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# Integrating Sustainability Into the Supply Chain Management

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Roma, 24 settembre 2019

Alessia Sabbatino

# Introductions

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are who  
We?

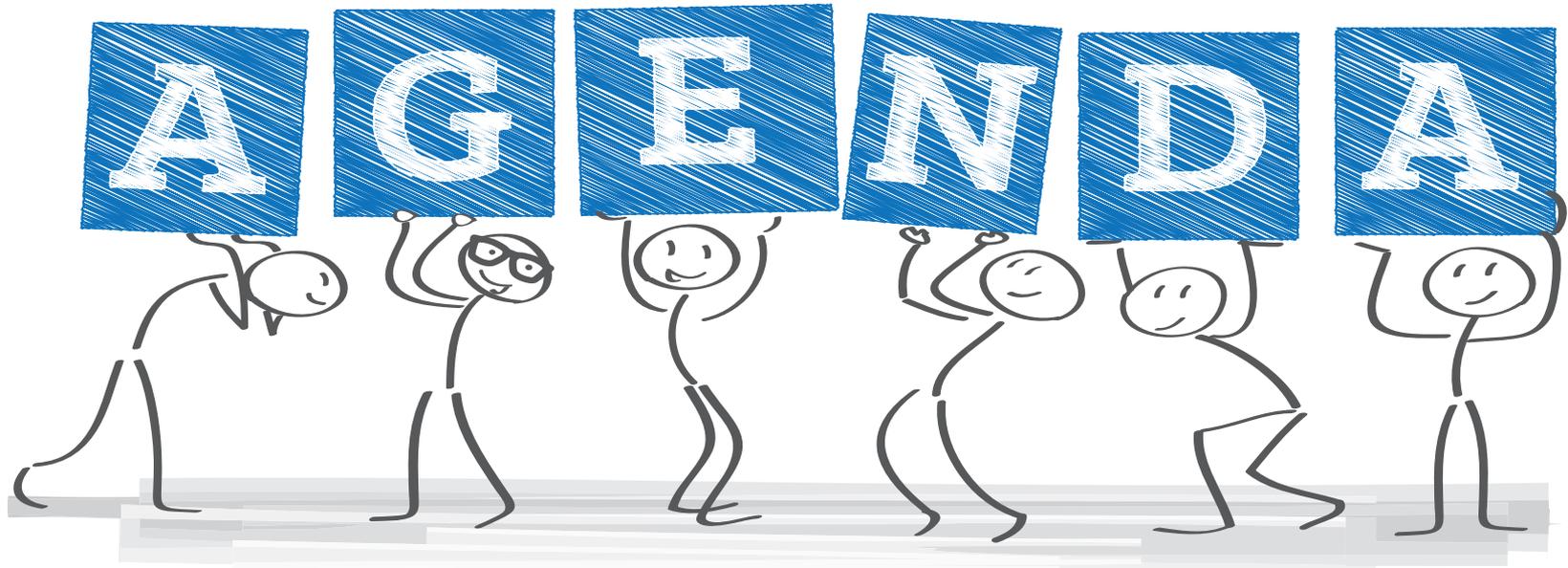
- Name
- Background
- Expectations/Specific interests

# The Classroom Agreement

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- Make **wise choices to support your learning** - Mute your cell phone and possibly put it away
- **Be open-minded** – Listen to, consider and value other perspectives
- **Take ownership of your learning** – raise your hand and share your thoughts
- **Participate to the proposed learning activities** – be proactive and punctual



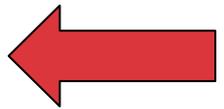


- Key definitions: sustainability, supply chains and supply chain sustainability
- Key sustainability issues in supply chains management
- The business case for sustainable supply chain management
- Sustainable supply chain management: implementation
- Assessing and reporting supply chain sustainability performance

# Teaching Method

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- Create 4 groups
- Give a name to your group
- “Competitive training activities” – at the end ONE group will win!
- Also individual contribution will be taken into consideration



# Unsustainable Development

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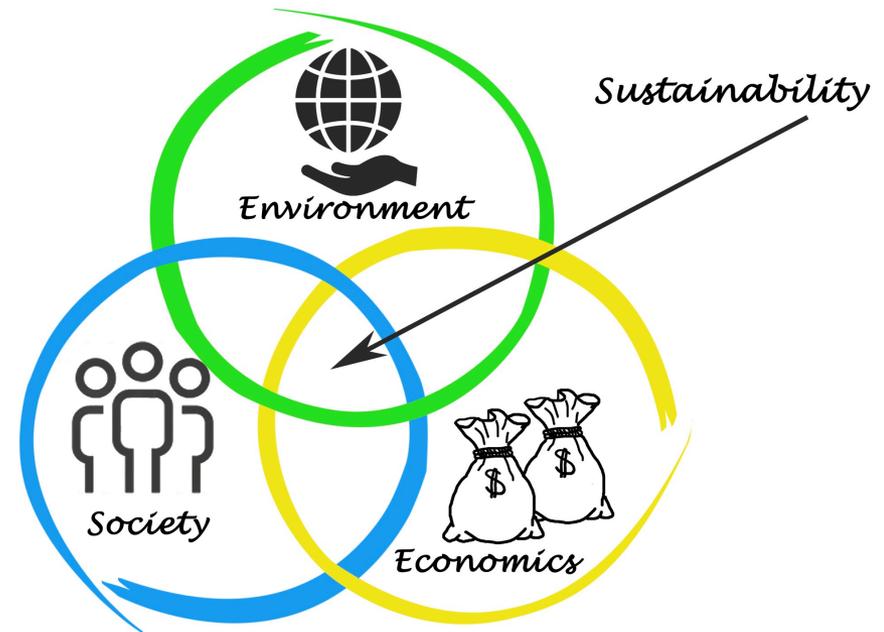


# What does Sustainable Development mean?

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“Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs”

World Commission on Environment and Development (WCED), 1987



# The Sustainable Development Goals

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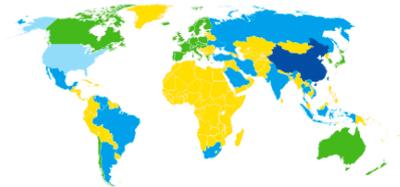
# The Sustainable Development Goals

