



The sustainable supply chain ambition

Driving sustainability impact through supply chain action

A study of Australian business practices



Global Compact
Network Australia



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Locally, the [UN Global Compact Network Australia](#) brings together over 260 Australian participants of the UN Global Compact, including over 50 listed companies, other businesses, non-profits and universities, to advance the private sector's contribution to sustainable development. We connect, enable and lead businesses and stakeholders to create a sustainable future by supporting businesses to act responsibly and helping them find opportunities to drive positive business outcomes.

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Acknowledgement of Country

UNGCNA and EY Australia acknowledge the Aboriginal and Torres Strait Islander peoples as the traditional owners and custodians of the lands that we live and work on across Australia.

We pay our respects to Elders past, present and emerging and recognise the valuable contributions Aboriginal and Torres Strait Islander peoples make towards all aspects of Australian life. We imagine a future where all Australians are united by our shared past, present, future and humanity. This is our vision for reconciliation.

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Foreword

The COVID-19 pandemic and the Russia-Ukraine conflict have thrust supply chains into the public eye and on policymaker agendas in a way that would have been difficult to envisage several years ago. Many underlying interconnections in the global economy and associated vulnerabilities are now visible and exposed to scrutiny.

For companies and their stakeholders, the mapping and transparency of supply chains have been an ongoing process, driven in part by climate action, particularly since the Paris Conference in 2015, and the realisation that reducing emissions requires a company to assess every aspect of its business operations.

Beyond emissions, ESG matters, including human rights, environmental and sustainability considerations also demand attention. While modern slavery, broader labour exploitation and environmental degradation often generate headlines, underlying these issues are fundamental, growing global concerns that feed into the core purpose and social licence of business; there is an expanding social and civil society expectation of what constitutes a responsible, sustainable corporate citizen in the 21st Century.

The United Nations Sustainable Development Goals (SDGs) provide a beacon to the wider world as we'd like it to be in the 2030s. UNGCNA supports Australian businesses in their efforts around long-term, sustainable value creation, to develop and embed business and governance models that address climate and ESG factors and contribute to both prosperity and positive impact for all stakeholders, internal and external.

This report is a significant contribution to this journey, as a journey it is, with all the challenges that come with change and complexity. Supply chain management often doesn't sound exciting, but it's fundamental to sustainability. My congratulations to EY and all the Australian businesses that have contributed to this report. Where the pioneers go, a path opens for others to follow.

Fiona Reynolds

Chair, UN Global Compact Network Australia

Corporate sustainability has experienced an unprecedented boom in recent years. Businesses are increasingly aware of their impact on the environment and people, and are taking action to address issues such as climate change, biodiversity loss and human rights. These businesses are working to decarbonise their operations, minimise environmental harm from their activities, and take accountability for creating fair working conditions.

Businesses and other corporate actors play a key role in the pursuit of a more sustainable world. Many are aware that this cannot be realised without critically examining their operating models and turning their attention to regeneration, nature and biodiversity, and respecting human rights throughout their supply chains. This renewed focus on sustainability is being driven by a range of factors, including consumer and investor pressure, regulatory changes, and a growing recognition of the risks posed by nature loss.

In this environment, supply chain sustainability has come to the fore, driven by increasing regulatory, investor and consumer pressures on businesses in these areas, and global recognition of the risks posed by widespread nature loss. Businesses are also driving this renewed focus on sustainability and sustainable supply chains, with many making greater efforts to understand the impacts they have on the environment and people. These sustainability, sustainable finance and other private sector-led initiatives will play a leading, crucial role in the reshaping of the global economy.

For many businesses, the most significant impacts and dependencies they have on the environment and people exists within their supply chains. This means that creating sustainable supply chains is critical to achieving sustainable outcomes and a new, equitable economy that works for all stakeholders. The interconnected, global nature of supply chains can create efficiencies for businesses, but it has also led to negative environmental and social outcomes. The lack of transparency in value chains exacerbates this challenge, with many businesses unwittingly participating in activities that create an opportunity for modern slavery to persist and contribute to biodiversity damage or loss, among other issues.

EY Australia and UNGCNA have worked together on this report to understand how Australian businesses are managing their supply chains to reduce their negative impacts in the areas of labour exploitation and environmental degradation, and where they are providing opportunities for social equity, environmental restoration and nature positive outcomes.

We observed that Australian businesses are rethinking their approaches to supply chain management by incorporating sustainability considerations alongside traditional price and quality considerations into the process of purchasing goods and services. However, for the most part, businesses are not doing enough and need to invest in, and elevate, the oversight of supply chain sustainability as a critical component of an overarching corporate strategy to move towards a truly sustainable business model.

While no single business is addressing all possible issues in the best possible way – perhaps indicative of the scale and complexity of the challenge and the need for actors to work together to create a sustainable world – there are many areas where businesses can, through their supply chains, create value in biodiversity, climate change and human rights.

This report presents a number of these innovations, which can be scaled and adopted by businesses looking to transform their businesses and make their supply chains more sustainable.

Alexandra Banks

Partner, Climate Change and Sustainability Services, EY Australia



About the participants

Participating businesses are from a wide range of industries with varying and diverse supply chains, including:

- a major telecommunications business
- a large packaging and transport business
- a high-end fashion brand
- a large steel manufacturer
- two ASX-listed mining businesses
- two ASX-listed energy businesses
- two large local government authorities.

