Sustainable Supply Chain Management
How to manage triple value chains
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triple innova, founded in 2002, is a Pan-European applied research and training organisation on triple bottom line (TBL) tools, methods and innovation concepts for enhanced global product network management. The organisation works on raising the awareness of the importance of an integrated understanding of social, environmental and economic aspects among decision makers in business, academia and politics. It develops solution-oriented concepts that enable organisations – whether stand alone or part of a network – to explore opportunities for technical and organisational TBL improvements. It helps to facilitate communication and information sharing in interdisciplinary and intercultural networks.

triple innova disseminates information on international and national TBL related targets and agreements and designs practical guidelines and procedures for network wide implementation.
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What is sustainable supply chain management?

“Globalization increases the responsibility of companies because through innovations, production and trade they influence economic, ecological and social standards all around the world at least as much as politics does.” (Handelsblatt, April 27th 2005)

Globalised production processes spanning several continents are the norm in many industries today. Companies are facing new social and environmental challenges and opportunities caused by their operations (especially those in developing countries), by the growing need for transnational transportation and by the complex cost structures of their supply chains. Growth in the number of NGOs (with the associated increase in public awareness), the “CNN world” that we live in and the significant role of the internet are all combining factors leading to the greater transparency of potentially ‘unsustainable’ practices that are hidden in some supply chains.

In order to take a closer look at the different parts of the value chain and their impacts on sustainable development, a wider perspective of supply chain management (SCM) is applied in this brochure. This perspective is referred to as **triple value chain management (tvc)**. tvc management integrates the principles of **sustainability** into the supply chain, creating not only **economic**, but also **ecological** and **social value** along the chain. It is an umbrella term that refers to a variety of approaches for the management of natural and human resources from the supplier to the manufacturer/service provider to the consumer and back. This includes the identification and creation of new opportunities for products and services in cooperation with up-stream and down-stream partners, and the involvement of internal as well as external stakeholders in decision making on supply chain matters. In addition to creating opportunities, a tvc strategy also contributes to the identification and reduction of social, environmental and economic risks along the supply chain.
Current research shows that companies focus most of their management effort on the manufacturing stage of their supply chain, while the more relevant social and environmental impacts are caused by other stages on both the supply side and the consumer side. This uneven distribution of effort can result in an 80:20 equation, where 80% of the effort focuses on 20% of the impact and vice versa. A triple value chain strategy aims to even out these inefficiencies and helps businesses to identify the areas where risks or opportunities call for management action.
Aim of the publication

The aim of this publication is to facilitate the integration of triple value chain management into international supply chains. Its purpose is to provide interested companies with information and to outline potential incentives for management and employees, as well as to provide support for the implementation of a tvc-strategy into a company’s supply chain.

International companies that wish to include a tvc-strategy into their supply chain and need support with the process itself, as well as with communicating the value of a tvc-strategy to decision makers, shareholders and other stakeholders, can use this brochure both as a means of internal communication about the value of triple value chain management and as a training tool for employees. The brochure can also be used to identify and prioritise areas that call for action, as well as providing help in evaluating whether or not issues can be addressed by the current management and where professional support may be needed. The following chapter overview provides you with a quick guide to the most frequently asked questions about triple value chain management.

Brochure in a nutshell
Ten quotations on global supply chain management

**Vodafone**

"Vodafone will not tolerate poor labour or environmental practices in our supply chain and neither can we afford to. We are managing these risks through our integrated supplier performance management system to ensure that our suppliers uphold the values that are important to us. **This is a long-term project with long-term benefits.**"

Source: www.vodafone.com (Detlef Schultz, Director Global SCM)

**H&M**

"**Continuous improvements** are significant for all H&M activities. This includes our environmental and social efforts [...] H&M's business concept is to give our customers unsurpassed value by offering fashion and quality at the best price. [...] **We shall also co-operate with our suppliers to improve the social and environmental standards** in the factories that manufacture H&M clothing, thereby contributing to sustainable development in these areas."

Source: Sustainability Report 2004, H&M

**Deutsche Telekom**

"Within the context of our collaboration with GeSI [the Global e-Sustainability Initiative] we will evaluate our suppliers to ensure that sustainability also takes effect in the supply chain. This **sustainable supply chain management** is oriented at our social charter as well as at our company's sustainability guidelines and determines our buying behavior."

Source: Sustainability Report 2004, Deutsche Telekom

**Nike**

"We believe that **disclosure of supply chains** is a step toward greater efficiencies in monitoring and remediation and in shared knowledge and **capacity building** that will elevate overall conditions in the industry. No one company can solve these issues that are endemic to our industry."