It's all about **greening the scorecard...** a summary of findings from the *Future of Spaceship Earth Report* ([www.dnvgl.com/spaceship](http://www.dnvgl.com/spaceship))

Likelihood of meeting the 17 Sustainable Development Goals in five world regions:

-  Goal likely to be reached (i.e target fulfilment of more than 95%)
-  Goal not likely to be reached, but more than 50% of gap between today's status and the goal is likely closed
-  Goal not likely to be reached, and less than 50% of gap between today's status and the goal is likely closed

		ROW	BRISE	CHINA	OECD	USA
1	No poverty					
2	Zero hunger					
3	Good health and well-being					
4	Quality education					
5	Gender equality					
6	Clean water and sanitation					
7	Affordable and clean energy					
8	Decent work and economic growth					
9	Industry, innovation and infrastructure					
10	Reduced inequality					
11	Sustainable cities and communities					
12	Responsible consumption and production					
13	Climate action					
14	Life below water					
15	Life on land					
16	Peace, justice and strong institutions					
17	Partnerships for the goals	Not enough data to assess				

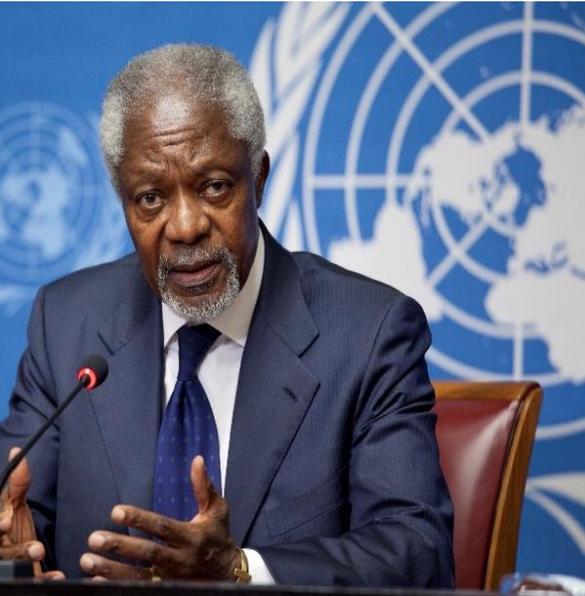


**FIVE REGIONS:**

-  USA
-  OECD (excl. USA)
-  CHINA
-  BRISE (Brazil, Russia, India, South Africa and ten other Emerging economies)
-  ROW (Rest of the World)

# The United Nations Global Compact

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**“I propose that you – the business leaders and we, the United Nations, initiate a global compact of shared values and principles, which will give a human face to the global market.”**

Kofi Annan,  
UN Secretary-General (1997-2006)  
World Economic Forum, 2009



**“Since there can be no poverty eradication without generation of wealth, we should further promote the UN Global Compact, highlighting the benefits of corporate responsibility.”**

António Guterres,  
UN Secretary-General  
Secretary-General Election Vision 6  
Statement, 2016

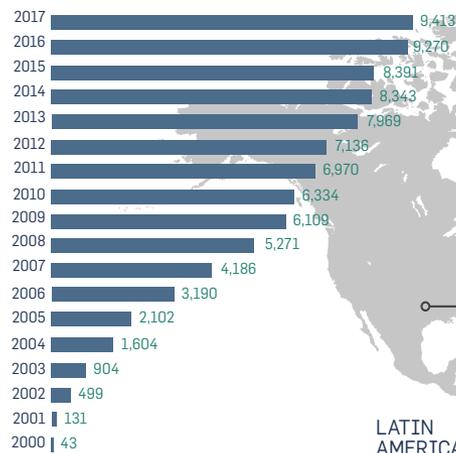


**“I have seen first-hand the power of the UN Global Compact’s Ten Principles on human rights, labour, environment and anti-corruption. They are helping thousands of companies contribute to sustainability.”**

Ban Ki-moon,  
UN Secretary-General (2007-2016)  
UN Global Compact Leaders Summit, 2016

# The United Nations Global Compact

## TOTAL BUSINESS PARTICIPANTS



## SIZE BREAKDOWN OF PARTICIPANTS



## 1.3 THE UN GLOBAL COMPACT IN NUMBERS

**163**  
COUNTRIES WITH UN GLOBAL COMPACT BUSINESS PARTICIPANTS

**28%**  
OF FORTUNE 500 COMPANIES PARTICIPATE IN THE UN GLOBAL COMPACT

**66M**  
PEOPLE WORKING IN THE PRIVATE SECTOR, WORK FOR A UN GLOBAL COMPACT COMPANY

**76**  
LOCAL NETWORKS AROUND THE WORLD

**7,448**  
COMPANIES HAVE BEEN EXPELLED FROM THE UN GLOBAL COMPACT

**3,056**  
NON-BUSINESS PARTICIPANTS

## SECTOR BREAKDOWN OF PARTICIPANTS

- 92** Insurance
- 118** Diversified
- 158** Banks
- 161** Real Estate
- 182** Automobiles & Parts
- 204** Chemicals
- 225** Telecommunications
- 273** Retail
- 296** Basic Resources
- 306** Travel & Leisure
- 325** Personal & Household Goods
- 326** Oil & Gas
- 337** Media
- 346** Utilities
- 389** Health Care
- 508** Financial Services
- 551** Food & Beverage
- 685** Construction & Materials
- 785** Technology
- 3,137** Industrial Goods & Services

Map shows the regional breakdown of participants

# The United Nations Global Compact

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## TWO COMPLEMENTARY OBJECTIVES

