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Sustainable supply chains

A people first approach
BSI white paper

By Royal Charter

Foreword

The number of organizations relying on complex and sophisticated supply chains is growing rapidly. Vulnerabilities are growing too, particularly in human rights, modern slavery and health and safety.

The risk landscape is evolving alongside the definition of quality, which now encompasses non-physical attributes such as environmental, social and ethical impacts, as well as integrity, security and organizational behaviour.

BSI's most recent Supply Chain Risk Insights Report found numerous risks to supply chain stability, and COVID-19 put supply chains in the spotlight like never before. With seemingly insurmountable challenges to deadlines and delivery, many organizations were tempted to cut corners to meet demand – and the human links in these chains often found themselves paying a price.

Post-pandemic, a survey of supply chain and procurement practitioners found that 80% believe stronger legislation is needed in relation to the Modern Slavery Act's corporate reporting requirement to prevent such bad practice from recurring.

To build a sustainable and ethical workforce worldwide, organizations need to adopt a people-first approach to supply chain management. The benefits are clear: investors are confident they are supporting ethical practices; regulators are satisfied that standards are being adhered to and customer demands for socially responsible goods are being met.

Executive Summary

- As supply chains have become global and increasingly complex – exacerbated by events such as COVID-19 – sustainable supply chain practices are being challenged, particularly in the areas of human and labour rights, modern slavery, and health and safety

- Supply chain management, including procurement, legal, compliance and health and safety, is now established as a core company competency and a key area of focus for the C-suite. However, the job is not done and requires advocacy and total transparency

- Business leaders can use supply chain management to address human rights, prioritize worker well-being, and accelerate supply chain inclusivity and innovation

- Adopting best practice, whether through standardization or other global business models, allows organizations to improve performance, embed robust processes, and collaborate with their supply chains to effectively mitigate threats to human rights and modern slavery

- There is no one-size-fits-all approach to supply chains. However, there are steps business leaders can take to map out and define supply chain goals, and understand what right looks like.

Context, challenges and opportunities

What is supply chain sustainability?

Supply chain sustainability (SCS) refers to an organization's efforts to consider, alongside revenue and profit, the human and environmental impact of a product as a result of its supply chain operation.

Taking a proactive approach to managing supply chain risks through an effective procurement process can help you minimize the social impact of how you do business, protecting both your brand and your people.

Five market drivers for embedding sustainable values in the supply chain:

01

Equality, inclusivity and responsibility
Complex supply chains amplify the impact business activity has on your organization and its people. Supporting the health and well-being of the workforce – both physically and mentally – while taking a stand against corruption and slavery in-house and through your suppliers, will add value to every element of your business

02

Consumer demand
The purchasing decisions of younger people increasingly favour organizations that uphold sustainable values. As these groups further influence the mainstream, pressure will grow on business leaders to ensure decent, safe and secure working environments for all workers

03

Risk mitigation
Supply chain disruptions like COVID-19 have a significant impact on a company's business and financial performance. Building a sustainable supply chain improves organizational resilience and quality control

04

Increased profit
Working more closely with suppliers on inventory, shipping and transport costs helps reduce overheads and optimize cash flow. Better collaboration with suppliers also opens new opportunities, including access to capital markets

