



BUSINESS ASSURANCE

# VIEWPOINT REPORT

Is your supply chain fit for the future?

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FALL 2014

EXECUTIVE SUMMARY

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# IS YOUR SUPPLY CHAIN FIT FOR THE FUTURE?

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## INTRODUCTION

DNV GL - Business Assurance, a global certification leader, and GFK Eurisko, among the most prominent international research institutes, have investigated the approach to sustainable supply chain management adopted by companies in different sectors in Europe, North America, South America and Asia.

The survey was conducted in July 2014 and investigated sustainability of supply chains, the main drivers and the main obstacles to effective sustainable supply chain management, together with the initiatives implemented by DNV GL - Business Assurance customers.

Supply chain sustainability is attracting increasing attention, especially after such regrettable events as those of "Rana Plaza", in April 2013, in Bangladesh, which involved many companies purchasing what was produced in a building known to be in precarious condition, which then collapsed. More than 1,000 people died.

With globalization and the corresponding increase in the number of intermediaries, a secure and defensible supply chain has become as important as the quality of the products.

The survey of 2,061 professionals from the primary, secondary and tertiary sectors<sup>1</sup> highlights that, although many companies feel that this is just the beginning, most of them consider sustainability aspects when making buying decisions. Businesses are making concrete efforts to take sustainability issues into account, despite the lack of either clear standards or a harmonized frame of reference. Identifying and managing potential risks linked to sourcing is key for companies, especially because sustainability of supply chains is becoming increasingly important to customers and to the business.

In this context, a group of companies (hereinafter "leaders") is well aware of these dynamics and able to manage them.<sup>2</sup> No doubt they are contributing to blazing a path that leads to sustainable supply chains.

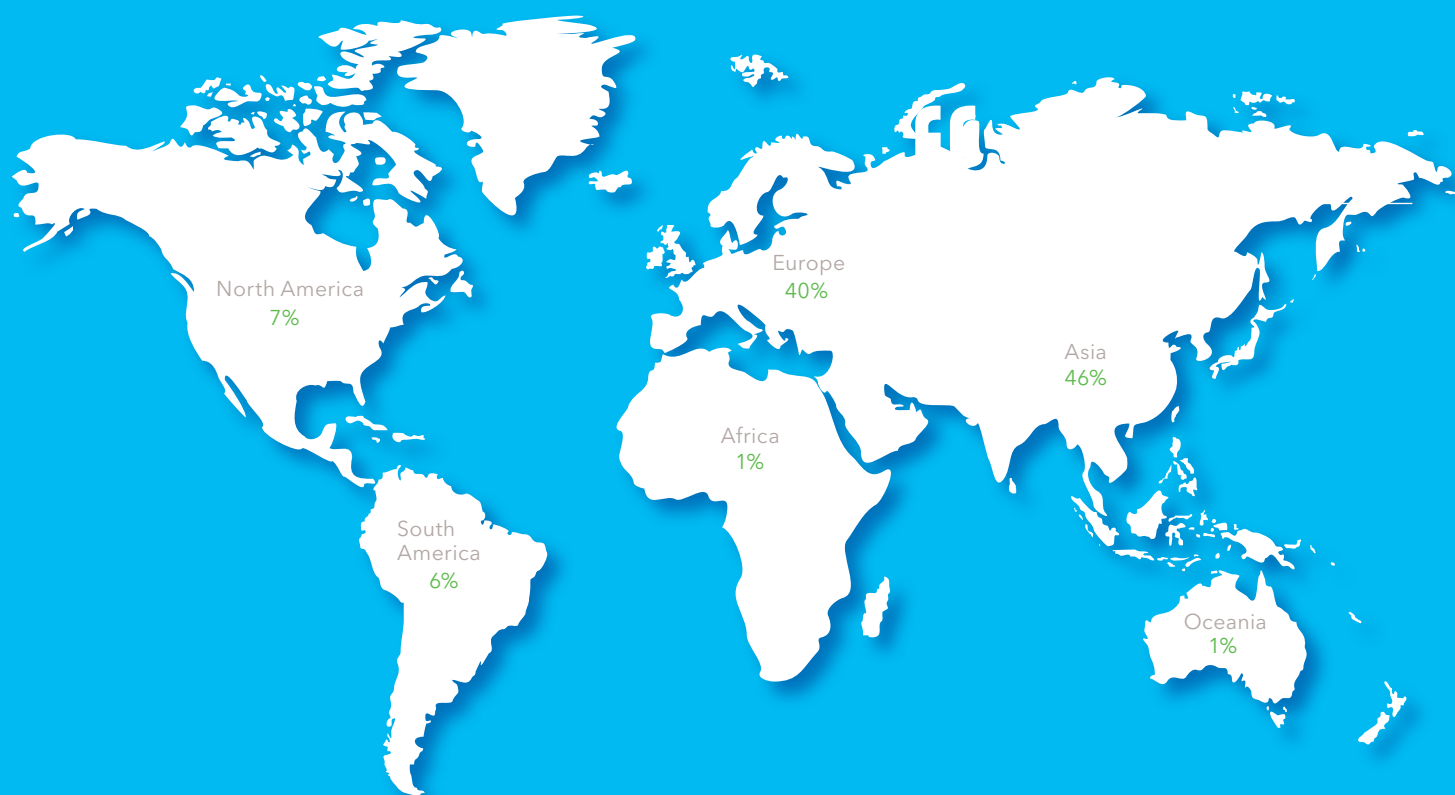
1 Primary: i.e. agriculture; secondary: i.e. manufacturing; tertiary: service, transportation.

2 Leader characteristics are reported in the text boxes throughout the executive summary and summarized in the annex.

## METHODOLOGY AND SURVEY SAMPLE

The survey was conducted in July 2014, on a sample of 2,061 professionals who work at companies in the primary, secondary and tertiary sectors across different industries in Europe, North America, Central & South America and Asia.

### VIEWPOINT SURVEY – GLOBAL PARTICIPATION



The sample is qualitative and not statistically representative:

- 24% of the firms involved employ less than 50 people, 32% from 50 to 249 and 41% 250 or more;
- Companies involved are in the primary sector (3%), secondary sector (61%) and tertiary sector (31%);
- 12% of survey respondents are part of top management and 51% are directly involved in technical management.

The sample includes 68 companies defined "leaders:"

- The classification of a company in the leaders category is based on a self-assessment of maturity in managing supply chains in a sustainable way;
- 60% of leaders are present at the international level and 79% deal with international suppliers.

The questionnaire was administered using the CAWI (Computer Assisted Web Interviewing) methodology.

## Notes to the Reader

- In the graphics herein contained, orange circles highlight below average data. Blue circles highlight above average data.
- All graphics refer to multiple choice questions, with exception of those in figures 1, 3, 4, 7 and 13, which refer to single choice questions, whose answers add up to 100%.
- For the reader's convenience, the word "average" has been used throughout the text to indicate the scores obtained by all respondents.

## ANALYSIS OF CURRENT SCENARIO

### Sustainable Supply Chain Management

When choosing a supplier or making buying decisions, 96% of companies consider sustainability aspects; 1 in 3 to a great extent.

84% of LEADERS – that is to say those companies who can rely on a more mature approach in handling sustainability of the supply chain – consider sustainability aspects to a great extent.

To what extent does your company consider the sustainability aspects listed before, when making buying decisions?

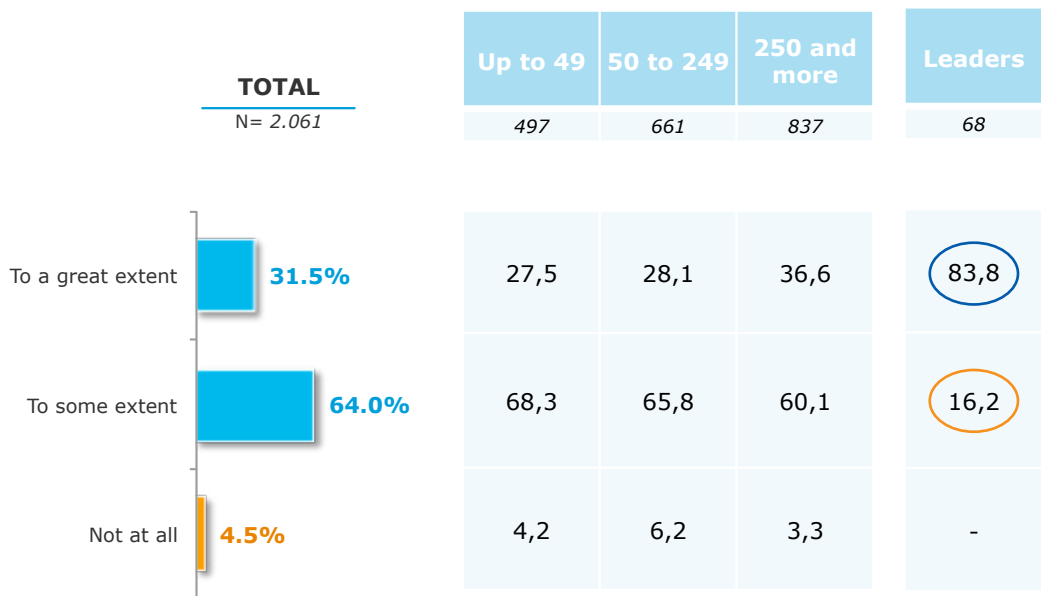


Figure 1: Importance of sustainability for buying decisions

Among the relevant aspects for a supply chain to be considered sustainable, low environmental impact ranks first (56%), with Central and South America (71%) and Europe (69%) standing out for recording the highest priority. Health and safety of workers (51%) economic aspects (43%) and ethics (29%) follow.

