Convenience Retail Asia, Company A, Metcash, Company B and Company C), two are in the mid-range (Grupo Éxito and Big W) and two are at the high end (Coles and Woolworths Holdings).

### General characteristics of low performing companies

#### (Convenience Retail Asia, Company A, Metcash, Company B, Company C):

- These companies are characterised by intent and commitment to improve performance in sustainable supply chain relationships, with inconsistent implementation to date, often focused on specific processes or initiatives and future plans of implementation.
- They lack comprehensive, embedded processes to support sustainable supply chain relationships and are largely driven by a desire to manage risks.
- Their general approach is characterised by a focus on compliance rather than a focus on increasing the capacity of suppliers to embed sustainability. Their general approach is characterised by a focus on compliance rather than a focus on increasing the capacity of suppliers to embed sustainability. Overall the framework developed for this project, and the company research, implies a natural progression from a risk and compliance based approach, to a more nuanced and relationship driven approach to supply chain management. However, in reality, different companies will take different paths and some may begin with strong trust driven relationships and progress to more robust processes that include elements of compliance.
- Companies in this category scored lowest on the “Embedding SSCR in training and performance management” criterion, suggesting that a good rating for this criterion may be indicative of more advanced performance.
- In low-performing companies, SSCR responsibilities are either not clearly assigned or are absorbed into a generic sustainability role (Sustainability Manager), in contrast to high performing companies where sustainability is integrated across the organisation.
- For low-performing companies, stakeholder engagement on SSCR is not embedded but consultation with stakeholders can be a preparatory step to implementing SSCR.
- These companies acknowledge their limited progress to date and are in the process of implementing measures to improve.
- An observation from one company in this category was that they are interested in how they can leverage their relationships with large Tier 1 suppliers who are well-advanced in SSCR, in order to help improve their own performance. In this scenario, the positive influence flows from the supplier to the buyer.
- As noted above, the regulatory context in which a company operates can strongly influence their approach to suppliers and may hinder the implementation of SSCR in situations where this is not a focus of regulation.
- Company B stands out as anomalous in this group because they scored highly on industry leadership and stakeholder engagement, which is not the most common starting point for SSCR implementation. This may be an outcome of regulation driving high-level engagement that has not yet filtered through to operations. This may also reflect the discrepancy between the publicly available information and the details provided by the company in the survey.
- The highest performing company of this group is Company C. Although the company received a relatively low score against the assessment framework developed for this study, it demonstrates a high level of awareness and commitment to sustainable supply chain relationships, driven by its founders and its business model. The company values trust-based relationships more than transactional relationships with suppliers. The findings from Company C indicate that the framework seems most appropriate for assessing large multinational companies that have documented procurement processes and procedures in place, and are typically listed companies.

### PERFORMANCE SUMMARY

Figure 1 below presents aggregated minimum, maximum and average scores for all 9 companies across all 12 criteria. This chart illustrates the areas companies have focused on in pursuing sustainable supply chain relationships, which areas in general need more improvement and their overall performance as a group in each of these areas. It is evident that companies have paid attention to developing a strategy for SSCR, identifying risks and then assessing and monitoring suppliers for compliance. This is a reasonable place to begin to embed SSCR. The areas that have received least attention from the companies in this research are in building trust-based relationships, supporting and helping to build capacity for sustainability in their suppliers and in embedding SSCR in their internal performance management processes. These may be seen as longer-term endeavours. Progress has been made in embedding SSCR into core procurement processes in the leading companies, although this area also needs attention from the lower performing companies. This may be the most obvious next focus area for the companies that have begun to embed SSCR and are still in the early stages of implementation.

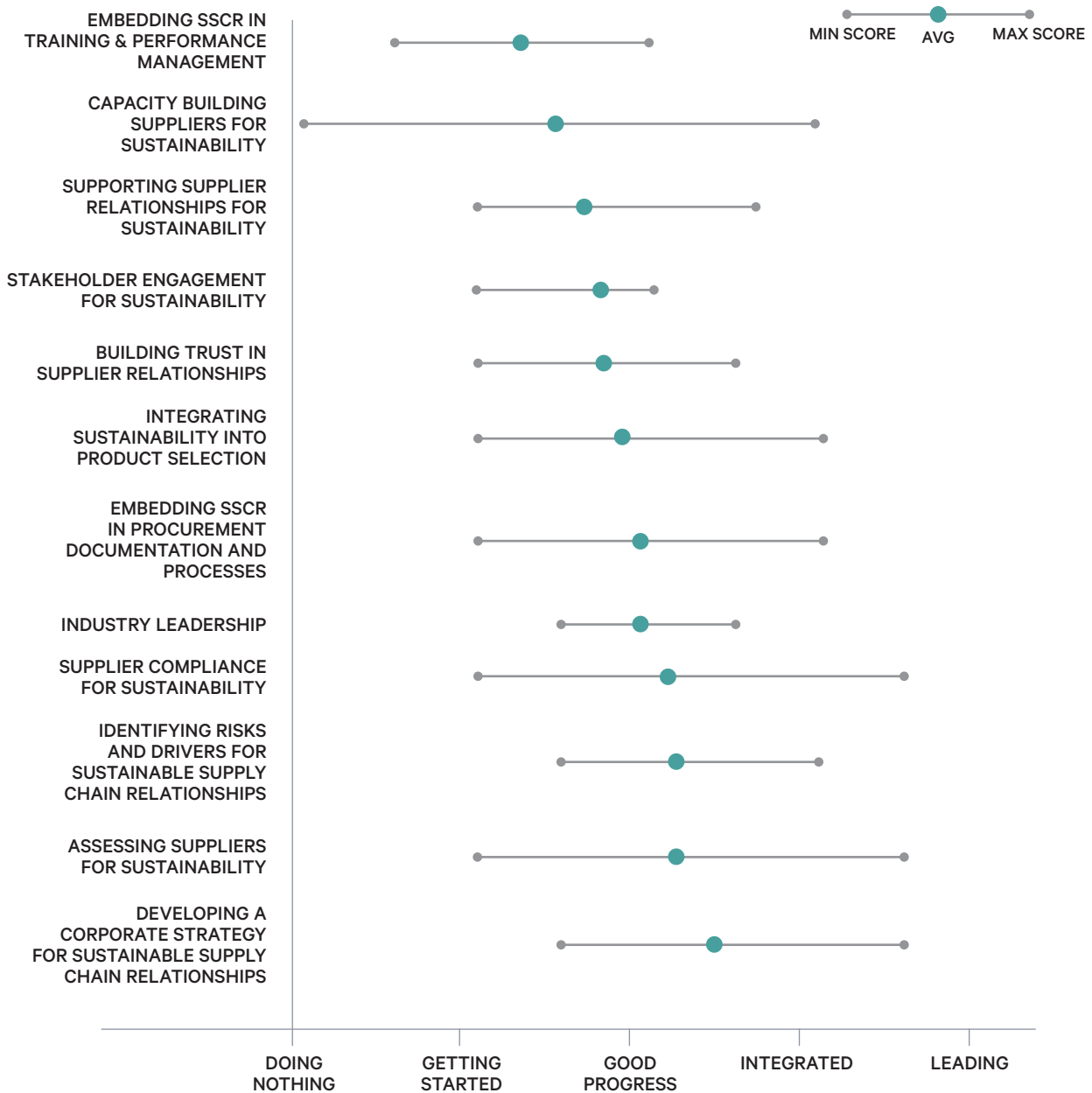


Figure 1: Average performance of all companies across performance criteria



## FEATURES OF SUSTAINABLE SUPPLY CHAIN RELATIONSHIPS

Table 1 below summarises the key features of sustainable supply chain relationships we have identified from our research, including the features present in the two companies assessed to be performing at the top end of the assessment framework (Coles and Woolworths Holdings).

**Table 1: Key features of sustainable supply chain relationships**

Features of success	Buying organisation benefits	Supplier organisation benefits	Industry transformation impact & examples
<b>Engagement of intermediary/ collaborating organisations e.g. SEDEX, FTA: Frequently first pass screening is undertaken in-house, supplemented by appraisal and audit by an independent specialist.</b>	<ul style="list-style-type: none"> <li>— Outsourced activity freeing up internal resources.</li> <li>— Enhanced risk management through engagement of specialists.</li> </ul>	<ul style="list-style-type: none"> <li>— One supplier audit for multiple buying organisations.</li> <li>— Specialist training is provided.</li> </ul>	<ul style="list-style-type: none"> <li>— Growth in engagement of intermediary organisations to aid in sustainable supply chain relationship management. e.g. <i>Costco and Wal-Mart are now transitioning to this model.</i></li> </ul>
<b>Financial support: Interest free loans to suppliers to support implementation of sustainability measures.</b>	<ul style="list-style-type: none"> <li>— Supplier commitment to buyer organisation to retrofit or update to meet audit requirements.</li> </ul>	<ul style="list-style-type: none"> <li>— Buyer commitment to supplier organisation for the long-term and incentive to invest in sustainability.</li> </ul>	<ul style="list-style-type: none"> <li>— Industry sector learning and transformation through creating exemplar supplier organisations. e.g. <i>Coles Australia Nurture Fund.</i></li> </ul>
<b>Long-term relationships.</b>	<ul style="list-style-type: none"> <li>— Continuity of supply at agreed price and increases over the contract term.</li> <li>— Opportunities to partner for product innovation.</li> <li>— Opportunities to work with supplier to implement sustainability measures.</li> </ul>	<ul style="list-style-type: none"> <li>— Long-term rather than transactional relationships<sup>2</sup> based predominantly on price, provide greater stability and certainty.</li> <li>— Incentive and certainty for suppliers to invest in long-term sustainability with continuity of trade and income.</li> </ul>	<ul style="list-style-type: none"> <li>— Assurance of long-term contribution to regional employment and growth. e.g. <i>Coles Sundrop 10-year contract; Woolworths SA Farming for the Future.</i></li> </ul>
<b>Private labels: Can include specialist sustainable offerings Fairtrade and other eco labels e.g. Marine Stewardship Council (MSC).</b>	<ul style="list-style-type: none"> <li>— Chain of custody assurance provides greater control over the supply chain.</li> <li>— Close relationship with suppliers creates innovation opportunities.</li> </ul>	<ul style="list-style-type: none"> <li>— Can supplement existing customers.</li> <li>— Opportunities to work closely with buying company to create specialist lines.</li> <li>— Frequently a long-term arrangement for a customised sustainability offering, thus delivering competitive advantage.</li> </ul>	<ul style="list-style-type: none"> <li>— Diffusion of and growth in ecolabels. e.g. <i>MSC Seafood for Coles; David Jones Ethical Sourcing Program for clothing.</i></li> </ul>

2. Arms-length relationships based on monetary/contractual transactions

Features of success	Buying organisation benefits	Supplier organisation benefits	Industry transformation impact & examples
<b>Collaborative approach to addressing adverse SSCM audit results.</b>	<ul style="list-style-type: none"> <li>— Where possible, working with existing suppliers to remediate, rather than terminating contracts strengthens relationships and supports long-term sustainability of supply.</li> </ul>	<ul style="list-style-type: none"> <li>— Suppliers are given support and time to remediate or rectify corrective action requests flowing from audits.</li> </ul>	<ul style="list-style-type: none"> <li>— Sector-wide sustainability improvements, especially related to issues such as child labour. e.g. <i>Approach adopted by SEDEX &amp; FTA.</i></li> </ul>
<b>Embedding SSCR in roles and responsibilities through training of buyer and supplier staff and performance management.</b>	<ul style="list-style-type: none"> <li>— All staff with an association/contact with suppliers can explain why it is important to their organisation and the supplier.</li> <li>— Sustainability is embedded in the organisational culture, including purchasing decisions.</li> <li>— SSCR roles and responsibilities clearly assigned and understood.</li> <li>— Sustainability positively incentivised.</li> </ul>	<ul style="list-style-type: none"> <li>— Supplier understands why sustainability is important to the relationship and how it can also benefit their business as a competitive advantage in securing other contracts.</li> <li>— Improves supplier ability to deliver on sustainability measures.</li> </ul>	<ul style="list-style-type: none"> <li>— Buyer and supplier are on the same page and contribute to sector-wide capacity building. e.g. <i>Clothing supplier provides training for Woolworths SA buying staff.</i></li> </ul>
<b>Supporting diversity in supplier base.</b>	<ul style="list-style-type: none"> <li>— Reputational benefits.</li> <li>— Extends supplier base, builds capacity in suppliers and diffuses sustainability impacts.</li> <li>— Access to specialist suppliers.</li> </ul>	<ul style="list-style-type: none"> <li>— Gives suppliers representing marginalised groups an opportunity to supply and a reference for additional tenders etc.</li> </ul>	<ul style="list-style-type: none"> <li>— Encourages support for marginalised suppliers. e.g. <i>Coles Indigenous Fund.</i></li> </ul>
<b>NGOs and stakeholder partnerships: Defined processes and fora, including contractual arrangements with trusted stakeholders.</b>	<ul style="list-style-type: none"> <li>— Gives buying organisation authenticity and credibility.</li> <li>— Access to independent sustainability expertise often with global experience.</li> </ul>	<ul style="list-style-type: none"> <li>— Imbues trust in buying organisation due to third party relationship.</li> </ul>	<ul style="list-style-type: none"> <li>— May increase uptake of third party, expert advice across the sector. e.g. <i>Woolworths South Africa and their partnership with WWF; Aldi's participation in Greenpeace Detox program.</i></li> </ul>
<b>Community engagement.</b>	<ul style="list-style-type: none"> <li>— Demonstrates an organisation's commitment to sustainable lifestyles through programs.</li> </ul>	<ul style="list-style-type: none"> <li>— Supplier's involvement in sustainability e.g. recycling and closed loop systems.</li> </ul>	<ul style="list-style-type: none"> <li>— <i>Woolworths SA's The Clothing Bank.</i></li> </ul>
<b>Deep engagement and regular communication with suppliers: To understand the supply chain, align goals and values.</b>	<ul style="list-style-type: none"> <li>— Better alignment with supply organisations.</li> <li>— Improved supply certainty and reduced friction with suppliers.</li> <li>— Improved feedback loops.</li> </ul>	<ul style="list-style-type: none"> <li>— Decreases the role of price in the buyer/supplier relationship.</li> <li>— Clarity on buyer expectations.</li> </ul>	<ul style="list-style-type: none"> <li>— <i>Woolworths South Africa and Imperial Logistics. Coles and broccoli producer.</i></li> </ul>

## ENABLERS OF SSCR

Figure 2 below summarises ‘Enablers of SSCR’ identified through literature review, interviews and company assessments undertaken for this project.

	From the literature	From this study
<b>External/context</b>	<ul style="list-style-type: none"> <li>— National culture &amp; identity</li> <li>— Cultural norms</li> <li>— Customer expectations/interest</li> <li>— Absence of corruption</li> <li>— Logistical integration</li> <li>— Good IT infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>— Alignment with international standards and codes of practice</li> <li>— National legislation (e.g. Modern Slavery Act)</li> <li>— Supplier diversity programs</li> <li>— Engagement of intermediaries or collaborating organisations such as SEDEX and Foreign Trade Association</li> <li>— Cross sector industry forums on product categories (e.g. palm oil, cotton etc)</li> <li>— NGO and stakeholder partnerships to progress sustainable products and work collaboratively with suppliers.</li> </ul>
<b>Organisational</b>	<ul style="list-style-type: none"> <li>— Strategic intent and history of sustainability (environmental &amp; social commitment, corporate history, commitment to quality products, company size and nationality, limited territoriality)</li> <li>— Internal alignment (senior management support, resources available, successful business, importance of purchasing role)</li> <li>— Relational orientation (purchaser training, supply management and innovation capability)</li> <li>— Relational specific investment (project leaders, capacity building of suppliers, sharing risks and rewards)</li> <li>— Free information flow and communications (information exchange &amp; joint communication)</li> <li>— Formalisation</li> </ul>	<ul style="list-style-type: none"> <li>— Capacity building for staff and suppliers</li> <li>— Defined roles and responsibility for SSCR and associated performance management systems and reporting</li> <li>— Access to specialist knowledge and financial assistance for suppliers (e.g. interest free loans to suppliers for upgrades)</li> <li>— Minimum standard specifications for sustainable products (e.g. eco label or equivalent)</li> <li>— Private labelled sustainable product ranges developed in collaboration with suppliers</li> <li>— Executive endorsement and board-level reporting</li> <li>— Sustainability embedded in procurement documentation and processes</li> <li>— Measuring sustainability of suppliers not by audit compliance and number of people trained but against indicators such as the Global Reporting Initiative (GRI) and training outcomes.</li> </ul>
<b>Behavioural</b>	<ul style="list-style-type: none"> <li>— Trust</li> <li>— Commitment</li> <li>— Mutuality/reciprocity</li> <li>— Joint goals</li> <li>— Mutual cooperation to resolve differences</li> <li>— Relational capabilities such as leadership and collaborative skills</li> <li>— Satisfaction</li> <li>— Power/agency/ self-determination</li> </ul>	<ul style="list-style-type: none"> <li>— Commitment to long-term supply relationships with equal power and respect</li> <li>— Deep engagement and regular communication with suppliers (to understand the supply chain, align goals and values and business plans)</li> <li>— Regular access to senior staff with delegation to make critical decisions</li> <li>— Documented dispute resolution process</li> <li>— Collaborative approach to addressing adverse supply chain audit results</li> <li>— Trust-based relationships can be more effective than transactional relationships in building sustainability in supply chains.</li> </ul>

Figure 2: Enablers of SSCR

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# 2. SSCR research overview and framework

## SUMMARY

This section provides a brief introduction to sustainable supply chain relationships (SSCR), and to how the research for this project was conducted, and introduces the assessment framework.

## SUSTAINABLE SUPPLY CHAIN RELATIONSHIPS

Increasingly, consumers are demanding transparent information regarding the ethical and environmental attributes of the products they purchase. The major proportion of a company's sustainability risks resides in its supply chain relationships. Exposure to supply chain risk can be detrimental to investor confidence and can potentially compromise the financial viability of a company. Organisations' efforts to improve their sustainability are reliant on their suppliers to deliver a sustainable value proposition. To address risks in the supply chain, it is imperative to have an open and collaborative relationship with suppliers.

Sustainable supply chain relationships form part of a broader domain referred to as Sustainable Supply Chain Management (SSCM) which can be described as *"the strategic, transparent integration and achievement of an organization's social, environmental and economic goals in the systemic coordination of key inter-organisational business processes for improving the long-term economic performance of the individual and its supply chain"* (Carter & Rogers 2008, p.368).

There is general agreement that a sustainable supplier relationship is underpinned by an assurance that the supplier respects human rights and health, protects the environment and conducts business activities in an ethical and legal manner. Maintaining effective supplier relationships is essential for a company committed to sustainability as part of its value proposition.