Source: www.nike.com

**Sony**

"One of the ways that Sony ensures that our products are optimum in every way is to deal with suppliers in a spirit of genuine partnership. This serves to **integrate and supplement** the technological strengths of suppliers, **forge links** on our supply chain, **stabilize and improve** parts quality, **ensure compliance** with legal requirements and promote environmental conservation."

Source: Sony CSR Report 2004
“As a truly responsible business, we should be able to account for all our activities. If our suppliers are found to be environmentally and socially negligent, it reflects badly on us. We therefore expect our suppliers to comply with both local legislation and international standards on environmental management and human rights. [...] Our aim with this programme is to improve performance and not terminate business. We want to initiate dialogue and create a climate of trust.”

Source: www.suppliertoolbox.novonordisk.com

“Transnational companies frequently are in a very good position to exert influence in developing and transition countries. More and more companies realize that designing globalization and promoting sustainable development has to be a joint effort. [...] It’s important for the further success of the initiatives that companies who agreed to voluntary codes of conduct really align their buying behavior with the adherence to those standards.”

Source: Sustainability Report 2003, KarstadtQuelle

“Working with suppliers on environmental issues not only generates significant environmental benefits, but also opportunities for cost containment, improved risk management and enhanced quality and brand image. [...] In addition, many companies are working to streamline their supply base and develop more co-operative, long-term relationships with key suppliers, a practice that has fostered greater opportunities to work together on environmental issues.”

Source: www.uneptie.org

“Initiating better working conditions will not only create a benefit for the supplier’s employees and the people in the supplier countries. It leads to an improvement of product quality – and therefore a higher customer satisfaction in this country – it’s a "Win-Win" for all participants.”

Source: www.ave-koeln.de

“Noting that transnational corporations and other business enterprises have the capacity to foster economic well-being, development, technological improvement and wealth as well as the capacity to cause harmful impacts on the human rights and lives of individuals through their core business practices and operations, including employment practices, environmental policies, relationships with suppliers and consumers, interactions with Governments and other activities.”

Five crucial facts about achieving supply chain excellence

While traditional supply chain management seeks to improve the chain from the (raw) materials or services to the consumer, triple value chain management considers the entire chain from the raw materials to the disposal or recycling of the product. Therefore it also includes the management of the reverse logistics, i.e. from the consumer to the retailer and/or producer.

Supply chain excellence pays off

Supply chain excellence is directly linked to financial performance. Empirical results show that mastering supply chain management as a core competence is a critical component of good financial performance. For example, a well managed supplier network plays a significant role in differentiating an organisation from its competitors as it is a strength that is difficult to imitate.

Different supply chains require different solutions

No two companies' supply chains look alike. Even within the same industry sector, supply chains have different structures and important characteristics such as power allocation and institutional settings differ between supply chains as well as along the same supply chain. In order to be successful, the approach to supply chain management must take these differences into account and also reflect the way in which a firm wants to work a market.

Supply chain excellence responds to growing market competitiveness

Most of today's markets are increasingly competitive with consumers demanding higher quality products and services at a lower price, while also expecting increasingly rapid product development, faster delivery and a higher degree of customisation. New technologies (web/online marketplaces, Efficient Consumer Response models etc.) allow for new delivery models and at the same time require new and highly demanding capabilities to understand the desires of the consumer and to improve service accordingly.

In order to be competitive, companies respond to this trend by trying to find a balance between streamlining their supply chains towards cost optimisation, high speed and flexibility, and ensuring the high quality and sophistication of their products.
Increasing importance of outsourcing and collaboration

Supply chains are growing too complex to be managed competitively by one company. One way of addressing this complexity is to outsource non-core functions to specialists in their field. While in the past many companies outsourced non-core functions to the lowest bidder, leading companies now find this to be a risky strategy. Variables such as service quality, control over ecological and social issues and long term reliability of the supplier are now given greater importance.

More and more companies devote significant attention to designing integrated operating models, while closely collaborating with their suppliers in order to optimise the entire supply chain. The ability to collaborate, share information (e.g. collaborative planning) and learn from each other increasingly provides companies with a competitive advantage in the development of new products and in the improvement of product quality.

In order to collaborate successfully with other companies, the ability to change and adapt rapidly is critical. Companies with flexible and innovative supply chains will have greater success in building partnerships.

After-sale services and reverse supply chain management are more and more relevant

As its fundamental viewpoint, supply chain management considers the optimisation of the entire supply chain from the raw materials to the disposal of the product. More and more customers are seeking solutions rather than specific products and companies are responding to that trend by bundling products with the promise of strong after-sale service, thereby maximising a customer's loyalty and long term profitability.