About this report

Purpose

The UNGCNA and EY Australia undertook this research project to better understand how Australian businesses manage their supply chains to reduce negative impacts with regard to labour exploitation and environmental degradation, while also providing opportunities for social equity, environmental restoration and nature-positive outcomes. This study specifically examined how businesses can create genuine impact through their supply chain processes on biodiversity, climate change and human rights.

In doing so, we sought to:

- understand the actions businesses have taken to drive change
- identify business initiatives that others can learn from in order to make a significant and tangible difference to the social and environmental outcomes resulting from supply management activities
- understand how businesses set up internal and external partnerships to drive sustainability
- understand the organisational tools and technology necessary to leverage sustainable outcomes.

This report gives equal consideration to human rights and environmental factors in supply chains, in particular exploring how the due diligence processes for these two areas can complement each other.

This study specifically examined how businesses can create genuine impact through their supply chain processes in biodiversity, climate change and human rights.

Approach

This report is a collaborative effort between the UNGCNA and EY Australia. The research involved interviews with a range of Australian businesses that have developed sustainable supply chain management practices. Each participant acknowledged the scale of the sustainability challenge and the level of effort needed to create change. The participants provided in-depth insight into their internal business processes related to sustainable supply chain management.

This study was also governed by an ethics protocol, where participation was voluntary and identification was optional. Interviewees from participating businesses were largely senior sustainability and procurement managers. Interviews were recorded and transcribed. Interview transcripts were then coded for themes and patterns in relation to supply chain management practices. Once the themes were collectively identified and developed, they were then shared with interview participants for review, feedback and verification.

How to use this report

This report has been prepared for Australian businesses and their broader stakeholders, including investors, the academic community and supply chain partners. Many businesses may have good elements for managing sustainability issues in their supply chains, however this report found that it is rare that a business is demonstrating leading practice across their entire approach to sustainable supply chain management. Our intention is to provide a snapshot of leading supply chain management approaches and examples of how Australian businesses can improve their own practices.

Acronyms and abbreviations

CEO	Chief Executive Officer
CFO	Chief Financial Officer
CIO	Chief Information Officer
CPO	Chief Procurement Officer
CSO	Chief Sustainability Officer
ESG	Environmental, social and governance
FSC	Forest Stewardship Council
FY	Financial year
NGO	Non-governmental organisation
NSW	New South Wales
OECD	Organisation for Economic Co-operation and Development
PEFC	Programme for the Endorsement of Forest Certification
SDGs	Sustainable Development Goals
TNFD	Taskforce on Nature-related Financial Disclosures
TCFD	Task Force on Climate-Related Financial Disclosures
UK	United Kingdom of Great Britain and Northern Ireland
UN	United Nations
UNFCCC	United Nations Framework Convention on Climate Change
UNGCNA	UN Global Compact Network Australia
USA	United States of America
WRI	World Resources Institute

Executive summary

The interconnected, global nature of supply chains can create efficiencies for businesses, but it has also led to environmental and social challenges. With a lack of transparency in value chains many businesses unwittingly participate in activities that harm the environment, create an opportunity for modern slavery to persist, and contribute to biodiversity harm or loss.

In the face of global sustainability challenges, there is growing need for businesses to address these issues – and more – in their supply chains. Most of the key sustainability commitments businesses are making and the changes needed to truly achieve sustainability cannot be done without changes throughout value chains. Without also addressing sustainability within supply chains, achieving decarbonisation, equality, nature positive and other outcomes would not be possible.

One of the biggest challenges in supply chain management is the impact of sourcing on social and environmental issues. In many parts of the world, the sourcing of raw materials such as minerals, agricultural products and timber has led to deforestation, water pollution, land degradation, and human rights abuses. Another important challenge is the impact of transportation on the environment, which requires significant amounts of energy, and results in greenhouse gas emissions, air pollution, and other negative environmental impacts.

The granular details of the Sustainable Development Goals (SDG) targets for supply chain management challenges are beyond the scope of this study, however, there are several SDGs that address challenges in supply chain management practices. For instance, [SDG 9 \(Industry, Innovation and Infrastructure\)](#), offers several targets that address supply chain management challenges. Notably, other SDGs—such as SDG 8, SDG 16 & SDG 17—also provide targets that correlate to global supply chain management practices.

UNGCNA and EY Australia undertook this research to better understand how Australian businesses are working towards becoming sustainable businesses through sustainable procurement. Research carried out by the UNGCNA and EY Australia involved interviews with senior sustainability and procurement managers from a range of Australian businesses from a variety of sectors to understand their operating context, strategic priorities, organisational challenges, and business processes for managing their supply chains.

This report provides insight into some of the enabling actions and levers businesses can pull to reduce negative impacts, such as environmental degradation and labour exploitation, and create value, such as environmental restoration and social equity, for stakeholders within their supply chain. While many businesses may have good elements of managing sustainability issues in their supply chains, it is rare that a business is demonstrating leading practice across their entire approach to sustainable supply chain management.

Some Australian businesses are rethinking their approaches to supply chain management, incorporating sustainability considerations alongside traditional price and quality considerations into the process of purchasing goods and services. These businesses embed sustainability and procurement processes into their business models, which can lead to flow-on improvements in the supply chain, for example, circularity, regenerative sustainability or renewable energy.