Research suggests that a supplier relationship based on a long-term commitment in a collaborative environment delivers mutual advantage and enduring results for competitive advantage and sustainable outcomes. To effectively promote sustainability in a supply chain requires engagement with both existing and new suppliers in collaborative relationships.

## METHODOLOGY OVERVIEW

The purpose of this research was to understand how companies are implementing sustainable supply chain relationships to address supply chain resilience and vulnerability, and to generate research insights on important issues for sustainable supply chain relationships more generally. We undertook a review of the literature on sustainable supply chain relationships and a desktop review of recent developments in the field.

We developed a performance assessment framework incorporating key criteria characterising best practice in sustainable supply chain relationships (see Section 1.4 below for an overview of the framework and Appendices A and B for further descriptions). The framework was tested with leading SSCM practitioners and industry experts.

Nine companies participated in the research to varying degrees and were assessed through a review of publicly available information, interviews and/or survey responses. Three suppliers were interviewed, plus five representatives from intermediary organisations.

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## REVIEW OF LITERATURE

We reviewed 14 academic papers, which were chosen from an initial list of 26 journal papers.

The two main themes of papers reviewed for this project include:

- 1) Relationships:** characteristics of buyer and supplier relationships, partnerships and collaboration
- 2) Measurement indicators:** sustainable supply chain performance measurement.

Within the relationships theme five clusters of topics emerged:

- a) supplier assessment and collaboration and their impact on sustainability performance
- b) benefits of partnerships and collaboration to suppliers and buyers
- c) trust in supply chain relationships
- d) relational contracting, behavioural precursors and resistors of collaboration
- e) theory of supply chains as complex adaptive systems.

These themes were incorporated in the sustainable supply chain relationships framework which we developed for this study.

## SUSTAINABLE SUPPLY CHAIN RELATIONSHIPS FRAMEWORK

Five major themes were identified as germane to creating and maintaining sustainable supply chain relationships, illustrated in Figure 3 below. Alongside each theme, five stages of progress were charted from doing nothing to leading (see Table 2 on the following page).

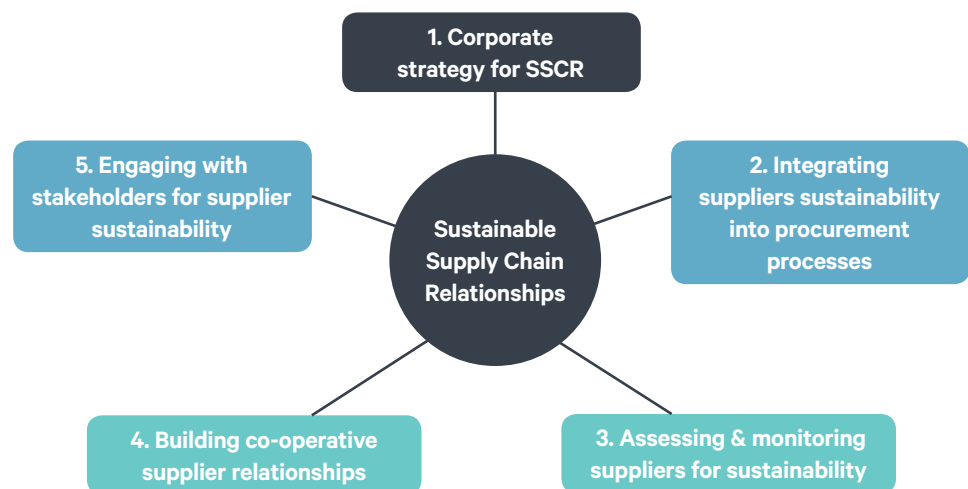


Figure 3: Sustainable supply chain criteria

**Table 2: Performance levels**

Score	Description
<b>4 – Leading</b>	Continuous improvement model, industry leadership, multiple stakeholder engagement, public reporting against goals and targets, independently validated. Remediation and collaborative approach to supplier audits.
<b>3 – Integrated</b>	Public reporting against goals and targets, integrated in organisational culture
<b>2 – Good progress</b>	Documented strategy with committed goals and targets
<b>1 – Getting started</b>	Ad hoc implementation
<b>0 – Doing nothing</b>	Sustainability not considered a risk

Below is a brief description of the key features of each criterion:

### 1. Corporate strategy for sustainable supply chain relationships

- The company identifies potential risks and opportunities in its supply chain relationships. Ideally this takes the form of a risk assessment to highlight which risks are material to a company's operations.
- The risk assessment should inform a corporate supply chain strategy, which is commonly linked to corporate sustainability goals in associated documents such as a sustainability report. Increasingly, buying organisations are developing policies that address environmental and social supply chain issues and associated goals and targets.
- Progress is monitored and independently assured.

### 2. Embedding SSCR into corporate processes

- Sustainable supply chain management (SSCM) is linked to the company's corporate sustainability program.
- There is a documented program that includes strategies, policies, goals, targets and actions and a continual review process to deliver SSCM.
- Senior management support and executive- and board-level sponsorship of program.
- There is documentation such as an ethical sourcing policy and associated tools such as self-assessment questionnaires, checklists and standard tender clauses.
- Optimally, all staff are trained in SSCR and it is integrated into the performance management system.
- Goals and progress against targets are publicly reported (e.g. GRI) and independently assured.
- Lifecycle assessment is undertaken on all key products.

### 3. Assessing and monitoring suppliers for sustainability

- Suppliers are engaged in the buying company's sustainable supply chain policies and requirements, including a supplier code of conduct and chain of custody requirements.
- Monitoring and compliance of suppliers against minimum standards may be carried out by a third party.
- Leading organisations are engaging with their entire supply chain beyond Tier 1 to understand more about the various inputs and raw materials they use, to improve transparency and traceability.
- The company is working with suppliers on remediation to rectify non-compliant audit issues rather than termination of supply arrangements would display a superior supplier relationship.

**4. Building cooperative supplier relationship for sustainability**

- Supplier relationships are characterised by long-term commitment, mutually agreed goals, transparency and openness to sharing risks and rewards. Moving beyond transactional supply arrangements to long-term contracts gives suppliers security to invest in upgrades and efficiencies, often for mutual benefit.
- Independent and confidential dispute resolution process are implemented.
- The company implements capacity building for suppliers through measures such as specialist training and access to experts and support initiatives such as interest free loans, paying for factory audits, creating incentives for suppliers representing marginalised groups and recognising and celebrating suppliers' achievements.
- The company engages with suppliers beyond Tier 1 to build trusting cooperative sustainable supply chains.
- The company communicates and engages with suppliers regularly.
- Supplier organisations conduct specialist training for buying and sourcing teams.
- The company shares goals and plans with supplier organisations to ensure mutual growth.

**5. Industry leadership and stakeholder engagement**

- The company engages in multi-sector collaboration to transform the sector, delivering net positive outcomes and circular economy principles.
- The company has partnerships with NGOs to provide specialist sustainability knowledge and guide environmental and social outcomes in product offerings and supplier relationships.
- The company has strategic alliances with stakeholder groups to assist in the promulgation of sustainable supplier relationships.
- The company collaborates with suppliers and other stakeholder groups to engage the community in sustainable lifestyle programs.

# 3. Company summaries

This section of the report presents summaries of the individual company assessments for nine companies:





# Big W

www.bigw.com.au

## Overall performance

### GOOD PROGRESS

#### Score based on:

- Partially completed survey
- Interview
- Publically available documentation.

#### Company description

Woolworths Limited trading as Big W.

#### Products and services

General merchandise retailer.

#### Countries where company operates:

Australia.

## KEY RECOMMENDATIONS FOR IMPROVEMENT

- Develop a measurement and reporting system on SSCR and report publicly on progress with third party validation
- Embed SSCR into procurement and sourcing documentation, staff training and performance management systems with goals, targets and reporting
- Extend training and capacity building for suppliers beyond Tier 1
- Consider mechanisms to build trust in supplier relationship e.g. interest free loans, free supplier audits, access to specialist advisers and supplier awards similar to Woolworths Supermarkets
- Consider working collaboratively with suppliers to implement corrective action requests as a result of non-compliance
- Build on existing industry engagement with labour rights forums and networks, extend to environmental considerations and consider broader engagement with environmental forums, including product categories associated with general merchandising e.g. cotton, plastics viscose leather etc.
- Engage with a wider range of industry sectors including government, NGOs and academia.

## COMMENTS ABOUT EACH CRITERION

### Identifying risks and drivers for sustainable supply chain relationships:

There is a group-wide strategy with clear targets and commitments for the business divisions. The group conducts risk assessment including internal and external stakeholder engagement, document review and issues analysis to develop priorities. The group is a signatory to the UN Global Compact and their sustainability reporting is based on the GRI framework. Labour rights in the supply chain and animal rights were identified as priority issues.

### Developing a corporate strategy for sustainable supply chain

**relationships:** Established ethical sourcing policy, which has a compliance audit program for factories making their own brand products. Third-party certification bodies conduct audits to rate factories as approved, conditionally approved or at risk. Factories at risk or that need critical corrective actions cannot start production for the company until these issues are resolved.

### Embedding SSCR in procurement documentation and processes:

We found limited evidence of SSCR being embedded in procurement documentation. As part of the Global Social Compliance Program, Woolworths will develop supporting guidelines, instruction on key risks, continual risk monitoring, clear governance, roles and accountabilities, supplier engagement, follow-up audits and regular reviews.

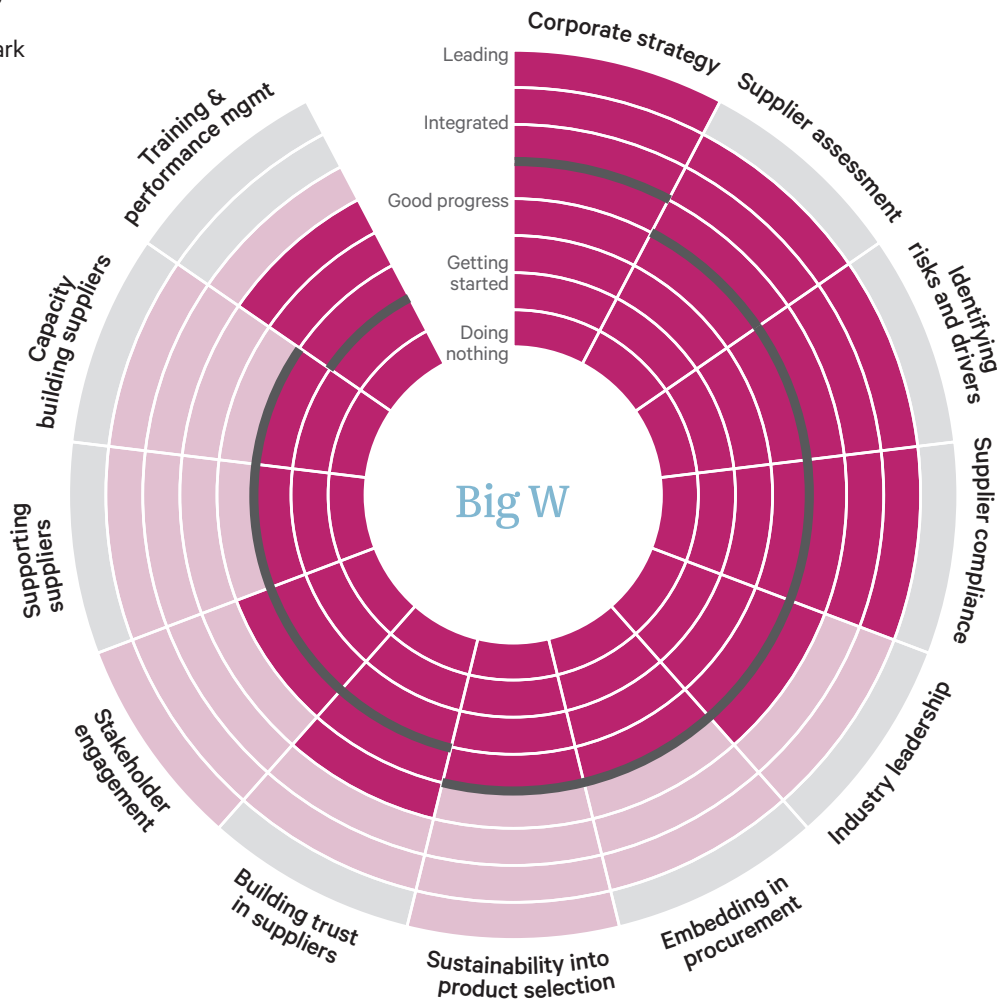
### Embedding SSCR in training and performance management:

All commercial and quality teams are trained in sustainable supply chain relationships. In addition, all staff responsible for factory audits are trained in bribery and corruption prevention.

**PERFORMANCE ON EACH SUSTAINABILITY CRITERIA**

CRITERIA KEY

- Company score
- Average
- Benchmark



**Integrating sustainability into product selection:** Zero tolerance for factories who do not have ethical treatment plants in washing and dyeing in apparel industries. Suppliers are asked not to use Uzbek cotton for the manufacturing of any own branded products. No animal testing on own branded products, including personal care and cosmetics products. Committed to not selling any products made from Angora wool due to the animal welfare concerns of the process of fibre removal from Angora rabbits.

**Assessing suppliers for sustainability:** Robust published documentation for supplier assessment with statistics published in CSR report. All Tier 1 suppliers assessed for sustainability. Plans to assess potential human rights risks through the full scope of the value chain: inside the organisation, in Tier 1 suppliers down to raw material suppliers, and also including distribution and warehousing.

**Supplier compliance for sustainability:** Comprehensive ethical sourcing compliance system. As part of a review, improvement areas for the compliance program will be identified through a gap analysis against the Global Social Compliance Program (GSCP) reference codes.

**Supporting supplier relationships for sustainability:** Big W plans to establish common platforms for discussion about, and development of, initiatives such as: developing resilience to climate impacts and sharing knowledge with suppliers on emissions reduction strategies and energy productivity improvements.

**Capacity building suppliers for sustainability:** Supply chain team has continued to focus on safety improvements to make sure that both new and existing suppliers comply with the company's ethical sourcing policy. This includes work with the Bangladesh Accord, where the company has achieved an overall company ranking of 99/206. Thirty per cent of Tier I suppliers are trained in sustainability.

**Building trust in supplier relationships:** Plans to introduce biannual supplier surveys. Big W understands that long-term relationships and co-development of products require transparency and mutually agreed contracts. Work with private label suppliers to focus on product development and sustainability. Documented grievance processes.

**Industry leadership:** Working collaboratively with suppliers and other retailers in Australia through the Australian Business Pledge against Forced Labour, and with the Consumer Goods Forum (CGF) in implementing a resolution to fight forced labour issues throughout global supply chains. Signatory to the United Nations Global Compact (UNCG).

**Stakeholder engagement for sustainability:** Worked with Walk Free Foundation, the Salvation Army and the Uniting Church to develop its Policy on Uzbek cotton. Strong charity links with Australian children's hospitals. Goal to invest the equivalent of 1% of a three-year rolling average of total Group Earnings Before Interest and Tax (EBIT) in community partnerships and programs.

**“Big W has committed to holding a supplier conference every six months. This will inform key suppliers with business plans, performance updates, and address any key issues from the Voice of the Supplier survey”**

Woolworths Group Corporate Responsibility Report 2017 p. 41

# Coles

www.coles.com.au

## Overall performance

### INTEGRATED/LEADING

#### Score based on:

- Interview
- Additional documents, annual reports, sustainability strategies etc.

#### Company description

Coles Supermarkets Australia Pty Ltd, trading as Coles, is an Australian supermarket chain owned by Wesfarmers.

#### Products and services

Food and liquor.

#### Countries where company operates:

Australia.

## KEY RECOMMENDATIONS FOR IMPROVEMENT

- Decouple Coles' sustainability targets and goals from Wesfarmers and report publicly on achievements/progress.
- Move towards examining net positive outcomes in supply chains.
- Continue plans to engage with suppliers beyond Tier 1 in the supply chain.
- Consider training all procurement staff in SSCR.

## COMMENTS ABOUT EACH CRITERION

### Identifying risks and drivers for sustainable supply chain relationships:

Both Coles and Wesfarmers undertake materiality assessments to understand their sustainability risks and opportunities. These assessments, undertaken in consultation with stakeholders, are aligned with the Global Reporting Initiative and United Nations' Sustainable Development Goals, and independently assured.

### Developing a corporate strategy for sustainable supply chain

**relationships:** (see Wesfarmers' Ethical Sourcing Policy and accompanying Coles Factsheet). Coles' Managing Director has overall responsibility for supply chain relationships and Coles' Head of Responsible Sourcing and Quality is the main sponsor for Coles Brand. Coles has specific policies regarding sustainability in the supply chain (e.g. ethical sourcing/palm oil/sustainable timber etc).

### Embedding SSCR in procurement documentation and processes:

In July 2016, Coles updated its Ethical Supplier Policy (first introduced in 2013) that applies to all suppliers (Coles Brand, including fresh). The new policy is aimed at ensuring that all suppliers are compliant with Coles' expectations on ethical sourcing. Coles' suppliers agree to comply with the Ethical Sourcing Policy in the terms and conditions of their contracts.

**Embedding SSCR in training and performance management:** Ethical sourcing training requirements delivered to category team members to ensure they understand ethical sourcing risks and the standards expected by their divisions. Cross-divisional ethical sourcing forum meets quarterly to share best practice and audit program outcomes, and ethical sourcing practices are reported regularly to the Audit and Risk Committee.