Companies must now incorporate a reverse chain, i.e. of the products and waste back to the producer. The growing number of extended producer responsibility (EPR) policies that regulate the management of products at the post-consumer stage provides us with one such example. Supply chain management has to deal with this additional complexity. Product design, material input and logistics are only some of the issues affected by these changes.
Everyone has heard of companies whose reputation and financial situation has become endangered because of scandals around corporate social responsibility (CSR) issues. The possible consequence faced by a company that disregards its supply side responsibilities is exemplified in the well-documented case of Nike. Campaigns by NGOs against Nike’s use of sweatshops caused significant damage to the brand and led to the boycotting of Nike’s products.

The situation in which Shell found itself provides an example of a company that faced severe criticism because the public deemed that their proposals for the disposal of their product were irresponsible. Greenpeace campaigners caused a scandal when the company planned to sink an oil platform into the sea; eventually Shell’s plans were shelved and they had to find an alternative method of disposal.

While the following examples focus respectively on one of the main three areas of the supply chain (suppliers, manufacturers and consumers), they are not completely isolated. All the links of the chain and their drawbacks and successes are interdependent and affect each other. It is for this reason that a tvc strategy simultaneously relates to all the steps of a supply chain.

Four examples illustrating the risk of not having a triple value chain strategy

Risk of not having a tvc strategy at the supply level

On the supply side material acquisitions as well as supplier operations impact on environmental and social standards. The buying company bears some of the responsibility for its suppliers’ actions. Unfair labour conditions for the workers, who cultivate, harvest or mine the raw products, as well as the environmental costs of the process, can damage the reputation of a company and/or a brand or even lead to costly and time-consuming lawsuits. The attitude of a company towards social and environmental issues influences both consumer decisions and employee motivation. It affects the employees of the suppliers, who may work in poor conditions in developing countries, but it can also dampen the enthusiasm of those working for the buying company when they realise that the materials they use have a negative impact on developing countries and result in high social and environmental costs.
The Forest Stewardship Council (FSC) label is given to products made from tropical wood that has been cut in an environmentally appropriate, socially beneficial and economically viable manner. Without this label there is no guarantee that the cutting of the wood did not endanger rainforests and/or the population of the cutting area. At the end of the nineties there were not many German companies who paid attention to the source of the wood products they sold. This changed when the NGO Robin Wood started protests against major German companies and retailers. With large scale consumer information campaigns including banners, leaflets, internet pages etc. they managed to get the public's attention on the issue. Protest became so considerable that one company after another agreed to use only tropical wood with the FSC label. In July 1999 the Metro group, one of the largest worldwide trading groups, decided to switch to FSC wood. As Praktiker, one of the group's retailers had already done so in 1998 there had been an imbalance in the group structure. There are still companies who have not switched or, at least, not completely, but with more and more companies taking part the pressure on the remaining companies grows. The companies who switched early in the process now have the competitive advantage of already meeting consumer demand for ethical wood products.

Risk of not having a tvc strategy at the manufacturing level

The manufacturing level includes the **manufacturing process** itself as well as **inbound/outbound logistics (transport and distribution)** and **packaging**. Hand in hand with observing high social standards, a close look at the production and transport process can help to develop ways of decreasing pollution and waste and of using resources more efficiently. It is even more likely than on the supply level that the consumer lives in regional proximity to the manufacturing/sales site. Additionally, employees are often also consumers of the product, so low social standards or environmental damage to the area create the double risk of upsetting both the employees and the consumers.
In 1995 Mitsubishi Corporation planned a project to extract salt from sea water in evaporation ponds covering 116 square miles of a World Heritage Site in Mexico. The project threatened a breeding ground for whales and several other endangered species. Any accident would not only have a huge environmental impact on the surrounding ecosystem but also directly influence the social and economic structure of the whole coastal region by endangering the economically important whale-watching tourism industry. Although Mitsubishi claimed that security measures were taken to ensure that no such accidents could happen, the public decided to mount a successful campaign with the slogan “We don’t buy it”, encouraging private consumers and investors to boycott Mitsubishi products. 15 mutual funds with US$14 billion in assets refused to buy Mitsubishi’s stock. 40 cities passed resolutions condemning the company, stopped buying its products and disinvested from the Mitsubishi Corporation and any of its subsidiaries. Following a long campaign of protest, Mitsubishi gave in to the boycott and abandoned the project in March 2000 in order to avoid further damage to its reputation and to stem the financial losses.