05

Competitive advantage
Putting people-first values at the heart of your commercial strategy, including championing inclusivity, backing innovation and collaborating with suppliers, increases your competitiveness
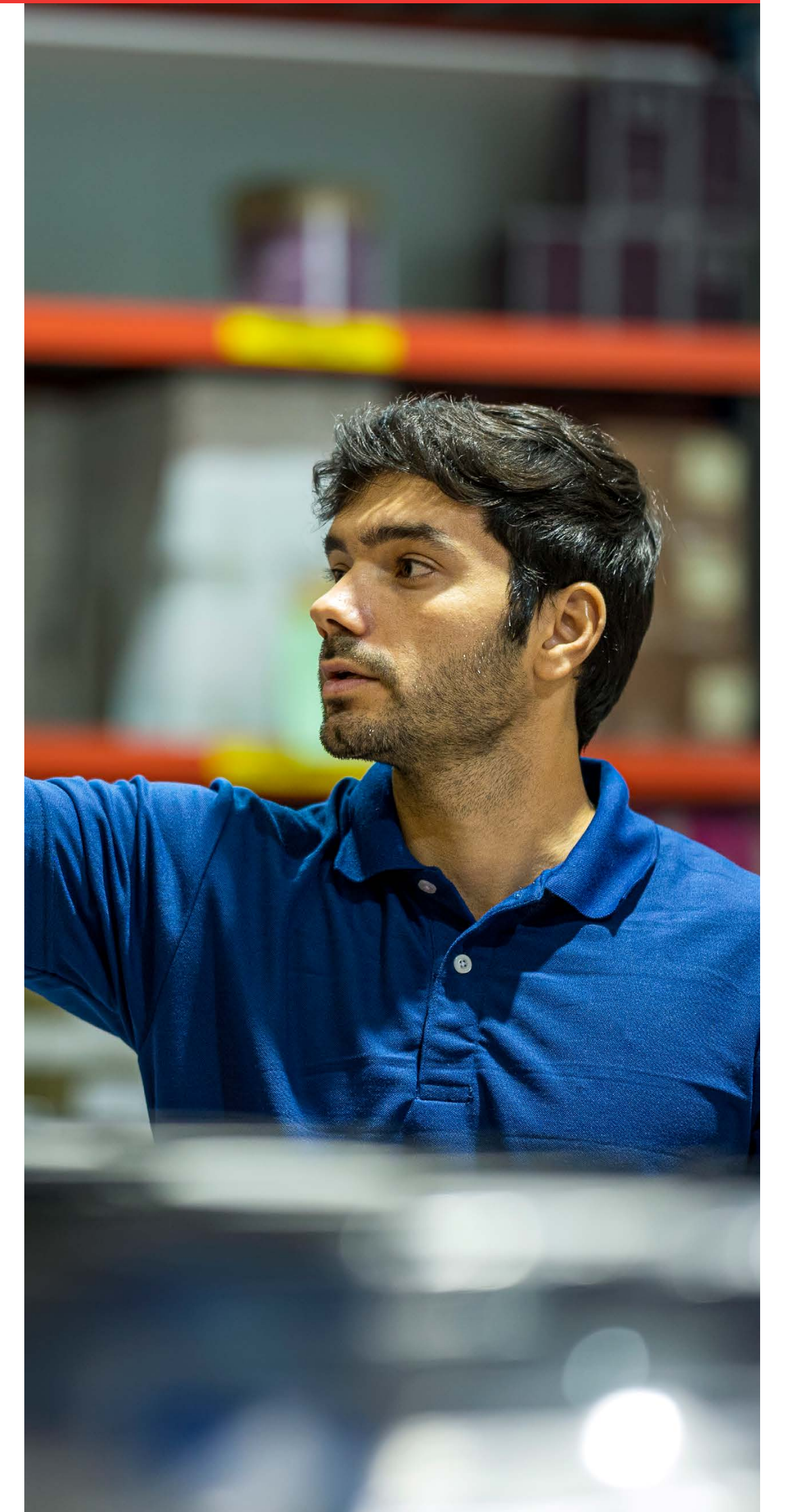
Where does the responsibility for people-focused supply chains lie?

The central goal of SCS is to create, protect and grow long-term social, environmental and economic value for all stakeholders involved in bringing products and services to market.

Supply chain networks that span continents are increasingly complicated. Most organizations have good information on the top 10-20% of their suppliers. By implication they may not have good information on the rest of their direct suppliers, and very often have little or no knowledge of the factory, people and machinery providing the product, service or works that are being sourced. Corruption, breaches in labour laws and exploitation of security flaws all have the potential to damage a brand's reputation and financial performance.