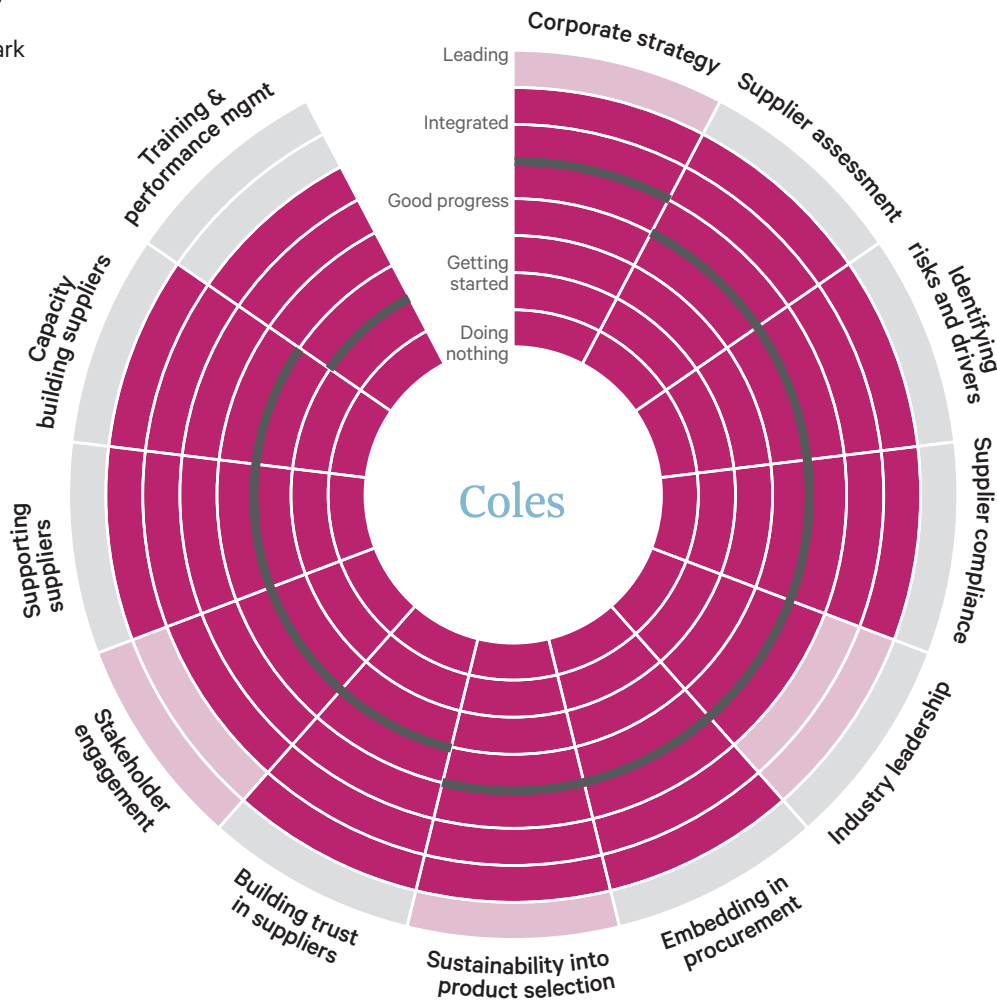
**Integrating sustainability into product selection:** Ethical and responsible sourcing requirements are integrated into product selection This includes the use where applicable of sustainable palm oil, certified timber and paper, and other products from certified sources (UTZ, Fairtrade and Rainforest Alliance). Coles Brand products include sow stall free pork, 100% Australian hormone free beef, cage free eggs, grass-fed beef, responsibly sourced seafood (fresh, frozen and canned).

**Assessing suppliers for sustainability:** Coles' Ethical Sourcing Policy and supporting information are available on its supplier portal. Should a supplier be unable to demonstrate a commitment to the ethical sourcing policy, Coles reserves the right to terminate its trading agreement.

**PERFORMANCE ON EACH SUSTAINABILITY CRITERIA**

CRITERIA KEY

- Company score
- Average
- Benchmark



**Supplier compliance for sustainability:** As part of meeting the requirements of the Ethical Sourcing Policy, direct Coles Brand and fresh suppliers must also register on SEDEX. Supplier sites complete an assessment and their rating then determines future auditing, monitoring and assessment requirements. Coles has committed that 90% of these supplier sites will have completed the required self-assessment by end of February 2018. It will then start to scope out going beyond tier one suppliers. Chain of custody requirements are also in place to enable Coles to verify claims (such as certified sustainable palm oil, timber, cocoa, tea, coffee, seafood or welfare claims).

**Supporting supplier relationships for sustainability:** The Coles Nurture Fund provides SMEs grants and interest-free loans to fund new market-leading products, technologies, systems and processes. Applicants do not have to be a current supplier and can apply for a grant or interest free loan of up to \$500k. The Coles Indigenous Food Fund promotes native bush foods and supports Indigenous enterprises. As part of the Farmers' Fund Milk eligible dairy farmers can apply for grants of up to \$10,000 for projects that improve the sustainability of their business.

**Capacity building suppliers for sustainability:** Proactively work with suppliers and producers to engage directly on responsible sourcing and ethical sourcing through forums such as the Agronomy Group. Various regional training sessions offered to grass-fed producers to improve livestock traceability on farm and supplier forums and roadshows also provide an opportunity to brief suppliers on sustainability and quality programs. 100% high risk food suppliers trained and audited through food safety audits which verify sustainability chain of custody programs.

**Building trust in supplier relationships:** Commitment to long term partnership arrangements. The Supplier Charter sets out what suppliers can expect when they work with Coles and a framework for dealing with suppliers with respect and transparency, and an independent and confidential dispute resolution process adjudicated by an independent arbiter. Coles engages with suppliers in many different forums and also hosts Annual Supplier Awards and Gala dinner.

**Industry leadership:** Representation and participation in numerous grocery sector groups and related groups pursuing sustainability including the Retail and Supplier Roundtable. Coles is a member of the Roundtable on Sustainable Palm Oil (RSPO). Coles is currently the only national retailer to have MSC and ASC chain of custody certified wet fish counters in Australia. Coles has supported seafood conservation and sustainability research trials undertaken with WWF Australia.

**Stakeholder engagement for sustainability:** Engagement with a wide range of stakeholders including industry bodies, research bodies and NGOs related to products including RSPCA Approved Farming, MSC, WWF Australia, UTZ. Coles has engaged and consulted NGOs, independent audit standard-setters, industry bodies, producers and universities to deliver verifiable improvements in sustainability.

**We recognise the importance of building strong, collaborative and wherever possible, long-term partnerships with our suppliers. Additionally, our Supplier Charter outlines a comprehensive framework for dealing with our suppliers with respect and transparency.**

Sourced from Coles website, August 2017

# Convenience Retail Asia (CRA)

www.cr-asia.com

## Overall performance

### GETTING STARTED

#### Score based on:

- Partially completed survey
- Review of documents including: CRA Environmental, Social and Governance Report 2016, CRA Code of Conduct and Business Ethics, CRA Supplier Code of Conduct.

#### Company description

Convenience Retail Asia Limited (CRA) is a listed retailing member of the Fung Group, operating a total of about 600 retail stores under the Circle K and the Saint Honore Cake Shop brands.

#### Products and services

Circle K brand is one of the fastest-growing convenience store brands worldwide, for convenience retailing in Hong Kong, Macao and on the Chinese Mainland. Saint Honore Cake Shop is a well-established bakery chain in Hong Kong, Macao and the Pearl River Delta.

#### Countries where company operates:

CRA is a Hong Kong-based company with operations in Hong Kong, Macao and Mainland China (the Pearl River Delta).

## OVERALL PERFORMANCE

CRA has taken some initial steps to implement sustainable supply chain relationships. They have demonstrated a public commitment to pursuing their environmental, social and governance (ESG) agenda with suppliers and they have put in place a Supplier Code of Conduct outlining labour practices, ethical conduct, safe places to work, environmental protection and responsibility, transparency and accountability. It is not clear that SSCR is deeply embedded in operations and CRA acknowledges that the company is in the early stages of implementing SSCR.

### KEY RECOMMENDATIONS FOR IMPROVEMENT:

- Documentation shows evidence of commitment to sustainability in supply chains. The next step will be to develop a detailed sustainable supply chain management strategy, policy and action plans.
- The strategy can then be embedded in training and procurement mechanisms.
- The company has a compliance-based regime which is passed on to suppliers. Over time this can be shifted to mutual cooperation, shared goals, and targets developed with suppliers to incorporate sustainability into their operations and product offerings, and support for suppliers in implementing sustainability.

## COMMENTS ABOUT EACH CRITERION

### Identifying risks and drivers for sustainable supply chain relationships:

Motivators have been identified for sustainable supply chain relationships and there is evidence of a commitment to managing risks, for example through public reporting. No evidence was provided of systematic processes to assess environmental or social risks in the supply chain.

### Developing a corporate strategy for sustainable supply chain

**relationships:** Supply chain management objectives are documented in the company's ESG report. There is evidence of senior management commitment to the company's overall sustainability agenda.

### Embedding SSCR in procurement documentation and processes:

The company's approach to SSCR is starting from a strong compliance base with suppliers. CRA's Supplier Code of Conduct includes aspects of social and environmental responsibility. It is unclear whether/how this is systematically applied.

**Embedding SSCR in training and performance management:** There is some evidence of training at a high level only, and insufficient information available to assess performance for this criterion further.

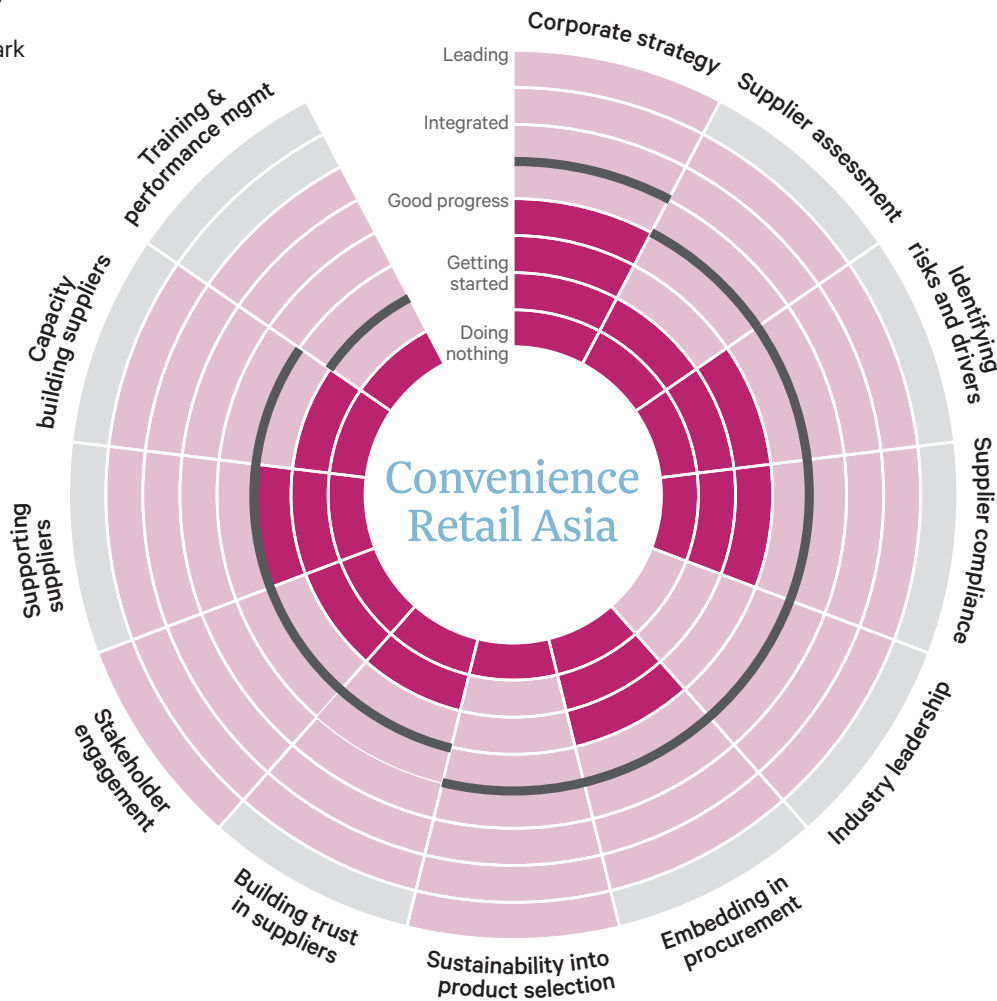
**Integrating sustainability into product selection:** There was insufficient information available to adequately assess performance for this criterion, beyond the existence of the Supplier Code of Conduct.

**Assessing suppliers for sustainability:** There was insufficient information available to adequately assess performance for this criterion, beyond the existence of the Supplier Code of Conduct.

**PERFORMANCE ON EACH SUSTAINABILITY CRITERIA**

CRITERIA KEY

- Company score
- Average
- Benchmark



**Supplier compliance for sustainability:** Suppliers are requested to adhere to CRA's Supplier Code of Conduct and there is some evidence of worksite audits.

**Supporting supplier relationships for sustainability:** Sustainability is discussed at supplier meetings.

**Capacity building suppliers for sustainability:** Some evidence of training was provided but there is insufficient information available to assess performance for this criterion further.

**Building trust in supplier relationships:** There is some evidence of awareness of the benefits of building trust in supply chain relationships. CRA is actively engaging with suppliers, building relationships and supporting mutual learning.

**Industry leadership:** No information was provided to enable assessment against this criterion.

**Stakeholder engagement for sustainability:** CRA has formed an association with HK Recycles to work on recycling of paper, plastic, metals and glass and data to track performance.



# Grupo Éxito

www.grupoexito.com.co

## Overall performance

### GOOD PROGRESS/INTEGRATED

#### Score based on:

- Fully completed survey
- Review of documents including: ethics charter, goods and services buyers training assistance document, materiality analysis report, corporate annual report.

#### Company description

Grupo Éxito is engaged in the operation of grocery stores, supermarkets and supermarket warehouses in Colombia. Founded in 1949, it is presently listed as the number one retail and food company in Colombia, Uruguay and the Cordoba region of Argentina. It is listed as the second-largest company in electronic and non-food goods in Brazil.

#### Products and services

The company offers a wide range of products such as dry goods, apparel and accessories, food, drug and liquor. The company also provides a range of financial services including credit cards, e-retail services, travel, insurance and mobile services. It owns and operates a chain of warehouses, supermarkets and distribution centres in 35 Colombian municipalities.

#### Countries where company operates:

Colombia, Uruguay, Argentina and Brazil.

## OVERALL PERFORMANCE

Grupo Éxito has implemented an ethics charter that covers many dimensions of SSCR. Elements within the charter include provisions to address the environment, forced labour, slavery, minimum wages, hazardous materials, climate change, and corruption. Grupo Éxito requires all suppliers to sign this charter before they are able to do business with the company. The charter is enforced through supplier audits. Éxito is a member of a range of groups and industrial bodies that aim to improve the sustainability of supply chains. The company has started to work closely with suppliers and stakeholders but has not yet developed comprehensive shared sustainability goals and targets.

## KEY RECOMMENDATIONS FOR IMPROVEMENT

- Life-cycle analysis could be used as an additional information source for major product categories to assist in the selection of products with superior sustainability performance, particularly when considering emissions, energy and water.
- Éxito could work more with its suppliers to set shared sustainability targets and build capacity by providing support and incentives. The company could publicly communicate progress against sustainability targets.
- Éxito could work more closely with stakeholders, particularly NGOs, government bodies and charities to establish goals and targets for reporting and informing improved SSCR.

## COMMENTS ABOUT EACH CRITERION

### Identifying risks and drivers for sustainable supply chain relationships:

Grupo Éxito has identified that climate change poses material risks to the business and has begun reporting on these risks within its annual reports using a risk correlation matrix. Éxito has also implemented a company-wide ethical charter to communicate and uphold ethical standards and reduce reputational risks.

### Developing a corporate strategy for sustainable supply chain relationships:

The company publicly reports its progress towards its goals through its corporate annual report. Grupo Éxito has an active sustainability committee and specialist sustainability representation on the board of directors. Senior staff are expected to promote and sponsor developments in sustainable supply chain relationships.

### Embedding SSCR in procurement documentation and processes:

The company has developed an ethics charter to communicate sustainable supply chain practices to its suppliers. The company is aiming for all suppliers to start signing onto the charter this year (2017) with the aim of having all suppliers signed up by the end of 2018.

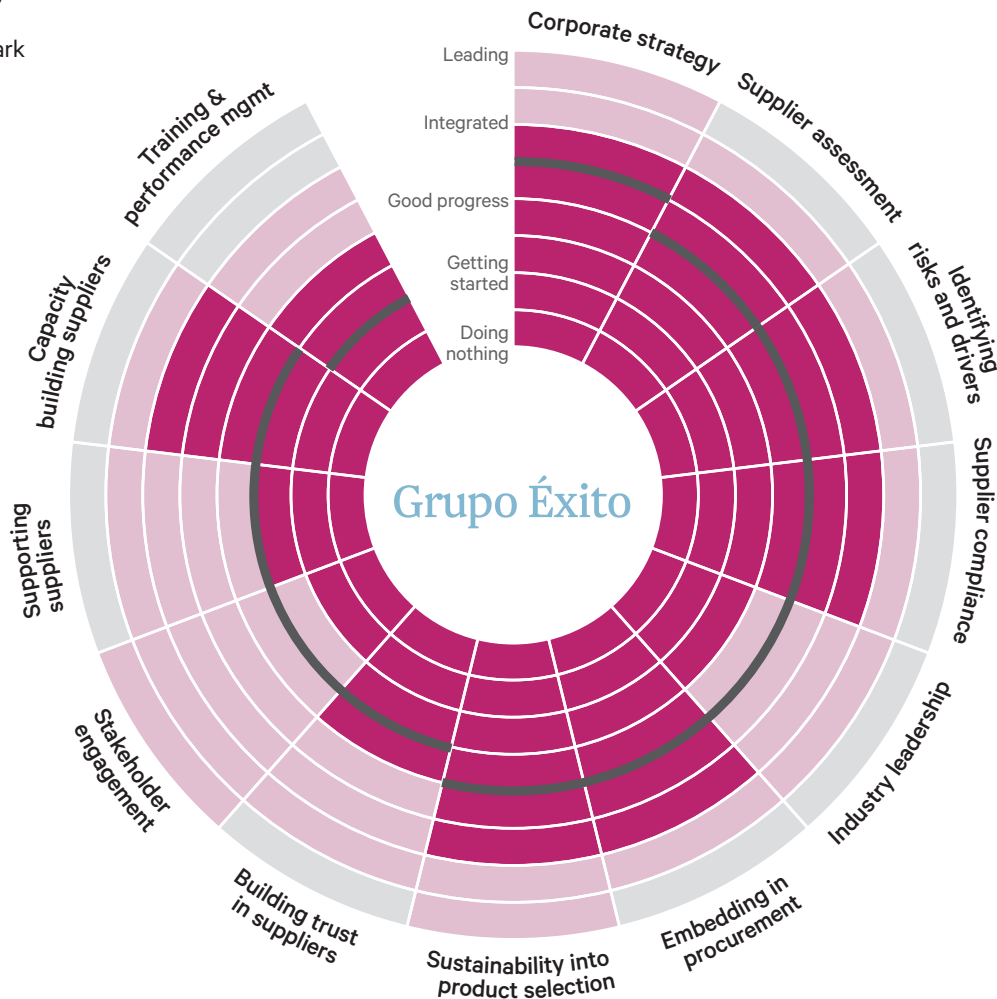
### Embedding SSCR in training and performance management:

All buyers are trained to understand the ethical charter. No evidence was provided of ongoing training for staff, or of SSCR being included in current job descriptions.

**PERFORMANCE ON EACH SUSTAINABILITY CRITERIA**

CRITERIA KEY

- Company score
- Average
- Benchmark



**Integrating sustainability into product selection:** Grupo Éxito undertakes regular risk reporting and now requires all supplier companies to sign the ethical charter. If a company does not sign the charter they cannot be a supplier to Éxito. No evidence was provided of life-cycle assessments on its products.

**Assessing suppliers for sustainability:** All Tier 1 companies are expected to sign the Grupo Éxito ethics charter. The company did not provide evidence that it is conducting in-house lifecycle assessments of major product categories.