Wal Mart Stores Inc. is the largest company in the world. In 2004 it had a turnover of US$285 billion and 1.5 million employees. The company has increasingly focused on a small core of suppliers, putting them under continual pressure to offer bigger discounts and even obliging the suppliers to deal solely with Wal-Mart. Business practices such as these can often have negative ethical repercussions down the supply chain. In addition, controversial measures were used to control labour costs; these included the opposition of employee unionisation. Wal Mart’s methods have received much criticism from various parties and eventually resulted in the company coming under investigation and facing lawsuits for using undocumented workers to clean its stores; for racism; for forcing part-timers to work full-time hours without receiving the corresponding benefits; and for paying women on average 18% less than men in every job category. Wal Mart has already had to pay millions of dollars in compensation and multiple lawsuits are still pending. The company’s reputation has suffered a significant degree of damage. Its plans for expansion into urban areas are met with considerable resistance, particularly from ethnic minorities but also from unionists, retailers and other parties who fear the consequences of a Wal Mart store in their neighbourhood. The company is now faced with spending millions of dollars on PR campaigns in a bid to convince the public that it has learned its lesson from the lawsuits and will change its business methods. However, the many examples of protests against the development of new stores illustrate the fact that repairing a damaged reputation is not an easy task.
Risk of not having a TVC strategy at the consumer level

On the consumer level the social and environmental effects arise from the use of a product and from the end of its use, including disposal at the end of the life cycle as well as recycling or reuse. Potential risks include consumers boycotting products or even suing a company if a product has a direct negative effect by causing social/health or environmental damage. In addition, even if the consumers themselves are happy with the product, the public might protest against its application, for example when a company sells products such as surveillance tools to governments who are known for using these for oppressing the population.

Müller, a major German producer of milk products, got under attack by Greenpeace in 2004 because the company uses genetically engineered (GE) soy and GE maize to feed its cows. Greenpeace took samples at four different Müller farmyards and found a significant amount of GE soy. In their in 2006 still ongoing campaign against Müller, they brand the company's products “GE Milk” and mount protests in supermarkets around Germany in order to raise consumer awareness. Müller, on the other hand, states that it does its best to ensure GE-free feed and that any more rigorous control would be impossible. According to Emnid-polls in December 2004, 94% of consumers want to know whether milk, eggs and meat come from GE fed animals. 68% of the German population does not want to drink milk from GE fed cows (GfK market research). Other German milk companies have successfully made the shift to using completely GE-free feed. To date, Müller has launched five time-consuming and costly lawsuits against Greenpeace, trying to forbid them from using the term “GE Milk”. However, while the courts have limited its legal use with some formal restrictions they have allowed Greenpeace to continue to use the expression.
Risk of not having a tvc strategy at a general level

There are also risks associated with the absence of a tvc strategy on a more comprehensive level, such as in the finance and government sectors. Action taken in these sectors may affect suppliers, manufacturers and consumers and, therefore, a tvc strategy is necessary to evaluate the projects that financial and governmental institutions support and the companies with which they do business.

In 2001 the news became public that the German Bank WestLB was leading a consortium of banks that planned to finance the construction of the new Heavy Oil Pipeline (OCP) throughout Ecuador by means of a US$900 million loan. The route of the pipeline went through eleven protected rainforest areas, putting the habitat of indigenous people and animals, including endangered species, in jeopardy. Protesters not only attacked the bank officials but also the government of the Federal State of NRW who was the biggest shareholder of the WestLB, with a 43% stake. While the worldwide protests contributed to the downgrading of the project by the US investment rating agency Moody’s, they did not stop the pipeline from being built. However, in 2004, the WestLB published the following statement: “The bank drew large-scale consequences from the public discussion about its involvement in the financing of the oil pipeline in Ecuador.” The statement further declared that the bank would integrate environmental protection into all future organisational decisions, create an independent department for the control of all environmentally relevant activities and agree to the extensive standards of the International Finance Corporation.
Increased productivity through greater efficiency and higher quality

triple value chain measures that prevent pollution or decrease energy and material use throughout the supply chain can significantly reduce companies’ procurement costs. Proactive management of the suppliers’ environmental performance can lead to product and process simplification and the more efficient use of resources. Employee identification with the company can be increased by actively involving them in the improvement process while, at the same time, this can help to expose inefficiencies that have not yet been recognised. The adoption of eco-efficient manufacturing methods creates the possibility of more flexible plant configuration and enhanced productivity. Attention to “end-of-life” product disposal issues can also lessen waste liability, reduce the cost of materials and improve asset utilisation.

When collaborating with suppliers on social performance, one important issue is the control of precarious employment in developing countries by establishing minimum labour standards throughout the supply chain and creating more stable long term employment. This might increase direct costs initially, but the investment can pay dividends in the medium and long term when it enhances the motivation of workers and employees. Results can lead to greater productivity and higher quality of products and services throughout the supply chain.

Opportunity for innovation and competitive advantage

In order to succeed in today’s competitive markets, companies have to innovate constantly. tvc management can serve as a framework to develop new ideas for existing business fields, or even to exploit opportunities for creating new markets. New market demands such as after-sale services or reverse supply chain mechanisms can be used as a catalyst for innovation.