Integrate the ten principles into corporates' strategies, operations and culture

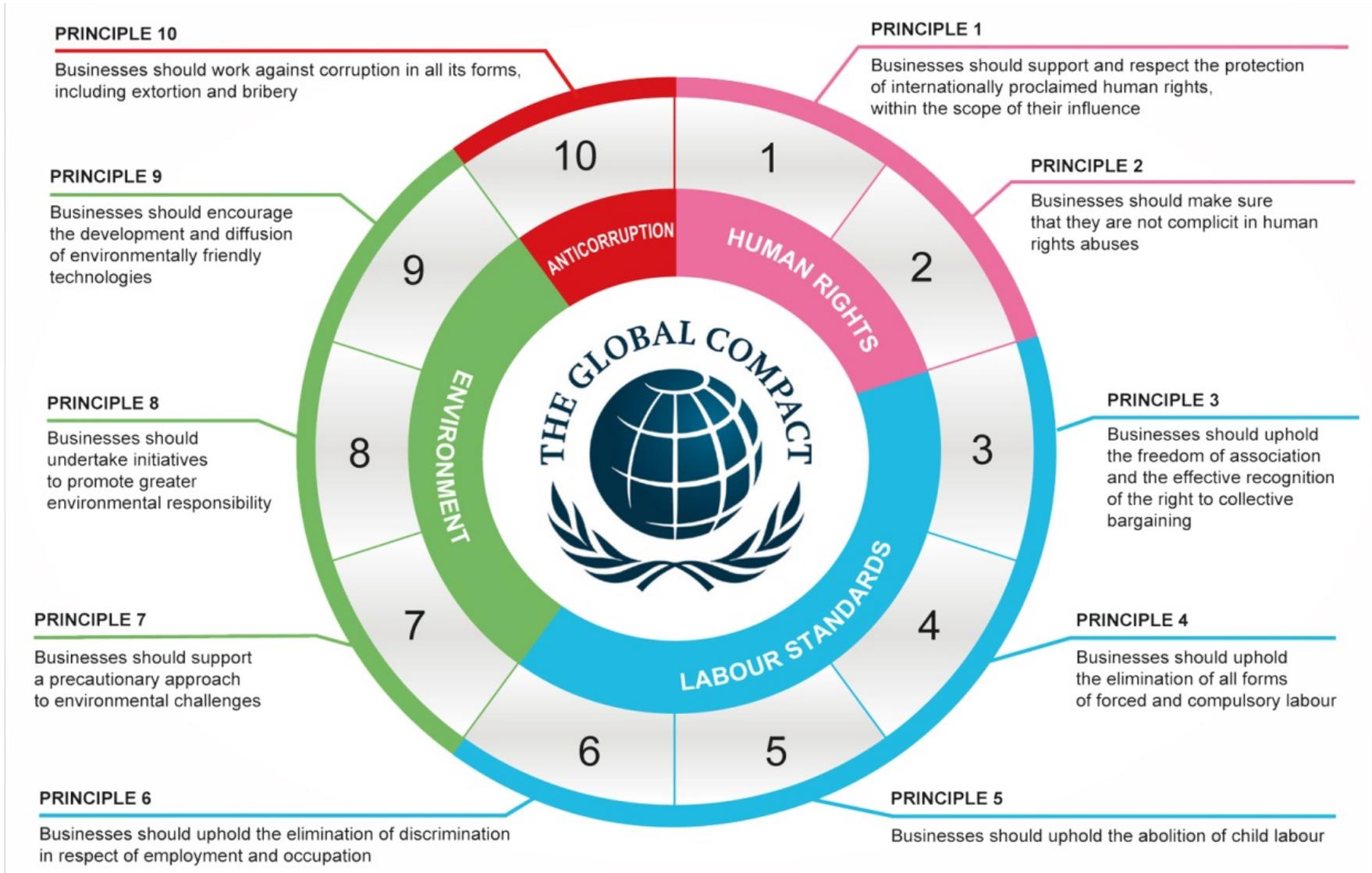
INTEGRATION

Support organizations in their contribution towards broader UN objectives, included the Sustainable Development Goals (SDGs)

CONTRIBUTION  
TO  
DEVELOPMENT



# The United Nations Global Compact Ten Principles



# Linking UNGC Ten Principles to SDGs



## THE TEN PRINCIPLES of the United Nations Global Compact



- 1 Support and respect the protection of internationally proclaimed human rights.
- 2 Not be complicit in human rights abuses.
- 3 Uphold the freedom of association and the effective recognition of the right to collective bargaining.
- 4 Support the elimination of all forms of forced and compulsory labour.
- 5 Support the effective abolition of child labour.
- 6 Support the elimination of discrimination in respect of employment and occupation.
- 7 Support a precautionary approach to environmental challenges.
- 8 Undertake initiatives to promote greater environmental responsibility.
- 9 Encourage the development and diffusion of environmentally friendly technologies.
- 10 Work against corruption in all its forms, including extortion and bribery.

## SUSTAINABLE DEVELOPMENT GOALS



Source: UNGC

The value of sharing principles

# What is Supply Chain?

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- **SUPPLY CHAIN** = network of all the individuals, organizations, resources, activities and technology involved in the creation and sale of a product, from the raw material through to supplier to the manufacturer and down to the end user.
- **BUYER** = Buying organization or person/s responsible for selecting and purchasing goods and/or services for an organization
- **SUPPLIER** = a person or organization that provides the goods and / or services to the buying organization.





# Sustainability within the Supply Chain

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According to the updated OECD Guidelines for Multinational Enterprises (2011), paragraph 12 states that businesses should:

*“Seek to prevent or mitigate an adverse impact where **they have not** contributed to that impact, when the impact is nevertheless directly linked to their operations, products or services by **a business relationship**”...“Where enterprises have large numbers of suppliers, they are encouraged to identify general areas where the risk of adverse impacts is most significant and, based on this risk assessment, prioritize suppliers for due diligence. In the context of its supply chain, if the enterprise identifies a risk of causing an adverse impact, then it should take the necessary steps to cease or prevent that impact”.*

# What is ISO?

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- ISO (International Organization for Standardization) is the world's **largest developer** and publisher of **International Standards**.
- ISO is a **network** of the national standards institutes of **163 countries**, one member per country, with a Central Secretariat in Geneva, Switzerland, that coordinates the system.
- ISO is a **non-governmental organization** that forms a bridge between the public and private sectors.
- ISO has developed over **21740 published** ISO standards on a variety of subjects and some 1100 new ISO standards are published every year.

## MOST POPULAR STANDARDS

ISO 14001 Environmental management

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ISO 3166 Country codes

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ISO 26000 Social responsibility

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ISO 31000 Risk management

ISO 50001 Energy management

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ISO 45001 Occupational health and safety

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ISO 13485 Medical devices

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ISO 37001 Anti-bribery management systems

# What is ISO 20400?

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- ISO guidance standard on Sustainable Procurement. It's a flexible framework.
- Provides an understanding of:
  - what Sustainable Procurement is;
  - how sustainability impacts the different levels of the procurement activity: policy, strategy, organisation, process; and
  - how to implement SP practically.
- Applies to:
  - any organisation, regardless of its sector, size and location.
  - any stakeholder involved in or impacted by procurement decisions and processes.
- Does not replace legislation, policy and ethical frameworks that regulate procurement activities.