**Supplier compliance for sustainability:** Grupo Éxito undertakes sustainability audits of its suppliers, and if a company does not pass the sustainability audit, then the contract with the supplier is terminated. Éxito conducts audits of all direct (Tier 1) suppliers and of both private label and No Brand suppliers. The company also audits the factories of traders of both private label and no brand labels (Tier 2). No evidence was provided to show that audit information is reported publicly, or that targets are in place to help suppliers to improve their sustainability performance. The company has set a target to audit all suppliers by 2018.

**Supporting supplier relationships for sustainability:** Éxito has implemented a reward system to recognise suppliers that have good sustainability practices – the “Éxito Suppliers Competition”. No evidence was provided to suggest that Éxito staff are available to assist suppliers to develop their sustainability strategies.

**Capacity building suppliers for sustainability:** Éxito has implemented a series of workshops with suppliers around the principles of the United Nations Global Compact. Suppliers are invited annually to learn about current sustainability issues. This year the workshops are targeted at implementing the Sustainable Development Goals.

**Building trust in supplier relationships:** Éxito aims to build strong supplier relationships through agreements that establish win-win relationships. The company has implemented a sustainability challenge called “promoting sustainable trade” with a focus on developing partners and suppliers, and each company is asked to provide a representative to attend these sessions.

**Industry leadership:** Éxito has engaged with a range of forums and industry groups to promote a sustainability agenda. These organisations include the Consumer Goods Forum, the Trade Facilitation Agreement, TFT (Transforming supply chains for people and nature), and Initiative Clause Social (ICS).

**Stakeholder engagement for sustainability:** Through the materiality analysis report, all stakeholders must state relevant issues that the company must manage along the supply chain. This is achieved through interviews with various stakeholders along the supply chain. These include NGOs, government, suppliers and clients. Éxito has also signed cooperation agreements with WWF. Éxito engages with stakeholders under the principle of mutual work relationships and trust with all stakeholders. The company falls short of having shared goals with stakeholders and did not show progress towards publicly reporting against goals and targets.

“We promote sustainable business to establish relations of value with our suppliers and partners by buying local products directly, promoting sustainable practices, and providing support programs.”

Interview with Grupo Éxito

# Company A

## Overall performance PROGRESS TOWARDS GETTING STARTED

### Score based on:

- Partially completed survey
- Company 2015 Annual Report and website.

### Company description

This company requested to remain unidentified in this study. It is a large retailer.

### Products and services

This information is not included to protect the company identity.

### Countries where company operates:

This information is not included to protect the company identity.

## OVERALL PERFORMANCE

The low score for Company A indicates that the company is at an early stage of awareness about sustainable supply chain relationships. Company A demonstrates awareness of the need to manage social and environmental sustainability within its supply chains in information on its website. However, Company A's survey responses indicate that the context of a government-controlled planned economy creates the expectation that sustainability is the responsibility of the government authorities. A trading law which came into effect in 2010, regulates retailer-supplier relationship terms of trade. The law does not stipulate sustainability terms or criteria. Therefore, government regulations create a major constraint on sustainable supply chain relationships for retailers like Company A in government-controlled planned economies.

## KEY RECOMMENDATIONS FOR IMPROVEMENT

- Company A has significant opportunity to provide leadership in drawing attention to sustainability in supply chain relationships through leading by example.
- Company A also has the capacity, through its leadership, to establish a corporate strategy for sustainable supply chain relationships, and to work with government to include sustainable supply chain issues in future regulations.
- Company A may benefit from learning about international best practice cases in sustainable supply chain relationship management.

## COMMENTS ABOUT EACH CRITERION

The information provided in the survey was not sufficient to make comments regarding most of the criteria in the framework. However, additional information is provided below from company reports and contextual research regarding current trade laws in Company A's country.

### Identifying risks and drivers for sustainable supply chain relationships:

The survey revealed that risk is only considered in Company A's own operations and not for the supply chain and not in relation to environmental and social risks. Responsibility for risks is perceived to lie with government authorities. Company A relies on legislation and regulations to manage social and environmental risks within the supply chain. There is currently a very narrow perception of responsibility for sustainability in the supply chain by the retailer. Supply chain risk assessments are not considered a high priority by Company A but may be in the future.

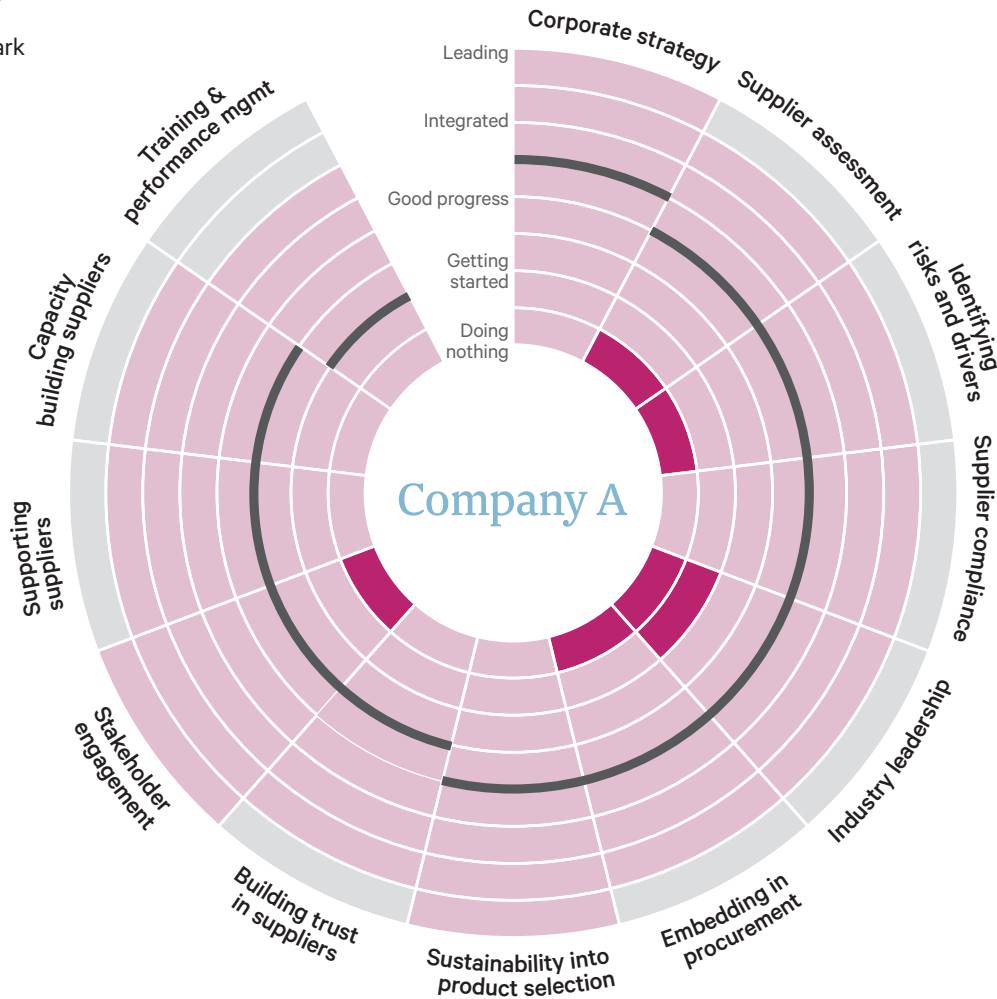
**Industry leadership:** Company A participates in an industry initiative and collaborates with industry partners, but currently not on sustainability issues.

**Stakeholder engagement for sustainability:** The company is building collaboration between government and retailers and is beginning to engage with stakeholder groups, but not specifically on sustainability issues in the supply chain.

**PERFORMANCE ON EACH SUSTAINABILITY CRITERIA**

CRITERIA KEY

- Company score
- Average
- Benchmark



**Additional information from company documents and website:** A key Company A document mentions social and environmental responsibility and outlines a social and environmental policy but does not mention supply chain management.

**The company’s relationship with suppliers currently seems to focus on product quality risks.** This is demonstrated by an extensive risk assessment which identifies the risk of harm to consumers’ lives and health from the quality of products sold at Company A stores as the material liability of the suppliers. The suppliers’ responsibility is balanced with the recognition that Company A needs to observe the necessary storage conditions to maintain safety standards and product quality. These terms are stipulated in the agreements signed with the majority of suppliers. The main concern of the company is about loss of reputation and market share from any cases where the quality of supplier products is challenged by consumers. It seems that sustainability is currently not included in the supplier agreements.

# Metcash

www.metcash.com

## Overall performance

### GETTING STARTED

#### Score based on:

- Interview with Metcash Manager Corporate Responsibility
- Review of Metcash website, Sustainable Supply Chain Policy and Supplier Questionnaire, 2016 Annual Report.

#### Company description

Metcash is Australia's leading wholesale distribution and marketing company. It specialises in groceries, fresh food, liquor and hardware. Metcash has 3 internal divisions, or business pillars, each operating in a distinct wholesaling industry segment: Metcash Food & Grocery, Australian Liquor Marketers, and the Independent Hardware Group.

#### Products and services

Metcash's customers are predominantly independently owned grocery and liquor stores, but also include hardware stores which operate under their portfolio of brands including: IGA, Mitre 10, and Cellarbrations.

#### Countries where company operates:

Metcash's main country of operation is Australia. Metcash Export Services operates from IGA Distribution's warehouse in Queensland, Australia and covers the Southern and Central Pacific, China, Hong Kong, Singapore, Brunei, Malaysia and the Philippines

## OVERALL PERFORMANCE

Metcash has made good efforts to introduce sustainable supply chain relationships, for example, through a Sustainable Supply Chain Supplier Questionnaire. However, implementation to date has been inconsistent. The private label brand Community Co has been launched with a focus on sustainability. There is now a coordinated initiative to improve supply chain sustainability and it is expected that performance will steadily improve over the next few years as new policies are rolled out.

### KEY RECOMMENDATIONS FOR IMPROVEMENT

- To date, Metcash's commitment to and implementation of SSCR has been patchy. The development of the CSR framework and related policies and procedures should go a long way to improving Metcash's SSCR performance. The next stage will be ensuring that it is embedded across all aspects of the business, including procurement processes and documentation, staff training etc.
- Metcash has made good progress in implementing SSCR across its suppliers for the Community Co brand. The learnings from this process can now be applied to other brands such as the Black and Gold label.
- Metcash is attempting to leverage relationships with large Tier 1 suppliers, such as Unilever, that are already advanced in SSCR. This is a sensible strategy and the next stage will be to ensure that sustainability requirements are embedded in Tier 2 suppliers and beyond, including Metcash supporting smaller suppliers in implementing sustainability measures where possible.
- Involving stakeholders such as NGOs at an early stage would be helpful to ensure that Metcash is identifying and addressing all relevant environmental and social risks.

### COMMENTS ABOUT EACH CRITERION

#### Identifying risks and drivers for sustainable supply chain relationships:

There is a risk identification process in place, risks and drivers are understood and basic risks have been identified. More robust frameworks, processes and procedures are under development.

#### Developing a corporate strategy for sustainable supply chain

**relationships:** The company has put significant effort into developing the Community Co label. A comprehensive SSCM is currently under development.

#### Embedding SSCR in procurement documentation and processes:

There is a commitment to developing sustainable supplier relationship documentation and amending procurement processes. Sustainability criteria have been applied in a selection of Community Co suppliers.

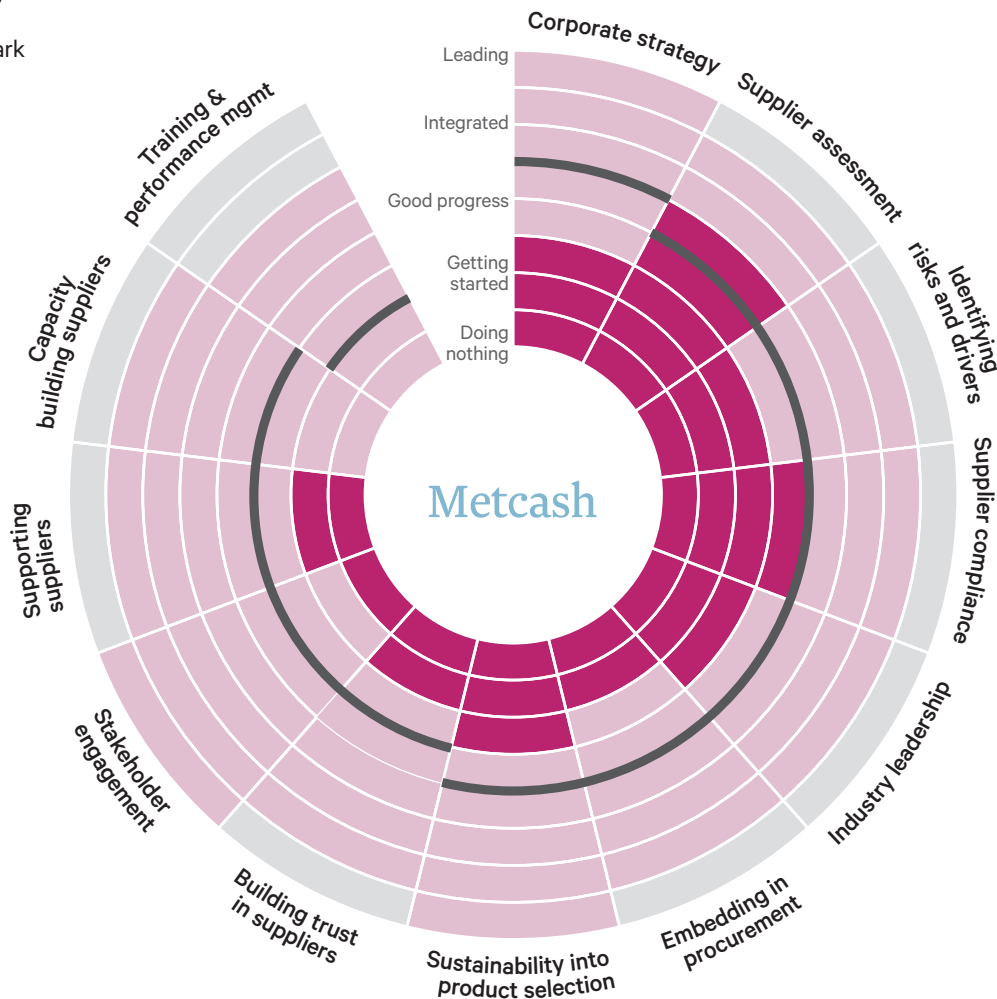
#### Embedding SSCR in training and performance management:

Sustainability is currently not included in supply chain training or performance management systems.

**PERFORMANCE ON EACH SUSTAINABILITY CRITERIA**

CRITERIA KEY

- Company score
- Average
- Benchmark



**Integrating sustainability into product selection:** Limited sustainability criteria are included in specifications e.g. packaging. There are more detailed requirements for the Community Co label and more rigorous criteria are being developed.

**Assessing suppliers for sustainability:** This is Metcash’s current area of best performance. All Tier 1 suppliers are assessed against criteria through the supplier questionnaire, but scrutiny of responses has been inconsistent. More rigorous scrutiny has been applied to Community Co label products. The process is being streamlined and strengthened.

**Supplier compliance for sustainability:** There is a program of compliance monitoring in place for Tier 1 suppliers via a review of annual questionnaires. Negative screening has been applied to suppliers in some instances. There has been a focus on areas of higher risk rather than comprehensive in-depth monitoring. To date the focus for upstream suppliers has been on Community Co products rather than all products.

**Supporting supplier relationships for sustainability:** Sustainability is discussed with suppliers. Metcash is considering how it can leverage support from their Tier 1 suppliers who are already advanced in SSCR.

**Capacity building suppliers for sustainability:** There has been no training to date for suppliers to build capacity for sustainability.

**Building trust in supplier relationships:** There is awareness of the benefits of building trust in supply chain relationships and an intention to engage further on this. The company is moving towards greater transparency in its supplier relationships.

**Industry leadership:** Metcash participates in some industry working groups and multi-sector groups to progress SSCR, such as the Roundtable on Sustainable Palm Oil.

**Stakeholder engagement for sustainability:** Stakeholder groups have been identified to assist in progressing sustainable supply chain relationships but are not yet formally engaged.

**“Being pro-choice, pro-labelling, pro-practical and working toward improved social and environmental industry standards is integral to our goal of achieving value for money while making a sustainable contribution to society.”**

Metcash Sustainable Supply Chain Policy

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# Company B

## Overall performance

### GETTING STARTED/GOOD PROGRESS

#### Score based on:

- Partially completed survey, completed by the General Manager Sustainability
- Documents including website, Annual and Sustainability Reports.

#### Company description

Company B requested to remain unidentified for this study. It is a large retailer.

#### Products and services

This information is not included to protect the company identity.

#### Countries where company operates:

This information is not included to protect the company identity.

## OVERALL PERFORMANCE

The low score for Company B against the framework indicates that the company may be at an early stage of incorporating sustainability concerns and long-term thinking into supplier relationships. While the company has a comprehensive corporate sustainability strategy that addresses supply chain issues, it does not seem confident in its performance in sustainable supply chain relationships. The company did not complete the survey fully and did not want to be interviewed as they are planning more supply chain activities within the next three years. While the company scored highly in some areas such as industry leadership and stakeholder engagement, they scored poorly in areas such as building cooperative supplier relationships for sustainability.

## KEY RECOMMENDATIONS FOR IMPROVEMENT

- Company B has solid foundations for progressing sustainable supply chain relationships and will implement planned supply chain activities over the next three years.
- The company has a strong leadership commitment to sustainability and could improve its engagement with its staff and suppliers on building sustainable supply chain relationships.
- Alignment between the publicly available information on sustainability initiatives and actual practice in supply chain relationships would enhance the company's transparency. This is likely to occur when the planned supply chain initiatives have been implemented.

## COMMENTS ABOUT EACH CRITERION

Answers were provided to most of the survey questions, however questions had very little information or no response. This limits the conclusions that can be drawn from the survey. However, a review of the survey together with the company's public documents provides some insights.

### Identifying risks and drivers for sustainable supply chain relationships:

Company B's approach to supply chain relationships involves the company assessing environmental risks only on a selected range and currently it does not assess social risks in the supply chain. The company is motivated by regulatory and reputational pressures to consider risks in the supply chain but has plans to consider a broader set of supply chain risks in the next three years. The company does not currently measure supply chain risks and identified financial constraints as barriers to implementing social and environmental sustainability initiatives in the supply chain, and to auditing suppliers. One of Company B's documents highlights the importance of risks in supply chains and includes commitments to supply chain sustainability.