Employees related aspects, such as human rights (12%), equal opportunities (9%) and labor rights (11%), occupy low positions in the ranking.

When it comes to LEADERS, top positions in the ranking don't change much. Health & safety at work (53%), economic sustainability (49%) and environmental impact (49%) are among the most relevant aspects for a supply chain to be considered sustainable. Ethics comes immediately next (38%) and LEADERS are among its strongest supporters, with well above average rates (+9% vs average).

In your opinion, what are the relevant aspects for a supply chain in order to be considered sustainable?

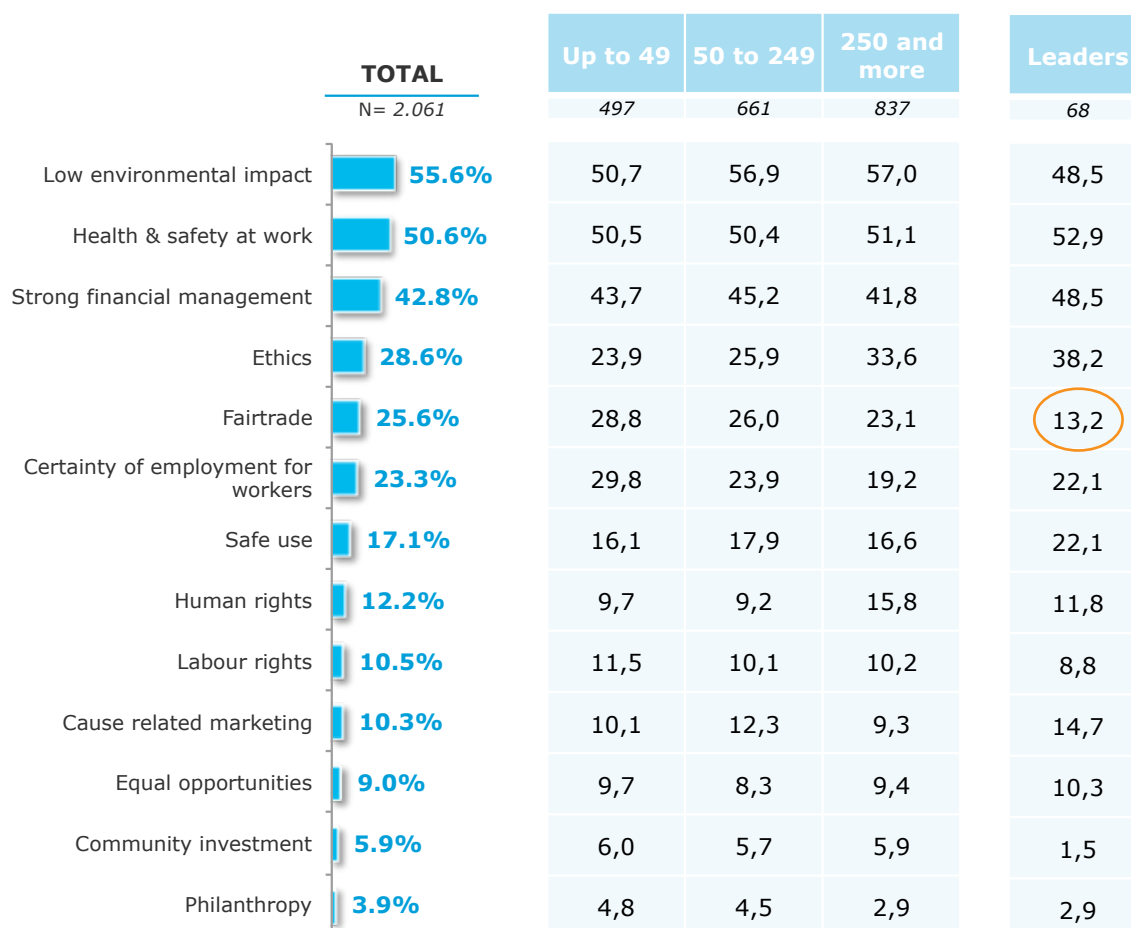


Figure 2: Relevant aspects for sustainability of supply chains

42% of companies have a formal supply chain strategy contemplating sustainability aspects. The percentage grows to 57% for corporations employing more than 250 people and, on the contrary, decreases to 25% for small companies. 45% of them don't even adopt a formalized supply chain strategy.

Companies certainly feel there's still a lot to do. On a scale from 1 to 5 (from "beginner" level to "leader" level) that measures maturity in managing supply chains in a sustainable way, only 22% of professionals interviewed rated their companies as advanced (4 and 5).

You can't improvise a sustainable supply chain. Actually, LEADERS have a structured approach. 81% adopt a formal supply chain strategy contemplating sustainability.

LEADERS are a minority. Only 4% of firms feel perfectly able to manage their supply chain sustainably.

Where would you position your company on a 5 point maturity scale for supply chain sustainability, where 1 is beginner and 5 is Leader?

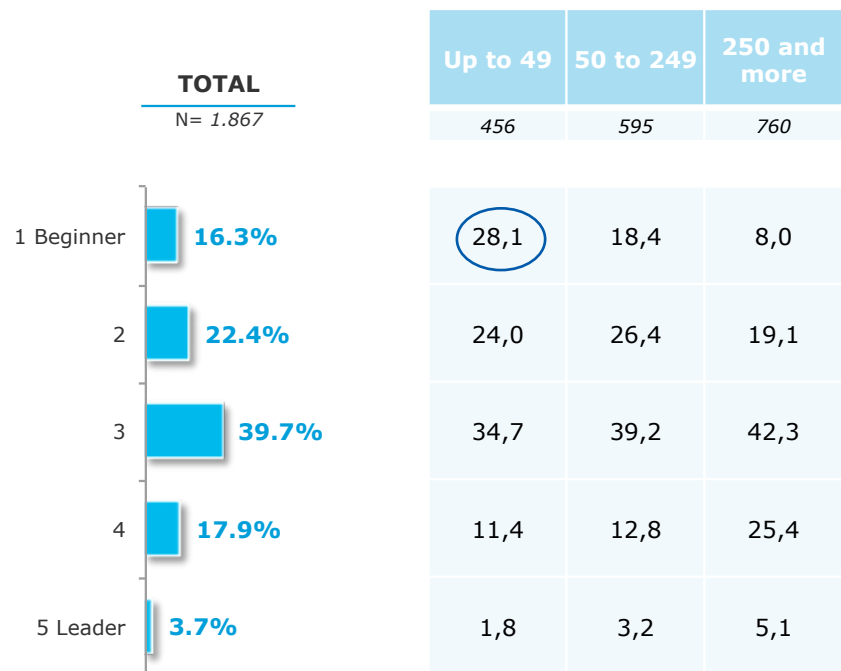


Figure 3: Maturity scale for sustainable supply chain management



## Main Reasons for Sustainable Management

80% of firms experienced pressure to demonstrate the sustainability of their supply chains.

To what extent does your company consider feel under pressure to show it has a more sustainable supply chain?

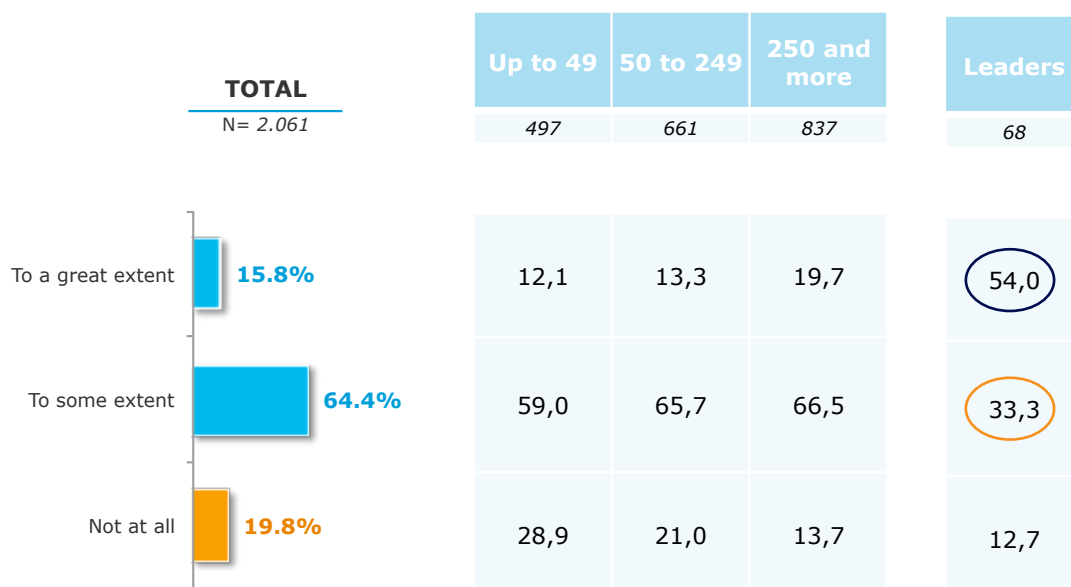


Figure 4: Pressure for demonstrating sustainability of supply chains

Customers are indicated by 80% of professional interviewed as the main driver for managing more sustainable supply chains.