As a supply chain changes – through larger market share, new channels or new supply chain partners – so must the way the chain is organized. If business leaders aren't examining and adjusting their organization's approach each time a change is made, the "clutter" of outdated processes can reduce speed and cost-effectiveness.

Long-term success involves organizing supply chains the right way, and a piecemeal approach will reduce efficiency and effectiveness. Furthermore, the increasing complexity of supply chain sustainability means having the right leadership and an employment strategy that makes sure the supply chain team has the skills and values it needs.

An overview of the UN Global Compact's principles relating to human and labour rights

1. Forced labour

2. Child labour

3. Working hours

4. Wages and benefits

5. Humane treatment

6. Non-discrimination and equality

7. Freedom of association and collective bargaining

8. Occupational health and safety

9. Emergency preparedness

10. Occupational injury and illness

11. Fire safety

12. Building structure and integrity

13. Industrial hygiene

14. Leave entitlements

15. Freedom of speech

16. Human trafficking

17. Privacy

18. Minority rights

19. Rights of specific stakeholder groups: women, children, older, disabled, indigenous or migrant workers

Source: Supply Chain Sustainability: *A Practical Guide for Continuous Improvement, Second Edition*

🔴 From compliance to best practice: How business leaders can approach sustainable supply chain management

1. Addressing human rights risks

Global supply chains have the potential to generate growth and employment, develop skills and promote the transfer of technology. At the same time, a broad range of human rights must also be protected. A lack of safe working environments and the possibility of human rights violations – including child labour, forced labour and human trafficking – are all of growing concern for stakeholders in a range of industries.

UNICEF estimate that 160 million children work worldwide. While it is possible to estimate with growing precision the total number of individuals in child or forced labour, determining how many of these people are linked to global supply chains remains a significant challenge. From clothing and construction to factories and fishing, forced labour is becoming increasingly commonplace, with victims working for little or nothing, often in appalling conditions.

All organizations operating in this context have a responsibility to ensure that these human rights violations and abuses are addressed. The UN's Guiding Principles on Business & Human Rights provide a globally authoritative baseline for how companies, regardless of size and circumstances, can meet this responsibility. Importantly, the Guiding Principles stipulate that human rights due diligence must be an ongoing process, with a regular "know and show" approach to human rights.

The Guiding Principles can be cross-referenced with the UN's Global Compact, with the former providing conceptual clarity and content around the connection between corporate responsibility and respect for human rights.

Why compliance reinforces commitments to corporate social responsibility – supporting both growth and investment

49.6m

In a comprehensive study conducted in 2021, an estimated **49.6 million people were victims of modern slavery** at any given time, including an estimated 27.6 million in forced labour and 22 million in forced marriage. That means there was nearly one victim for every 150 people in the world

3.3m

More than **3.3 million of all those in forced labour are children**

27.6m

Of the **27.6 million people trapped in forced labour**, 86% people were estimated to be exploited in the private sector; 6.3 million persons were in forced commercial sexual exploitation on any given day; and 3.9 million were in forced labour imposed by state authorities

15m

The COVID-19 pandemic exacerbated gender-based violence. According to the study, every three months of lockdown produced an additional **15 million cases of gender-based violence globally**. Women and girls were exposed to sexual, physical, and psychological abuse from family members and intimate partners because of stay-at-home orders and quarantine restriction

Source: *Global Estimates of Modern Slavery: Forced Labour and Forced Marriage*, September 2022.

2. Prioritizing a sustainable workforce

To help attract, retain and get the best from their workforce, organizations need to prioritize the health, safety and well-being of their people. This can be achieved through a holistic strategy that goes beyond basic needs to consider social engagement, work-life balance, career development and more. The result? Lower employee turnover and reduced recruitment costs as well as greater innovation, creativity and higher levels of commitment.

The Ten Principles of the UN Global Compact have become important considerations for any company, but particularly those with supply chains that extend into low-cost manufacturing economies. In June 2022, the International Labour Organization (ILO) added a safe and healthy working environment to its Declaration on Fundamental Principles and Rights at Work, further reinforcing the need to ensure that workers are protected from physical and mental harm.