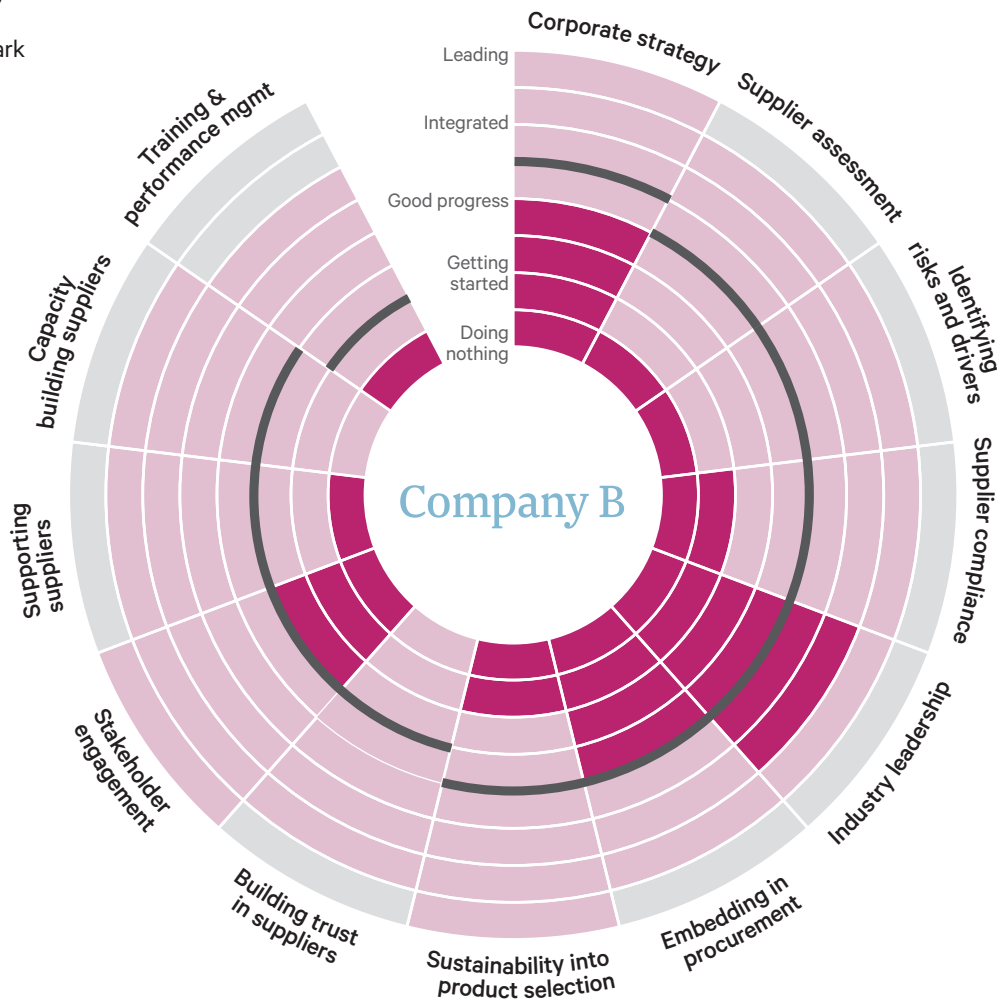
### Developing a corporate strategy for sustainable supply chain

**relationships:** A core company document includes the consideration of sustainability issues in supply chains. There is senior executive involvement in a wider industry supply chain initiative.

**PERFORMANCE ON EACH SUSTAINABILITY CRITERIA**

CRITERIA KEY

- Company score
- Average
- Benchmark



**Embedding SSCR in procurement documentation and processes:** Sustainability and ethical sourcing are integrated into supply chain management through a code of ethics which outlines environmental and ethical requirements that suppliers have to commit to.

**Embedding SSCR in training and performance management:** Company B currently has trained all procurement staff in the ethical trading requirements that suppliers have to commit to, but the company does not yet provide more comprehensive sustainable supply chain relationship training. The company is planning to do so within the next three years.

**Integrating sustainability into product selection:** The company sources a large number of fair trade products but does not currently have specifications for product life cycle assessments.

**Assessing suppliers for sustainability:** The company does not currently assess Tier 1 suppliers for sustainability integration, but it use suppliers certified under a good practice scheme.

**Supplier compliance for sustainability:** Company B is aware that assessing suppliers for ongoing compliance against sustainability criteria is important and the company intends to implement such assessments within the next three years. All private label suppliers are audited on specific issues. Ethical audits for Company B are conducted by a third party organisation.

**Supporting supplier relationships for sustainability:** There is also an awareness of the importance of sustainability in the supply chains of Tier 2 and 3 suppliers, but there are currently no formal processes of engagement in place.

**Capacity building suppliers for sustainability:** Insufficient information to assess.

**Building trust in supplier relationships:** Insufficient information to assess.

**Industry leadership:** Company B performed best on this criterion due to industry engagement.

**Stakeholder engagement for sustainability:** The company also performed well in stakeholder engagement due to the company being instrumental in forming associations with NGOs and governments to progress sustainable supply chain relationships.

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# Woolworths Holdings Ltd

www.woolworths.co.za

## Overall performance

### INTEGRATED/LEADING

#### Score based on:

- Fully completed survey
- Interview with Sustainability Manager
- Additional documents, annual reports, sustainability strategies etc.

#### Company description

The WHL Group is a South Africa-based retailer founded in 1931 with operations across the Southern hemisphere, including Australia. It is one of the top 40 companies listed on the JSE Limited Securities Exchange. The Group has three major operating divisions:

- Woolworths,
- David Jones and
- the Country Road Group.

#### Products and services

WHL is a largely private label retail group selling food, clothing, homeware and beauty products.

#### Countries where company operates:

South Africa, sub-Saharan Africa and Australasia.

## KEY RECOMMENDATIONS FOR IMPROVEMENT

- Move towards examining net positive outcomes in supply chains.
- Engage with suppliers beyond Tier 1.
- Improve baseline data, especially in clothing.
- Consider further exploration of net positive impacts in supply chains.
- Implement a continuous improvement program for sustainable supply chains to review systems and documentation.
- Increase the percentage of procurement staff trained in SSCR.
- Extend training and capacity building for suppliers beyond T1 suppliers.
- Replicate programs pioneered in South Africa in Australian brands e.g. Bags4Good, Farming for the Future.
- Explore supporting Australian Indigenous suppliers in a similar way to the Black Economic Empowerment (BEE) program in South Africa.
- Build on existing innovative programs such as The Clothing Bank Program to develop closed loop commodity programs.

## COMMENTS ABOUT EACH CRITERION

### Identifying risks and drivers for sustainable supply chain relationships:

Robust processes, including a risk assessment to identify and respond to sustainability and supply chain risk aligned to GRI and independently assured. Working towards net positive impacts in the company's supply chains.

### Developing a corporate strategy for sustainable supply chain

**relationships:** Documented policy, procedures and reporting regime along with board and executive support for implementation including an Ethical Trade Position Statement. Specific responsible commodity sourcing and sustainable supply chain targets. Detailed metrics on sustainability targets. Individual strategies for social development, health and wellness, ethical sourcing, sustainable farming, waste, water and energy.

### Embedding SSCR in procurement documentation and processes:

Centralised procurement function with associated documentation and targets and ethical assessments for suppliers. There is a strong response to sustainability where environmental and BEE criteria account for 26% of procurement assessment. Program of continuous improvement not noted.

### Embedding SSCR in training and performance management:

**SSCR** training for procurement staff and sourcing and technology teams in the business units. Small proportion of procurement staff trained in SSCR (5%). SSCR included in performance management system under broader sustainability weighting.

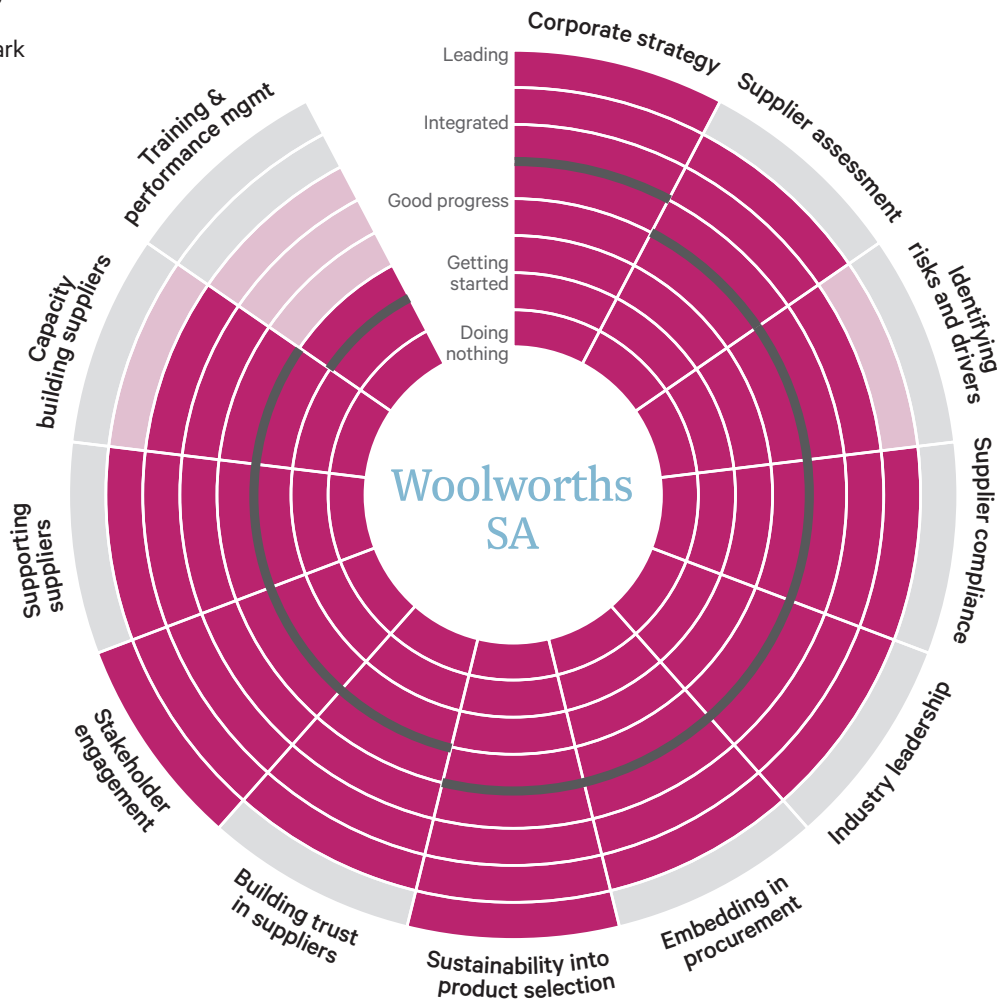
### Integrating sustainability into product selection:

Life Cycle Assessments done for key product categories in conjunction with WWF-SA. Numerous examples of sustainable products including Kinder to Sows, Spent Cows, Fishing for the Future, Farming for the Future, Bags4Good and Beads4Good.

**PERFORMANCE ON EACH SUSTAINABILITY CRITERIA**

CRITERIA KEY

- Company score
- Average
- Benchmark



**Assessing suppliers for sustainability:** All Tier 1 suppliers assessed. Beyond T1 suppliers – 30% assessment. For suppliers that are part of Farming for the Future, they conduct assessment of Tier 1 and Tier 2 suppliers.

**Supplier compliance for sustainability:** All suppliers are monitored for compliance against Woolworths Code of Business Principles. Some work with Tier 2 Suppliers.

**Supporting supplier relationships for sustainability:** Targeted support program for suppliers predominantly in agricultural sector by paying for farming audits. Supplier and Enterprise Development (SED) tool to encourage black owned businesses to enter the supply chain, build and maintain business sustainability.

**Capacity building suppliers for sustainability:** Targeted capacity building for suppliers, especially smaller ones. 80% of Tier 1 and 30% of Tier 2 suppliers are trained in sustainable supply chain issues. Consultative audits for agriculture/agricultural extension.

**Building trust in supplier relationships:** Understanding that long-term relationships and co-development of products require transparency and mutually agreed contracts. Work with private label suppliers to focus on product development and sustainability. Documented grievance processes.

**Industry leadership:** Broad engagement and leadership in key industry groups associated with sustainability. Member of groups working on responsible commodities strategies internationally e.g. BCI Cotton, Viscose. Engaging customers in sustainability through clothing recycling programs e.g. The Clothing Bank Program.

**Stakeholder engagement for sustainability:** Diverse documented stakeholders, including customers, suppliers, communities, business partners, employees, unions, NGOs, academia, industry bodies, government, regulators, and the media among others. Stakeholder forum to ensure alignment between company positioning and message to stakeholders.

**“A significant amount of our efforts in improving traceability of products has involved drilling down our supply chain to drive sustainable sourcing practices for key commodities such as cotton, timber, viscose, leather, soy, cocoa and palm oil.”**

Good Business Journey Report 2016 p.15

# Company C

## Overall performance

### GETTING STARTED/GOOD PROGRESS

#### Score based on:

- Interview
- Limited media reports

#### Company description

This company requested to remain unidentified in this study, however some of the insights from this business model provide additional information on the nuances of supply chain relationships which did not emerge from the other companies in this study.

#### Products and services

This information is not included to protect the company identity.

#### Countries where company operates:

This information is not included to protect the company identity.

## KEY INSIGHTS FOR THIS STUDY

- Although the company received a relatively low score against the assessment framework developed for this study, the company demonstrates a high level of awareness and commitment to sustainable supply chain relationships. This commitment and awareness is driven by its founders and its business model.
- The implication is that the framework developed for this study seems most appropriate to use when assessing large multinational companies that have documented procurement processes and procedures in place.
- A further insight from Company C is that the company values trust-based relationships more than transactional relationships with suppliers.

## COMMENTS ABOUT EACH CRITERION

### Identifying risks and drivers for sustainable supply chain relationships:

The company does not have any documented processes in place for managing sustainability and does not report on sustainability performance in supply chains. However, robust and long-term relationships exist and are built on trust and mutual respect. The company's commitment to sustainable supply chain relationships is based on its consumers' expectations and it responds by developing specific programs to meet its customers' sustainability expectations.

Suppliers and other stakeholders form part of the risk assessment process for the company and it relies on online engagement with customers, international research trips, and long-term, engaged relationships with suppliers to identify and address risks.

### Developing a corporate strategy for sustainable supply chain relationships:

Sustainability projects are part of the company ethos and are suggested by the owners, management team and/or suppliers. There is no documented or planned approach but the company has a very organic and dynamic approach to developing new initiatives. The owners, the senior management team and the board are committed to a relational approach in all their dealings and they recognise that transactional relationships limit the possibility for sustainability in supply chains. Their focus is on mutual trust and respect in supply chain relationships.

### Embedding SSCR in procurement documentation and processes:

There is an awareness of the importance of sustainability in supplier relationships and sourcing but this awareness is not yet embedded in the company's procurement processes.

### Embedding SSCR in training and performance management:

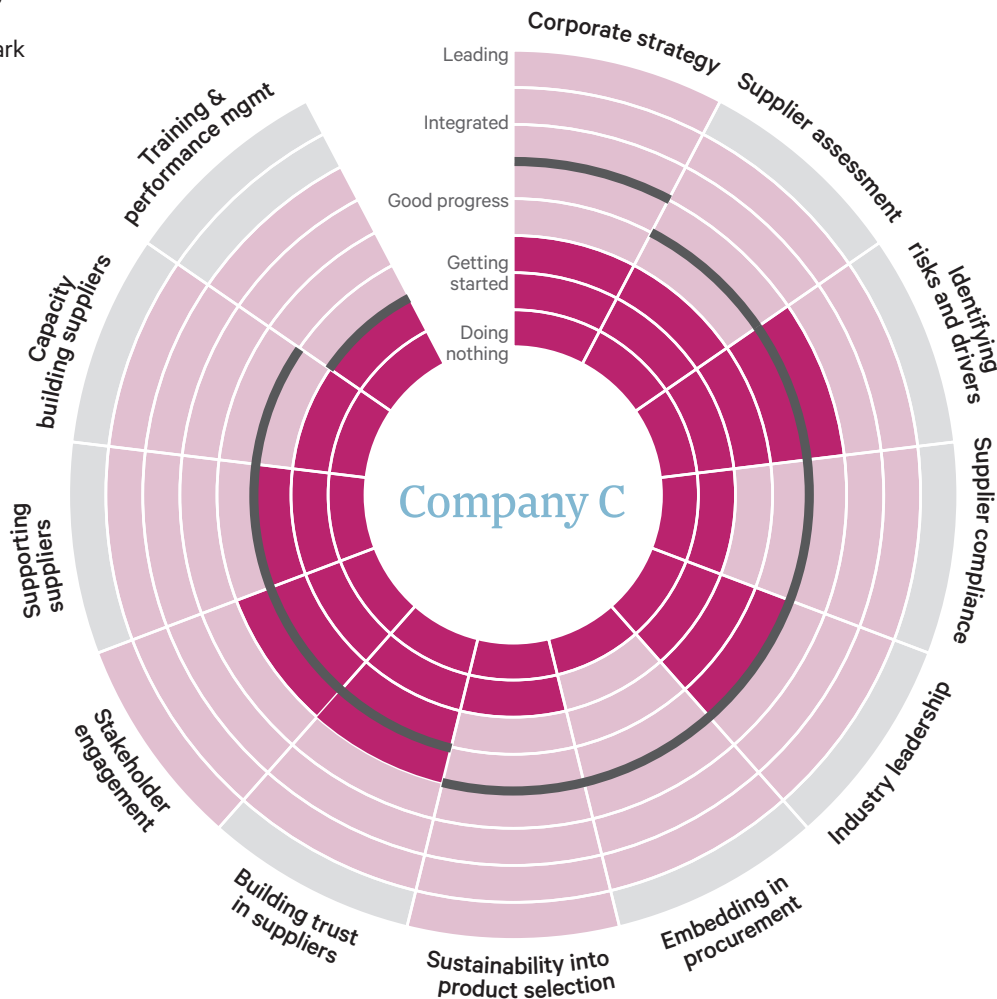
The company has no specific or formal training but building trusting relationships is part of the company philosophy that all staff are aware of, and it is an ingrained way of thinking and doing things in the organisational culture.

**Integrating sustainability into product selection:** Product specifications to suppliers include specific sustainability components, such as a requirement for palm oil free and preservative free products. Product specifications are the main tool to document sustainability requirements of suppliers. All Tier 1 suppliers are assessed against the product specifications.

## PERFORMANCE ON EACH SUSTAINABILITY CRITERIA

### CRITERIA KEY

- Company score
- Average
- Benchmark



**Assessing suppliers for sustainability:** Product specifications are the main tool for documenting the sustainability requirements of suppliers. All Tier 1 suppliers are assessed against product specifications.

**Supplier compliance for sustainability:** Compliance is based on product specifications and the company maintains close relationships with suppliers and knows exactly how they are operating and works with suppliers if they are found to compromise the sustainability reputation of the company. They maintain short supply chains and minimise switching between suppliers and it is therefore possible to ensure sustainability expectations can be monitored and met.