Moving from risk management to value creation



Creating visibility in supply chains using systems and data



Partnering with stakeholders



Demonstrating leadership and accountability



Navigating a complex and changing reporting and regulatory landscape

Businesses in this study are working towards sustainable procurement models in five key ways.

1. Moving from risk management to value creation

Sustainable supply chain management and responsible sourcing has tended to focus primarily on identifying and addressing risk. Businesses that take a 'beyond compliance' mindset and focus on opportunities create value for their stakeholders. They see themselves as part of a system that they can influence and impact through their own actions as well as through the actions of their suppliers. They collaborate with key supply chain partners in meeting their targets and achieving human rights and climate change objectives.

2. Creating visibility in supply chains using systems and data

To effectively identify preliminary risks and opportunities to create value, businesses need to have a level of visibility over the scale of their global supply chain networks. Businesses with more advanced sustainability ambitions use technology platforms and data to map their supply chain networks so that they can better identify the full scope of their impacts. This level of visibility and initial screening can inform more targeted due diligence programs such as auditing, corrective action plans and supplier performance planning.

3. Partnering with stakeholders

Supply chains inherently comprise many internal and external stakeholders of varying roles, scale and capabilities. Businesses in this study took a collaborative approach to engaging with suppliers, customers, employees, industry bodies and in some cases, industry peers, to work towards creating positive sustainability outcomes.

4. Demonstrating leadership and accountability

Genuine executive commitment means that those charged with driving sustainability and supply chain management have the necessary support in the form of systems, governance structures, appropriate capabilities, sufficient resourcing, and financial investment to establish a change program. Businesses that were making genuine progress towards their sustainability commitments demonstrated strong support and provision of resources from the top.

Ultimately, effective management of the supply chain helps businesses achieve better social and environmental outcomes. Supply chain management is a critical tool for achieving these outcomes, as it allows businesses to manage their entire value chain, from suppliers to customers, and ensures that sustainability is integrated into every step of the process.

5. Navigating a complex and changing reporting and regulatory landscape

The pace at which global reporting frameworks and jurisdictional legislation are coming into force demonstrate the importance that stakeholders are placing on accountability and the urgency for businesses to step up their due diligence and impact management practices and associated disclosures. Some businesses are taking a proactive approach to building these expected changes into their supply chain management and monitoring. However, they acknowledged that excessive reliance on changing laws and institutional pressure to drive change can lead to overreporting, greenwashing and increased administrative burden rather than creating meaningful change.



Theme 1

Moving from risk management to value creation

Moving from risk management to value creation

Many businesses view supply chain management as a risk management exercise, placing the focus on reducing the risk of disruption and harm rather than creating value. While it is fundamental for the private sector to respect human rights and to reduce emissions, it can also create value by taking a collaborative approach to engaging with suppliers and communities, building capacity to embed long-term change and adjusting internal processes to accommodate suppliers of all sizes and capabilities.

Sustainable supply chain management and responsible sourcing tend to focus primarily on identifying and addressing risk. While it is crucial to assess and address human rights harm and to reduce the business' environmental footprint, there is also an opportunity for businesses to make strategic procurement decisions designed to maximise positive social and environmental outcomes.

“You can’t get a mining project off the ground unless you have good relationships with local people.”

ASX-listed mining business

This study found that leading businesses understand the importance of a 'beyond compliance' mindset and the need to focus on opportunities that create value for their stakeholders. These businesses see themselves as part of a system that they can influence and impact through their own actions as well as through the actions of their suppliers. They collaborate with key supply chain partners in meeting their targets and achieving human rights and climate change objectives.

Engagement and collaboration

Stakeholders including suppliers, employees, customers, and local communities are paying greater attention to sustainability and social procurement. In this fast-evolving landscape, businesses must pay greater attention to the impacts of their business activities so that they can meet their stakeholder's expectations and maintain their social licence to operate. Doing so means more than ticking boxes and taking a compliance mindset. Instead, businesses need to demonstrate that they are managing the externalities of their operations and creating value for their stakeholders.

Businesses should move beyond a compliance mindset and towards a collaborative approach, working with broader stakeholders including NGOs, industry peers, and suppliers. For sustainable procurement to be effective a holistic view is needed taking a top-down multi-faceted approach, in combination with a bottom-up view that considers resourcing and stakeholder factors.

In this study, one business that operates in remote parts of northern Australia consulted with local community leaders on how the business could best support the community before proceeding with their planned operational activities – going beyond the legislated requirements for local community engagement.

Building capacity

Supply chains are complex. No single business can sufficiently manage risk and maximise social outcomes within their full supply chain without multi-stakeholder collaboration. Financial support can enable suppliers to improve their sustainability practices and outcomes. This study found that one business dedicated financial resources specifically to support its suppliers achieve sustainability outcomes. However, supporting a business's full supply chain can exist in the forms of both financial and non-financial support. When businesses actively collaborate with their suppliers on efforts dedicated to sustainability, they can help build capacity within these businesses and potentially achieve genuine, lasting outcomes.

“We actually redesigned a set of tender templates that were user friendly for small to medium enterprises, to simplify the engagement and the procurement process.”

Large local government authority

A collaborative approach extends beyond targets and activities. Some participants in this study jointly set targets with their suppliers and contractors in areas such as local job creation in remote communities and participation from First Nations owned or led businesses. This study found that leading businesses work with their suppliers to build capacity so that they can focus their efforts on creating impact in a way that is meaningful to the businesses involved.