Compliance with regulations (33%) is reason number two and corporate policies (30%) follows. Their burden is less than half compared with that of customers, with some geographical peculiarities. Regulators and authorities influence Europeans

(43%) and Central South Americans (46%) much more than Asians (20%). Corporate policies score below average in Central and South America (18%).

Local communities (7%), NGOs (4%) and unions (2%) seem to be playing a marginal role compared to customers, who turn out to be the stakeholder group most interested in supplier sustainability.

87% of LEADERS feel under pressure to demonstrate sustainability of their supply chain; more than 1 in 2 to a great extent.

They are essentially driven by customers (81%) and the significance of other factors is higher than average: from regulations and corporate policies (both 44%), to competitors (41%), final consumers (35%) and also employees (27%).

Which are the main drivers influencing your market/business in order to manage a more sustainable supply chain?

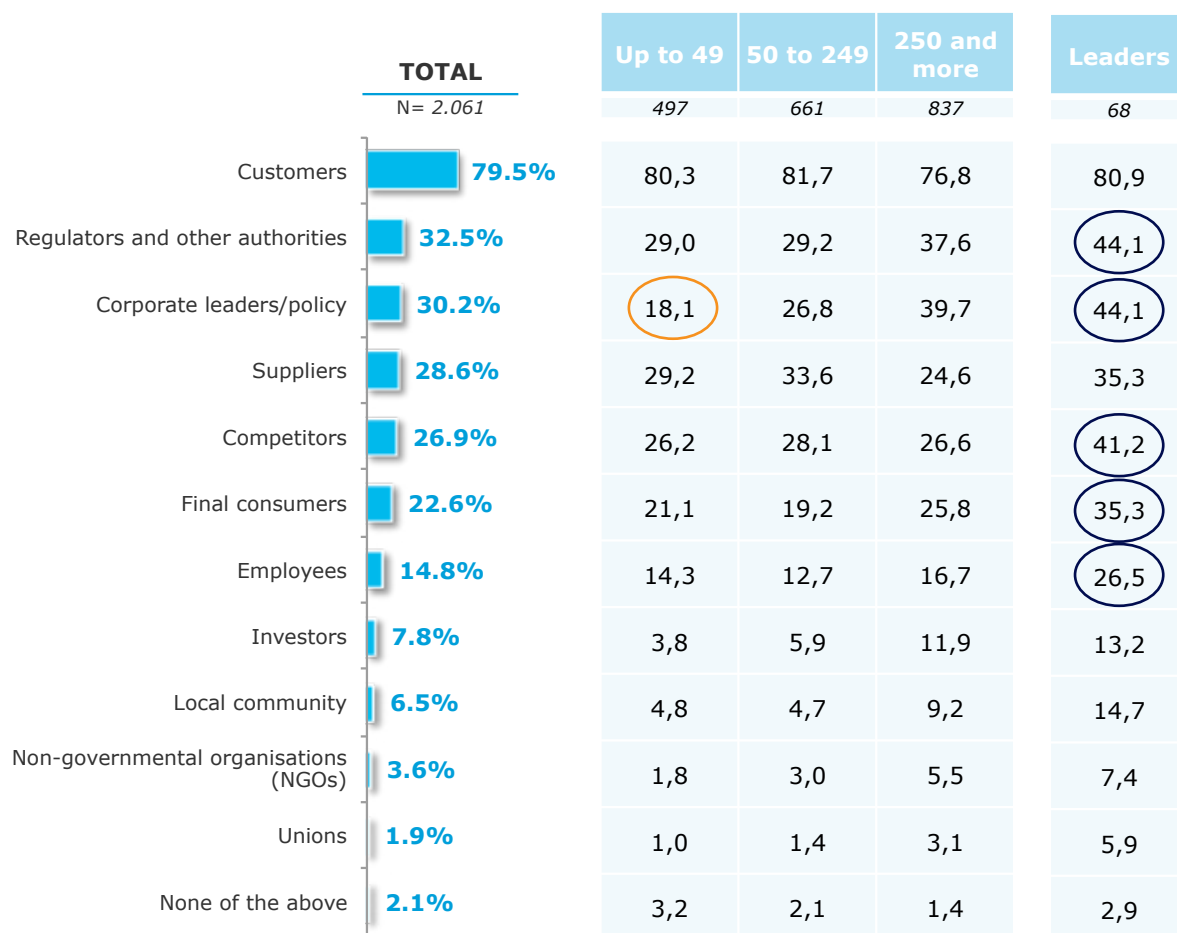


Figure 5: Ranking of influencers demanding sustainable supply chains

## Key Initiatives Undertaken

Despite the lack of a clear frame of reference, companies are working to make their supply chains more sustainable.

So far, audits of suppliers (directly managed or externally commissioned) are the most common actions. 41% of companies claim to have undertaken one in the last three years.

Communication initiatives are no less so: 34% required their suppliers to provide information about sustainability of their products, while 25% implemented and communicated a sustainable supply chain policy.

Size makes a difference. The proactive adoption and communication of an ad hoc strategy proved to be particularly widespread among bigger corporations. 36% implemented and communicated a sustainable supply chain policy, against only 15% of small companies. Actually, 36% of small firms didn't undertake any activity at all.

As for sectors, food & beverage companies turn out to be among the most active in implementing and communicating sustainable supply chains policies (36%; +11% vs average) and, moreover, register proportions well above average for audits. 47% conducted or commissioned an audit in the last three years.

The importance of auditing activities for making a supply chain more sustainable is demonstrated by the fact that 57% of LEADERS (+ 16% vs average) implemented one in the last three years.

With rates nearly double the average, communication initiatives proved to play a major role for LEADERS too:

- 59% adopted and communicated a sustainability policy for their supply chain;
- 60% required suppliers to provide information about the sustainability of their supply chain.

In the last three years, which of the following sustainability actions regarding your supply chain has your company taken?

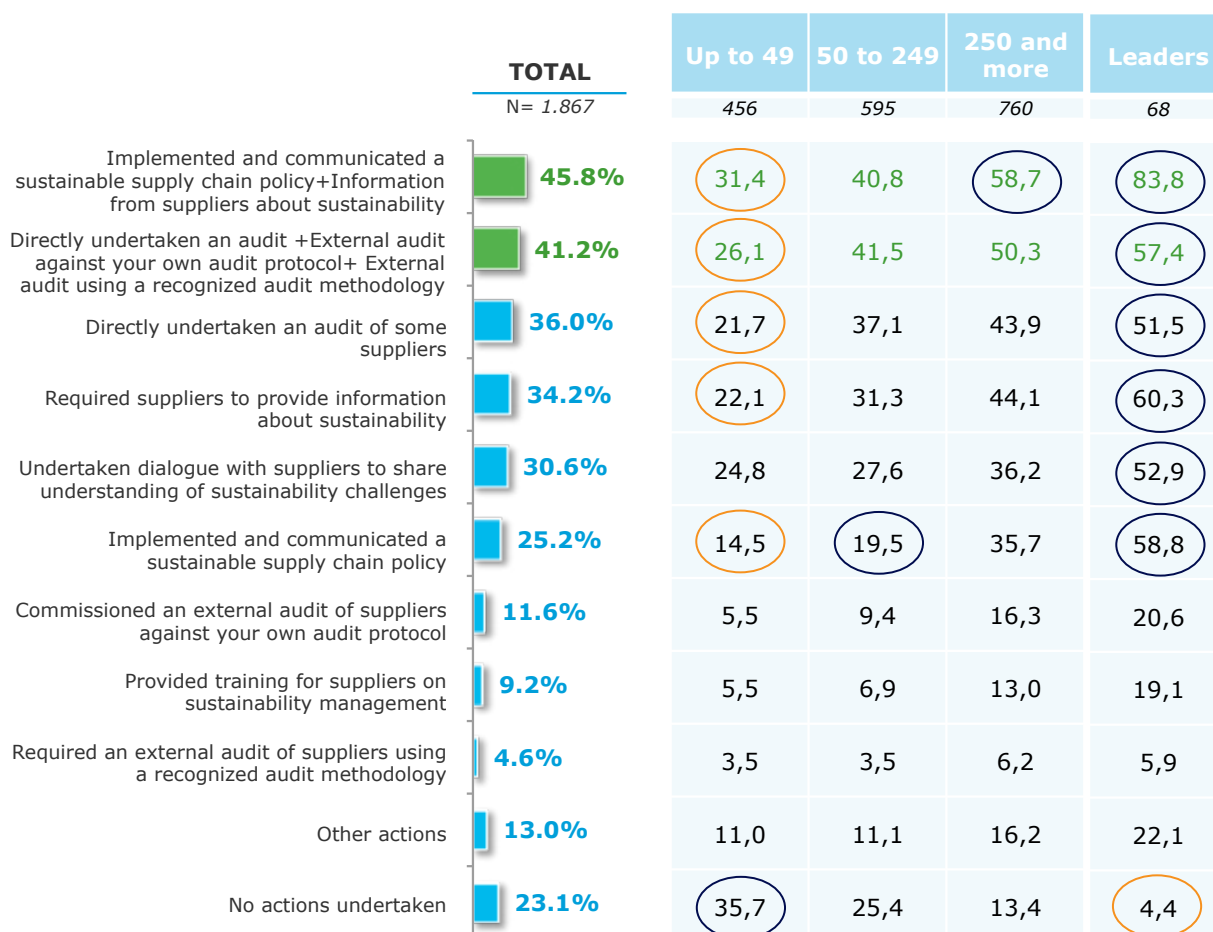


Figure 6: Sustainability initiatives

However, on average, initiatives are still limited and far from widespread. As a matter of fact, against almost 30% of firms extending their sustainability actions across and through their supply chains (part of it 23%; all of it 5%), two-thirds of companies limit their initiatives to tier one suppliers.<sup>3</sup>

Even big corporations are affected by this limit, which is one of the main issues for sustainable sourcing. Going beyond the first level of the supply chain is crucial for being able to analyze especially social and environmental aspects. Moreover, tier one is often constituted by traders, therefore going farther upstream and working for full traceability is essential.