**Supporting supplier relationships for sustainability:** The company makes staff available to work with suppliers on compliance with regulatory requirements if it makes commercial sense. This support is not specifically focused on sustainability but can include sustainability aspects.

**Capacity building suppliers for sustainability:** There is no formal supplier training but specific support for supplier companies is provided to demonstrate sustainability status before expanding relationships and product range with suppliers.

**Building trust in supplier relationships:** The company actively engages with suppliers to build relationships. Transparency in pricing and reliable terms of trade help small and medium-sized suppliers market access through the company.

**Industry leadership:** The company is often an industry leader in sustainability initiatives, however it does not currently participate in government or industry groups.

**Stakeholder engagement for sustainability:** The company cooperates with suppliers, industry advisors and social media as a way to engage with stakeholders in relation to sustainability issues. They support stakeholders with philanthropy and arrangements are flexible and responsive to changes in stakeholders' needs.



# 4. Findings from suppliers

This section summarises key findings from interviews with three Tier 1 suppliers, two from Australia and one from South Africa. The findings are classified as success factors, challenges and emerging features of supply chain relationships.

## SUPPLIER PERSPECTIVES ON SSCR SUCCESS FACTORS AND CHALLENGES

### SUPPLIERS VALUE BUYER RECOGNITION OF THE COSTS AND CONSTRAINTS OF SUPPLY

- Suppliers noted that it is important for buyer companies to have an appreciation of the financial pressures that impact **businesses on the periphery of the supply chains**.
- Suppliers also want **assurance of supply and a commitment** that buyers *“are going to take everything they said they are going to take. Because of the complexity of supply chains, they require a lot of work to deliver goods”*.
- Suppliers want buyers to work closely with the supply chain partners and understand what is required to get a product produced, shipped and delivered in a realistic timeframe.
- There is a perception that most of the major supermarkets in Australia **do not adequately recognise the true costs of supply**. Although they understand why supermarkets are focused on lower prices and returns to shareholders, one supplier noted that *“it would be fairer if they took into consideration the real cost of supply”*. The interviewees acknowledged that one of the major Australian grocery retailers seems to value growers more than their competitors.
- **Suppliers are squeezed on price at times of low stock and out-of-season supply**. To gain market share, supermarkets will often heavily discount fresh food at times when stocks of produce are low or out of season to differentiate themselves in the market, placing pressure on growers to drop their prices.

### ALIGNMENT OF GOALS AND VALUES SUPPORTS SSCR

In one case, over many years the retailer and its supplier companies have developed a mutually supportive, open and transparent relationship that has aided the implementation of sustainability initiatives by the supplier company, and via the supplier company, by organisations further down the supply chain. There is strong value alignment between the companies. More than half of the supplier’s production is for the buying company, and they are also the biggest supplier to the buying company of their product category. *“We are significant to them and obviously they are hugely significant to us.”*

Suppliers identified the following factors as important:

- *“Collaboration, making sure we are on the same page [as the retailer] in terms of where the brands are going of the various divisions and departments. We work quite closely with their sourcing and buying teams.”*
- *“Better alignment between category managers and their buying organisation’s sustainability commitments”*; so that price does not become the sole factor in negotiation.
- Alignment of values between the retailer and suppliers.
- **Sourcing of sustainable materials** by the supplier is largely **driven by the buying company**. This includes initiatives to source recognised accredited raw materials. *“The range of initiatives is partly driven by [the buying company] and it is supported by us and it all fits very well together.”*
- In terms of one supplier’s supply chain they have **aligned themselves with “other suppliers that are very similar in thinking”** to them. They monitor their suppliers on a weekly basis in terms of performance but this is not yet formalised in terms of a scorecard.

- One supplier noted that sustainability needs to be linked to the buying and sourcing teams' performance management programs.

*"There are conflicting interests within the supermarket chains. I don't think a lot of the category managers' incentives or bonuses are aligned to their sustainability commitments."*

### **TRANSACTIONAL AND EXCLUSIVE RELATIONSHIPS ARE VIEWED NEGATIVELY BY SUPPLIERS**

Suppliers had negative perceptions of transactional<sup>3</sup>, exclusive relationships.

- Suppliers face challenging transactional relationships with major retailers in Australia. The supply of fresh produce to supermarkets is typically under a preferred supplier arrangement with no commitment from supermarkets to buying a predetermined quantity of produce. Routinely, fresh food suppliers are engaged on a **transactional basis**; they are reliant on weekly orders from major supermarket chains. In *"a lot of cases there isn't a formal contractual agreement with these retailers... so basically it comes down to run rates with supermarkets"*.
- Most major supermarkets **do not like their suppliers to have supply relationships with their competitors**, and there is a perception that this is because, *"they like you in that position because they know you are vulnerable."* Suppliers spoke positively of a retailer that appreciates that a supplier has to be competitive in order to survive and assure continuity of supply for their business as well.
- However there has been **growth in private labels**, and typically for these, there are long-term contractual arrangements. For *"anything associated with their private labels the supermarkets want traceability they want transparency, they want social compliance"*.

### **RELATIONSHIP BUILDING UP AND DOWN THE SUPPLY CHAIN SUPPORTS SSCR**

- *"We have a very good relationship with their sourcing team, sustainability and productivity improvement and waste elimination teams trying to optimise their business process."*
- The supplier company also **supports training of the buyer company** and has a training school for new members of the buying team.  
*"As part of their training new buyers come and spend time with us on site [to understand] a bit more about life in the manufacturing space."*
- The supplier company recognises that its own suppliers are highly skilled in making their product but less skilled in running a business. The supplier company **provides active support to its suppliers**. For example:  
*"by providing a shared service such as putting a mechanic on the road to service a number of factories as they require assistance"*  
*"Training is also key: each year they have a drive to attract school leavers to train as machinists in their purpose-built training facilities every six to eight weeks. When this is not in use existing staff are upskilled here to diversify their skill sets."*

### **SUCCESS IS UNDERPINNED BY REGULAR AND TRANSPARENT COMMUNICATION**

- The success and long-running nature of one supplier–buyer relationship was credited to **transparency, constant communication and evolution over time**.  
*"It is a very positive working relationship and one where they are always encouraging us to get involved in areas where they feel we can add value."*  
*"It's not just a static relationship; it is quite a dynamic relationship that changes all the time."*  
*"Transparency is obviously really important – [transparency about] what their requirements are from a supplier"*
- *"We have regular engagement with their senior management team, where they hopefully share the feedback that they are getting from their floor... so that we can ensure we are on the same page and will investigate and feedback to them."*
- *"Continuous communication with their senior management team and that happens on a fortnightly basis and on a monthly basis with the more senior management. They share with us the initiatives they are engaging in and what is in their headspace in terms of trade and new development."*

### EMERGING FEATURES OF SUPPLY CHAIN RELATIONSHIPS

Interviews with suppliers identified the following emerging features of supply chain relationships.

- A characteristic of the fresh food market is the **emergence of patented produce** such as broccolini® and qukes® by companies such as Perfection.<sup>4</sup> This is one strategy suppliers are developing to protect their exclusive brands and squeeze their competitors.
- Increasingly, suppliers are being asked by retailers to **commit to retailers' Ethical Sourcing Policies** and *join Sedex* and to **work with their own supply chains** to engage all their Tier 1 suppliers.

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4. [www.perfection.com.au/explore/produce-by-type/](http://www.perfection.com.au/explore/produce-by-type/)

# 5. Findings from intermediaries

## THE ROLE OF INTERMEDIARY ORGANISATIONS

The growth in sustainable supply chain relationships as a business practice has led to the emergence of specialist providers referred to as “intermediary or collaborating” organisations that manage supplier engagement and ethical and environmental assessment and compliance processes. These “sustainability relationship managers” undertake assessments, audit suppliers and their premises on behalf of buying organisations, and record results and offer suggestions for improvements. They are usually non-government organisations that operate on a membership model where buyer and supplier organisations pay an annual fee for a range of services including access to specialist advice, knowledge, training and tools.

Engaging an intermediary allows the buying company to free up internal resources that would otherwise be used for monitoring suppliers, and place some SSCM processes in the hands of a specialist independent organisation. For suppliers, the advantage is that a supplier providing goods and services to several buying organisations undertakes a single assessment and the results are available to all other buying organisations (with approval). This spares suppliers audit and questionnaire fatigue and the impost of paying for multiple audit fees. One supplier noted:

*“It is a big benefit: if we could get all our retailers to use one body... [there would be] less waste so we wouldn't have to do five accreditations with five different bodies to work with five different retailers.”*

Currently there are several players in this intermediary space. The Supplier Ethical Data Exchange (Sedex) and the Foreign Traders Association (FTA) are the major providers.

## FINDINGS FROM INTERMEDIARY ORGANISATIONS

Five intermediary organisations were interviewed. They included international business membership associations, audit consultancies and training organisations. Below are the main insights from these organisations.

### BUSINESS MEMBERSHIP ASSOCIATIONS

From our interviews with representatives of two business membership associations, the following observations are noted:

1. **Addressing remediation issues in a collaborative manner** is what sets progressive organisations apart: *“It is those companies that are the most progressive that have really moved on to the remediation aspect, that's where the real progressive work and activity is... Looking to discovery is really important but then what you do with something when you discover it is what sets companies apart.”*
2. In a global environment of predatory pricing and low margins, suppliers eager to win contracts *“at any cost”* are resorting to **sub-contracting**, most commonly in manufacturing, and increasingly in the fresh food sector. This compromises supply chain transparency because it is outside the purview of the buyers and intermediary organisations and potentially exposes the buyer to unforeseen risks.
 

*“We are starting to see traditional manufacturers in China, India and Bangladesh sub-contract labour to African countries including Ethiopia.”*

**“Subcontracting is the most significant risk currently facing supply chains.”**
3. Critical success factors for SSCR are **executive endorsement** (Director and board endorsement of SSCR was identified as the most critical success factor for SSCR), and **integration into organisational culture, KPIs and metrics in performance agreements**. Experience has shown that efforts to start initiatives at the middle management level are unlikely to succeed without senior level endorsement and financial support, as is the case for any change management project.

4. Creating an **environment of openness** and explaining to suppliers why this is important was also highlighted as a success factor.
5. **Engaging suppliers and spending time with them** in a journey together for the long term is important.
6. It was recognised that **embedding sustainable supply chains into the organisational culture** beyond the sourcing and sustainability team is essential to success:
 

*“The most effective relationships when we are talking sustainability are to directly link it to the business discussion. The more effective companies are the ones who can engage people in the organisation outside the sustainability teams”.*

#### AUDIT CONSULTANCY

Professional independent consulting organisations such as KPMG are increasingly playing a role in helping organisations manage supply chain risks. Any organisation that has a brand reputation, and whose brand is passed down through the supply chain, will want to ensure the brand is protected and customer expectations are managed. Investors are increasingly asking questions about the origins of products and the sustainability impacts of those products through supply chains.

#### TRAINING CONSULTANCIES

Two international training consultancies that specialise in supply chain issues from the UK and Belgium were interviewed. Both training consultancies work with a wide range of organisations (brands, retailers, suppliers, governments, investors, NGOs) in a wide range of industry sectors. They work with supplier factories on developing training, which is increasingly paid for by the factory owners themselves across many developing countries.

Below are summarised insights from the training consultancies. They relate to: the drivers for, and risks to, sustainable supply chain relationships; trends in the sustainability of entire supply chains; the practices of auditing, training and capacity building; and suggestions for how investors can best identify companies with genuinely sustainable supply chains.

#### Features of companies that have implemented SSCR

The training consultancies noted that the drivers for engaging with social and environmental sustainability in supply chains vary depending on the founders of brands and retailers, their company histories and their consumers. The types of companies that are likely to be successful in implementing SSCR are:

- a. companies that have sustainability as **part of their DNA** and culture, due either to the founders or to past criticism and exposure of shortfalls in sustainability performance
- b. companies that are **followers** because they cannot be seen not to be engaged and SSCR is regarded as a standard in their sector
- c. **retail companies in the business to business market** such as wholesalers who do not sell directly to consumers and tend to engage less in supply chain sustainability
- d. **‘low price’ retailers** who do the absolute minimum to prevent legal action, which may be due to a lack of consumer interest in SSCR.

Other observations suggest partnerships are largely driven by **security of supply and not by compliance**.

Success factors for SSCR include:

- **Linking sustainability to a commercial return** for the supplier factories.
- The more **product legislation** there is on a market, the better the sustainability performance is in general in supply chains
- **Close partnerships** between retailers and suppliers develop – this facilitates better forecasting, with more regularity and a higher volume of orders which improves the likelihood of social and environmental practices in supply chain relationships.
- Companies that have **large order volumes and streamlined procurement processes** that create the conditions for suppliers to be more engaged in social and environmental sustainability programs e.g. H&M.
- Manufacturing **factory ownership** e.g. Nike.

### Sectoral differences

A ranking of industry sectors in terms of performance on sustainable supply chain relationships was suggested by intermediaries.

#### Higher performing sectors

- the cosmetics sector
- the electronics sector which is highly regulated
- the food sector which requires forecasts and is more fragmented, requiring stronger partnerships.

#### Lower performing sectors

- the fast fashion and clothing sector
- the oil and minerals sector.

A major **risk** to sustainable supply chain relationships is the practice by large retailers of **switching their suppliers frequently**. This happens in industry sectors where many suppliers make the same product (such as fashion) and therefore sustainable supply chain performance is most likely to be low.

### Chain of custody

Chain of custody – or traceability in the entire supply chain – has traditionally not been a focus for retailers. However, the garment and food sectors have done more than other sectors to understand the origins of their raw materials.

There are currently a number of trends influencing chain of custody considerations:

- **Blockchain technology**, combined with traceability initiatives (OECD and EU guidelines) that require retailers to prove to their consumers where their products and ingredients are sourced from, will significantly improve the traceability of materials and the transparency of supply chains.
- Recent **legislation** like the Modern Slavery Act in the UK and Due Diligence legislation in France.

### Auditing, training and capacity building in supply chains

Training consultancies were critical of current forms of auditing, capacity building and corrective action initiatives in supply chains as they believe they are fostering a compliance mentality rather than continuous improvement and learning:

- Auditing does not provide any incentives to go beyond minimum standards. Audits are a measurement tool and not fit for purpose as a change tool to improve standards and conditions for workers.
- Capacity building is a long-term process and requires ongoing learning, follow-up and evaluation. However, most training is delivered in single module sessions. Training performance is often measured only by the number of people trained instead of the real impact on factories and on people's lives. A better way to monitor supply chain training outcomes is to undertake worker satisfaction surveys.
- Corrective action and remediation do not address the systemic issues within factory operations and they treat the symptoms rather than the causes of social and environmental issues in supply chains.

### Assessing the sustainability of supply chain relationships

The two interviewees suggested a number of criteria that can be useful in assessing whether supply chain relationships are sustainable. These include:

- **What companies communicate about their products**, such as information about the origins of raw materials or environmental information about ingredients, is a good indicator of sustainable supply chain performance.
- Whether the company can clearly articulate its **vision and values** for its business and people, and whether it **values people** as much as financial and environmental performance gives a good indication of how companies will deal with their suppliers.
- The **length of the supply chains** that a company has is a good indication of its supply chain relationships (the longer the supply chain, the less influence a company will have on improving sustainability).
- Whether a company can provide **information about the average purchase made in monetary terms with suppliers** in the last couple of years, will give an indication of how long the supply chain is and also how often the company switches between suppliers (the more switching, the less likely it is that the company and the supply chain will be concerned with sustainability).
- Whether a company knows **how much of the capacity of each of its suppliers its orders are taking up** will indicate, firstly, the company's engagement with its suppliers and secondly, the level of influence that the company can have on its suppliers. (If the company takes up a small amount of a supplier's capacity then the company will have less influence on supplier sustainability).
- If a company measures its suppliers' sustainability performance through **compliance with audits**, this indicates that the company is satisfied with compliance to minimum standards and does not help its suppliers to continually improve (for example as measured against the GRI indicators).
- The **way a company builds capacity within the supply chain** is an indication of the nature of its relationships with suppliers (if it measures performance by the number of people trained instead of outcomes such as improved worker satisfaction, this indicates a less sustainable supply chain).
- The **way companies select their suppliers and how much they know about their suppliers** are indicators of whether the potential for sustainability is a key element in the relationships (Does the company do financial checks? Does it know the owners or board of directors, the company history, the supplier's total capacity, its workplace safety standards, its human rights record, environmental conditions etc.).
- **Engagement with organisations or initiatives** such as Modern Slavery legislation, Clearview (a global social compliance certification scheme for labour providers), the International Organisation of Migration, the Institute for Human Rights and Business and the Consumer Goods Forum, is a good indication that companies are engaging with progressive partners for supply chain sustainability.

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# Appendix A: SSCR continuous improvement framework

Appendix A summarises the framework that developed through this research to chart a model of continuous improvement for sustainable supply chain relationships.