Adjusting processes

Within a supply chain, there are suppliers of wide ranging size, scale and complexity. Businesses with contract provisions that encourage engagement with community and diverse businesses can help provide job opportunities and economic benefits for communities they are based in. Smaller suppliers tend to not have the same level of organisational capabilities, processes and structures as large businesses, which can limit their opportunity to participate in tenders where they would be able to add value. It can also be challenging for these small suppliers to be successful at tenders, for example if they are required to provide their emissions footprint but they do not have the necessary systems in place to capture data.

For a business to create genuine impact in its supply chain, it needs to collaborate with all stakeholders and enable suppliers of all sizes to participate in the sourcing process where traditional risk screening may have excluded them. One business in this study embedded sustainability within its procurement processes and adjusted its selection criteria to accommodate smaller suppliers and reduce these barriers. By modifying their tender processes, this business took a more nuanced approach to supplier selection and created a more inclusive procurement process. To have a greater impact, businesses can specifically select diverse suppliers based on their size and location. They can also do this by setting procurement targets for First Nations owned or led businesses, Disability Enterprises, women-run businesses and B-corps.

Takeaway actions



Focus on value creation

Once a business has assessed and addressed its human rights and environmental risks, it can also make procurement decisions that drive shared value creation. This means opportunities to create value should be identified up front and built into the scope of the engagement and ongoing supplier management.



Engage with, and support, suppliers

Businesses should engage communities and suppliers with user-friendly procurement policies and documentation to reduce barriers to participation. This can come in the form of drafting short-form agreements tailored to specific supplier needs and capacity.



Integrate sustainability into business models

Businesses should link purpose and community-related outcomes so that the business's approach to sustainability is holistic.

Social value

This large local government authority is responsible for large-scale infrastructure projects and operations such as managing parks and gardens, road maintenance, waste collection, and running community events. It also owns a range of assets, many of which are managed by contracted service providers.

The business has reasonably consistent procurement processes and approaches to managing suppliers, and well-developed business processes and documentation, which enable it to track commitments and deliverables. It also has a structured supplier management program for its most critical suppliers.

In addition to engaging with First Nations stakeholders and traditional owner groups in a rights-respecting manner, one of the business's key focus areas within sustainable procurement is to encourage greater participation from local and First Nations suppliers. To do this, it has adapted its approach to sourcing and tender documents to make it easier for these suppliers to participate in the sourcing and contracting process. It has taken a tiered approach to insurance level requirements, which can sometimes exclude smaller businesses from participating in tenders. It has also included criteria that prioritises suppliers that support the business's goal to meet a minimum spend with local and first nations businesses.



“We had to cross through the land of seven separate traditional owners, but we didn’t just consider what was required of us by legislation, we met with the local community leaders and we asked them what they needed and how we could add to their local community.”

ASX-listed energy business



Theme 2

Creating visibility in supply chains using systems and data

Creating visibility in supply chains using systems and data

Businesses need to understand their supply chains thoroughly, including the origin of their raw materials and the conditions under which their products are produced. This can be achieved through the use of data, which can provide real-time information on the entire supply chain. By having visibility of their supply chains, businesses can identify and address any adverse human rights impacts and environmental risks that may arise. To make effective use of data and technology, businesses can leverage available tools and simplify their data collection systems. This can enable them to track and report on their progress.

To effectively identify preliminary risks and opportunities to create value, businesses need to have a level of visibility over the scale of their global supply chain networks. Businesses with more advanced sustainability ambitions used technology platforms and data to map their supply chain networks so that they can better identify the full scope of their impacts. Many of these platforms have inbuilt functions, such as self-assessment questionnaires, that support preliminary supplier screening processes. This level of visibility and initial screening can inform more targeted due diligence programs such as auditing, corrective action plans and supplier performance planning.

“One of the things we’ve committed to was to get a clear view or greater transparency over our supply chain by undertaking supply chain mapping. We’re currently looking at doing that piece of work on our FY2022 spend.”

ASX-listed mining business

Leveraging tools and platforms

Businesses that used data platforms for supply chain management were better able to access information and data on a regular basis to provide evidence of how their activities led to improvements in social and environmental areas. Many businesses in this study are in the process of investing in tools and platforms that use spend data to determine inherent risk in the supply chain based on country and product related risks.

A number of businesses in this study used spend data to measure their performance against their targets for First Nations owned or led supplier engagement, or to understand business exposure to potential human rights risks. It is important to note that while tools and platforms can assist a business with managing their impacts, generally businesses use these tools to identify risks and screening suppliers, and there is still limited evidence of this extending to greater due diligence across the supply chain.

Simplifying data collection systems

While a number of businesses in this study used some form of technology to understand their supply chains, the platforms and technology types were varied, with no common maps or tools across the sample. Even within a single business, different areas of the business used different tools for different purposes, for example tools to address modern slavery risks were different to tools used to measure carbon emissions.

One business acknowledged the complexity of supply chain management even with enabling technology, given the continually changing nature of supply chain data. This business is working to automate the process of data upload, cleansing and risk categorisation as much as possible to simplify the process.