Organizations that have gone beyond the legal requirements – ensuring that their workers, and those in the supply lines, have a safe and healthy work environment as well

as a sustainable community – will drive high levels of commitment, resulting in lower employee turnover and recruitment costs.

Any effective, extended workforce strategy must take into account the full network of suppliers. Companies that have managed to find the employee retention sweet spot share a few key factors:

• Active consultation and participation

• Offering flexibility in terms of working hours and location of work

• Growth and development programmes to encourage employees to fulfil their potential

• Rewards and recognition schemes that don't focus solely on financial reward

It is therefore no surprise that these are all requirements within established supply chain audits such as SA 8000, covering social accountability, and other ethical trade audits.

In striving to have a safe, healthy and happy workforce, a business can deliver significant social benefits while ensuring sustainable supply chain resilience and adaptability to unexpected disruptions.

Managing worker well-being at a global footwear brand

A global footwear brand had aligned its strategy to United Nations Sustainable Development Goal 8 – Decent Work and Economic Growth, by leveraging skills development to support decent work and economic growth. However, the company was frustrated by the failure of a key supplier in China to support this sustainability strategy, namely by agreeing to reduce excessive worker hours.

BSI was hired to help address the supplier's problem, supporting it in identifying gaps in its management systems and in diagnosing causes of excessive working hours. It was discovered that a high turnover of workers contributed to an increase in product defects – and rectifying the defects required additional time and resources, leading to excessive hours being worked.

High worker turnover was identified as having unintended consequences for the business: increased costs, risk to worker health, safety & well-being, and damage to the supplier's client relationships.

A plan was drafted to improve how data was gathered and analysed with the goal of finding out the needs of workers and what motivated different worker types to resign. Based on this enhanced understanding, the supplier developed a strategy to improve worker retention, as well as quality and control over working hours.

With support from BSI, the supplier was able to cut annual worker turnover from 18% to 3%. The client said:

"BSI provided creative ideas, consistent support and well-informed guidance to help our supplier make significant changes to its practices that led to workplace improvements for employees, and also to improved quality, profitability and business performance."

3. Building a more inclusive supply chain

A diverse supplier is a business that is at least 51% owned and operated by an individual or group that is traditionally underrepresented.

To promote an inclusive supply chain, organizations should consider collaborating with businesses owned by women, ethnic minorities, the elderly and disabled. Disadvantaged groups are often at the base of the economic pyramid, and by giving them the opportunity to compete for business, and improve their skills and earning potential, the vendor pool of loyal and flexible suppliers can be widened.

This approach has many benefits, from corporate social responsibility to the bottom line. The introduction of new products and services boosts innovation and opens up access to new markets. This in turn drives competition between existing and potential vendors, and even helps to attract new talent to a company.

You can advance supply chain diversity with these steps:

• Build a picture of where your company's external procurement funds are spent, and in what categories

• Set about diversifying your current and prospective pool of suppliers

• Aim to include at least one diverse supplier in competitive supplier selection

As social justice movements continue to grow, supply chain diversity should be a social and business imperative, not just a compliance-driven tick-boxing exercise.

4. Supply chain innovation

In recent years we've seen technology transforming due diligence in global supply chains, improving processes and generating far better oversight for business leaders as they map out risks or ethical breaches.

Technology solutions specifically focused on human rights are emerging that help meet the needs of workers, suppliers and companies. Artificial intelligence, blockchain and machine learning all have the capacity to process vast quantities of data. With greater trust, transparency and traceability, supply chain management professionals from all industries can tackle human rights, modern slavery and health and safety risks in a far more proactive way. From a worker's perspective, technology is assisting with reporting grievances, human rights violations, or tracking working hours and pay.

Despite much progress, human rights bodies are calling for even greater investment in this area, and business leaders who are serious about preventing human rights abuses must seek out the solutions that will meet their specific needs.

