Supply chains

Linking it together

Toby Webb ponders 12 supply chain lessons that can take sustainability to scale

In October, Ethical Corporation held its annual supply chain conference in London. Amid the usual barrage of good practice ideas and anecdotes, some solid lessons emerged.

Lesson 1: When it comes to selecting countries or regions to source from, sustainability is usually considered too late. In some cases (a handful at most), it's considered at the same time as other factors, but it doesn't greatly influence selection. Sustainability usually only comes in afterwards to help mitigate problems, lower risk, and in some cases, help improve supply chain conditions and field/factory management.

Lesson 2: Supply chain risk is front and centre for companies buying commodities. Access to food, timber and clothing resources, for example, are priorities for forward-looking companies. Although the Uzbek government has this year stopped using child labour for the cotton harvest, Chinese buyers have purchased the harvest for the next two years. Likewise, the German government is doing resource deals in countries such as Kazakhstan to ensure minerals supply.

Companies that want their share of the dwindling pie will need to think hard about buying way beyond the spot market. Supplier partnerships are clearly a key part of this thinking, but by no means the only part.

Lesson 3: Community investment is now becoming strategic when it comes to access to commodities. For example, if you want to sell beer in east Africa, not only do you now need to think about local ingredient sourcing and farming, but also about long-term community permission to manufacture and sell your product. If you don't you will risk local or national wrath. When votes are at stake, companies usually lose out.

Lesson 4: A few years ago having a portion of your agricultural commodities sourced from certified farms, forests or fisheries was enough to be able to say "look, we're working on this", but now some large companies are realising that given the lack of scale for all sustainability certifications, their own internal standards that come close to, or go beyond these, are increasingly needed.

Lesson 5: With regard to supplier partnerships to drive sustainability performance, companies are much more forthcoming on environmental improvements and data in the supply chain. Aside from the odd exception, (UK retailer New Look is one) they lack the confidence to discuss social and management improvements publicly.

Many hands

Lesson 6: Don't forget that resources count. One leading company's representative noted at the conference that the group had a global corporate social responsibility team of 60 people. This, in their view, is what's needed to drive progress and worker communication.

Lesson 7: Competitors can collaborate, and the rate of progress is speeding up. Clothing companies are collaborating via industry groupings and bilateral cooperation. Companies are also finding ways to work together on capacity building in sustainability education.

Lesson 8: Legal risks around corruption are increasing for companies, particularly from the US Department of Justice. However, Europe has been much slower to enforce laws and the UK Bribery Act is not taken as seriously as the FCPA in the US.

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The resource race is on

Internal corporate supply chain and sourcing standards are increasing in importance and rigour

Lesson 9: Despite slow progress on the enforcement of anti-corruption laws, transparency is going to continue to move up the agenda. Companies are being asked to disclose more about labour standards and product origins. And consumers who may not pay an "ethical" premium absolutely expect brands to manage the issues.

Lesson 10: Supply chain collaboration is not just for western brands. Leading companies in Asia are now working with the implementation NGOs – organisations that drive change through cooperation – that only western brands worked with until recently.

Lesson 11: Activist NGOs are keener than ever to talk to business. The old notion that they just want to hammer brands to get attention/money/backslapping is harder than ever to justify. It's becoming clearer to both NGOs and companies that campaigning without offering or contributing to pragmatic change is unsustainable.

Lesson 12: In a few companies the entire approach to products is becoming wrapped up in sustainability. This is still rare, but in the cases of Nike, Golden Agri Resources and Marks & Spencer (and a handful of others) we can now see this beginning to happen. The long road ahead has a hazy destination becoming more visible in the distance. ■

COLUMNIST: TOBY WEBB

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Essay

Where is 'true north' for sustainable business?

By Peter Lacy

Business needs to accelerate the shift from incremental to transformational change

Sustainable business cannot exist in a policy vacuum, but in light of the Rio+20 summit in June, focusing on the role of business leadership seems critical.

There are many doubts over the ability of the inter-governmental process to deliver meaningful progress and timeframes on issues such as climate change.

Looking forward, in getting our bearings right, it is important to ask whether the push towards sustainable business has delivered more or less success than meets the eye. It is perhaps more important to ask where "true north" lies on the road ahead for business to innovate and align market forces with sustainable development.