Innovation can be fostered by working collaboratively (e.g. by exchanging knowledge and technology) with suppliers and consumers to address environmental and social issues. In addition, such collaboration can enable companies to gain a competitive advantage by jointly developing new products and services and, therefore, allow them to benefit from a first mover advantage. Companies that are able, in collaboration with their supply chain partners, to anticipate upcoming environmental & social legislation and trends, as well as the potential consequences of these on supply chain activities, can gain competitive advantage and avoid costly investments through early action and compliance.
Risk minimisation

Supply chain continuity is essential for long term profitability. As supply chain networks grow more complex and sophisticated, they are increasingly vulnerable to a variety of uncertain factors that could interrupt the flow of goods, services or information. Through close monitoring and well structured supply chain management a TVE strategy can avoid unnecessary cost burdens, secure key relationships and protect companies from potential supply chain interruptions, delays or future liability associated with their suppliers' environmental or social problems.

A long term supply chain strategy should be aware of, and be ready to manage, realistic future scenarios of resource scarcity. Supply chains can be affected directly by scarcity which can result in increased costs of their resource input (e.g. energy) or they can be affected indirectly (e.g. in the case of car manufacturers) by changing consumer behaviour caused by resource scarcity. Companies that can lower their exposure to such risks and/or reduce their dependence on limited/non-renewable resources within their supply chain, will gain in long term competitiveness and be increasingly more attractive to shareholders due to lower risk exposure. When new environmental or social laws are passed, or new stakeholder demands emerge from new topics with societal or political relevance, conversion costs can be high if the changes have to be made quickly. If those changes are made continuously and without external pressure as part of the ongoing management strategy, the risk of financial losses due to sudden high conversion costs is minimised.

Protection and enhancement of a company’s brand reputation

Reputation and brand value are among a company’s principal assets. One of the parameters that can have a positive influence on corporate reputation and share price is whether the company’s supply chain is socially responsible and accountable. According to a recent imug-survey (Institute for Market, Environment and Society) more than half of consumers use the social responsibility of a company as a criterion to decide between products of the same price. Consumers, NGOs and other interested groups focus increasingly on the performance of the supply chain as a whole. If a company manages to obtain media coverage, not for a supply chain scandal but for being a best practice example of a successful, responsible and sustainable company, this can significantly enhance brand value, customer satisfaction and sales figures.
Advantages of considering international agendas & joining sustainability indexes

There is an increasing number of emerging intergovernmental supply chain schemes such as the ILO Declaration of Principles and Labour Standards or the UN Global Compact Initiative. These international agendas explicitly include standards along the whole supply chain. Companies adhering to existing guidelines and preparing for forthcoming changes can gain a competitive advantage, as these initiatives can play an important role in procurement practices or work as an image factor taken into account by important stakeholders. In addition, being part of such an initiative provides access to a lot of information about tve strategies via conferences and publications, and provides contact opportunities for exchanging experiences and best practice models with other companies who are facing the same challenges.

During recent years it has become increasingly important to be listed in a sustainability index because there is growing interest from investment fund management in developing assurances of tve management within the organisations in which they invest. For example, the index criteria of the Dow Jones Sustainability Index or the FTSE4GOOD Index do not only focus on the principal company but also include supplier standards.
How to set up a triple value chain

Our approach

At triple innova we believe that there is added value in combining sustainability research excellence with business consulting expertise.

“Assess, Create, Communicate” is the guiding framework for integrating our areas of competence and the services that we offer into a wider, more holistic concept. It allows us to take a channelled approach in response to our clients’ needs, while simultaneously keeping sight of the overall strategic picture.

The sustainable development of a triple value chain needs to encompass all three above-mentioned steps. The following checklist will give detailed guidance regarding those aspects which need to be considered:

Assess

A) Characterise your supply chain

☐ How many suppliers do you have?
☐ Which are the most important ones?
☐ How many different countries does your supply chain include?
☐ Does your supply chain have a regional focus?
☐ Are there trade agreements or conditions that will change in the near future?
☐ Which products carry especially high risks in relation to social and/or environmental issues?
☐ In which areas do you have a choice of materials and could you switch to a substitute?
B) Know your challenges

Internal challenges

- Is it a buyer driven or supplier driven supply chain? Where are you situated? (production, distribution, retail, wholesale, supply)
- What influence do you have on changes in the supply chain?
- Where do you have the potential to make changes? Where can you at least disseminate information to people?
- Which internal stakeholders need to be included to raise awareness and acceptance of the tvc strategy along the entire supply chain?
- What are the costs and benefits of including many different departments in the strategy finding and implementation process?

External challenges

- Which external stakeholders have influence on the supply chain?
- How can all relevant stakeholders be included in the strategy finding and implementation process and use their influence productively?
- Which structures are needed to make all stakeholder opinions heard?
- Which stakeholder demands need to be met?
- What is a group's intention behind a proposal?
- What effect do the actions of different stakeholder groups have on the company's financial performance and reputation?