# ISO 20400 Content

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**1) Scope**

**2) Normative References**

**3) Terms and Definitions**

**4) Fundamentals**

**5) Policy & Strategy**

**6) Enablers**

**7) Procurement Process**

# ISO 20400 Content

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## 4) Fundamentals – Targeted to All

Provides an overview of the fundamentals of sustainable procurement by outlining:

4.1 Concept of Sustainable Procurement

4.2 Principles of Sustainable Procurement

4.3 Core Subjects of Sustainable Procurement

4.4 Drivers for Sustainable Procurement

4.5 Key Considerations for Sustainable Procurement

# ISO 20400 Content

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# Exercise 1 – Defining Sustainable Procurement

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## WHAT DOES SUSTAINABLE PROCUREMENT MEAN TO YOU?

Write down a one sentence definition of Sustainable  
Procurement (3 minutes)



# Exercise 1 – Defining Sustainable Procurement

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## SHARE IT WITH YOUR COLLEAGUES

Discuss your own definition of sustainable procurement within your group

(5 minutes)



# Exercise 1 – Defining Sustainable Procurement

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## WHAT DOES SUSTAINABLE PROCUREMENT MEAN TO YOUR GROUP?

Write down or represent somehow your group definition of  
Sustainable Procurement (5 minutes)



THE BEST DEFINITION  
WILL GET **1 POINT**

# Concept of sustainable procurement

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“Sustainable procurement is procurement that has the **most positive** environmental, social and economic **impacts possible across the entire life cycle** and that **strives to minimize adverse impacts**”

ISO 20400:2017

# ISO 20400 Content

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## Exercise 2 – Core subjects of sustainable procurement

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- Working in group, make a list including ALL the “subjects of sustainable procurement”
- Count the “subjects of sustainable procurement” identified by your group
- Check your list upon the ISO 20400 one (ANNEX 1 - REFERRING TO ISO 26000)

THE GROUP THAT WILL IDENTIFY  
MORE SUBJECTS WILL GET **1 POINT**

# Core subjects of sustainable procurement

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The seven core subjects of sustainable procurement are the following:

- organizational governance: decision-making processes and structures;
- human rights: due diligence, human rights risk situations, avoidance of complicity, resolving grievances, discrimination and vulnerable groups, civil and political rights, economic, social and cultural rights, fundamental principles and rights at work;
- labour practices: employment and employment relationships, conditions of work and social protection, social dialogue, health and safety at work, human development and training in the workplace;
- the environment: prevention of pollution, sustainable resource use, climate change mitigation and adaptation, protection of the environment, biodiversity and restoration of natural habitats;
- fair operating practices: anti-corruption, responsible political involvement, fair competition, promoting sustainability in the value chain, respect for property rights;
- consumer issues: fair marketing, factual and unbiased information, fair contractual practices, protecting consumers' health and safety, sustainable consumption, consumer service and support, and complaint and dispute resolution, consumer data protection and privacy, access to essential services, education and awareness;
- community involvement and development: community involvement, education and culture, employment creation and skills development, technology development and access, wealth and income creation, health, social investment.

## Exercise 2bis – Core subjects of sustainable procurement

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- Carefully read all the information contained in the table
- Choose 5 issues among the listed ones
- Fill in the table answering to the following questions
  - ✓ *What are the challenges to address this issue in supply chain?*
  - ✓ *What can a company do?*

THE GROUP THAT WILL BETTER  
ANSWER WILL GET **1 POINT**

# ISO 20400 Content

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## 4) Fundamentals – Targeted to All

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## Exercise 3 – Drivers for sustainable procurement

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- Working in group, read the drivers for sustainable procurement contained in the ISO 20400 carefully
- Choose the three drivers that you think are stronger, write them on a sheet of paper (one driver each) and be ready to explain why
- Vote for the strongest driver

THE GROUP THAT WILL MAKE THE MORE  
CONVINCING PRESENTATION WILL GET **1 POINT**

# ISO 20400 Content

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## 5) Policy & Strategy – Targeted to Upper Management

Provides guidance about how to adopt sustainable procurement principles within the overarching strategy of the organisation and how sustainable considerations should be integrated at a strategic level within procurement function.

5.1 Committing to Sustainable Procurement

5.2 Clarifying Accountability

5.3 Aligning Procurement with Organizational Objectives & Goals

5.4 Understanding procurement practices and supply chains

5.5 Managing Implementation

# Important Ideas from Section 5

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## 5) Policy & Strategy – Targeted to Upper Management

### 5.1 Committing to Sustainable Procurement

The commitment of the top management of the organization is critical to successful sustainable procurement, and it is important that top management understands how procurement can support the organizational goals and improve performance.

Without this formal commitment, individuals involved in procurement have no official mandate to integrate sustainability into their procurement strategies or processes. Sustainable procurement therefore remains an ad hoc activity without resources and recognition at an organizational level.

# Important Ideas from Section 5

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## 5) Policy & Strategy – Targeted to Upper Management

5.1 Committing to Sustainable Procurement

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5.5 Managing Implementation

# Important Ideas from Section 5

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## 5) Policy & Strategy – Targeted to Upper Management

### 5.4 Understanding procurement practices and supply chains

In order to set priorities for sustainable procurement an organization should have an overview of:

- its procurement practices;
- its supply chains.

It is important to recognize that the organization's practices which influence procurement can, in themselves, give rise to sustainability adverse impacts.

**EXAMPLE** Late payment, unrealistic delivery requirements, overly aggressive price negotiation, disregard or abusive litigation of third parties' intellectual property, unfair competitive practices, penalties, and failure to respect international norms of behaviour.

An overview of the supply chain could be achieved by considering the following:

- core processes;
- complexity and number of tiers;
- transparency within the supply chains;
- important actors and partners;
- external influences;

# ISO 20400 Content

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## 6) Enablers – Targeted to Procurement Managers

Describes the organisational conditions and management techniques required to deliver sustainable procurement.