Finding true north for sustainable business means resetting the compass, from the misleading "magnetic north" of incremental change, to radical change. True north means advancing the sustainable business agenda beyond celebrated examples of innovation from pioneer companies at the margins, to rethinking and reinventing the economic and business systems that support the way we live, work, play and interact as societies. True north means re-orienting sustainable business towards scale at speed. True north means transformation.

Taking stock

Sustainability – in its interconnected social, environmental and economic sense – is increasingly an agenda item in boardrooms around the world. For example, in a recent United Nations and Accenture study more than 93% of chief executives we spoke to from 800 global companies spanning 100 countries and 25 industries said that they saw sustainability as "important or very important" to their future business success.

What's more, we can point to game-changing examples of sustainability permeating corporate strategies, operations and supply chains around the world in a way that would have been almost unthinkable even five or 10 years ago.

Take the consumer goods sector and Unilever's much celebrated Sustainable Living Plan, which, interwoven with its business strategy for the next decade, plans to double the company's top line while in effect halving its environmental footprint and empowering 500,000 smallholder farmers in the process. Take SABMiller, Diageo, Heineken and other brewers' efforts to rethink water and agriculture in their supply chains; or the retailers thinking through new business models such as Kingfisher's One Planet approach to home improvement and DIY and Marks & Spencer's innovative new concept of "schwopping", crediting consumers for returning old garments that charities can resell; or indeed Natura, the Brazilian cosmetics and personal care brand that sources from natural biodiversity in the Amazon rainforest and empowers one million women as its sales agents in their communities.

Take Nike, Puma or Timberland; or Siemens, General Electric, Schneider and others that are already making hundreds of billions of dollars collectively out of solutions that directly tackle sustainability issues.

And of course this is not to mention some of

Sustainability is increasingly an agenda item in boardrooms around the world

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Despite valiant efforts, fishing remains largely unsustainable

Promising progress has also been made on sustainable business via industry-level collaboration

the pioneers reshaping markets on the fringes in industries from clean energy to base-of-the-pyramid social entrepreneurship. These include companies you may never have heard of such as Esquel in China, pioneering new developments in textiles or Aerofarms in the US, which is pushing the boundaries of vertical farming. There are others such as Better Place and Patagonia that are becoming well known. The list goes on.

Promising progress has also been made on sustainable business in key sectors via industry-level collaboration. Many prominent examples exist across industries, from the Forest and Marine Stewardship Councils to the Rainforest Alliance and Roundtable for Sustainable Palm Oil to the International Council on Mining and Metals – all with their challenges, but all having made real gains. These are matched by the growth and impact of a range of cross-sector initiatives and business coalitions pushing for change such as the United Nations Global Compact, the World Business Council for Sustainable Development, the Principle for Responsible Investment, the Global Reporting Initiative, the Carbon Disclosure Project and others.

We have even seen progress in shaping the thinking of future business leaders at business schools and universities with initiatives such as Net Impact, The Academy of Business in Society and the United Nations Principles for Responsible Management Education. Not to mention the pioneering work of the World Economic Forum and its Young Global Leaders Forum, in areas such as water, agriculture and closed-loop business models.

So there is much to celebrate. But sustainable business has, in large part, been the victim of what I have started to call "pilot paralysis". We see fantastic initiatives and innovation, many indicating a pathway to real change, but they are not the norm, and they have neither gone to scale nor moved at the speed required to have a material impact.

Take forestry. The Forest Stewardship Council – initially championed by retailer B&Q, WWF and others – has seen fantastic growth with FSC-certified forest area growing 32% a year since 1993. However, in 2011 only 3.4% of global forests were FSC-certified. Similarly, Marine Stewardship Council-certified fisheries operate in only three of the 10 largest fishery regions in the world.

Getting down to the numbers

Stripping it down to the brutal reality of the facts and figures of the business impact on sustainability, although there is much to be optimistic about, the numbers tell us that inequality and poverty persist almost unabated around the world, and our environmental systems are declining at an alarming rate.

Take climate change. According to International Energy Agency estimates, global CO_2 emissions from the energy sector reached a record 30.6 gigatonnes in 2010 – with emissions rising again after a dip caused by the financial crisis in 2009 and ending 5% up in 2011 from the previous record in 2008. This comes despite record investment in clean energy, more than $250bn in 2010.

Put simply, sustainable business, and efforts on sustainability more broadly, are not keeping up with what the science tells us we need to do. And as studies ranging from the Stern Review for the UK government to the UN TEEB report (The Economics of Ecosystems and Biodiversity) show, this matters from a global economics perspective as much as from any environmental concern.