Country specific challenges

Cultural norms

- Is there awareness of ecological problems and of the need for environmental protection?
- Which cultural standards, moral or religious values could be offended by parts of a western tvc strategy?
- Do men and women have equal rights? Do women usually have bank accounts or any other control over the money they earn?
- Would employees in this country dare to complain to their management if something was wrong?
- Is it a culture where problems are talked about openly or only by insinuation?
- Do you have the possibility of working together with representatives from the specific culture in order to ensure that you cover all important aspects?
- What other initiatives have been put into place by companies in that region? Were they successful and why or why not?
### Working conditions

- What are the labour laws and are they adhered to in reality?
- Is the country known for child labour?
- Do women and men receive equal wages?
- What is the average accident rate in factories, mines etc.?
- What is the average number of hours a person works per day?
- What is the system for waste management in the country?

### Political circumstances

- Does the country have the right of free speech?
- Are there ethical conflicts?
- Is the government trustworthy or corrupt?
- Is there, or has there recently been, a war in the country?

### C) Set your priorities

- What issues do you want to address with your tvc strategy?
- Which are the issues with the highest impact on your reputation/your financial situation?
- Which are the issues where implementing a tvc strategy is especially urgent?
- Can you align your priority setting with the potential benefits? (see chapter 5)

### A) Choose your approach

**Internal approach**

- Which social and environmental standards already exist that suit your tvc strategy?
- Do you have a Code of Conduct and can you integrate the tvc strategy within that code?
- What degree of strategy definition suits your supply chain: a very general summary of rules, a detailed description on which actions are or are not allowed, or a different set of actions and rules depending on the specific conditions of each part of the supply chain?
Network approach

- Are there network and/or sector agreements?
- If there are none: would it be economically sensible to initiate a sector agreement/network approach?
- What forms of operative, tactical or strategic cooperations and logistic partnerships are you in and how does this influence your approach?

B) Create conditions that make a triple value chain possible

Company conditions

- What is each department’s role in the implementation of the tvc strategy?
- How can the performance measurement of the buying department be adapted so that it includes not only the price and delivery speed of the goods but also social and environmental criteria?
- How can you include the social and environmental criteria in your traditional Supplier Relationship Management?
- Which additional communication structures can facilitate the company’s internal suggestion and feedback process about the tvc strategy?

Supply chain conditions

- How can communication with suppliers be improved?
- How can you support those suppliers who are not immediately able to meet the new criteria with capacity building?
- What training and information can you offer to help suppliers see the larger picture and understand the value of the tvc strategy?
- How much freedom do your suppliers need in implementing the strategy according to their individual situation? How can you find the balance between top-down and bottom-up decisions?
- How can you make the commitments to your suppliers as long term as possible so that they have planning security and so that the implementation of the strategy is worth their initial costs?

C) Select your tools

Supply chain internal tools

- Have you thought about creating an internal but independent evaluation department in your company?
- Can special positions be assigned to employees as supervisors of the implementation process to give them the authority to correct non-compliance and to report infractions directly to the highest management?
How can the monitoring process and the evaluation system be adapted to the country's cultural norms e.g. will a personal interview bring the best results or is an anonymous survey better?

Which instruments for decision making are available e.g. an ecological, social and economic profile of the strengths and the weaknesses of the supply chain?

External monitoring systems

What are the pros and cons of external monitoring systems?

How is the information gathered? Which infractions are likely, or less likely, to be uncovered that way?

Which different external evaluation companies exist and whose methods best fit your supply chain?

Is it sensible and financially viable to use different monitoring companies in different parts of the chain?

Would you consider allowing external stakeholders, such as NGOs, to evaluate the supply chain from time to time?

Communicate

A) Raise internal awareness

Are the internal communication structures such as meetings, training sessions, round table discussions, information forums on the intranet etc. sufficient?

Can you identify key persons in different departments who will support the implementation?

Are there opportunities to voice ideas both anonymously and in person as a means of involving all employees in the strategy finding and implementation process?

What other incentives could be offered, such as a prize for the best suggestion on how to improve processes according to the tvc strategy?

B) Raise supplier awareness

How can you provide your suppliers with help on how to structure and pass on the information? Can you send someone from your company to support suppliers in the initial stages?

Do your suppliers understand the economic benefits of the tvc strategy?

Are the suppliers aware of the country specific social and environmental risk areas and do they understand why these areas matter to western consumers?
How can you ensure that all the suppliers’ employees are aware of their rights?

C) Improve external communication

Which sustainability indexes, sustainability labels etc. are relevant to you and which criteria do you need to meet to be included?

How can you include supply chain issues in your sustainability report?