6.1 Governing Procurement

6.2 Enabling People

6.3 Identifying and Engaging Stakeholders

6.4 Setting Sustainable Procurement Priorities

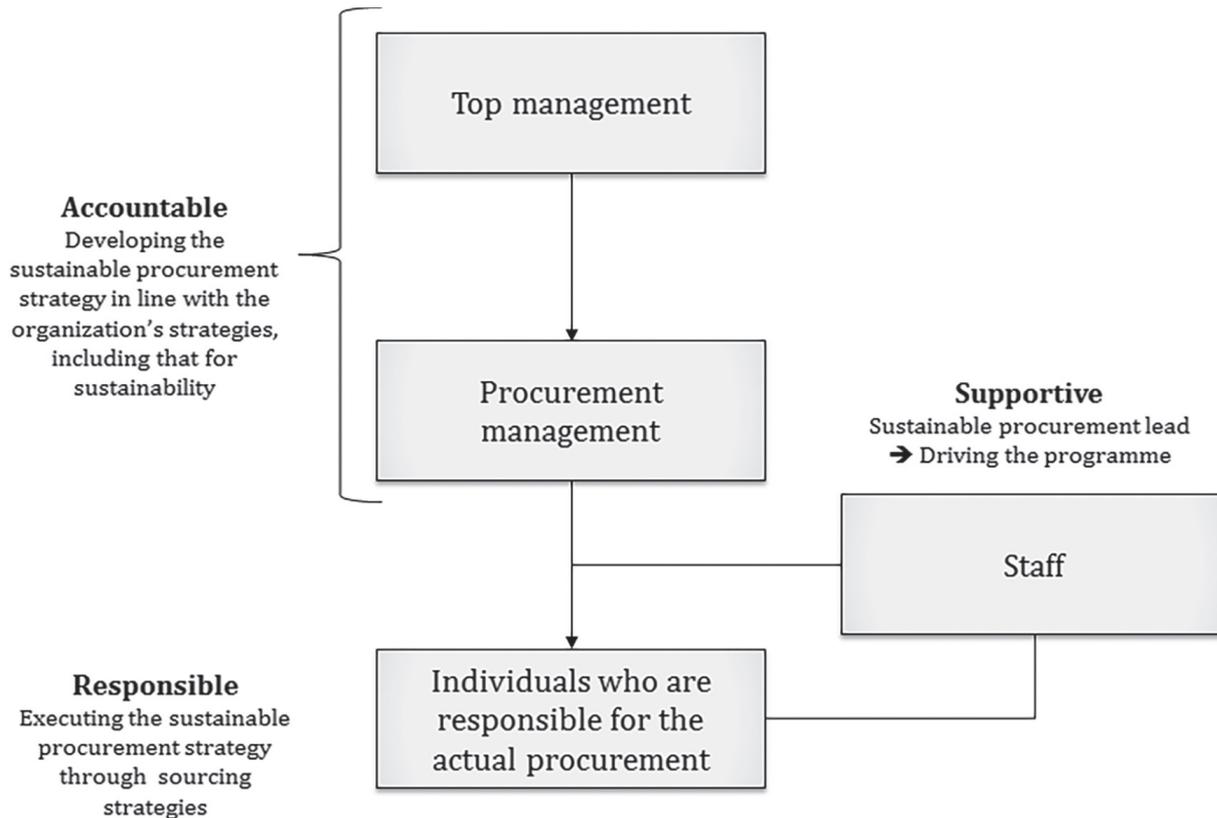
6.5 Measuring and Improving Performance

6.6 Establishing a Grievance Mechanism

# ISO 20400 Content

## 6) Enablers – Targeted to Procurement Managers

### 6.1 Governing Procurement



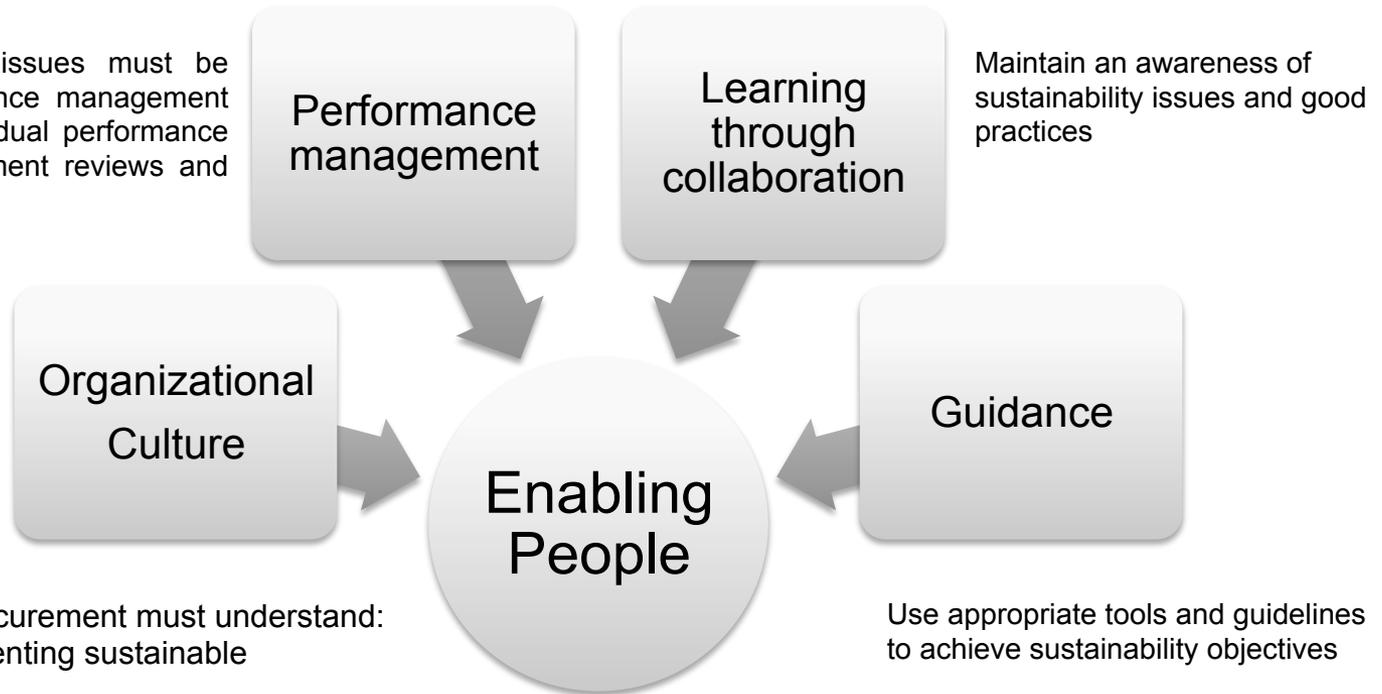
# Important Ideas from Section 6

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## 6) Enablers – Targeted to Procurement Managers