According to the UN and Trucost, the cost of environmental externalities – or put another way the full cost of doing business picked up by society at large – of the 3,000 largest companies in the world is already $2.2tn a year, a sum greater than the GDP of all but seven countries in the world.

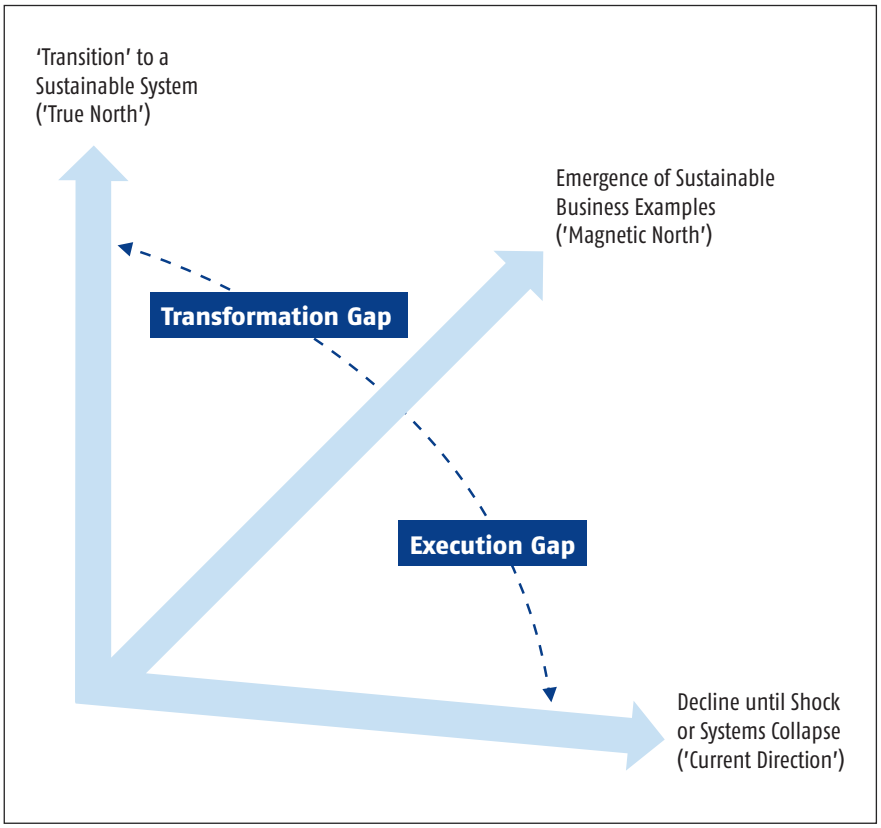
With a closer lens, real progress on sustainable business looks questionable. The extent of the challenge appears not to have fully penetrated mainstream discussions, and objective performance assessments reveal a mixed bag. A recent study by US environmental business coalition Ceres on US companies progress on sustainability makes for a stark reality check. Despite good examples, few of the 600 companies assessed against sustainability leadership criteria had made anything more than minimal progress against its four-tier performance measures.

Research also suggests that while many executives have made huge progress on sustainable business, the level of awareness and understanding

on the implications of what sustainable business means now and in the future for their industries and companies is still unclear. Of the 766 chief executives Accenture surveyed for the UN Global Compact, 96% believed that environmental, social and governance issues should be "fully embedded into the strategy and operations of a company".

Sounds promising. However, 81% felt that they had already done this in their organisations. From my own experience covering more than a decade of working with many of the leading companies in the world on this agenda, at a guess, I would say that less than 1% or 2% could honestly say that they have fully integrated sustainability into strategy and operations, and those companies – the real true north innovators and leaders – probably wouldn't make the claim because they know what it means and that it's a journey of continuous improvement and renewal.

True North innovation and the sustainable business journey



Finding true north

So where does this leave us? A lot of progress has been made, but it is clear that we are not headed in the right direction on most key sustainable development metrics, and the sustainable business compass does not appear to be set to get us to where we need to go.