Are there sustainable supply chain awards you can apply for?
Five best practice examples about meeting the challenges of triple value chain management

**OTTO (Germany), international trade and services group**

**Reasons for a triple value chain strategy:**

Otto maintains that an improved competitive position and better product quality is one of their main reasons for integrating ecological and social factors in their global supply chain. Financial savings were made by ensuring resource efficiency using a mix of sea/air transport which helped to reduce transport costs by €2.4 million between 1999 and 2002. Reducing packaging waste led to savings of €100,000 per year.

**Measures taken to overcome challenges:**

Challenges are overcome using various strategies and actions at Otto. To support internal knowledge development, a matrix structure of responsibilities for sustainability issues, involving 13 different departments, was developed.

**Internal structure**

Suppliers are continuously audited on their ecological and social performance. Support awareness-raising workshops take place at local supplier destinations (650 had taken place by 2004) and also a handbook with implementation strategies and examples has been developed.

**Supplier support**

Otto is a member of several supply chain initiatives, e.g. the Foreign Trade Association of the German Retail Trade, and cooperates with established external auditing organisations such as Social Accountability International (SA8000 standard). Critical audit results led to the creation of a Corrective Action Plan, qualification workshops (involving local NGOs) and training sessions, which ensured that the Otto Code of Conduct level was reached. Other partners for supplier audits and qualification of the local management staff include the BMZ (Federal Ministry for Economic Cooperation and Development) and the GTZ (German Society for Technical Cooperation).

**Cooperations & Initiatives**

British Telecom (UK), telecommunications services provider

Reasons for a triple value chain strategy:

In addition to enhancing brand value, British Telecom intends to respond to investor demands by implementing a risk management system based on CSR down the supply chain. Other goals include increasing the commitment from employees and attracting qualified applicants, as social and environmental issues are gaining in importance for university graduates.

Measures taken to overcome challenges:

The supply chain programme is implemented by cross functional groups of members of the CSR unit and the purchasing department.

Standard evaluations of suppliers’ performances already take place after signing the first contract. Personal visits to big first-tier suppliers take place to show them the value of the required standards. To create a partnership based on trust, initial non-compliance issues lead to closer support by British Telecom, not to the immediate termination of the contract. However, for credibility reasons further violations of the code of conduct will inevitably lead to the termination of the business partnership. Supplier compliance with the ISO 14001 standard and human rights policies is encouraged.

A "supplier diversity programme" to involve SMEs owned by ethnic minorities has been established. The program consists of business-to-business mentoring and development seminars including marketing, procurement, finance, customer service and IT.

Current challenges:

One of the major challenges that BT currently faces is how to maintain the balance of the national laws of supplier host countries and the expectations of their European clients.

COOP (Switzerland), Retailer

Reasons for a triple value chain strategy:
Coop uses its ethical and ecological supply chain management as a unique selling point and has now become the world’s largest retailer of fair trade products. This has helped to enhance the company’s self-confidence and identity and has resulted in stronger employee identification with its products.

Measures taken to overcome challenges:
Management, sourcing and sales departments are coordinated under the sustainability flagship labels. The centralised procurement department for all stores facilitates the consistent implementation of sustainability standards.

Auditing
For sufficient auditing several tools are used, such as a supplier self evaluation and a company internal “Centre for Quality Assurance Sustainability”, together with independent auditors, random checks at supplier sites and regular product checks for GE substances, antibiotics and pesticides.

Internal structure
Coop has established close contact with different stakeholder groups, including consumer organisations, farmers’ associations and environmental groups, to find out about critical developments early on. Other relationships have been developed with media representatives, as the company is committed to open and prompt communication.

Communication
International standards such as the FSC label for all tropical wood products, Global Food Safety Initiative standards, a textile code based on Clean Clothes Campaign etc. are followed. The venture with the Swiss-based yarn trading company, Remei AG ensures that all Coop Naturaline textiles are made exclusively from yarn derived from organic cultivation and fairtrade. (UN environment prize 2002)

Cooperations & Initiatives
Current challenges:
Coop buys relatively small volumes and therefore lacks negotiating power on the world’s procurement markets which is why it is looking to develop closer cooperation with other retailers. Another challenge that Coop faces is the difficulty in monitoring all of its suppliers, of which there are a large number.

Sources: www.coop.ch, & Coop Sustainability Report 2004
**Gap Inc. (USA), apparel retailer**

**Reasons for a triple value chain strategy:**

The main reason that Gap became more involved in their supply chain conditions was due to a feeling of responsibility and duty to take a leading role in improving garment workers' conditions. Internal reasons were to boost workers' self-esteem and morale and improve workplace loyalty.

**Measures taken to overcome challenges:**

At Gap more than 90 people work to improve factories and protect workers' rights. In 2003, these employees conducted nearly 8500 visits to approximately 3000 factories. These employees often come from developing countries and many have a NGO background on workers' rights.