Using data to bring visibility and trust to the distribution of donated medicines

In 2014 two global pharmaceutical companies, in partnership with an NGO, pledged to donate and distribute up to 1 billion international units of cold chain pharmaceutical products for use in developing countries over ten years.

The NGO distributes donated medicines through a global distribution network of numerous treatment centres. The donating parties raised initial concerns with the NGO regarding potential and significant product diversion and subsequent loss of medicines in the supply chain in India. Contributing factors included stakeholder competency gaps in quality management, uncertainty around stock and storage capacity levels, as well as inconsistent and manual processes to document and track products. Similar challenges were likely in other parts of the world as well.

In just over six months, this single-issue investigation developed into a comprehensive quality distribution strategy. BSI engaged in a long-term consultative engagement to improve the in-country management systems and governance, as well as provide on the ground presence to monitor the ongoing implementation of the client's quality management program.

As part of the engagement, BSI and Trace Labs also deployed AidTrust, a data management hub powered by the Origin Trail Decentralised Knowledge Graph (DKG). AidTrust allows the client to significantly enhance the transparency of their in-country distribution, using trusted data to better understand the traceability and risk exposure of their donated products. More specifically, AidTrust enables product authentication, tracks patient utilisation, provides transparency on stock levels, and highlights any diversion or waste issues. This innovative solution enables the NGO to manage donations in a more efficient and effective way, ensuring the medicine reaches the intended patients at the right time. After the successful deployment of AidTrust in India, the NGO is working with BSI and Trace Labs to plan for the global rollout of AidTrust across 40 countries.

● Roadmap to change:
How the c-suite can implement
a sustainable supply chain

1. Align your values with global leaders

SCS begins with a broader understanding of global responsibility and the role your organization plays in achieving meaningful change.

To ensure the widest possible relevance to the sustainability agenda, organizations should look at a range of international frameworks relevant to labour rights:

• The Ten Principles of the UN Global Compact focuses on a company's value system, encouraging a principled approach to doing business that meets fundamental corporate responsibilities in the areas of human rights, labour, the environment and anti-corruption.

• The UNs Guiding Principles on Business and Human Rights (UNGPs) provide guidance and tools to ensure the preservation of human rights in business operations. There are 31 principles in total organized by three pillars – Protect, Respect and Remedy:

  • States have a duty to **protect** against human rights abuses by third parties

  • Businesses have a responsibility to **respect** human rights wherever they operate

  • Both states and business must have effective grievance mechanisms in place to **remedy** any human rights violations

These international frameworks address sustainability issues at a global and national level, providing a powerful aspiration for businesses to act responsibly – and, where possible, align with them in their business strategy and operations – to find a way through society's sustainability challenges.

2. Change starts at the top

The onus is on an organization's executive leadership to take on the role of governance and oversight of the supply chain:

• Setting out the company's approach to SCS through milestones and key performance indicators

• Communicating with business and supply chain managers to emphasise its importance; and

• Regularly reviewing and updating priorities, successes and challenges

SCS strategies are far more efficient when they are seamlessly integrated with those of the business, and internal alignment creates harmony between the commitment to sustainability frameworks, like the UN Global Compact, and commercial objectives. A wide variety of functions need to come together to align their business requirements with the company's SCS. They should ensure the company's requests meet realistic expectations that encourage suppliers to maintain the required level of performance on sustainability.

The CEO Stress Test: is your organization getting it right?

Ask yourself:

• How many suppliers does our organization have?

   • How many are direct and how many indirect?

• What percentage of our buyers are critical to our business?

• Do we actively verify the living profiles of our suppliers?

• Have we conducted risk assessments of all our suppliers?

• How many suppliers have we physically visited?

   • What issues were identified and where?

   • What improvements have we made?

• Does our supply chain adhere to our corporate values?

• Can we tell our organization's supply chain story?

3. Adopt a standards-based approach

Many organizations have come to see collaboration as an important element in addressing the root cause of sustainability issues. Adopting globally recognised standards of best practice allows organizations to embed robust processes for mitigating the impact of disruptions across an ever-changing global landscape. They can be a catalyst of positive change, ensuring greater cooperation and alignment through the supply chain.