Navigation provides a useful analogy. "Magnetic north" is easy to mistake for "true north", but it can send you a long way off course on a long journey. The gap between true north and magnetic north is called magnetic declination. Put simply, true north is the direction to the North Pole, as located along the Earth's rotational axis, while magnetic north is the direction toward which the compass needle points. If you were to travel across the United States, the gap, or declination, varies from 20 degrees west in Maine, to zero degrees in Florida, to 10 degrees east in Texas – meaning a compass adjusted at the beginning of the journey would have a true north error of over 30 degrees if you didn't continue to adjust it.

Why is this relevant to sustainable business? I think in the rush to celebrate progress on sustainability, we sometimes risk confusing true north and magnetic north. We need to be careful that we don't mistake some of the examples we currently see, good though they are, as the kind of shift that will be required to drive systems change towards sustainable development. Magnetic north on sustainable development is about creating sustainable businesses, whereas true north is about the kind of innovation and transformation that lead to sustainable systems. This doesn't mean that strong progress on an incremental scale is somehow "the enemy" in and of itself. But it does mean we need to be careful not to settle for what we know doesn't do the job.

To achieve this, we need urgently to close two gaps – an "execution gap" and a "transition gap". Closing the execution gap is about delivering real progress against established targets, whether those are national targets such as those within Kyoto, or the strategies and targets set by industries and individual companies. They may not be enough, but they are realistic and they get us moving in the right direction.

There is also consensus building around goals, and a growing number of companies that can show the way in making a success out of sustainable business. This is about embedding sustainability into the heart of organisations – into marketing, R&D, supply chains, IT, HR, finance etc – and using our business toolkit to get serious about delivery and shifting us off the business-as-usual trajectory that risks the collapse of social and environmental systems at the most extreme end of the spectrum.

Closing the "transition gap" requires rethinking systems at a more fundamental level and the role that business can play in delivering the products and services people want, need and desire in new ways. It ranges from looking at governance, business, financial markets, all the way through to values and behaviours.

If the execution gap is about driving incremental change then the transition gap is about driving transformational change.

To illustrate the point, closing the execution gap requires asking tough questions and managing trade-offs in creating change within the existing business paradigm. Going beyond business-as-

If the execution gap is about driving incremental change then the transitional gap is about driving transformational change

usual focuses on asking questions strategy and delivery for:

Customers – How can I generate demand for product and service lines that either tackle sustainability directly or have sustainability embedded in their core and drive either volume or differentiation?

Talent – How do I develop the right talent and capabilities to manage sustainability as a core business agenda, both at the organisational and individual leader level?

Performance – How can I move my business towards a new way of assessing corporate value that takes into account sustainability practices and resonate with key stakeholders?

Regulation – How can I make the right long-term sustainability investments against the backdrop of regulatory uncertainty? How can I contribute to policy in a way that drives sustainability and my own business interests?

Investors – How can I structure my sustainability strategy in a way that I can communicate clearly to the investor community the impact on current and future value, or quality of management, so they reward me for it?

Closing the transition gap towards transformational change in systems requires asking questions that challenge and potentially even disrupt and transcend the business paradigm. Put another way: "business as unusual". Or for those of us who believe that there is enormous creativity and adaptability intrinsic to well-structured markets: "business as extraordinary".

True north questions on sustainable business are focused on new thinking and models in the areas of:

Disruptive innovation – How can we drive new waves of innovation on sustainability which decouple growth from natural resource use and environmental impact? How can we ensure this spans products and services, new business models and new approaches to management? Could we shift from a product to a service-based industry? Could we explore shared ownership? Could we rethink R&D, manufacturing and logistics to design for disassembly?

Circular economy – How can we rethink our end-to-end value chain in a way that eliminates the concept of waste and is based on closed-loop business models and cradle-to-cradle use of resources? How can we re-engineer or build new sustainable, intelligent cities?

Convergence, collaboration and competition – How can we shape new types of partnerships that sit across traditional industry and sector boundaries as we see convergence of issues, interests and solutions – including in our own value chain, but also across civil society, academia, government and entrepreneurs? How do we balance the need for collaboration with competition? What new hybrid business models could emerge?

Shared value – How can we go beyond traditional definitions of value creation to deliver for shareholders and owners, while explicitly delivering for stakeholders? How can we measure and communicate that value and engage stakeholders in the process? How do we ensure trust?

Leadership – How can we set clear vision and goals on the journey to both execute and transform, amidst ambiguity? How can we make it exciting and inspiring? How do we use the tools available to take stakeholders on the journey with us (eg engaging consumers with the marketing mix to both shape and respond to our business environment on sustainability)?