Tracking progress

The scale and interconnectedness of the sustainability challenge means that progress is often incremental and can take a long time. Businesses should not be deterred by this; instead, they should focus on the areas where they are able to drive change by understanding the data profile and risks in their current state, setting targets and using metrics to measure impact they are having.

Businesses in this study that set specific targets and then used data to measure their impact were able to identify what they were doing well, where they needed additional resources, and where further work was needed. This included using metrics to identify whether they are meeting their goals on minimum spend on social enterprise and First Nations-owned businesses, or whether they are meeting their targets to audit the highest risk suppliers for modern slavery risk.

“From a human rights perspective, we’ve worked really hard on automating our due diligence process and making it as simple as possible for our procurement representatives. Our analytics team created a screening tool, which is like a risk assessment tool that is similar to a calculator or dashboard. The tool works by assessing a supplier on four key criteria, then producing a rating of low, medium, or high. If the rating is low then the vendor can be onboarded. If it’s high, then it gets sent to our sustainable procurement team to guide the process.”

ASX-listed mining business

Takeaway actions



Leverage technology platforms

Businesses should use technology platforms to map risks and opportunities within their supply chains so that they can better manage these risks and create positive impacts.



Develop baselines and measure progress

Businesses should use data to establish their baselines, set appropriate targets, measure progress against these targets, and report on their progress to support credibility of their disclosures and commitments.



Coordinate across internal systems and processes

Businesses should link their supply chain management systems with other business tools and systems to provide greater accuracy and alignment.

Visibility and transparency

This high-end fashion brand sources materials and works with partner factories and artisans around the world to produce luxury women's clothing and footwear.

The business is committed to establishing visibility across its full supply chain by using a range of technology solutions to maintain strong processes for supplier management and understand its impact. Technology supports activities such as mapping the supply chain, supplier self-assessment questionnaires and audit programs, as well as worker sentiment surveys. There is collaboration between the business's sustainability and procurement functions to map its extended supply chain, even attempting to map the supply chain down to farm-level materials production.

The business uses external providers to validate and provide assurance over its audits. While comprehensive supplier audits are important, the business aims to move beyond supplier audits to measuring positive impacts in the supply chain. This includes extensive use of worker sentiment surveys to investigate working conditions and to understand where there are discrepancies in audit results.





Theme 3

Partnering with stakeholders

Partnering with stakeholders

Businesses cannot achieve better social and environmental outcomes alone. Instead, they need to collaborate with their suppliers, customers, and other stakeholders. By working together, they can identify areas of improvement and implement solutions that benefit everyone involved. Partnering with stakeholders can involve establishing internal cross-functional relationships, developing industry partnerships and streamlining approaches to both respecting human rights and reducing emissions.

Supply chains inherently comprise many internal and external stakeholders of varying roles, scale and capabilities. For a business to achieve its sustainability goals, it needs to work with its various stakeholders to ensure that all parties are aligned on objectives and risk appetite. All businesses in this study took a collaborative approach to engaging with suppliers, customers, employees, industry bodies and in some cases, industry peers, to work towards creating positive sustainability outcomes.

Cross-functional internal relationships

At the organisational level, different departments tend to work independently of each other; however, achieving positive outcomes through procurement initiatives or change programs should not be a siloed effort. The execution of supplier relationships, scope, and the data is often managed by other parts of the business and therefore close collaboration is needed to identify opportunities, collate information and execute initiatives.

Where businesses in this study demonstrated genuine intentions to create positive outcomes with suppliers through procurement, it was often still challenging to drive change without strong relationships throughout the business. One business in this study identified the need for procurement, supply chain, environmental and broader operations teams to work together to leverage their different areas of expertise and foster engagement with the stakeholders in their respective teams.

“There are teams within our business that have the expertise in different things. I look specifically at the responsible sourcing and I get input from the experts in the other areas. Responsible sourcing is such a broad area so the responsible sourcing team can’t be an expert in everything.”

Large steel manufacturer

Industry partnerships

Leveraging expertise through partnerships is even more pertinent when looking beyond a single business's operations. By partnering with industry businesses and other industry partners, involved parties can contribute their individual strengths to increase their reach, and ultimately create greater impact. Businesses in the study recognised the need for, and value of, long-term partnerships.

One business in this study was focused on engaging with indigenous suppliers. To support its indigenous procurement initiative, it has become a member of Supply Nation, a non-profit business that promotes the growth of Aboriginal and Torres Strait Islander businesses. Another business emphasised the need to work with peers on human rights risk, and highlighted the benefits of participating in structured industry engagements such as a human rights energy collective.

Much of the data used to analyse climate change impacts in the supply chain may also provide the business with insight into worker vulnerability.

NGOs are another critical stakeholder group. NGOs have specific knowledge about their given topic and advocate for change and pressure businesses to be accountable for their actions. Businesses in this study that were making progress on their sustainability commitments had close relationships with NGOs and research businesses, and used these networks to leverage knowledge and common activities.

Combining tools and approaches to human rights and climate change initiatives

To date, businesses have largely approached the climate change issue from an environmental impact lens. Human rights impacts driven by both the physical impact of climate change as well as measures taken to adapt, are not as well understood by the business community. Many established policies designed to address climate change crossover with human rights, so there are clear advantages to designing programs that target both human rights and climate change impacts concurrently.