Best practice sharing
Whether it's focussed within a single industry or cross-sector, sharing knowledge, tools and solutions to common problems can support supply chain sustainability programmes.

Joint standards and implementation
These collaborations typically focus on one sector and aim to create consistency among companies' expectations and programmes. Compliance-based approaches to supplier monitoring are frequently characterised by inconsistency, duplication and inefficiency across companies.

How standards improve performance

A joint study conducted by scholars at Harvard Business School and Duke University analysed proprietary certification data from some of the world's largest certification companies as well as injury microdata from the U.S. Bureau of Labor Statistics.

It is the first study to directly examine the effects of health and safety management standards on establishment-level health and safety performance using injury and illness data.

The study found that:

- standards certification reduces the total number of illness and injury by 20%, and the number of illness and injury cases associated with job transfers or restrictions by 24%

- The most severe injuries and illnesses – those that lead to days away from work – are also reduced by a similar magnitude

The study evidences that standards and accompanying certifications improve performance, serving as a credible signal of a safer workplace.

Read the latest insight report: Management standards and certification proven to significantly increase performance throughout an organization
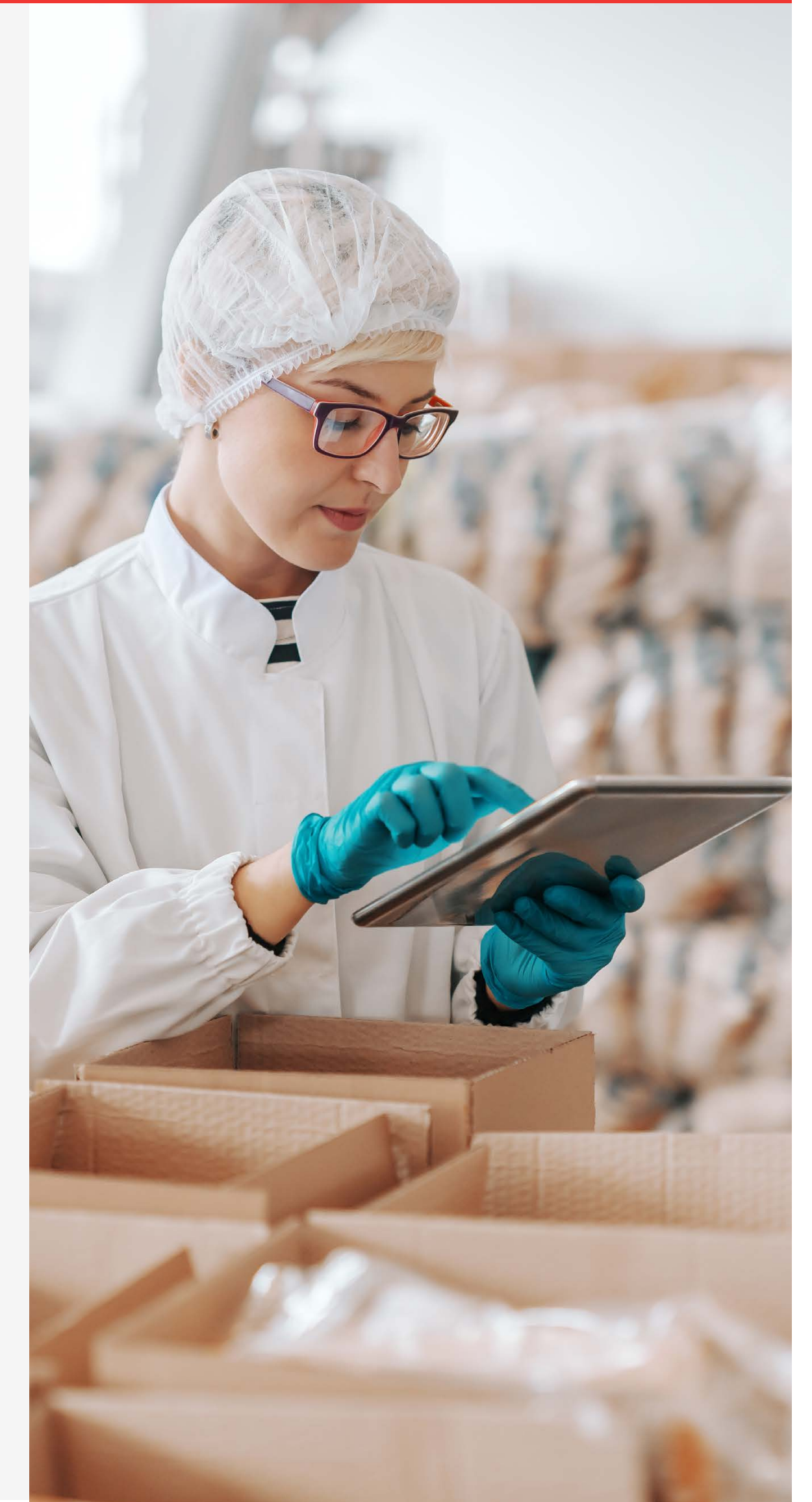
Where to start?
First, begin by identifying the most common and required standards within your industry. What are the other standards that are not required but are highly regarded? Next, consider your organization's objectives and how standardization can help you achieve them. And finally, communicate any changes with your supply chain partners to keep everything consistent.