These actions can add up quickly. If industries aggregate their impact and actions, the effects are comparable with the impacts of entire countries and continents. For example, the top 50 consumer goods and retail companies have combined revenue of almost $3tn. Investing just 1.2% of this in a step shift in manufacturing and logistics for producing and transporting consumer goods around the world would match European investments in clean energy in 2011.

A new industrial revolution

Even just taking the transition to a sustainable global energy context, for example – tackling climate change, energy security and energy access to power economic development – will require not just sustainable businesses, but also a new energy system and indeed probably a new industrial revolution. It will create new winners and losers as companies compete and collaborate for new markets, products and services, and as rising resource costs force them to rethink operations and global supply chains. But the power of aligning market forces with sustainable development outcomes in creating a new industrial revolution is a tantalising and exciting prospect.

Looking back to the Rio summit and reflecting on whether sustainable business has delivered more or less success than meets the eye, the answer is probably both. Progress over the past 20 years has been slower than we might have hoped and many challenges of speed and scale still exist.

However, looking at the problem with a different lens, many of the solutions already exist, and many of the business models that can close both the execution gap and the transition gap are already available. But we must make a shift from incremental to transformational change, staying focused on delivery but at the same time rethinking systems back to their fundamental principles.

That is the way to find our bearings and chart a new path on the journey towards "true north" for sustainable business in the transition to a sustainable global economy, society and planet. A journey towards a new and exciting era of business. A journey towards transformation. ■

Many of the business models that can close the execution and transition gaps are already available

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View from the middle

Water, water everywhere?

We need to rethink our attitude to one of life's essential resources, says Howard Sharman

KEENWEEBOY/ISTOCKPHOTO.COM

A 2,400 litre footprint

Water is such an important component of life, and can be so easily a carrier of death. But the world's corporations can really make a difference. And so, in late August, World Water Week took place in Stockholm and generated a torrent of statistics. Let's take just a few:

- More than one in six people worldwide, that's 894 million, don't have access to improved water sources.
- Global water demand is projected to increase by 55% by 2050, due to growing needs for manufacturing, energy generation and domestic use.
- Almost four billion people will live in water-stressed river basins by 2050 if better policies are not introduced.
- More than a quarter of the water that we use worldwide grows 1bn tonnes of food each year that doesn't get eaten.

The problems keep coming. The UK Department for International Development's Rapid Response Network was mobilised for the first time in August to help two million people affected by the cholera outbreak in Sierra Leone. The World Health Organisation has also recently reported that, worldwide, 1.5 million under-fives are killed annually by diarrhoea – also often caused by dirty water.

For those who have water, though, anything is possible. An exhibition at the Stockholm conference showed that the production of an average hamburger – two slices of bread, beef, tomato, lettuce, onions and cheese – consumed about 2,400 litres of water. An average meal of rice, beef and vegetables requires about 4,230 litres of water while a beef steak, a staple in the world's industrial countries, consumes about 7,000 litres.

Much of the increase in global water demand, of course, is going to come from the developing world, where people will want to move away from their diets of vegetables and start eating beef steaks, just like the Europeans and North Americans.

In the midst of these stories of doom and gloom, it was refreshing to read that PepsiCo had won the Stockholm Industry Water Award for its efforts on water conservation – efforts that extend not just to its own production plants, but also to its supply chain.

Speaking about the award, Indra Nooyi, chairman and chief executive of PepsiCo, said: "Reducing our water usage drives cost reductions and reduces our overall environmental footprint, and so we're innovating to make the most of every drop of water used." So there is some enlightened self-interest here – cost reduction as well as environmental improvements, satisfying the shareholders as well as the activists.

Enlightened self-interest

PepsiCo's citation was based on the steps it had taken to conserve water across its business operations and agricultural supply chain, including improving global water use efficiency by more than 20% per unit of production and conserving nearly 16bn litres of water in 2011, from a 2006 baseline, through the application of water-saving equipment and technologies, creative recycling and re-use, and by deploying a water management system throughout its manufacturing facilities.

PepsiCo has also been working with its suppliers, innovating a variety of agricultural practices and technologies around the world that are designed to reduce water use in farming through new irrigation techniques, and developing tools that help farmers deliver fertiliser and water to their crops at the optimal time.

An average meal of rice, beef and vegetables requires about 4,230 litres of water

The company has provided access to safe water for more than one million people through the PepsiCo Foundation and other partners.