### 6.2 Enabling People

Sustainable Procurement issues must be incorporated into performance management such as collective or individual performance agreements; staff development reviews and evaluations; incentive plans



# Important Ideas from Section 6

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## **6) Enablers – Targeted to Procurement Managers**

### 6.3 Identifying and Engaging Stakeholders

# Define Stakeholders

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Robert Edward Freeman, Strategic Management: A Stakeholder Approach, Boston, Pitman (1984)



# Stakeholders: a definition

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- Stakeholder: “Any group or individual who **can affect** or **is affected** by the achievement of the organization’s objectives” (Freeman, 1984);
- They could include:
  - ✓ Employees
  - ✓ Unions
  - ✓ Owners (shareholders)
  - ✓ Suppliers
  - ✓ Customers
  - ✓ Communities
  - ✓ Governments
  - ✓ Etc.
- The **influence** can also be **negative or positive**

# Engaging the Supply Chain

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Various engagement techniques can be used by an organization in developing, integrating and managing sustainability objectives in its supply chains. Examples include:

- industry or commodity based sustainability initiatives;
- supplier development plans, when the organization supports suppliers individually to develop their capabilities over time, including sustainability;
- supplier relationship management initiatives, which aim to develop structured relationships with critical/strategic suppliers, subcontractors or partners in order to achieve greater levels of benefits and innovation, including sustainability;
- capacity building programmes, which might be required to improve alignment between the organization and suppliers, with a specific consideration to SMOs;
- supplier diversity initiatives, which aim to increase business opportunities for under-utilized groups of suppliers by including them in procurement decisions.

## Exercise 4 – Cases Analysis

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Read and analyse the proposed cases

Prepare a poster in order to share the main contents with your colleague

Which stakeholders have been engaged?

Which are the main drivers that pushed the company to go implement the programme

Something you have been struck by in reading the proposed cases?

(1 hour)

**THE GROUP THAT WILL MAKE THE MORE CONVINCING PRESENTATION WILL GET 3 POINTS**

# ISO 20400 Content

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## 6) Enablers – Targeted to Procurement Managers

### 6.4 Setting Sustainable Procurement Priorities

The sustainability objectives of the procurement policy and strategy should be transformed into operational priorities for the procurement function through risk management. This can be done using a variety of approaches, e.g.

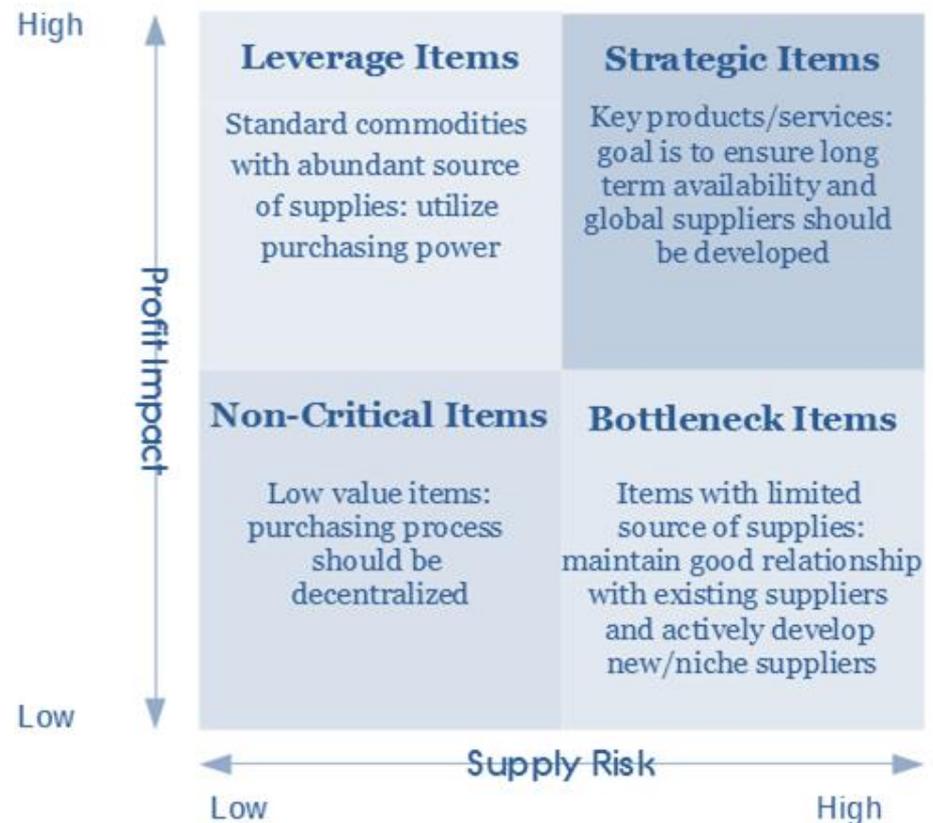
- categories, i.e. similar groups of goods or services;
- suppliers, i.e. across multiple contracts, and geographical locations;
- sustainability issues across categories, suppliers and contracts;
- organizational practices influencing procurement, including contracts, context analysis, etc.

# ISO 20400 Content

## 6) Enablers – Targeted to Procurement Managers

### 6.4 Setting Sustainable Procurement Priorities

**Objective** of the model proposed by Kraljic (1983): identify differentiated procurement policies in order to optimize the use of resources in the process, while guaranteeing delivery in terms of time, cost and quality.



# ISO 20400 Content

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## 6) Enablers – Targeted to Procurement Managers

Describes the organisational conditions and management techniques required to deliver sustainable procurement.