The following standards and global best practice will guide your organization on its journey to achieve a sustainable supply chain.

BSI's **Prioritizing People Model**© provides a structured framework for all the people aspects of your organization and supply chain

ISO 45001 Occupational Health & Safety Management System

ISO 45003 Occupational Health and Safety Management – Psychological health and safety at work

BS 25700 Modern Slavery Risk Management (new)

ISO 30415 Human Resource Management – Diversity and inclusion

ISO 26000 Guidance on Social Responsibility

BS 8950 Social Value

PAS 808 Purpose Driven organizations (new)

ISO 37001 Anti-bribery Management Systems

ISO 37000 Governance of Organizations

ISO 30408 Human Resource Management

ISO 37002 Whistleblowing Management Systems

ISO 27701 Security Techniques. Extension to ISO/IEC 27001 and ISO/IEC 27002 for privacy information management

ISO 20400 Sustainable procurement

Every business is different and timescales will vary for each. Following best practice frameworks and using relevant tools established by recognized standards bodies – such as BSI's Supply Chain Risk Exposure Evaluation Network (SCREEN) – enables organizations to give full consideration to the wide-ranging barriers and targets they face.

4. Map out and define your supply chain goals

Most organizations are outcome-driven, so it is important to set clear aims for people to follow that align with your vision, values and mission statement. Once these are in place, you can then outline the practical steps needed to reach these goals.

In the global market, the biggest challenge for supply chain ethics is how well you know your suppliers. Determining how ethical your suppliers are is a complex task. To start, you need to map your supply chain and understand the relationships you have with different levels of suppliers. With a clearer picture, you can better understand the levels of risk, weaknesses that expose you to human rights violations, and how to monitor the effectiveness of your efforts.

We encourage organizations to consider these factors in their analysis:

Know your suppliers

• What is the level of human impact, of streamlining the risk assessment process, from low to high?

• Where are suppliers based and what impact does the location have?

• How big/small are your suppliers and what bearing does that have on your sustainability strategy?

• What is your volume of spend with suppliers? If you do a lot of business with a supplier, or if they are your sole supplier in a region, they may be difficult and time-consuming to replace

• What is the length of your relationship with the supplier? Risk could possibly be reduced if it's a longstanding relationship

Improving supplier surveillance in food manufacturing

Barilla is an Italian multinational food manufacturer. With 8,500 employees in over 100 countries, it is the largest pasta company in the world. Its mission is to create Mediterranean-inspired food sourced from responsible and transparent supply chains.