This problem exists for LEADERS too. Only a quarter of them (24%) are able to reach all tiers of the supply chain with their initiatives.

3 Suppliers you buy from directly.

How far do the above mentioned actions, implemented by your company, extend across your supply chain?

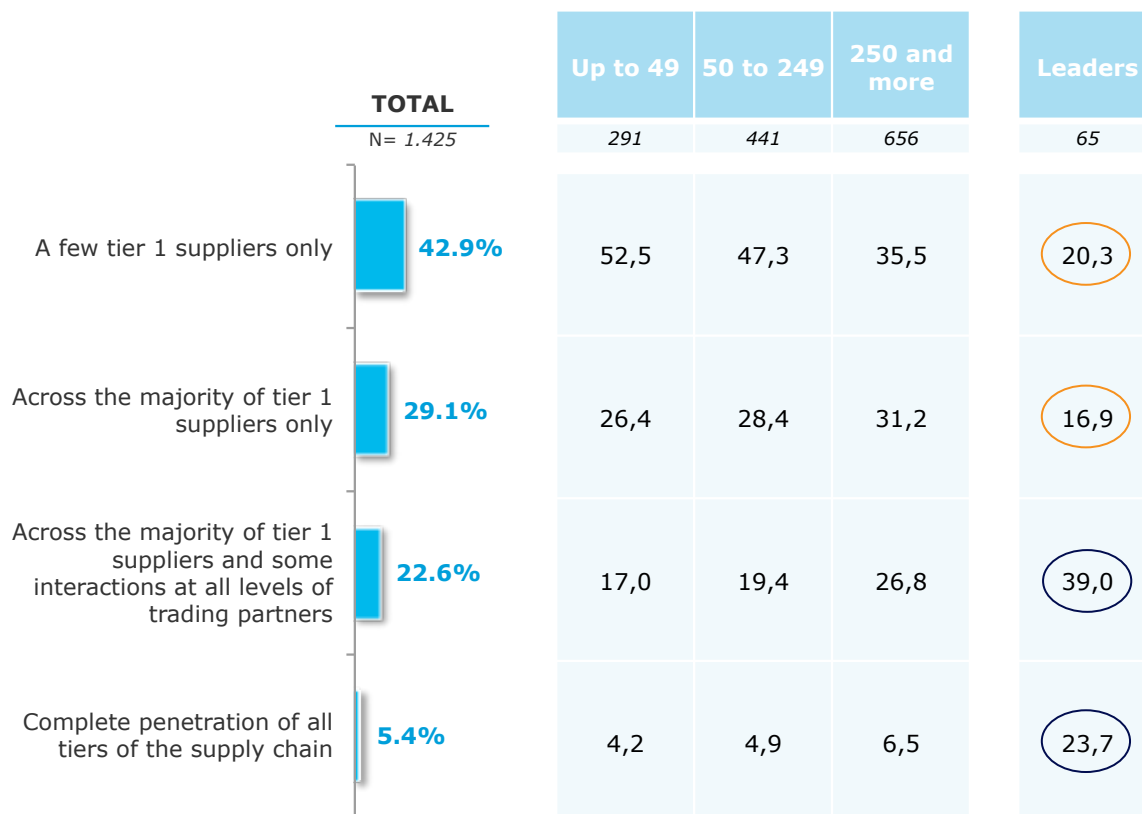


Figure 7: Extension of sustainability actions across supply chains

In addition to addressing aspects of legal compliance and carrying out assessments to identify risks along their supply chains, LEADERS care particularly about proper energy use (+20% vs average) and lower water consumption (+19% vs average) too.

To improve sustainability, most companies addressed especially aspects of legal compliance. At a general level, health and safety of workers (56%) and use of hazardous substances (44%) rated highest, together with assessments to understand sustainability risks along the supply chain (44%), highlighting how companies are struggling to face this issue in an analytical way.

Local specifics influence focus. Health and safety of workers is a concern especially in Central and South America (68%) and Europe (69%). Europeans are more sensitive to the use of energy (58%) than respondents from other world areas, likely due to existing regulations. Addressing the problem of

waste is one of the priorities of Central, South (64%) and North Americans (55%).

Once more, food and beverage businesses record rates well above average for managing main supply chain challenges. From energy issues, addressed by 64% of firms, to health and safety of workers (60%), waste generation (58%) and water consumption (58%). From approaching their supply chains with an assessment to identify potential risks (55%) to the implementation of a code of conduct (47%) and the development of education programs to increase awareness of good environmental or health and safety practices (45%), and so on.

Which of the following aspects has your company addressed in its own supply chain in order to improve sustainability?

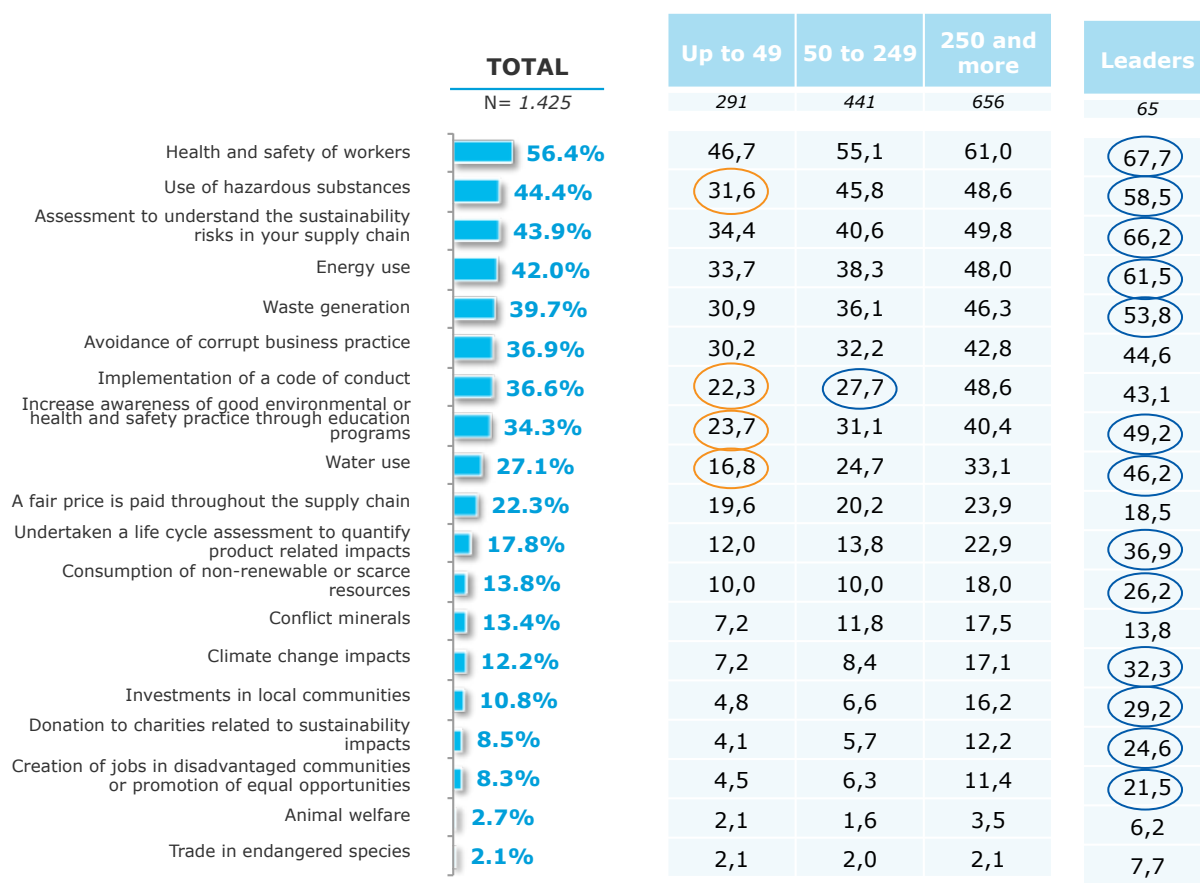


Figure 8: Aspects addresses by companies.

Which of the following aspects has your company addressed in its own supply chain in order to improve sustainability?