This often applies to data obtained as part of supplier assessments and due diligence processes, which involve significant amounts of data and extensive supplier engagement. Interrogating this information effectively is crucial, as data used to assess the potential impact of climate change on the supply chain may also provide an indication of worker vulnerability to climate impacts (such as rising temperatures, increased weather events and food shortages). In turn, this provides the business with an opportunity to engage their supplier base, with the aim of preventing adverse human rights impacts, in a risk based and efficient manner.

One business in this study noted that in undertaking supplier compliance checks when seeking certification from bodies such as the Forest Stewardship Council, the same data could be used to assess human rights impacts. By rationalising the process for identifying climate change and human rights risks and opportunities, the insights and supplier change initiatives can be much more impactful, potentially reducing the risk of change fatigue.

Takeaway actions



Support cross-functional knowledge-sharing and efficiencies

Businesses should consider how they can leverage internal expertise from different functions of the business to understand how physical and transition impacts of climate change may exacerbate the vulnerability of workers in the supply chain to human rights harm.



Establish external partnerships

Businesses should consider partnering with businesses that share their purpose so that they can be more efficient in their execution and expand their reach and impact.



Leverage all available datasets to increase the business visibility of interrelated social and environmental risks

Businesses should consider social and environmental issues concurrently when designing structural supply chain initiatives and systems, because the data can often serve multiple purposes - such as providing an indication of increased worker vulnerability.

Collaboration

This large ASX-listed supply chain logistics business operates a transport network in over 60 countries worldwide. The business's core function is to provide reusable pallets and containers to the consumer goods, retail, produce, beverage, and manufacturing industries in a 'share and reuse' circular business model.

The business recognises that some regions face higher sustainable supply chain risks, so it focuses its effort on these suppliers to improve sustainable outcomes, for example, through leveraging credible third-party benchmarks, where additional scrutiny and due diligence are needed. This collaborative approach supports mutually beneficial outcomes such as reliable demand for sustainably sourced wood, improved socio-economic outcomes and a better understanding of the importance of forest product certification. The business also collaborates with its customers and suppliers to reduce waste and minimise emissions.

One notable example is its use of digital technology to optimise its network by projecting demand spikes and anticipating recovery volumes and locations. It also partners with other logistics carriers to capitalise on otherwise wasted 'empty legs' return trips, enabling recovery of their assets in a more cost and carbon-effective way.



“Aligning procurement and our sustainability strategy means focusing on the key priority investment areas, which cover regional areas, First Nations, climate transition and natural environment. ... For example, in terms of engagement with First Nations, we have our Supply Nation membership, and with that we’ve had our onboarding, and are looking to engage further with Indigenous businesses in improving our supplier diversity.”

ASX-listed energy business



Theme 4

Leadership and corporate alignment

Leadership and corporate alignment

Business leadership needs to set the tone for the entire business and demonstrate their commitment to social and environmental outcomes. They need to ensure that their business's values and goals are aligned with these outcomes and that they are integrated into every aspect of the supply chain. Key elements for successful sustainability leadership and corporate alignment include having executive ownership, allocating dedicated teams to the work and ensuring alignment with the business's overall strategy.

True sustainability leadership within a business requires more than executive titles such as Chief Sustainability Officer (CSO) or Chief Procurement Officer (CPO). Businesses in the study that were making genuine progress to their commitments demonstrated strong support and provision of resources from the top. Genuine executive commitment means that those charged with driving sustainability and supply chain management have the necessary support in the form of systems, governance structures, appropriate capabilities, sufficient resourcing, and financial investment to establish a change program. Having a voice at board level supports procurement and supply chain teams to push forward with their goals in instances where they might face internal cultural barriers.

Executive ownership of sustainability

Having leadership that sets the agenda of sustainability for a business makes a critical difference in how businesses approach supply chain management and how they can create value and maximise positive impact. Businesses in this study that had a less comprehensive approach to supply chain management reported that a compliance mindset from the executive level led to a 'tick box' style approach throughout the rest of the business. Businesses involved in the study that reported a level of maturity in this space had proactive leadership on driving sustainability and supply chain management by providing a forum for ideas, enabling resources and support for execution.

“Our board and our leadership team is very much on board. Some of our suppliers are part of the family and there isn't an issue in engaging with them on transparency. But it's harder within the layers of our business we sell to like, builders and tradies.”

Large steel manufacturer

Dedicated teams and team members

All businesses involved in this study had executive-level support for sustainability and supply chain management. Businesses that are driving the sustainable procurement agenda were given the resources to make sustainable procurement and supply chain a dedicated role or function. Participants in the study claimed this kind of leadership to be inspiring and reinforcing to their own commitment. One business noted that their leader understands the need for sustainability, which gives them the agency to go forward with their work without expending undue effort to build their business case and demonstrate the value of their initiatives. This approach from leadership had a cultural effect on the broader business, impacting employee motivation and commitment.

Strategic alignment

Alignment of the goals and strategic direction at the executive level across functions is foundational for a sustainable supply chain. Corporate-level strategy along with procurement strategy and sustainability strategy need to be aligned and interlinked so that goals, metrics and resources are deployed adequately and in a focused manner. Executive-level leaders such as the CSO and CPO need to collaborate to ensure oversight and input is aligned across functions, and to ensure that the right level of governance is put in place.

Leadership

“It’s really nice having a leader who gets it, who champions it... you don’t have to fight for resources at that higher level. Because that’s what I’ve had to do in my previous roles, you have to say: this is really important, we have to do it. You have to build your business case and demonstrate the value.”