6.1 Governing Procurement

6.2 Enabling People

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6.4 Setting Sustainable Procurement Priorities

6.5 Measuring and Improving Performance

 6.6 Establishing a Grievance Mechanism

# ISO 20400 Content

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## 6) Enablers – Targeted to Procurement Managers

### 6.6 Establishing a Grievance Mechanism

Stakeholders, especially vulnerable ones, should be able to bring their problems, complaints and/or suggestions to the attention of the organization, and seek redress. The organization should facilitate this by establishing a grievance mechanism through different channels, depending on the sustainability issues being reported.

For grievance mechanisms to be effective, they should be:

- a) based on engagement, dialogue and mediation: the process should look for mutually agreed solutions through engagement between the parties and the right to appeal;
- b) legitimate: to enable trust from the stakeholder groups for whose use they are intended, and being accountable for the fair conduct of grievance processes;
- c) accessible and easy to understand: known to all stakeholder groups for whose use they are intended, providing adequate assistance for those who might face particular barriers to access;
- d) safe: to protect the stakeholders against potential threats and retaliations through a secure, anonymous independent and two-way communication system;
- e) predictable: to provide a clear and known procedure with an indicative time frame for each stage, and clarity on the types of process and outcomes available and means of monitoring implementation;

# ISO 20400 Content

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## 6) Enablers – Targeted to Procurement Managers

### 6.6 Establishing a Grievance Mechanism

- f) equitable: to ensure that aggrieved parties have reasonable access to sources of information, advice and expertise necessary to engage in a grievance process on fair, informed and respectful terms;
- g) transparent: to keep parties to a grievance informed about its progress, and provide sufficient information about the mechanism's performance to build confidence in its effectiveness and meet any public interest at stake;
- h) rights-compatible: to ensure that outcomes and remedies accord with international norms of behaviour;
- i) a source of continuous learning: drawing on relevant measures to identify lessons for improving the mechanism and preventing future grievances and harms.

# ISO 20400 Content

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## **7) Procurement Process – Targeted to Procurement Individuals**

Describes the generic procurement process and the techniques that can be used in different circumstances to deliver sustainability objectives across the supply chain.

7.1 Building on the Existing Process

7.2 Planning

7.3 Integrating Sustainability Requirements in the Specifications

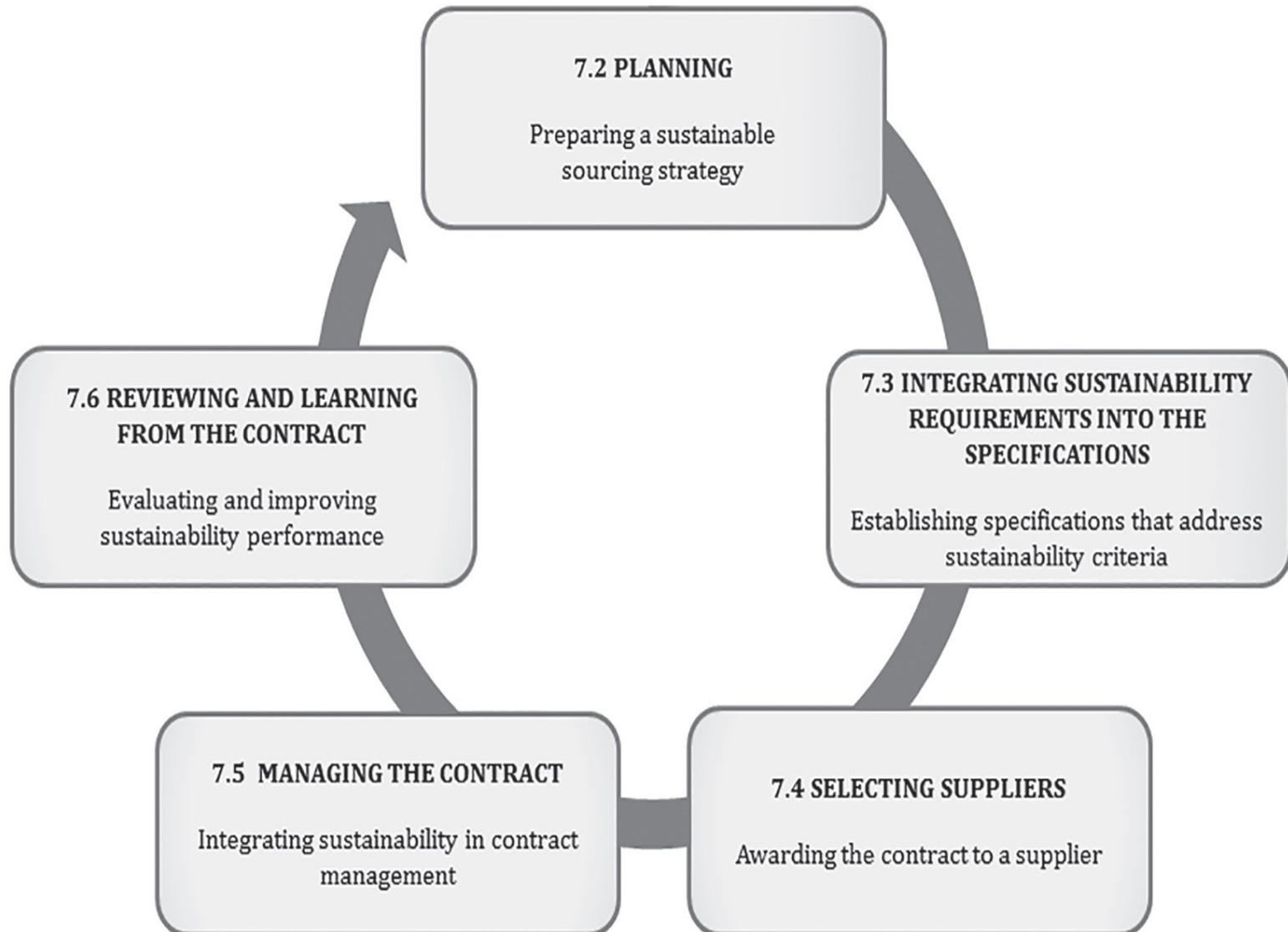
7.4 Selecting Suppliers

7.5 Managing the Contract

7.6 Reviewing and Learning from the Contract

# Integrating sustainability into the procurement process

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# Important Ideas from Section 7

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## 7) Procurement Process – Targeted to Procurement Individuals

### 7.3 Integrating Sustainability Requirements in the Specifications

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When including sustainability criteria in the procurement process, the organization should take care that the sustainability criteria:

- reflect the priorities defined in the sourcing strategy, e.g. by including key sustainability requirements in the minimum sustainability criteria;
- are objective and verifiable;
- are clearly defined without any risk of bias or collusion;
- are transparently and effectively communicated to potential suppliers;
- allow for fair competition and, in doing so, ensure that particular attention is paid to SMOs and the development of their capacity to respond to such criteria;
- identify how far down the supply chains it is necessary to go for adequate impact assessment.