With the devastating impact of COVID-19 on communities around the world, it has been vital for the food industry to remain robust. In line with its sustainable business ethos, and in tune with several SDGs, Barilla's aim throughout the pandemic was to accept no compromise on food quality or safety, while maintaining an efficient supply chain – from responsible sourcing and production to preserving workers' rights and safety in the workplace. To achieve it, Barilla needed an immersive auditing system that could monitor the entire supply chain.

Partnering with BSI, a multidisciplinary team was quickly established which developed a tailored plan to manage the auditing process effectively, making it as immersive as possible. This process, covering the company's activities and those of all its suppliers, was overseen by a dedicated BSI project manager who played a key role in ensuring Barilla's expectations were met, while managing any difficulties that arose within the supplier network.

Barilla's remote auditing, underpinned by BSI verification, has proved the strength of its processes and the sustainability of its supply chain. With its procurement strategy based on solid back-up plans, Barilla believes it is now more resilient than ever in the face of the unexpected.

Alessandro Ruggeri, Global Suppliers Quality Director for Barilla, comments:

"BSI provided us with a pool of skilled auditors, who have been supporting us in the different countries where our suppliers operate, while remote audits have been highly effective for collecting evidence via interviews or document review. BSI's expertise has been crucial during the pandemic."

Understand behaviour risk

- Put together supplier profiles and risk score them to assess which areas will be prioritized and monitored

- Use a standard like PAS 7000 Supply Chain Risk Management to pre-qualify prospective suppliers, mapping risk through profiles, capabilities and performance. This holistic approach can mitigate risks and reputational damage

- Develop a specific programme which outlines your organization's commitment to responsible business and sets out the requirements for suppliers

- Establish what your organization wants suppliers to adhere to: a code of conduct, signed contracts legal requirements, certification against standards etc.

Monitor and measure

- Collaboration is key. Share expectations with suppliers, communicating the level of monitoring and compliance you are looking for

- Monitoring can be tailored to the level of risk, from self-assessment at one end of the scale to annual third-party audits, for example, at the other

- Once you have implemented a monitoring programme, help your suppliers understand why and how improvements can be made: that continuous "know and show" approach we've already discussed

- Devise a series of KPIs for the organization to improve its responsible supply chain process

What does 'getting it right' look like?

- We align corporate values with our supply chain, R&D, procurement, risk and compliance

- We maintain a living database of approved supplier profiles

- We conduct supplier risk assessments relating to country, product type, process, supplier and reputational risk

- We map intelligence-based enterprise risks of global supply chain threats including environmental, social and human rights

- Our procurement is risk-based, categorising suppliers into risk profiles by country, product, process, value, etc.

- We allocate resources based on areas of greatest known risk

- We conduct on-site validation of higher risk suppliers

- We strive for continuous improvement – the performance of suppliers is measured, monitored and improved – supporting those that adhere to corporate values

Looking ahead to the future

We are going through a global paradigm shift. Supply chains have come out of the back office and become a consumer measure of an organization's social values. Consistent consumer pressure, fuelled by social media, is driving organizations to do more to improve the human impact of their supply lines.

Many leading companies have made the first step, moving from purely efficiency- or service-driven supply chain strategies to more holistic concepts driven by profitability and socio-environmental benefits.

Today, implementing responsible, people-first supply chains is a must for all companies, and doing so now can bring competitive advantage and better business performance. Companies that don't act face the prospect of being left behind.

Shaping a better future with BSI

The financial, environmental and social climates of our planet are shifting continuously, and we need more progress towards a sustainable world.

By shaping, sharing, embedding, assessing and supporting industry best practice, BSI equips organizations with the tools and techniques to do just this, helping them accelerate the implementation of innovation.

Working globally across a range of sectors – with specialist expertise in transport and mobility, the built environment, food and retail, and healthcare – BSI offers a range of services and solutions that enable innovation and improvement. We partner with our clients to work towards a shared goal: embedding sustainable behaviours for the long-term benefit of their people, their customers and our planet.