ASX-listed mining business

This ASX-listed mining business operates mining hubs, rail and port facilities, and tug fleets serving international markets. The business is driving future growth through international exploration of commodities that support green energy, decarbonisation and electrification.

The business has an engaged Executive Chairman that fully supports its sustainable procurement program and embedding human rights risks to people within its corporate risk register. It also has a strong sustainability governance framework, with board and executive endorsement. The business has dedicated and well-resourced teams to deliver on the business’s human rights commitments, including First Nations people procurement targets, and to manage risks in its procurement and supply chain operations.

Takeaway actions



Get executive buy-in

Businesses should ensure they have leaders who are able to support the resourcing, time and investment needs of supply chain management teams.



Link to broader strategic goals at the executive level

Link sustainability in clear language to the broader strategic direction so all stakeholders can see the alignment of sustainability risks and ambitions to the business’s overall goals.





Theme 5

Navigating a complex regulatory and reporting landscape

Navigating a complex regulatory and reporting landscape

Regulations are becoming increasingly stringent in many areas, particularly in biodiversity, climate change and human rights. Businesses that are proactive in complying with regulations and adopting best practices can gain a competitive advantage over those that are not. By staying ahead of the curve, businesses can improve their reputation, reduce their risks, and create value for all stakeholders.

The past five years have seen significant change in both laws and global reporting frameworks across biodiversity, climate change and human rights. These changes place greater emphasis on key sustainability topics that were, until recently, seen as less of a priority. The pace at which these changes have come into force demonstrate the importance stakeholders are placing on accountability and the urgency for businesses to step up their due diligence and impact management practices and associated disclosures.

Government mandates can inadvertently lead to a compliance mindset focused on producing a response to legislation.

While the only currently legislated reporting requirement in Australia relates to modern slavery, climate and reporting related to other areas are expected to be mandated in the near-term. Legally requiring businesses to disclose on these topics can serve to create a level playing field for businesses in similar industries that face similar risk and to increase awareness within organisational ranks. Interview participants responded that these pressures are helping to drive executive buy-in and resulting in allocation of resources to execute on their strategies.

Government mandates can inadvertently lead to a compliance mindset focused on producing a response to legislation. This can distract from the action needed to impact the very issues the legislation is designed to address. A proactive approach to understanding upcoming legislation and reporting requirements allows businesses to build this into their approach rather than be reactive.

These businesses were particularly aware of the rapidly changing reporting requirements and legislation across the issues of human rights, biodiversity and climate change. However, they noted that excessive reliance on changing laws and institutional pressure to drive change can lead to overreporting, greenwashing and increased administrative burden rather than creating meaningful change, especially where businesses operate across multiple jurisdictions.

Biodiversity

In December 2022, UN Convention on Biological Diversity adopted the Kunming-Montreal Global Biodiversity Framework (GBF) to preserve and restore nature and its essential services to people. The framework is intended to guide corporate actions worldwide through 2030. It includes four goals, 23 targets and supporting mechanisms for planning, monitoring, reporting and review that are deemed critical to addressing ongoing loss of biodiversity and restoring natural ecosystems.

Businesses that report under the TNFD framework will have to consider the biodiversity risks they face.

In alignment with the GBF, the Taskforce on Nature-related Financial Disclosures (TNFD) launched in June 2021 provides a framework for reporting on nature-related impact. The TNFD is currently in its final beta version and due to be finalised in late 2023. Once finalised, businesses will need to utilise the TNFD framework in order to assess biodiversity risks and impacts in their annual reporting. Businesses that report under the TNFD framework will have to consider the biodiversity risks they face and how these will impact on their financial performance over the long term.

Climate change

The Task Force on Climate-Related Financial Disclosures (TCFD) is based on the Science-based Targets Initiative (SBTi) and was formed by a group of 31 members across the G20. In 2017, the TCFD released climate-related financial disclosure recommendations across governance, strategy, risk management, and metrics and targets. The TCFD framework has been widely adopted by many businesses around the world.

There are 11 recommended disclosures that help investors and other stakeholders understand how a business evaluates and addresses its climate-related risks and opportunities, and what metrics they use to track their progress. The TCFD framework provides a format for consistent disclosure so that an investor can understand the financial implications of climate change on a business's performance against others.

Human rights

Modern slavery transparency legislation in Australia requires businesses to report annually on the risk of modern slavery within their operations and supply chain, actions taken to address those risks, and to comment on the effectiveness of their actions. The Australian Government recently commissioned an independent statutory review of the legislation, which recommended introducing a number of key changes such as civil penalties for non compliance and appointing an Anti-slavery Commissioner.

Around the world, many different countries are beginning to embed broader human rights due diligence regimes within domestic legislation, requiring companies to conduct a varying degrees of due diligence over their broader value chain. Such approaches can be observed in Germany, Norway, France, Switzerland and the Netherlands.

Takeaway actions



Understand how proposed legislation and reporting changes may impact the business

Businesses should prepare for legislative changes early so they can respond quickly as frameworks change and when requirements become mandatory. Aligning with key international standards for assessing and addressing human rights harm and reducing environmental impact, such as the UN Guiding Principles on Business and Human Rights, the ILO Declaration on Fundamental Principles and Rights at Work, the United Nations Global Compact and the Science-based Targets initiative, will hold businesses in good stead as different regional approaches evolve.