Liese Dallbauman, PepsiCo's director of water stewardship – not many companies have one of those – talked to Reuter's AlertNet about the Stockholm International Water Institute (SIWI) award. "There's an ever increasing recognition that nobody owns the water, that we all influence it, we all benefit from it and that it's much more efficient if we work together to make things better," said Dallbauman.

This is welcome recognition that water is one of the great Commons that no one owns, everyone needs, and that can so easily be abused.

Over time, the amazing statistics about the amount of water needed to create, say, a hamburger are going to move further into public consciousness. Is it outlandish to think that, in years to come, eating a hamburger – while children die from lack of access to clean drinking water – could be seen as being as anti-social as smoking? If that is the case, then it is certainly enlightened self-interest for major corporate users of water to be taking action today to reduce their water footprint so that, when that day comes, they have not only done right, but can be seen to have done right. ■

COLUMNIST: HOWARD SHARMAN

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Embedding sustainability

Make managers leaders

Mallen Baker sketches out a route for getting corporate responsibility to exactly where it should be in your business

Although many companies have made a commitment to corporate responsibility and sustainability, very few have taken this to the heart of their business. And by that, I mean into the core of their business strategy.

All those people who make the statement that "CR is part of our corporate DNA" generally mean that they've achieved (sometimes only in their own heads) a degree of consistency in getting better behaviours among staff across the business.

That's great. It's hard to do. I would never do it down. But the gulf that remains is the one between management and leadership.

Most of the tools of corporate responsibility – the frameworks, the indices, the committee-approved lists of KPIs and the reports – are tools of management. They ensure that existing processes are continually improved to produce a bit less carbon, to run fewer risks of things going wrong, and to motivate employees a bit more.

They don't challenge the business to find new, disruptive sustainable business models. They don't engage the business in the big issues of society as an active corporate citizen, playing its part in solving problems.

It's why, while many businesses have heads of CR, sustainability, CSR or citizenship, very few have people in that role who could really be called "chief sustainability officers" – people who can talk with their c-suite peers in the company at this strategic level.

Making this shift comes down to the nature of the internal goals you set yourself. One of them should be this: to make corporate citizenship a natural part of leadership. To be successful there are some key stages in the process.

Firstly, any new CEO would be screened at the recruitment stage for a fit with the values of the business, and their ability to show leadership in that area. If the members of the board involved with choosing the CEO are indifferent to corporate citizenship as a factor, then every time there's a change at the top you might as well toss a coin as to whether it will take you back to square one, or whether you'll get a progressive leader who can move things forward.

Secondly, training within the business will make it clear that citizenship is an element that comes with top level leadership. Middle managers often think it's all a waste of time because they believe they get rated on hitting the numbers and nothing else. Those that are smart enough to aspire to higher levels of progress within the company should come to understand that this is something that is essential – so showing initiative here is one good way to demonstrate leadership potential.

Don't stress on location

Thirdly, where the CR/sustainability team is located within the business is not that important, because its role is defined as working across the business and it has the solid support of the operational directors to do so. Should it be located under HR? Should it be in marketing? That should just be a matter of where the desks are located, not where the operational focus lies.

That's all very well, but that simply doesn't describe my current existence, you might say.

Maybe not, but you need to know where you're going. They say that a journey of a thousand miles begins with a single step – well, so does a trip to the coffee machine. The direction of travel is what distinguishes them.

SHOTBY DAVEJ/ISTOCKPHOTO.COM

Build a better company

Citizenship is an element of top level leadership

And to make this journey, there are a few particular steps.

Get the current leadership to see CR/sustainability more strategically. Either find excuses to network them with effective leaders from other businesses, or find other ways to expose them to the benefits of these behaviours.

Get the buy-in of the current leadership to build citizenship into how leaders are developed within the business. And, as a natural next step once that process has started, engage the chairman in how this should feed in to succession planning.

The current CR team – however it is framed – should set objectives for influencing certain key aspects for how the business operates, and make it their concern to get out to the business heads and win them over to those changes. They can be small victories to start with, but it is important there is engagement so the business heads see the CR team learning about their objectives, their problems, and finding ways in which the corporate responsibility agenda can help them to solve their problems.

It will change the way CR and sustainability is viewed within the business.

The argument that there should be a chief sustainability officer will now make much more sense. And then the real work can start. ■

COLUMNIST: MALLEN BAKER

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