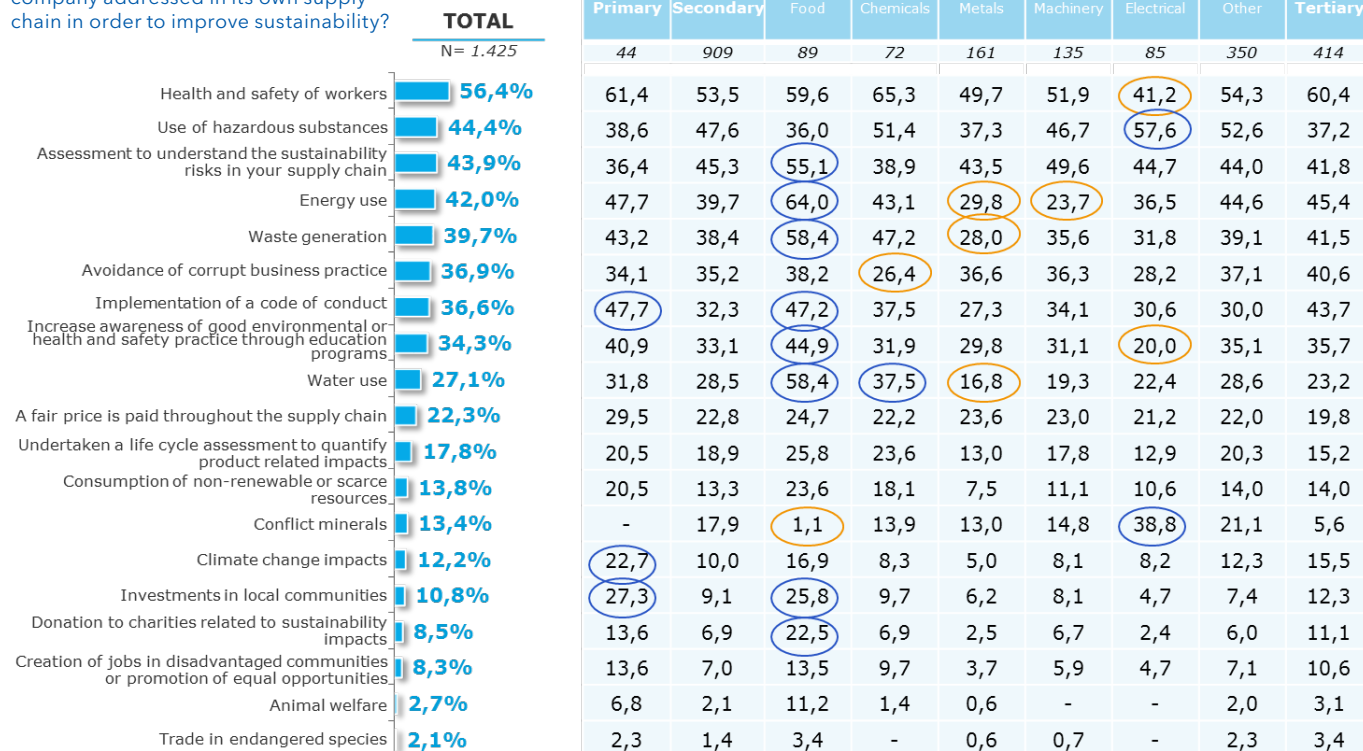


Figure 9: Aspects addresses by companies. Focus on industries

## Main Benefits

The benefits outweigh the costs for 40% of companies; for 36% they match costs. Less than 1 in 4 think that paybacks are lower than expenditures.

The improvement of the ability to meet customer needs is the main advantage obtained by companies that implemented sustainability actions (54%). Customers nowadays require sustainability practices, therefore companies take actions in order to keep operating and making a profit.

Sustainability of the supply chain pays off. In fact, LEADERS are those benefiting most, especially in terms of improving their performance on the market. They increased market share (45%; +28%), enhanced brand reputation (59%; +25%) and gained competitive advantage (52%; + 23%).

Overall what benefits did your company achieve from the actions implemented?

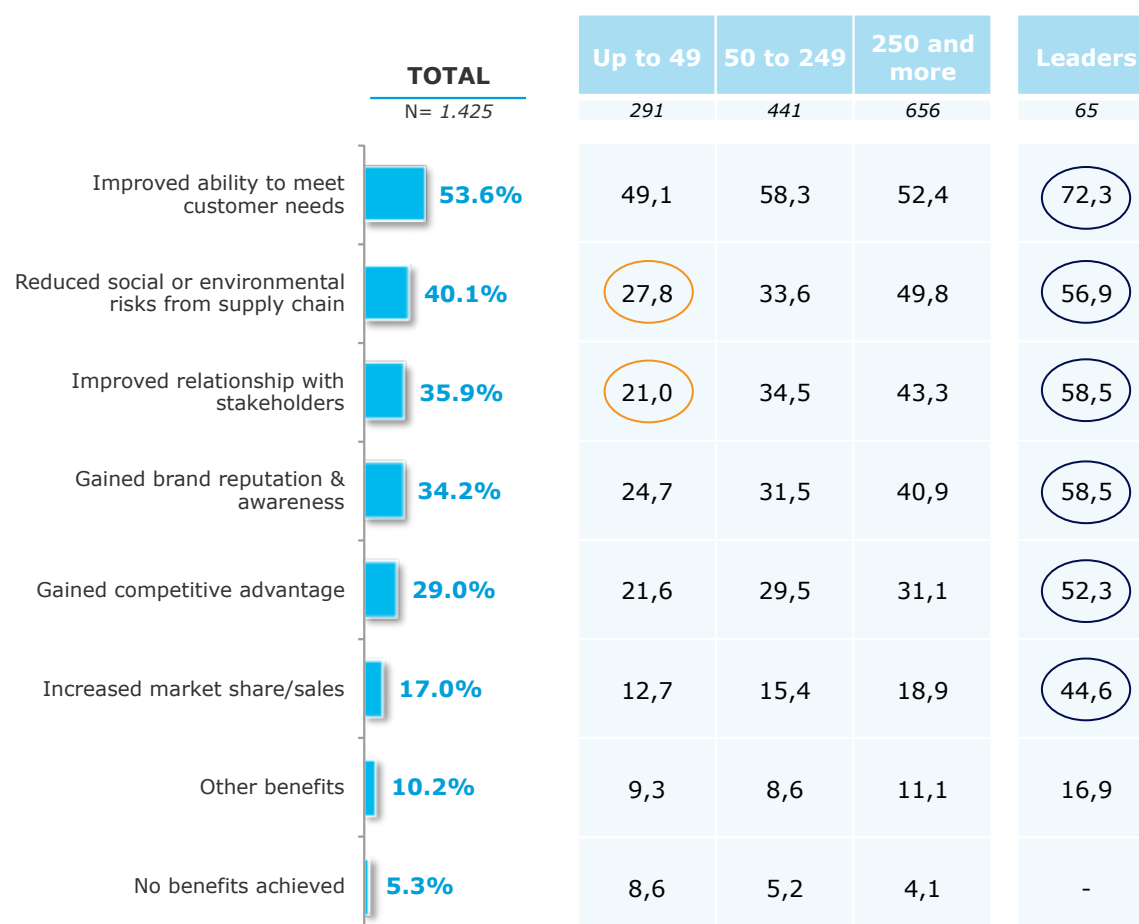


Figure 10: Benefits achieved

## Main Obstacles

Obstacles preventing companies from making more progress on sustainable sourcing fall into two categories: economic shortages and a lack of either clear standards or a harmonized frame of reference.

In fact, on the one hand, businesses are hindered by the lack of financial resources, by the need to focus exclusively on short term results and by insufficient return on investment. On the other hand, they report conflicting customer demands, lack of consensus on what to do and the resistance of the supply chain to their attempts among the main obstacles.

LEADERS manage obstacles much better than others: 43% do not see any barriers. They know what to do to make progress in sustainable sourcing: lack of consensus isn't felt that much (7%) and resistance from their supply chain is a problem for only 16%.