Build supplier risk management processes with the future in mind

In addition to reducing harm, businesses have an opportunity to drive significant positive impact by making strategic procurement decisions. Taking an integrated approach to supplier risk management can assist businesses in building supply chains that are not only fit for purpose, but resilient in the face of evolving stakeholder expectations.

Transparency

This major telecommunications business operates a network of telecommunications infrastructure and services. It operates in multiple jurisdictions and focuses on regulatory compliance and transparency in its reporting and communications.

The business is on the front foot with initiatives to map its supply chain to identify risks such as modern slavery, to undertake regular climate risk assessments to develop adaptation and mitigation strategies, and to identify areas where it can create shared value such as community investment.

The business has laid the groundwork to respond quickly to emerging regulatory and reporting requirements, thus enabling it to be transparent in its disclosure and communications to stakeholders. This level of visibility also supports the business to understand the value it creates and to measure its impacts on its supply chain.



“Legislation is specific to a country and we operate within multiple countries. Stakeholders we work with are spread across those countries. With climate change in mind, many new standards are coming through here. Compliance is not really the driver, but it’s in the background, and you need to ensure that you’re ahead of all of those things and what countries are requiring from a legislation or reporting point of view.”

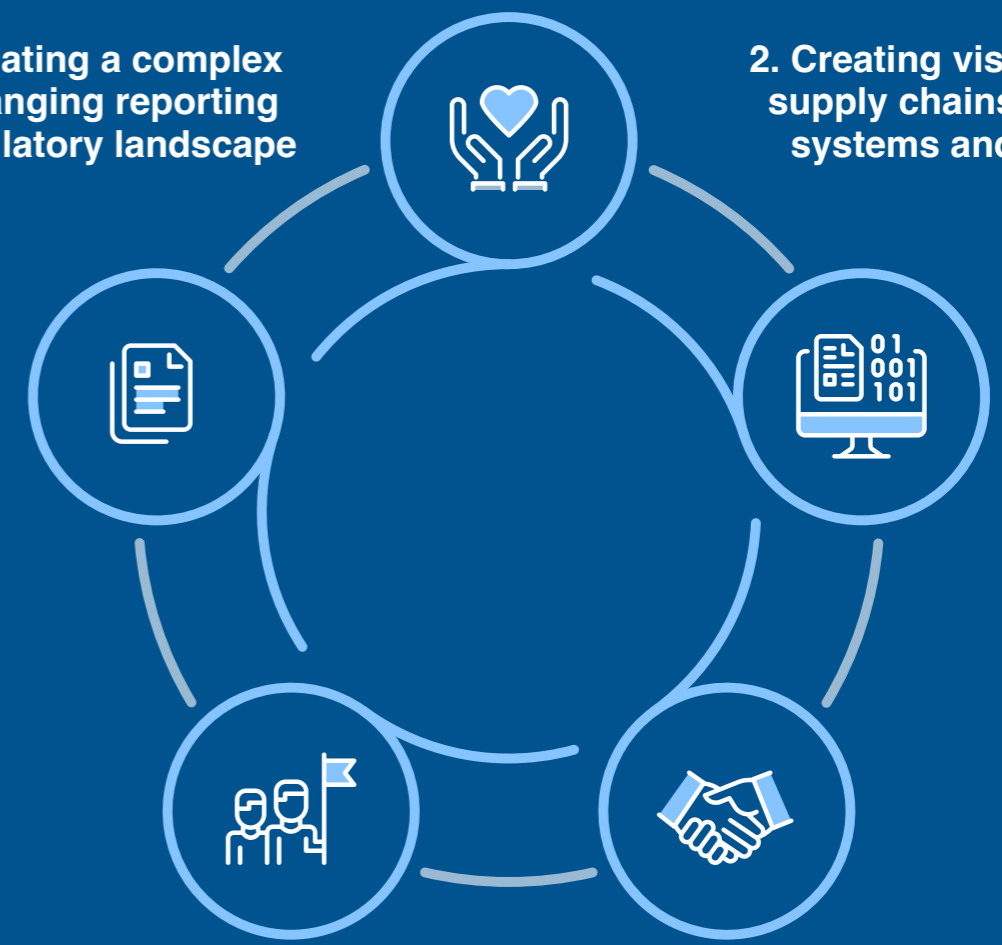
High-end fashion brand



1. Moving from risk management to value creation

2. Creating visibility in supply chains using systems and data

5. Navigating a complex and changing reporting and regulatory landscape



3. Partnering with stakeholders

4. Demonstrating leadership and accountability

The Ten Principles of the United Nations Global Compact

The Ten Principles of the United Nations Global Compact are derived from: the Universal Declaration of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption.



Human Rights

- 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
- 2: Make sure that they are not complicit in human rights abuses.



Labour

- 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
- 4: The elimination of all forms of forced and compulsory labour;
- 5: The effective abolition of child labour; and
- 6: The elimination of discrimination in respect of employment and occupation.



Environment

- 7: Businesses should support a precautionary approach to environmental challenges;
- 8: Undertake initiatives to promote greater environmental responsibility; and
- 9: Encourage the development and diffusion of environmentally friendly technologies



Anti-Corruption

- 10: Businesses should work against corruption in all its forms, including extortion and bribery.



Global Compact
Network Australia