# Important Ideas from Section 7

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## 7) Procurement Process – Targeted to Procurement Individuals

### 7.3 Integrating Sustainability Requirements in the Specifications

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Different types of requirements can be used:

- physical or descriptive requirements: specify a characteristic of goods or services;

EXAMPLE 1          Recycled or renewable content, mercury-free, or the way in which the product is manufactured or delivered (i.e. the process), e.g. organic or sustainably managed timber and fisheries.

- performance requirements: define the performance standards to be met by the goods or services, including definition of the way goods or services need to be delivered in order to optimize social and environmental impacts related to future performance;

EXAMPLE 2          Standards of care and number of patients for a social care service, delivery time, waste, and carbon emissions reduction.

- functional requirements: define the proposed function to be fulfilled by the goods or services required.

EXAMPLE 3          The strength and durability of concrete to be supplied, or energy/fuel efficiency.

# Important Ideas from Section 7

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## 7) Procurement Process – Targeted to Procurement Individuals

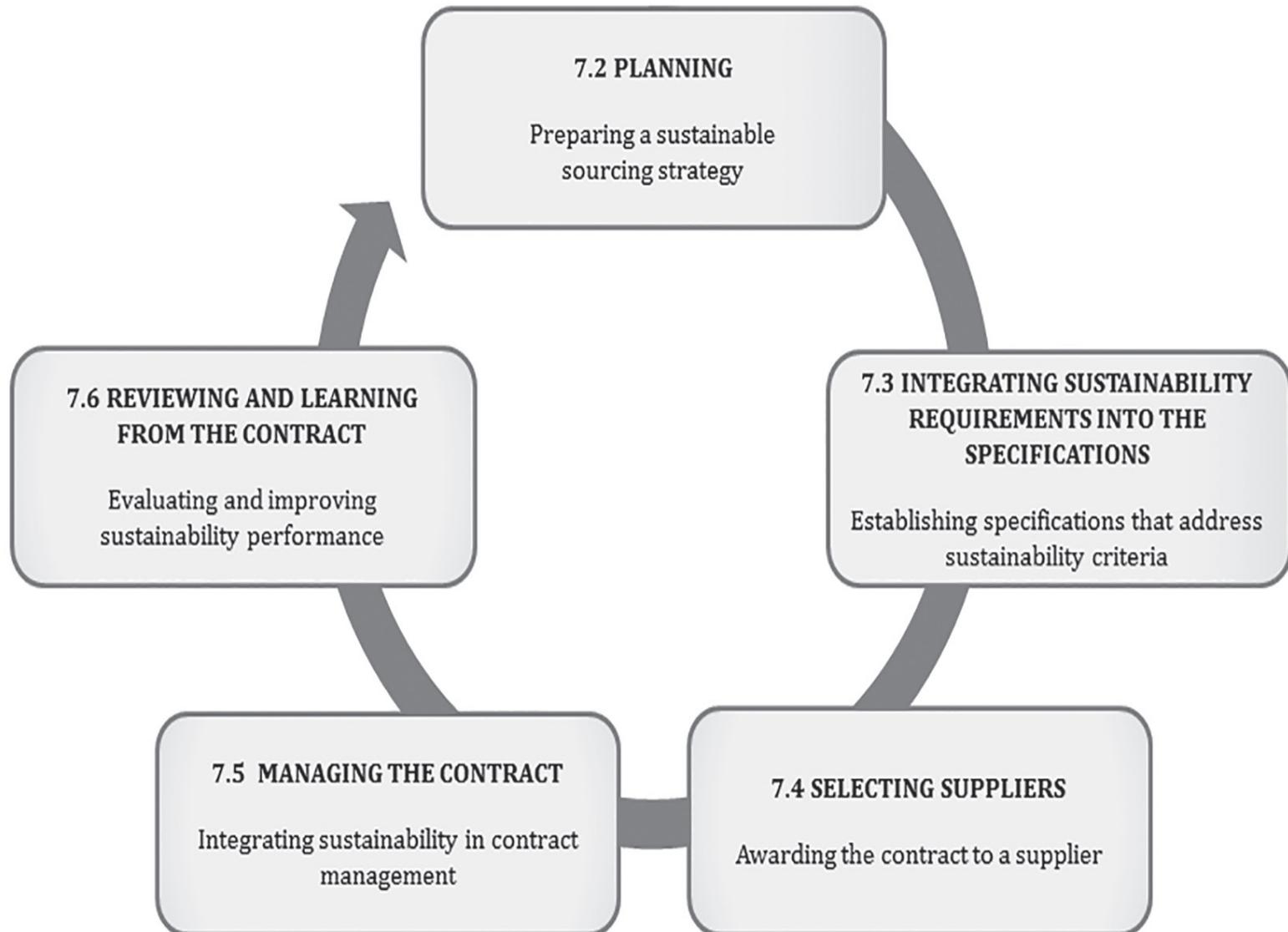
### 7.4 Selecting Suppliers

Supplier selection often comprises prequalification and tendering. The main difference between the prequalification and tendering stages are the following:

- prequalification usually focuses on overall capabilities of the supplier to deliver expected outcomes, including sustainability ones;
- tendering usually focuses on the capacity and commitment of the supplier to deliver detailed and specific requirements, including those related to sustainability, for goods or services.

# Integrating sustainability into the procurement process

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## Exercise 5 – Challenges

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- Working in group, identify the greatest number of obstacles a company can encounter in implementing a sustainable procurement policy and, with reference to each obstacle, some actions to overcome them

(10 minutes)

THE GROUP THAT WILL MAKE THE MORE  
CONVINCING PRESENTATION WILL GET **1 POINT**