**Auditing**

Close collaboration exists with various NGOs and initiatives, e.g. the Independent Monitoring Working Group, the Ethical Trading Initiative and the International Labour Organisation's independent monitoring program in Cambodia. Monitoring of garment factories is also undertaken by independent third parties.

**Cooperations & Initiatives**

Training sessions for suppliers are conducted to raise awareness of risk areas and encourage them to establish their own codes of conduct. Information is given on economic benefits in personal talks between factory managers and Gap Inc. employees.

**Supplier support**

Factory employees are involved in the implementation process, e.g. internal fire and first aid brigades. Other self-monitoring mechanisms include, for example, the creation of internal "Health and Safety" officers. Local help for workers to open bank accounts and apply for medical insurance is also provided.

**Employee involvement**

The stakeholder communication is open and very honest about the challenges of implementing the standards.

**Communication**

The collaboration and transparency with other garment manufacturers, NGOs, trade unions and other retailers who are customers in the same factories is still a matter of ongoing development. Other future targets include the total compliance of factories with the required standards and finding ways for extending third-party monitoring.

**Sources:** [www.gapinc.com](http://www.gapinc.com), [www.ethicalcorp.com](http://www.ethicalcorp.com) & Gap Social Responsibility Report 2003
BMW Group (Germany), automobile company

Reasons for a triple value chain strategy:
BMW considers an ecologically and socially sound supply chain to be a premium service and a provider of added customer value. In addition to being prepared for future market demands it also enhances their reputation and employer attractiveness. BMW is listed in several important sustainability indices.

Measures taken to overcome challenges:

Internal structure
To ensure performance, environmental and social standards are integrated into a supplier evaluation system. Therefore collaboration between departments in the areas of purchasing, social responsibility and environmental management is enforced.

Purchasing policies
Supplier relations exist with the “Diversity Program” in the USA and some components are purchased from various initiatives in South Africa that pursue social concerns. All BMW Group automobiles contain components from workshops for the disabled.

Cooperations & Initiatives
BMW is a member of the Global Compact and respects international policies regarding human rights and labour standards, such as the ILO, the Guidelines for Multinational Enterprises (OECD), as well as the Business Charter for Sustainable Development (ICC). The company’s policy is confirmed by UNEP and the consultancy SustainAbility.

Communication
In the car industry sector, the BMW Group achieved one of the top rankings on UNEP’s and SustainAbility’s list of sustainability reports. Best practices are published in the Global Compact’s worldwide “Learning Forum”. Information updates about sustainability measures are sent out via newsletters, the intranet and other media channels. Regular surveys are carried out among employees and suppliers worldwide with local variations where necessary.

Current challenges:
To date there is still a shortage of suppliers with explicitly stated social standards and implemented environmental management systems.

Internet sites on global supply chain management

General information:

□ Business for Social Responsibility: www.bsr.org
□ Institute for Supply Management: www.ism.ws
□ Sustainable Supply Chain Forum: www.sscf.info
□ Gradient Index: www.gradient-index.net
□ Business in the Community: www.bitc.org.uk
□ Round Table Code of Conduct: www.coc-runder-tisch.de

Specific information on global labour conditions:

□ International Labour Organisation: www.ilo.org
□ Fair Labor Association: www.fairlabor.org
□ Verité: www.verite.org
Bibliographical references on global supply chains

- EU (2003): Mapping instruments for CSR
- FTSE4Good (2004): Supply Chain Labour Standards Criteria
- Insight Investment (2004): Buying your way into trouble? - The challenge of responsible supply chain management
- Lillywhite (2004): Responsible supply chain management - Ethical purchasing in practice
- Neef (2004): The supply chain imperative
- Oxfam Report (2004): Trading away our Rights, Women working in global supply chains
- World Bank (2004): Public sector support for the implementation of CSR in global supply chains: conclusions from practical experience
- Wuppertal Institute (Wuppertal Papers) (2004): Responsible Corporate Governance
- WWF (2003): To whose profit (ii) evolution: Building Sustainable Corporate Strategy
Sector specific resources on global supply chains

Five sector specific company initiatives:

- International Council of Toy Industries: www.toy-icti.org
- Sustainable Agriculture Initiative Platform: www.saiplatform.org
- Global e-Sustainability Initiative: www.gesi.org
- Common Code for the Coffee Community: www.sustainable-coffee.net
- Extractive Industry Transparency Initiative (EITI): www.eitransparency.org

Five sector specific Non Profit Organisations:

- World Responsible Apparel Production (WRAP): www.wrapapparel.org
- Forest Stewardship Council: www.fsc.org
- Rugmark: www.rugmark.org
- Marine Stewardship Council: www.msc.org