### What prevents your company from making more progress on sustainable sourcing?

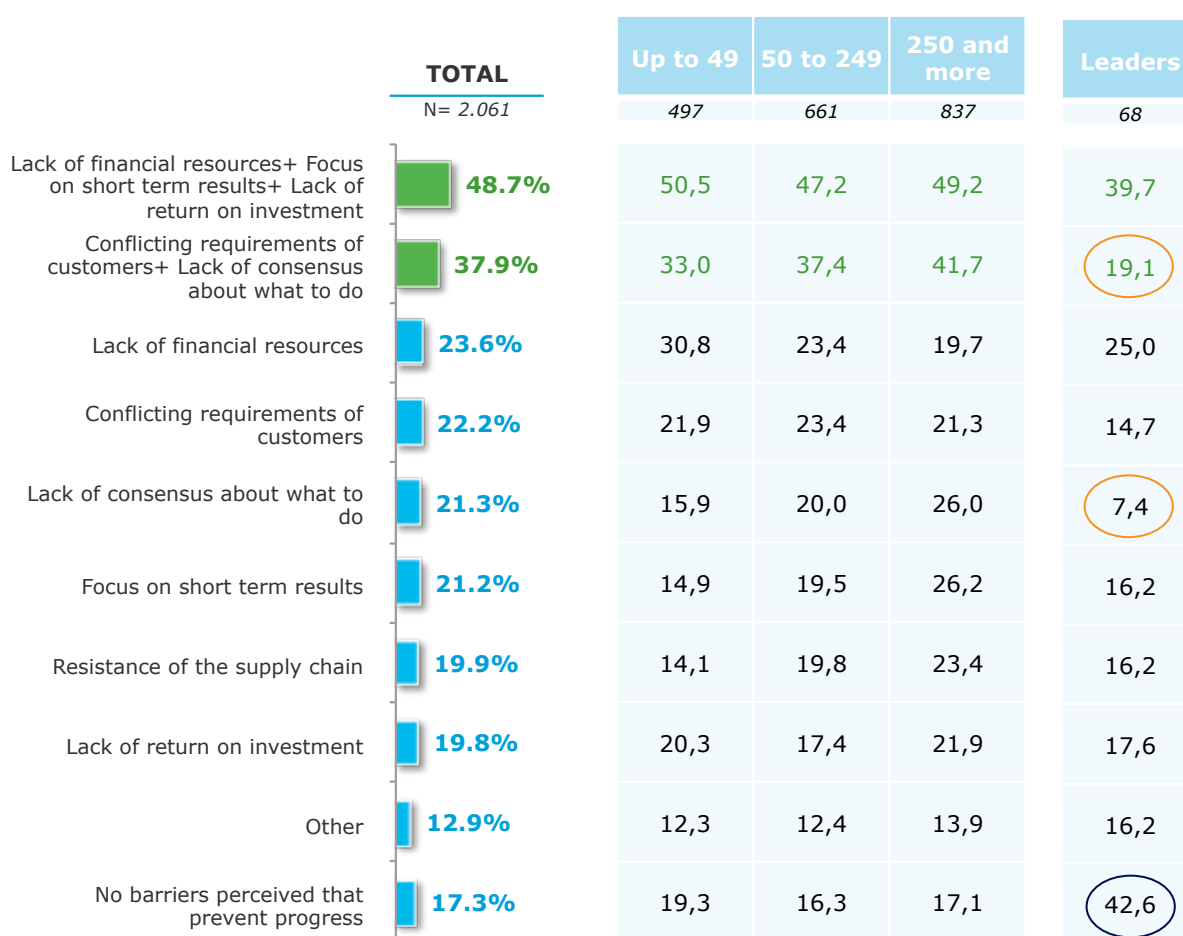


Figure 11: Main obstacles to sustainable management



## Raising Awareness

To raise awareness of what the company is doing in terms of sustainable sourcing, 25% made claims in marketing activities. 21% published information about their supply chain; the rate rises to 33%

for bigger corporations. On the contrary, the percentage drops to 8% for small companies. Actually, 43% of them undertook no such action.

Communicating externally is essential for LEADERS. Only 2% didn't communicate. Sustainable sourcing strengthens market performance when combined with communication initiatives. To reap full benefits, companies have to be recognized as sustainability players by third parties.

In the last 3 years, have you taken any of the following actions to raise awareness of what your company is doing?

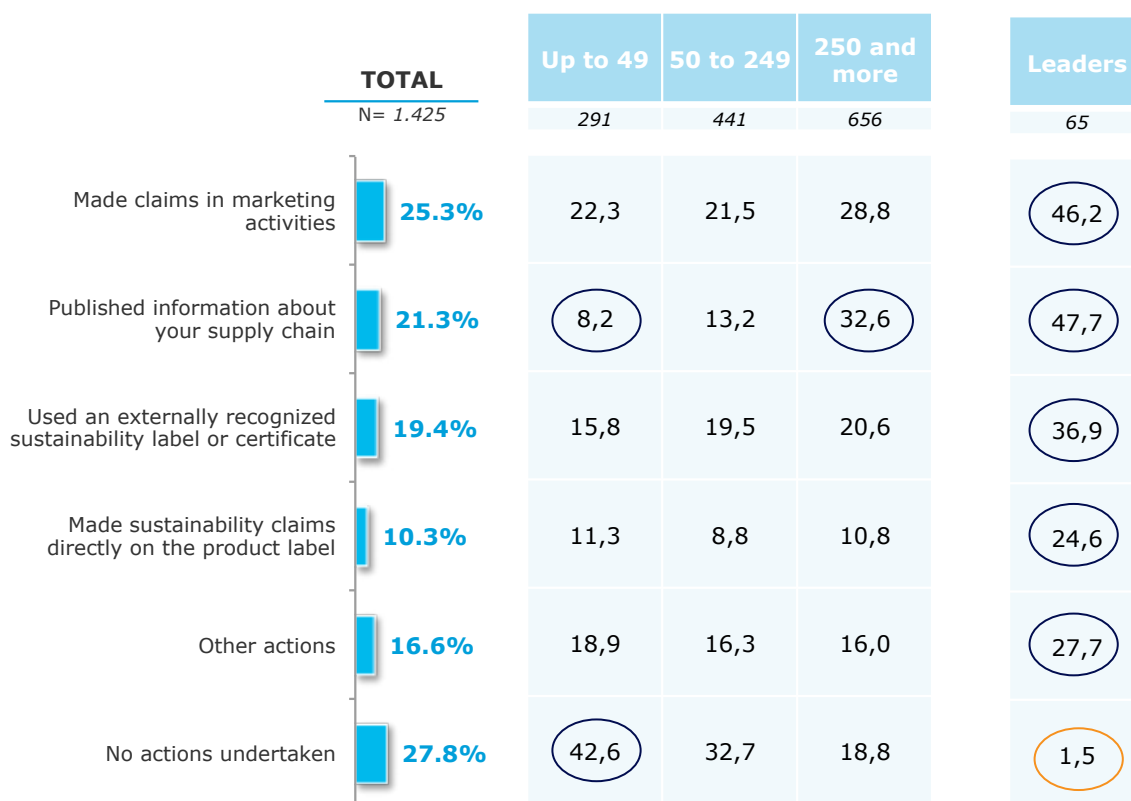


Figure 12: Actions to raise awareness of what companies are doing in terms of sustainable sourcing

## FUTURE OUTLOOK

### Performance Expectations

In the future, companies expecting to rank in the higher positions (4 and 5) in the maturity scale for supply chain sustainability are more than double the present number. In particular, Central and South (35%) and North American (36%) businesses record rates above average for position 5 (leader). So do food companies (32%) and firms in the primary sector (35%).

At a general level, 66% of firms expect to improve sustainability of their supply chains within three years' time, again Central and South (86%) and North Americans (87%) are the most optimistic.

LEADERS, of course, expect to maintain their position for the future. They recognize the value of sustainable sourcing and are willing to keep working on it.

Where would you like your company to be positioned on a 5 point maturity scale for supply chain sustainability in 3 years' time, where 1 is Beginner and 5 is Leader?

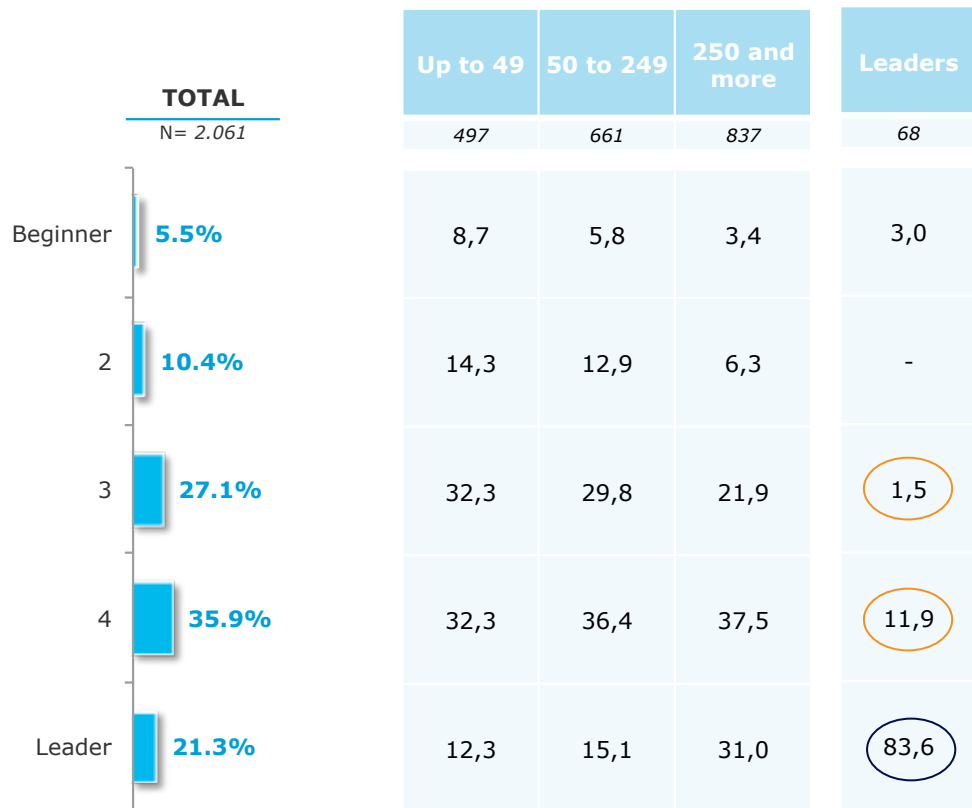


Figure 13: Maturity scale for sustainable supply chain management. Expectations for the future

## Future Drivers And Initiatives

Companies expect sustainable sourcing to become more and more central to their business. Among reasons pushing them to engage in sustainability initiatives, there is a relevant shift towards the market. Meeting customer needs remains the

main driver (55%; +2% vs present) but the most significant increases are recorded by the possibility to gain competitive advantage (48%; + 19%), market share (34%; +17%) and enhance brand reputation (41%; +7%).

LEADERS are aware that sustainability of the supply chain will be gaining growing significance for succeeding in the market. In fact, they will be forced to engage in sustainability initiatives to meet customer demand and also to enhance their business performance in proportions well above average (competitive advantage 66%; market share 53%; brand reputation 53%).