## Definition of terms used in this framework:

1. **Sustainable Supply Chain Management (SSCM):** This study adopts Carter and Rogers' (2008, p.368) definition: "*the strategic, transparent integration and achievement of an organization's social, environmental and economic goals in the systemic coordination of key inter-organizational business processes for improving the long-term economic performance of the individual and its supply chain*". This research goes beyond SSCM to look in more depth at how supply chain relationships help or hinder the integration of sustainability.
  2. **Suppliers** in this research study means the entire supply chain and refers to all tiers including Tier 1, Tier 2, Tier 3 and beyond, unless otherwise specified.
  3. **Tier 1 suppliers** in this research study refers to any suppliers the company directly deals with to purchase products and services. This may include producers whom the company purchases from directly and/or intermediaries such as wholesalers or agents.
-



Criteria	0 - Doing nothing	D (1) – Getting started	C (2) – Good progress	B (3) – Integrated	A (4) – Leading
<b>1.0 Corporate strategy for sustainable supply chain relationships</b>					
<b>1.1 Identifying risks and drivers for sustainable supply chain relationships</b>	<ul style="list-style-type: none"> <li>— No overarching awareness of sustainability- related (environmental and or social) risks and opportunities in its supply chain relationships.</li> </ul>	<ul style="list-style-type: none"> <li>— Motivators identified for sustainable supply chain relationships</li> </ul>	<ul style="list-style-type: none"> <li>— Risk Assessment Matrix for sustainability issues.</li> <li>— Process to examine impact of top spend categories against sustainability-related risks and opportunities.</li> <li>— Process to examine impact of top spend by suppliers against sustainability-related risks and opportunities.</li> </ul>	<ul style="list-style-type: none"> <li>— Goals, targets to address risks and opportunities in the supply chain.</li> <li>— Regular internal reporting of progress against targets and goals.</li> <li>— Public reporting of progress against targets and goals.</li> <li>— Suppliers and other stakeholders form part of risk assessment process.</li> </ul>	<ul style="list-style-type: none"> <li>— Public reporting of progress against strategies, goals and targets validated by 3rd parties.</li> <li>— Risk assessment matrix published publicly e.g. GRI G4.</li> <li>— Supply chains deliver net positive environmental and social impacts.</li> </ul>
<b>1.2 Developing a corporate strategy for sustainable supply chain relationships</b>	<ul style="list-style-type: none"> <li>— No organisation- wide corporate commitment to sustainable supply chain relationships.</li> </ul>	<ul style="list-style-type: none"> <li>— Pilot projects or plans centred on product categories or resource efficiency targets e.g. purchasing 100% recycled paper products.</li> <li>— Selected staff are pursuing SSCR.</li> </ul>	<ul style="list-style-type: none"> <li>— Documented Sustainable Supply Chain Management (SSCM) strategy, policy and action plans.</li> <li>— Senior management support for SSCM implementation.</li> </ul>	<ul style="list-style-type: none"> <li>— Goals, targets to address risks and opportunities in the supply chain relationships developed.</li> <li>— Regular internal and public reporting of progress against targets and goals.</li> <li>— Sustainable supply chain relationships programs implemented e.g. diversity, Indigenous, encouraging women-owned business, social enterprises.</li> <li>— Executive- and board-level program sponsorship.</li> </ul>	<ul style="list-style-type: none"> <li>— Active engagement and feedback with suppliers and other stakeholders on the development and review of corporate strategy for sustainable supplier relationships.</li> <li>— Public reporting of progress against strategies, goals and targets validated by 3rd parties.</li> <li>— A wide range of stakeholders is involved in periodic reviews of SSCM strategy.</li> <li>— Executive staff represented on international bodies and committees.</li> </ul>

Criteria	0 - Doing nothing	D (1) – Getting started	C (2) – Good progress	B (3) – Integrated	A (4) – Leading
<b>2.0 Embedding sustainable supply chain relationships into corporate processes</b>					
<b>2.1 Embedding SSCR in procurement documentation and processes</b>	<ul style="list-style-type: none"> <li>— Sustainability is not a consideration in standard procurement processes.</li> </ul>	<ul style="list-style-type: none"> <li>— Commitment to developing sustainable supplier relationship documentation and processes is contained in CSR documentation.</li> <li>— Sustainability criteria are included in selected tenders and quotations.</li> </ul>	<ul style="list-style-type: none"> <li>— Sustainability is integrated into procurement and supply chain systems, documentation and processes.</li> <li>— Stand-alone SP policy.</li> <li>— Sustainability is included in corporate procurement manual.</li> <li>— Purchasing and procurement and supply chain checklists.</li> </ul>	<ul style="list-style-type: none"> <li>— Goals and targets developed to embed SSCR in documentation and processes.</li> <li>— Progress towards the above goals and targets is regularly reported internally and publicly.</li> <li>— Sustainability is a mandatory tender criterion with established weighting.</li> <li>— A sustainability committee reviews all major tenders.</li> </ul>	<ul style="list-style-type: none"> <li>— Progress against goals and targets is publicly reported and validated by an independent 3rd party.</li> <li>— Sustainability is integrated into entire procurement cycle from market analysis to contract renewal.</li> <li>— A regular program of continuous improvement is in place.</li> <li>— The company participates in development and review of international standards e.g. Review of ISO 20400.</li> </ul>
<b>2.2 Embedding SSCR in training and performance management</b>	<ul style="list-style-type: none"> <li>— Sustainability is not included in supply chain training or performance management systems.</li> </ul>	<ul style="list-style-type: none"> <li>— SSCM goals and targets are included in performance agreements of some procurement staff.</li> <li>— Staff attend sustainable procurement conferences.</li> <li>— Some procurement staff trained.</li> <li>— Staff training program developed.</li> </ul>	<ul style="list-style-type: none"> <li>— SSCM goals and targets are included in performance agreements of most procurement staff and senior staff.</li> <li>— Most procurement staff trained.</li> <li>— Some non-procurement staff trained.</li> </ul>	<ul style="list-style-type: none"> <li>— SSCM goals targets are included in all procurement staff performance agreements.</li> <li>— Dedicated staff are responsible for implementation of SSCR program.</li> <li>— All procurement staff trained.</li> <li>— Most non-procurement staff trained.</li> </ul>	<ul style="list-style-type: none"> <li>— SSCR is included in all job descriptions.</li> <li>— Regular refresher courses.</li> <li>— All staff trained.</li> <li>— Impact of training is demonstrated through improvements in social or environmental or governance performance (as measured against indicators such as GRI or similar).</li> </ul>

Criteria	0 - Doing nothing	D (1) – Getting started	C (2) – Good progress	B (3) – Integrated	A (4) – Leading
<b>2.0 Embedding sustainable supply chain relationships into corporate processes</b>					
<b>2.3 Integrating sustainability into product selection</b>	<ul style="list-style-type: none"> <li>— Sustainability is not considered in product selection.</li> </ul>	<ul style="list-style-type: none"> <li>— Limited sustainability criteria are included in specifications e.g. % of recycled content, energy efficiency, recycled packaging.</li> <li>— Product specifications comply with legal regulatory requirements.</li> <li>— List of banned substances for products.</li> </ul>	<ul style="list-style-type: none"> <li>— Standard sustainability specifications developed for product categories identified in risk assessment.</li> <li>— Goals and targets developed for sustainability specifications.</li> <li>— Life cycle considerations applied to key product categories.</li> <li>— Specifications respond to compliance with external programs UN SDGs, GRI G4 , CDP.</li> </ul>	<ul style="list-style-type: none"> <li>— In-house life cycle analysis undertaken for all major product categories.</li> <li>— Progress towards the above goals and targets is regularly reported internally and publicly.</li> <li>— Sustainability considerations are embedded into company's electronic purchasing systems and delegations approval protocols.</li> </ul>	<ul style="list-style-type: none"> <li>— All key product categories required to meet an eco-label certification or equivalent.</li> <li>— The company works closely with industry, supplier groups and eco labelling organisations to develop standard industry-wide product specifications.</li> </ul>

Criteria	0 - Doing nothing	D (1) – Getting started	C (2) – Good progress	B (3) – Integrated	A (4) – Leading
<b>3.0 Monitoring suppliers for sustainability</b>					
<p><b>3.1 Assessing suppliers for sustainability</b></p>	<ul style="list-style-type: none"> <li>— No supplier assessment process for sustainability.</li> </ul>	<ul style="list-style-type: none"> <li>— Supplier relationships recognised as a potential source of risk and opportunity for learning and mutual progression for sustainability.</li> <li>— Selected suppliers and product categories identified as sources of risk and opportunity.</li> <li>— Some tenders and expressions of interest have sustainability assessment criteria.</li> </ul>	<ul style="list-style-type: none"> <li>— Documented assessment criteria for suppliers.</li> <li>— Standard supplier sustainability tender clauses.</li> <li>— Supplier pre-qualification checklist.</li> <li>— Some suppliers assessed against documented sustainability criteria.</li> <li>— Some preferred suppliers' panels and most tenders integrate assessment criteria.</li> </ul>	<ul style="list-style-type: none"> <li>— Goals, targets are in place for roll out of criteria in tender clauses and checklists, etc.</li> <li>— Progress towards the above goals and targets is regularly reported internally and publicly.</li> <li>— Most suppliers assessed against documented sustainability criteria.</li> <li>— All tenders and requests for quotes integrate assessment criteria.</li> </ul>	<ul style="list-style-type: none"> <li>— Progress against goals and targets is publicly reported and validated by an independent 3rd party e.g. Mirvac supplier report.</li> <li>— A regular program of continuous improvement.</li> <li>— All suppliers participate in continuous improvement program for sustainability.</li> <li>— All suppliers assessed against documented sustainability criteria.</li> <li>— All purchasing activities integrate assessment criteria.</li> <li>— Progress is measured against indicators such as the Global Reporting Initiative (GRI) and outcomes (not by audit compliance and number of people trained).</li> </ul>

Criteria	0 - Doing nothing	D (1) – Getting started	C (2) – Good progress	B (3) – Integrated	A (4) – Leading
<b>3.0 Monitoring suppliers for sustainability</b>					
<b>3.2 Supplier compliance for sustainability</b>	<ul style="list-style-type: none"> <li>— Suppliers required to comply with legal requirements, international and industry standards.</li> </ul>	<ul style="list-style-type: none"> <li>— Limited compliance with industry and sustainability standards, e.g. ISO 14000 Environmental Management Systems.</li> <li>— Selected supplier’s worksites identified as a source of risk.</li> <li>— Supplier Code of Conduct under development.</li> <li>— Program of suppliers’ worksite audits under development.</li> <li>— High risk supplier worksites are audited.</li> <li>— Negative screening for:               <ul style="list-style-type: none"> <li>• breaches of environmental and human rights legislation</li> <li>• legal proceedings for bribery and corruption.</li> </ul> </li> <li>— Some screening beyond Tier 1 suppliers for SSCR embeddedness.</li> </ul>	<ul style="list-style-type: none"> <li>— Supplier Sustainability Compliance Strategy documented.</li> <li>— Supplier Code of Conduct rolled out.</li> <li>— Program of suppliers’ worksite audits.</li> <li>— Membership of a 3rd party audit provider to access supplier data e.g. Sedex.</li> <li>— Some of Tier 1 suppliers are monitored for compliance against a code of conduct.</li> <li>— Some suppliers’ worksites are audited.</li> <li>— Negative screening for:               <ul style="list-style-type: none"> <li>• exploitative employment practices</li> <li>• environmental degradation</li> <li>• use of certain chemicals, substances etc.</li> </ul> </li> <li>All Tier 1 suppliers assessed for SSCR embeddedness.</li> </ul>	<ul style="list-style-type: none"> <li>— Goals, targets are in place for roll out of codes, audits etc.</li> <li>— Progress towards the above goals and targets is regularly reported internally and publicly.</li> <li>— Goals and targets for implementation and supply chain sustainability metrics e.g. carbon, water, energy.</li> <li>— Most of Tier 1 suppliers are monitored for compliance against a code of conduct.</li> <li>— Most suppliers’ worksites were audited.</li> <li>— Negative screening for:               <ul style="list-style-type: none"> <li>• unsafe workplaces and work practices that have not been revised as discussed in supplier review meetings</li> <li>• non-response to corrective action requests</li> <li>• adverse reports from supplier audits.</li> </ul> </li> <li>— Screening of all suppliers is required for SSCR embeddedness and program of supplier and upstream supply chain audits implemented.</li> </ul>	<ul style="list-style-type: none"> <li>— Progress against goals and targets is publicly reported and validated by an independent 3rd party e.g. GRI G4, UN Global Compact, CDP.</li> <li>— All of Tier 1 suppliers are monitored for compliance against a code of conduct.</li> <li>— All suppliers’ worksites are audited.</li> <li>— Suppliers given access to tools and coaching to address sustainability- related issues.</li> <li>— Suppliers are prevented from tendering as a result of non-compliance with Code of Conduct and poor progress addressing requests.</li> <li>— Chain of custody requirements placed on upstream suppliers (suppliers required to monitor all upstream supply chain partners for compliance with SCC e.g. Marine Stewardship Council process.</li> <li>— Measurement and reporting of sustainability metrics across entire supply chains e.g. carbon and water.</li> <li>— Company works closely with entire supply chains to improve sustainability outcomes.</li> </ul>

Criteria	0 - Doing nothing	D (1) – Getting started	C (2) – Good progress	B (3) – Integrated	A (4) – Leading
<b>4.0 Building co-operative supplier relationships for sustainability</b>					
<b>4.1 Supporting supplier relationships for sustainability</b>	<ul style="list-style-type: none"> <li>— Sustainability is not a consideration in supplier relationships.</li> </ul>	<ul style="list-style-type: none"> <li>— Sustainability is not a consideration in supplier relationships.</li> </ul>	<ul style="list-style-type: none"> <li>— Sustainability is discussed at all supplier meetings.</li> <li>— Supplier engagement strategy developed.</li> <li>— Staff available to assist suppliers to develop their sustainability strategies.</li> </ul>	<ul style="list-style-type: none"> <li>— Mutually agreed goals and targets developed with suppliers to incorporate sustainability into their operations and product offerings.</li> <li>— Progress towards the above goals and targets is regularly reported internally and publicly.</li> <li>— Supplier audits are undertaken for free.</li> </ul>	<ul style="list-style-type: none"> <li>— Progress towards sustainability is a mandatory shared outcome in supplier relationships.</li> <li>— Progress against goals and targets is publicly reported and validated by an independent 3rd party.</li> <li>— Suppliers incentivised for sustainability-related initiatives e.g. joint venture projects, seed funding, longer-term contracts.</li> <li>— Suppliers offered financial assistance to meet SSCM targets and prescribed certifications and eco labels.</li> <li>— Works closely with suppliers to promote closed loop processes and sustainable lifestyles to consumers e.g. collection points for end of life products to be returned to suppliers.</li> <li>— Works closely with suppliers to examine potential for implementation of Circular Economy principles.</li> <li>— Joint responsibility with suppliers for new or enhanced sustainable products and services.</li> </ul>

Criteria	0 - Doing nothing	D (1) – Getting started	C (2) – Good progress	B (3) – Integrated	A (4) – Leading
<b>4.0 Building co-operative supplier relationships for sustainability</b>					
<b>4.2 Capacity building suppliers for sustainability</b>	<ul style="list-style-type: none"> <li>— No capacity building undertaken.</li> </ul>	<ul style="list-style-type: none"> <li>— Roll out of a road show of sustainability presentations to suppliers.</li> </ul>	<ul style="list-style-type: none"> <li>— Supplier training program communicated to all suppliers.</li> <li>— Sustainability coaching to selected suppliers.</li> <li>— Sustainable suppliers' roadshow.</li> <li>— Supplier training strategy documented.</li> <li>— Some Tier 1 suppliers trained in sustainable supply chain relationships.</li> </ul>	<ul style="list-style-type: none"> <li>— Supplier training program developed.</li> <li>— Company staff deliver supplier training programs in-country.</li> <li>— Sustainable supplier recognition program.</li> <li>— Supplier Sustainability Awards Program.</li> <li>— Goals, targets are in place for roll out of training etc.</li> <li>— Progress towards the above goals and targets is regularly reported internally and publicly.</li> <li>— Most Tier 1 suppliers, some Tier 2 and beyond trained in sustainable supply chain relationships.</li> </ul>	<ul style="list-style-type: none"> <li>— Train the trainer program provided for suppliers to roll out in their supply chains.</li> <li>— Procurement staff trained in developing and supporting sustainable supplier relationships.</li> <li>— On-line refresher programs delivered.</li> <li>— Progress against goals and targets is publicly reported and validated by an independent 3rd party.</li> <li>— A regular program of continuous improvement.</li> <li>— All suppliers: Tier 1, Tier 2 suppliers and beyond trained in sustainable supply chain relationships.</li> </ul>
<b>4.3 Building trust in supplier relationships</b>	<ul style="list-style-type: none"> <li>— Building trust is not considered important in supplier relationships.</li> </ul>	<ul style="list-style-type: none"> <li>— Awareness of the benefits of building trust in supply chain relationships and intention to engage.</li> </ul>	<ul style="list-style-type: none"> <li>— Actively engaging with suppliers, building relationships and supporting mutual learning.</li> <li>— Transparent pricing.</li> <li>— Documented procedures for resolving grievances.</li> </ul>	<ul style="list-style-type: none"> <li>— Joint setting of goals and performance measure for progressing the relationship.</li> <li>— Open communication channels.</li> <li>— Willingness to share power, risk and rewards.</li> <li>— Sharing information and resources and staff between buyer and supplier organisations.</li> </ul>	<ul style="list-style-type: none"> <li>— Shared common resources and technology platforms.</li> <li>— Joint venture arrangements for selected products and services.</li> <li>— Capacity building in leadership and collaboration skills in buyer and supplier organisations.</li> <li>— Cooperation to resolve differences.</li> </ul>

Criteria	0 - Doing nothing	D (1) – Getting started	C (2) – Good progress	B (3) – Integrated	A (4) – Leading
<b>5.0 Industry leadership and stakeholder engagement</b>					
<b>5.1 Industry leadership</b>	<ul style="list-style-type: none"> <li>— Not involved in industry SSCR initiatives.</li> </ul>	<ul style="list-style-type: none"> <li>— Participates in industry working groups.</li> </ul>	<ul style="list-style-type: none"> <li>— Participates in multi-sector groups to progress SSCR.</li> <li>— Participation in industry programs e.g. AIM progress.</li> </ul>	<ul style="list-style-type: none"> <li>— Engages (lobbies) government.</li> <li>— The company is proactive in developing an industry-wide Code of Practice e.g. UK Retail Sector Code, HARPS in Australia.</li> <li>— Financial contribution to development of industry-wide schemes e.g. recycling programs.</li> <li>— The company is instrumental in developing and delivering sustainability education programs to industry.</li> </ul>	<ul style="list-style-type: none"> <li>— Initiates international instruments for SSCR e.g. ISO 20400.</li> <li>— Works closely with industry groups and government to examine potential for implementation of Product stewardship and Circular Economy principles.</li> <li>— Leading industry in developing net positive impacts in selected supply chains.</li> </ul>
<b>5.2 Stakeholder engagement for sustainability</b>	<ul style="list-style-type: none"> <li>— Stakeholders are not considered for progressing sustainable supply chain relationships.</li> </ul>	<ul style="list-style-type: none"> <li>— Forms associations with suppliers and/or consultants to progress sustainable supply chain relationships.</li> <li>— Stakeholder groups identified to assist in progressing sustainable supply chain relationships.</li> </ul>	<ul style="list-style-type: none"> <li>— Forms associations with NGOs and/or governments to progress sustainable supply chain relationships.</li> <li>— A documented stakeholder engagement strategy.</li> <li>— Documented partnership agreements with some stakeholders.</li> </ul>	<ul style="list-style-type: none"> <li>— Forms associations with industry groups, charities, social enterprises, competitors, state/provincial government to progress sustainable supply chain relationships.</li> <li>— Mutual goals, targets are in place for partnership agreements.</li> <li>— Progress towards the above goals and targets is regularly reported internally and publicly.</li> </ul>	<ul style="list-style-type: none"> <li>— Forms associations with universities, national governments, community groups, global organisations to progress sustainable supply chain relationships.</li> <li>— Progress against goals and targets is publicly reported and validated by an independent 3rd party.</li> <li>— A regular program of continuous improvement.</li> </ul>



### Summary of expected performance at each level

Performance level	Summary of characteristics
<b>Doing nothing</b>	<p>Unaware or not interested in engaging with supply chain partners to progress sustainability or address potential risks and opportunities.</p> <p>Supplier relationships are based on compliance to legislation.</p> <p>Supplier relationships are largely transactional.</p>
<b>Getting started</b>	<p>Ad hoc and isolated instances of integrating sustainability in supply chain relationships. Supply chain sustainability issues have been identified as a potential source of risk and opportunity. Informal commitments have been made.</p>
<b>Good progress</b>	<p>Formalised documented commitment to sustainable supply chain relationships. Strategy, policy and action plans developed.</p> <p>Standard organisation-wide documentation and processes developed and rolled out. Proactive and consultative approach with suppliers to integrate sustainability into relationships.</p>
<b>Integration</b>	<p>Sustainability in supply chain processes and practices is integrated into corporate-wide systems and processes. Ambitious targets and goals are reported on internally. Sustainability capacity is built into the buyer organisation and in upstream supply chain partners. Senior management support and executive- and board-level sponsorship.</p>
<b>Leading</b>	<p>Mutually agreed sustainability outcomes with suppliers. Public reporting of progress against goals and targets validated by third parties.</p> <p>Long-term supplier relationships for sustainability are established.</p> <p>Partnerships are developed with suppliers and stakeholders for sustainable innovation and progress towards circular economy principles. Stakeholders are engaged in a process of review and continual improvement. Learnings are shared with peer organisations. Financial assistance and support is provided to suppliers for attaining certification standards, chain of custody requirements and to address remediation.</p>

# Appendix B: SSCR framework – detailed description

## INTRODUCTION

Appendix B expands on the overview of the five criteria for embedding successful sustainable supply chain relationships (outlined in Appendix A) and describes in greater detail the critical processes and documentation applicable to each of the five criterion areas, highlighting examples provided by research participants and publicly available case studies. The five overarching criteria are:

- Corporate strategy for sustainable supplier relationships
- Embedding SSCR into corporate processes
- Assessing and monitoring suppliers for sustainability
- Building cooperative supplier relationships for sustainability
- Industry leadership and stakeholder engagement.