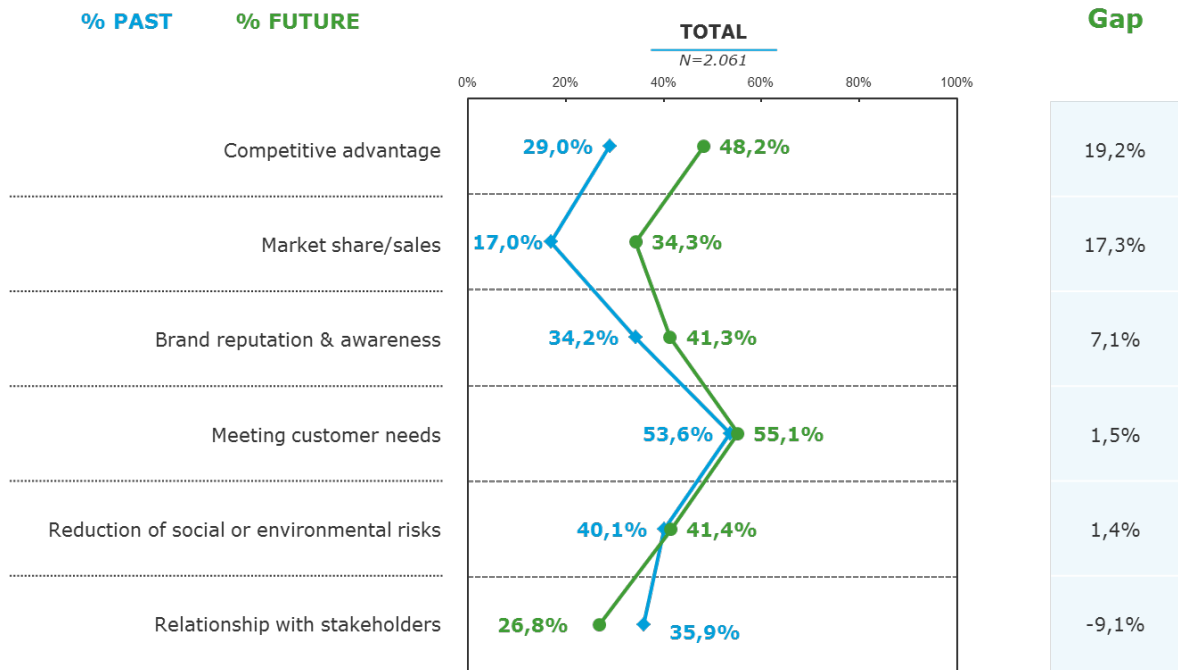


Figure 14: Drivers. Future expectations vs present

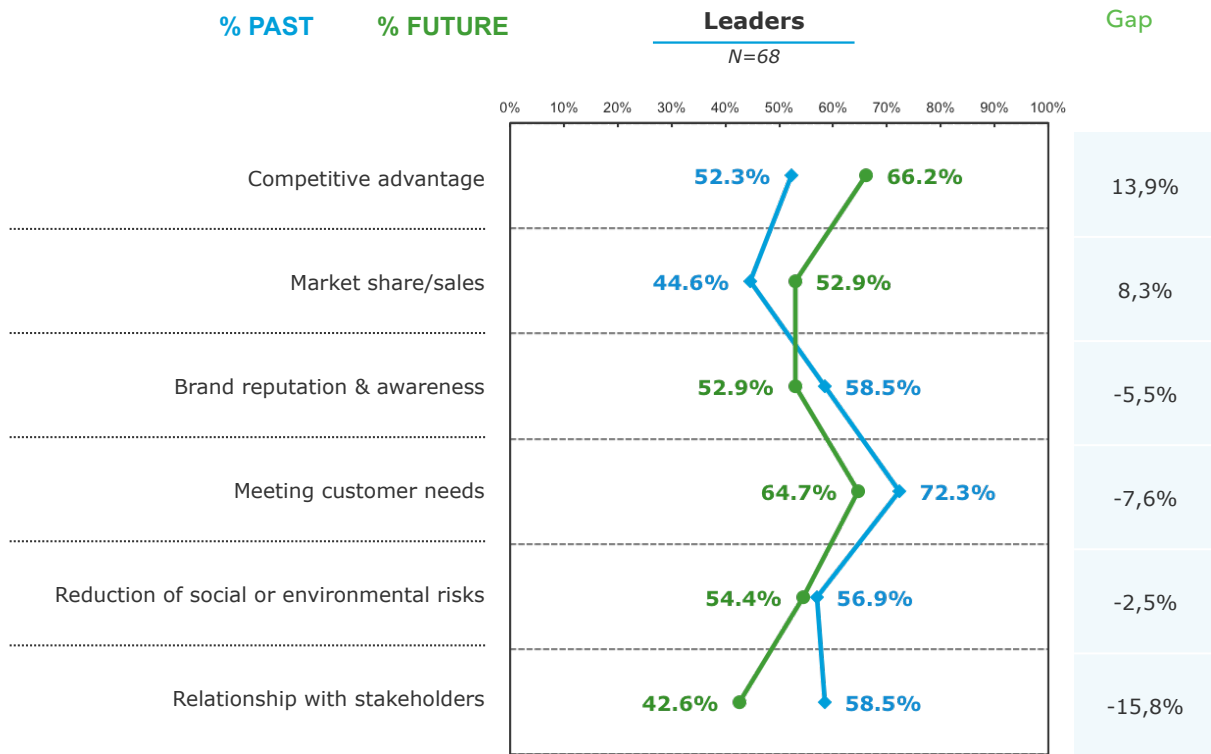


Figure 15: Drivers. Future expectations vs present, focus on leaders

Which will be the main drivers influencing your market/business in order to manage a more sustainable supply chain in three years' time?

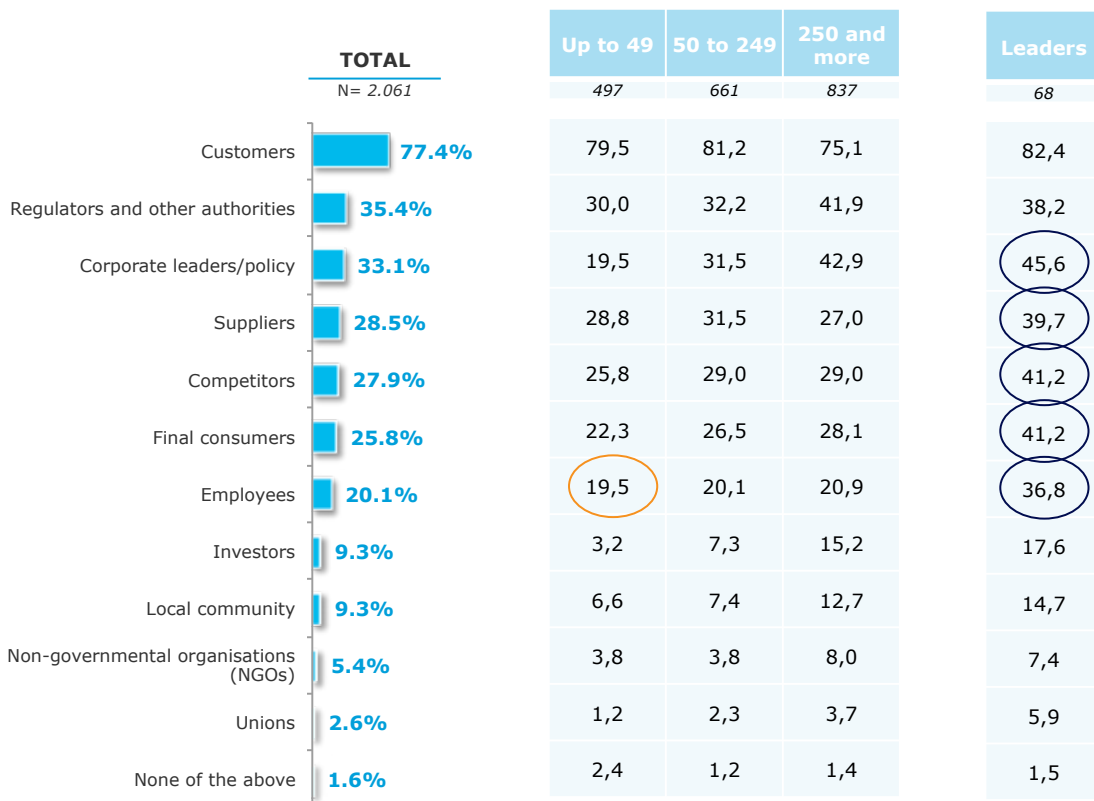


Figure 16: Future influencers

Customers will continue to be the most pressing stakeholder group (77%), followed by regulators (35%), whose influence is expected to be stronger in Europe (47%) and Central and South America (48%).

Companies will keep working towards supply chain sustainability through several initiatives, both improving their own strategy and processes and

putting greater responsibility on their providers. About 1 firm in 2 will keep relying on audits (51%; +10% vs present) and suppliers will be required to provide information about sustainability (35%). Firms implementing and communicating a sustainable supply chain policy will increase (34%; +9% vs present) and, in confirmation of increased attention, businesses not engaging in specific initiatives will considerably decrease (-17% vs present).

Customers (82%) will be the most relevant stakeholder group also for LEADERS. It is worth noticing that employees are particularly important for them too (+17%vs average).

**Which of the following sustainability actions regarding your supply chain will your company take in three years' time?**

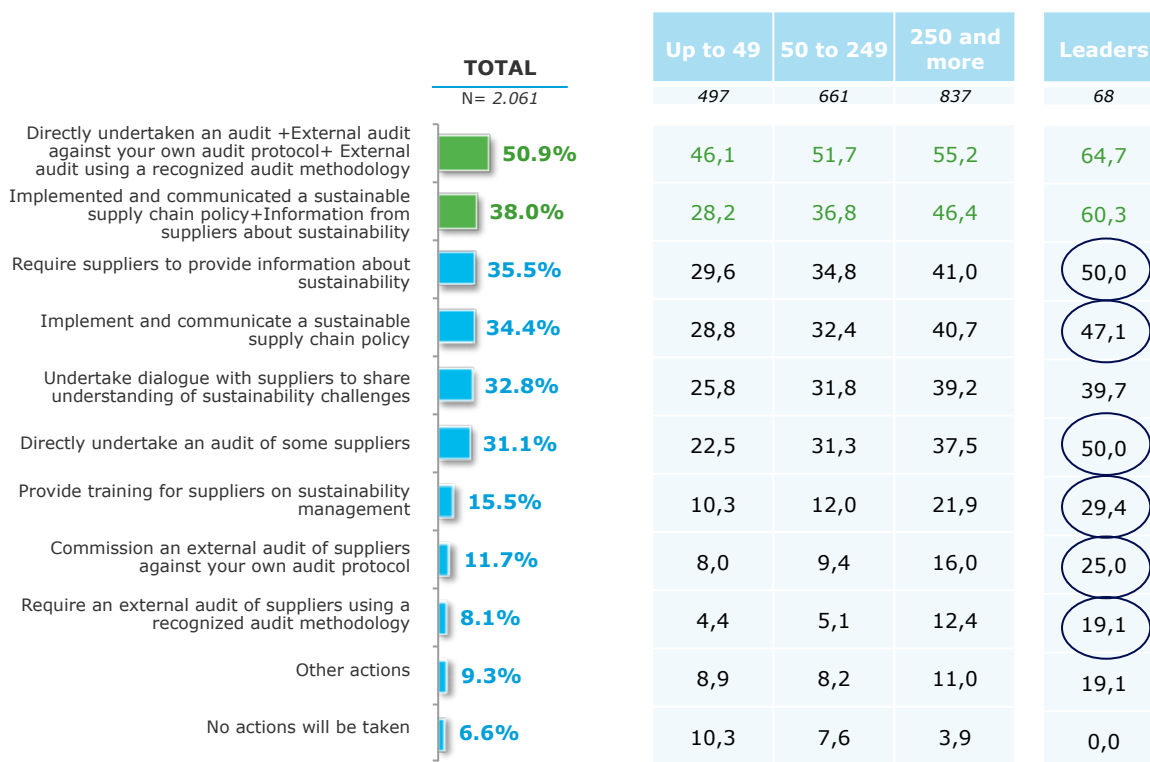


Figure 17: Future initiatives

65% of LEADERS will undertake an audit. Despite decreasing compared to the present, communication initiatives will keep playing a major role too: 1 in 2 among LEADERS will be requiring suppliers to provide information about the sustainability of their supply chain and 47% will adopt and communicate an ad hoc policy.

To improve sustainability, companies will keep focusing on aspects of legal compliance such as health and safety of workers (49%), energy use (42%), waste generation (39%) and use of hazardous substances (36%). The ranking of aspects to be addressed doesn't change dramatically but firms

will concentrate their efforts mainly on identifying where the risks are along their supply chain and defining strategies to reduce them. In fact, rates for assessment activities increase by 16% and for life cycle assessments (aiming to quantify product impact) by 9%.

Aspects of legal compliance won't be called into question for LEADERS too. Traditional assessments to identify risks along the supply chain will continue to be a key aspect for LEADERS, slightly decreasing (62%; -4% vs present) in favor of life cycle assessments (41%; +5% vs present).

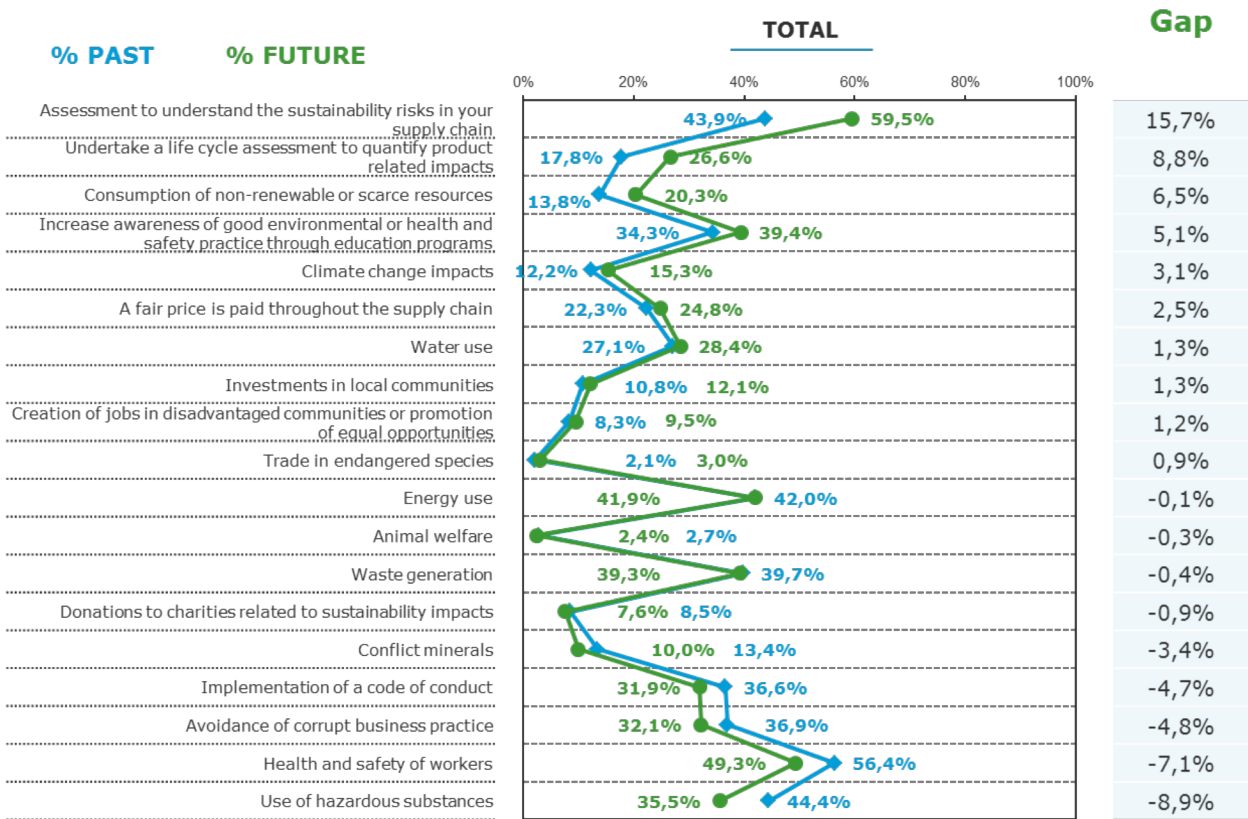


Figure 18: Aspects expected to be addressed in the future vs present

## PROFILING THE LEADERS

### Leaders know what to do.

The above average rates recorded by leaders throughout the survey are an indicator of their awareness of the growing importance of sustainable sourcing to keep operating profitably; both in terms of satisfying customer demands (nowadays are even more pressing than authorities and NGOs) and to enhance their market performance.

With a structured approach, most often ending up in a formal sourcing policy contemplating sustainability, leaders address aspects of legal

compliance and carry out concrete initiatives to identify risks along their supply chain - so to be able to control and manage them - and to communicate their sustainability efforts.

The benefits they obtain are tangible and outweigh costs and, although there are obstacles to be faced, leaders don't get dissuaded and learn to manage them better than others, knowing that sustainability of the supply chain will be of increasing significance for succeeding in the market.

### Leaders' Features:

1. When making buying decisions leaders consider sustainability aspects to a great extent.
2. For a leader, the relevant aspects for a supply chain to be considered sustainable are health & safety, economic sustainability and environmental impact. They particularly care for ethics as well.
3. They adopt formal supply chain strategies contemplating sustainability.
4. Customers are the main driver to sustainable management for leaders.
5. Auditing is a key instrument for leaders interested in sustainable sourcing. Communication initiatives play a priority role too, especially:
  - adoption and communication of ad hoc sustainability policies,
  - requiring suppliers to provide information about the sustainability of their supply chain.
6. Risk assessment is regularly carried out by leaders to manage their supply chain sustainably.
7. Benefits obtained thanks to sustainability initiatives are greater than costs. Leaders increased their ability to meet customer demands and improved their market performance (increased market share, competitive advantage and enhanced brand reputation).
8. Leaders manage obstacles much better than others: they don't seem to be hindered by the lack of a clear frame of reference.
9. Communicating what they do to the public is essential for leaders, and they especially opt for:
  - publication of information about sustainability of their supply chain,
  - claims in marketing activities,
  - use of recognized labels or certificates.
10. Leaders are clearly aware that sustainability of the supply chain will become increasingly important for succeeding in the market in the future.

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