A detailed description of the criteria follows. It includes examples for buying organisations to replicate to deliver sustainable supply chain relationships.

## CORPORATE STRATEGY FOR SUSTAINABLE SUPPLIER RELATIONSHIPS SUMMARY OF EXPECTED PERFORMANCE AT EACH LEVEL

Organisations embarking on sustainable supplier relationships will frequently refer to their sustainability reporting processes to identify supply chain risks. More advanced companies will undertake a risk analysis to identify significant social and environmental impacts in their supply chain relationships. Leading organisations consult with internal and external stakeholders and engage with key suppliers to prioritise material and emerging issues.

### DEVELOPING A CORPORATE STRATEGY FOR SUSTAINABLE SUPPLY CHAIN RELATIONSHIPS

Many organisations have aligned their strategies to respected international instruments and codes and report publicly on their performance against targets and goals. As part of its materiality study Wesfarmers identified eight initial United Nations Sustainable Development Goals (SDGs) that reflect their community and environmental focus areas. In addition, the company sustainability report is aligned with the Global Reporting Initiative (GRI) and is independently assured.

Wesfarmers<sup>5</sup> identified sourcing as a key material issue and made a commitment to “strong and respectful relationships with our suppliers”, in addition to “striv[ing] to source products in a responsible manner while working with suppliers to improve their social and environmental practices”.

Woolworths Holdings Limited is based in South Africa and recognises the importance of its supply chain. The company bases its entire sustainability report around “Mapping our risks across the supply chain” and rates each risk and sub-issue as moderate, significant, major or non-applicable.

Organisations operating at the highest level of performance would be moving their supply chains to an outcome where there is a net positive impact on the environment and society.

5. <http://sustainability.wesfarmers.com.au/>

## EMBEDDING SSCR IN CORPORATE PROCESSES

### EMBEDDING SSCR IN PROCUREMENT DOCUMENTATION AND PROCESSES

Developing and maintaining sustainable supply relationships is a subset of sustainable supply chain management, which in turn is part of organisational sustainability.

Therefore, commitments to SSCR, including policies and codes, will frequently incorporate international sustainability codes and instruments.

See <https://www.woolworthsgroup.com.au/content/Document/Ethical%20Sourcing%20Policy.pdf>

Big W's Ethical Sourcing Policy respects and incorporates all relevant conventions of the International Labour Organisation (ILO) and the principles of the United Nations Universal Declaration of Human Rights as well as environmental standards.

### SSCR Documentation

A commitment to SSCR may be included in a range of documents including corporate sustainability policies, or may form a stand-alone programme, strategy or policy, such as an ethical purchasing program with associated documentation, goals and targets and reporting. To ensure the success of these high-level statements and policies, executive endorsement, supporting material and specialist training are required to embed the practice within an organisation.

See: <http://www.woolworthsholdings.co.za/downloads/2016/WHL-Good-Business-Journey-Report-2016.pdf> p, 64

In 2015, David Jones established its Ethical Sourcing Programme, supporting more than 1,200 suppliers on their journey to more ethical and sustainable management of their supply chain. To improve transparency and traceability along the supply chain, David Jones has been engaging with suppliers to understand key supply chain risks through the development of a self-assessment questionnaire, completed by private label suppliers and largest branded suppliers who together provide the products for 75% of David Jones sales.

### Responsibility for embedding SSCR

An SSCR program should be treated as any other program, with measurable targets, regular reporting and dedicated staff such as an Ethical Sourcing Manager responsible for delivering the program and its ultimate success.

### Executive endorsement and reporting

As with any change management program, senior and executive endorsement and reporting regimes are fundamental to long-term success.

At Coles, ethical sourcing training requirements are delivered to their team members, third party auditors, suppliers and factories to ensure they understand ethical sourcing risks and the standards expected by its divisions. A cross-divisional ethical sourcing forum meets quarterly to share best practice and audit program outcomes, and ethical sourcing practices are reported regularly to the Audit and Risk Committee.

### SSCR Procurement resources

To embed SSCR effectively, high-level policy documents need to be translated into tools and resources for day-to-day procurement and sourcing activities, including checklists, manuals, and they need to be integrated into electronic purchasing systems.

## Embedding SSCR in training and performance management

Embedding SSCR into the DNA of an organisation requires training for all staff who have an interface with suppliers, followed up by refresher courses. The value of this is that staff will understand the importance of sustainability and can explain to suppliers why it is important to them. In the case of Woolworths Holdings Limited, one of their suppliers conducts the training for all buying and sourcing staff.

## Integrating sustainability into product selection

As part of the sustainability risk assessment process, key product categories will frequently be identified for more detailed attention including conducting a life cycle assessment process and developing standard sustainability specifications. Sustainable products and services are integral to SSCR.

### Sustainable product ranges

Buying organisations are supporting sustainable product ranges. This is done by stocking products that carry an eco-label or equivalent such as Marine Stewardship Council-certified seafood, or it can be done by working with certifying bodies such as the MSC or NGOs to produce their own private label products that incorporate sustainability. Another pathway is for buying organisations to set sustainability standards and work closely with suppliers to deliver more sustainable products under a private label, or for buying organisations to require all suppliers in a product category to address set minimum sustainability criteria.

Coles Australia has made a commitment to a number of sustainable product ranges including sow stall free pork. In addition, all their fresh beef is 100% Australian, with no added hormones, and it has made a commitment to only sell responsibly sourced Coles Brand seafood bearing the Marine Stewardship Council and Aquaculture Stewardship Council (ASC) eco label.

## MONITORING SUPPLIERS FOR SUSTAINABILITY

### ASSESSING SUPPLIERS FOR SUSTAINABILITY

Once a buying organisation has developed its sustainable supplier strategy, the next step is to develop documents including standard tender clauses checklists and/or a self-assessment questionnaire to assess suppliers' commitments to sustainability and whether they are aligned with the buying organisation's sustainability goals. This activity is frequently carried out across all suppliers starting with key and/or Tier 1 suppliers that are strategically important to business continuity. Commonly, supplier organisations are asked if they have certain standards such as ISO 14000 Environmental Management Systems, whether they are signatories to international codes of practice such as the UN Global Compact, and whether they produce corporate sustainability reports. This stage is frequently conducted in-house.

The next phase builds on this preliminary appraisal by developing an ethical sourcing strategy, a sustainable sourcing/procurement policy and associated documents including a self-assessment questionnaire.

- Metcash has developed a sustainability strategy which outlines key targets relating to the environment, society and governance as well as projects planned to achieve these targets. The strategy is organised into four key areas, and one of those is "Our suppliers".
- Metcash's Sustainable Supply Chain Program is governed by the Metcash Sustainable Supply Chain Policy and includes the Metcash Sustainable Supply Chain – Supplier Questionnaire which questions suppliers about their practices to ensure they meet minimum standards, with results used to encourage supplier action.

### SUPPLIER COMPLIANCE FOR SUSTAINABILITY

The next stage for an organisation is to develop a supplier code of conduct which sets out the minimum standard of compliance for suppliers. Suppliers are engaged in new processes and specialist training is provided.

At this stage, organisations are likely to engage specialists or join intermediary organisations such as Sedex or FTA. Buying organisations will have targets and goals which give them a picture of the overall performance of suppliers and where to give appropriate support. This may precipitate a single focused campaign to work with suppliers from one specific industry sector to improve the entire product category and make it more sustainable across all their suppliers in a category.

As part of its Ethical Sourcing Programme all David Jones suppliers have been asked to counter-sign the newly enhanced David Jones Supplier Code of Conduct. To date, more than 97% of private label suppliers have signed the code, and are undergoing audits to prove compliance. To date a compliance level of 77% has been achieved by audited suppliers.

Leading organisations are engaging with their entire supply chain beyond Tier 1 and screening suppliers back to raw material production. Suppliers are trained in sustainability principles and audited against a Code of Conduct, with minimum standards of compliance for suppliers in their operations, work sites and products

See: [https://www.woolworthsgroup.com.au/page/community-and-responsibility/group-responsibility/responsible-sourcing/Labour\\_Practices\\_in\\_our\\_global\\_supply\\_chain/#Our commitment to end forced labour](https://www.woolworthsgroup.com.au/page/community-and-responsibility/group-responsibility/responsible-sourcing/Labour_Practices_in_our_global_supply_chain/#Our%20commitment%20to%20end%20forced%20labour)

Big W has a system to monitor non-compliance. Each question in their ethical sourcing audit checklist has a significance rating for non-compliance, critical, high and low. Critical non-compliance criteria are related to child labour, imprisoned and bonded labour, health and safety, or bribery and corruption.

The conversation around sustainability frequently commences between the buyer and supplier with the identification of gaps in the supplier's sustainability performance and engaging in a collaborative manner to increase sustainability. More advanced buying organisations are working closely with suppliers on continuous improvement.

See: [https://www.woolworthsgroup.com.au/page/community-and-responsibility/group-responsibility/responsible-sourcing/Labour\\_Practices\\_in\\_our\\_global\\_supply\\_chain/#Our commitment to end forced labour](https://www.woolworthsgroup.com.au/page/community-and-responsibility/group-responsibility/responsible-sourcing/Labour_Practices_in_our_global_supply_chain/#Our%20commitment%20to%20end%20forced%20labour)

To be fully transparent to its customers, Big W lists and regularly updates on its website the names and addresses of all factories outside of Australia that produce clothing and textiles for sale. These are predominantly in China and Bangladesh.

Organisations at a leading level would be engaging with Tier 2 and Tier 3 suppliers to understand more about the various inputs and raw materials they use to improve transparency and traceability.

To support suppliers to deliver sustainability outcomes, buying organisations can help improve awareness and management of ethical sourcing issues, explaining how they can identify, manage and resolve ethical sourcing issues within their own supply chains.

## BUILDING COOPERATIVE SUPPLIER RELATIONSHIPS FOR SUSTAINABILITY

### SUPPORTING SUPPLIER RELATIONSHIPS FOR SUSTAINABILITY

#### Open communication and mutual respect

Robust and cooperative supplier relationships are critical to supply chain sustainability. Successful relationships are frequently underpinned by open communication, mutual respect and a willingness to share risks and rewards. Access to senior staff and sharing future business plans was also identified as a defining element of a cooperative relationship.

#### Dispute resolution processes

When there are differences of opinion that require resolution, a mutually agreed process is beneficial and is routinely written into contracts. In Australia, the voluntary Food and Grocery Code of Conduct governs certain forms of conduct between grocery retailers and wholesalers in their dealings with suppliers, including supply agreements, payments, termination of agreements and dispute resolution. Coles' Supplier Charter outlines a comprehensive framework for dealing with suppliers with respect and transparency. The Charter provides an independent and confidential dispute resolution process overseen by an independent arbiter.

Coles has established a Wages and Conditions Hotline for Farm and Factory Workers in Australia, to understand more about their conditions of employment or to report unfair labour practices.

#### Long-term relationships

Establishing long-term relationships was also recognised as a defining quality of cooperative supplier relationships. Long-term arrangements are often the base for integrating sustainability into product offerings which are frequently marketed by retailers as private labels with sustainable attributes. Additionally, long-term contracts, typically over ten years, signal to suppliers a preparedness for mutual future growth. With the assurance of lengthy contracts, suppliers have confidence they need to invest in upgrades and new equipment.

Sundrop Farms' 10-year partnership with Coles to supply fresh truss tomatoes has facilitated the establishment of a state-of-the-art 20-hectare greenhouse facility at Port Augusta in South Australia. The first-of-its-kind sustainable greenhouse project, where tomatoes are grown with solar power and desalinated seawater, will also create an estimated 300 jobs in construction and ongoing operations.

#### Supporting supplier diversity

Supporting suppliers representing marginalised groups in society was also highlighted as a way of building cooperative supplier relationships that contribute to sustainability. Country-specific legislation has encouraged supplier diversity in several countries including South Africa. Organisations such as WHL have customised and built on the legislative requirements by developing their own supplier diversity programmes.

The Woolworths Supplier and Enterprise Development (SED) program is a tool that was adopted to enable emerging businesses owned by black entrepreneurs, particularly women, to enter Woolworths' supply chain, and build and maintain business sustainability. Barriers to entry into the commercial supply chains include lack of access to finance, lack of business and financial management skills and lack of access to land, resources and infrastructure. Investing resources to overcome these barriers has allowed Woolworths to not only meaningfully contribute to building the small and medium-sized business sector, but to also increase its preferential procurement targets. Woolworths is able to build long-lasting relationships with suppliers through this commitment to building and transforming the supply chain.

See <https://www.coles.com.au/corporate-responsibility/our-suppliers/our-commitment>

See <http://www.woolworthsholdings.co.za/downloads/2016/WHL-Good-Business-Journey-Report-2016.pdf> p, 37

As well as responding to legislation, retailers are supporting suppliers representing specific marginalised groups in society.

The Coles Indigenous Food Fund was established in 2001 to promote native bush foods and support Indigenous enterprise. With funds raised through the sale of Indigenous products sold at Coles, Indigenous suppliers are helped to grow their businesses.

#### **Interest-free loans**

To support small businesses providing food and grocery products, Coles has established a fund for interest-free loans.

In April 2015, Coles established the Coles Nurture Fund which is allocating \$50 million over five years to help small Australian food and grocery producers, farmers and manufacturers to innovate and grow their businesses. Successful applicants receive grants or interest-free loans to fund new market-leading products, technologies, systems and processes.

### **CAPACITY BUILDING FOR SUPPLIERS FOR SUSTAINABILITY**

#### **Training and specialist advice**

Capacity building for suppliers can take several forms from specialist sustainability training, access to expert knowledge and forums to share information and experience. Training suppliers in sustainability is frequently carried out by third parties including intermediary companies such as Sedex. To augment supplier training, buying companies are providing access to specialist knowledge such as an agronomist to assist growers with dealing with diseases and sponsoring international experts to present at forums on the latest global trends and research. In addition to recognising and celebrating the achievements of their suppliers, many organisations host supplier forums and supplier awards events.

Coles hosts an Annual Supplier Awards Gala dinner and presentation. There is an award category for Sustainable and Ethical Excellence.

A key feature of a mature cooperative supplier relationship is a commitment to work collaboratively with suppliers on remediation issues for long-term mutual rewards. Leading buying organisations are supporting suppliers with adverse supplier audit results and providing them with time, access to specialist knowledge and the assurance of long-term supply arrangements to encourage them to invest in upgrades and address audit issues over mutually agreeable time frames. Another mechanism to support suppliers is payment for factory audits by retailers.

Commitment to supplier capacity building is critical for a supplier relationship based on sustainability, and exemplary organisations are engaging with multiple levels of the supply chain beyond Tier 1.

## INDUSTRY LEADERSHIP AND STAKEHOLDER ENGAGEMENT

### INDUSTRY LEADERSHIP

Participating in cross sector forums has the potential to lead to industry-wide transformation for sustainability. These forums provide buyers and suppliers with a venue where they can share learnings and experiences and work collaboratively.

#### Cross sector industry groups

Collaborative groups have been formed between retailer organisations to further sustainability. Globally, the Consumer Goods Forum is an example of a collaborative group with members representing key international consumer brands and major retailers. Their mandate is to address environmental sustainability challenges that impact the industry; bring global alignment and voluntary standards to non-competitive areas such as ethical sourcing; and develop methodologies and metrics that measure environmental sustainability improvements in the industry. The Australian Retail and Supplier Roundtable has been modelled on this forum.

#### Sustainable industry initiatives

To improve the sustainability of an entire supply chain, there is a growing trend of cross sector collaboration centred on specific product categories like viscose, cotton and palm oil, such as the Better Cotton Initiative (BCI) and the Roundtable on Sustainable Palm Oil (RSPO). These forums bring together all the players associated with an entire supply chain and can focus on integrating sustainability into all lifecycle stages, including opportunities to contribute towards a circular economy.

## 5.2 STAKEHOLDER ENGAGEMENT FOR SUSTAINABILITY

### NGO partnerships

To progress supply chain sustainability, retail companies routinely form long-term partnerships with non-government organisations for mutual benefit and also offer opportunities to collaborate with suppliers to develop sustainable products.

See <http://www.woolworthsholdings.co.za/downloads/2016/WHL-Good-Business-Journey-Report-2016.pdf> p, 37

In 2012, WHL embarked on a broad-based partnership aimed at furthering WWF's conservation mission. The partnership, while assisting the company's drive towards greater sustainability, was designed around WWF's priorities and programs. This partnership was of mutual benefit with WWF's CEO noting:

*"In selecting Woolworths as a partner, we are able to promote better production and responsible sourcing of raw materials that otherwise drive deforestation or the unsustainable use of water; engage jointly on public policy; support the equitable sharing of natural resources; raise awareness about the need to consume more wisely, and ultimately work together to protect some of South Africa's ecologically most important places."*

### Stakeholder engagement

Engaging and consulting with a wide range of stakeholder groups assists in the promulgation of sustainable supplier relationships to deliver net positive impacts. WHL Group's stakeholder participants include customers, suppliers, communities, business partners, employees, unions, NGOs, academia, industry bodies, government, regulators, and the media among others.

WHL created a stakeholder forum to ensure alignment between the company's positioning and message to stakeholders, and to co-ordinate engagement. The forum established a platform for feedback to be consolidated and channelled appropriately and enables WHL to engage more efficiently. The merits they see from creating this forum is *that they can now resolve complex, Group-wide issues centrally and in this way improve their reputational risk management.*



