

Cambridge Judge Business School

Embedding Project

ENGAGEMENT FOR SUPPLY CHAIN SUSTAINABILITY: A GUIDE

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Engagement for Supply Chain Sustainability: A Guide

Introduction

Public and investor expectations about corporate sustainability performance and disclosure are growing rapidly and extending into company supply chains. Companies are increasingly recognising that their supply chain holds both substantial risk and opportunity. As a result, many companies have started to engage creatively and proactively with their diverse supply chains to leverage their collective capacity to address sustainability challenges.

Existing supplier engagement frameworks typically promote progressive steps towards collaboration as the ideal form of supplier engagement, but our research shows that this insufficiently captures the complexity of actual company-supplier relations. Instead, there are a variety of suitable engagement approaches that can be positioned along a spectrum between more coordinated and more collaborative. This spectrum of approaches applies to individual companies working with single suppliers, as well as to multiple companies partnering across industries and with other stakeholders to address wider supply chain challenges.

Supply chain sustainability outcomes depend on your company's ability to find the approach or combination of approaches that best align with current circumstances. Key considerations include your company's desired objectives, supply chain characteristics, and the readiness of both your company and your suppliers.

This guide aims to help corporate procurement and supply chain professionals to:

- Reflect on their existing supplier engagement approach(es)
- Identify the approach(es) most suited to addressing relevant sustainability issues
- Learn how to leverage appropriate portions of the engagement spectrum for supply chain sustainability

About

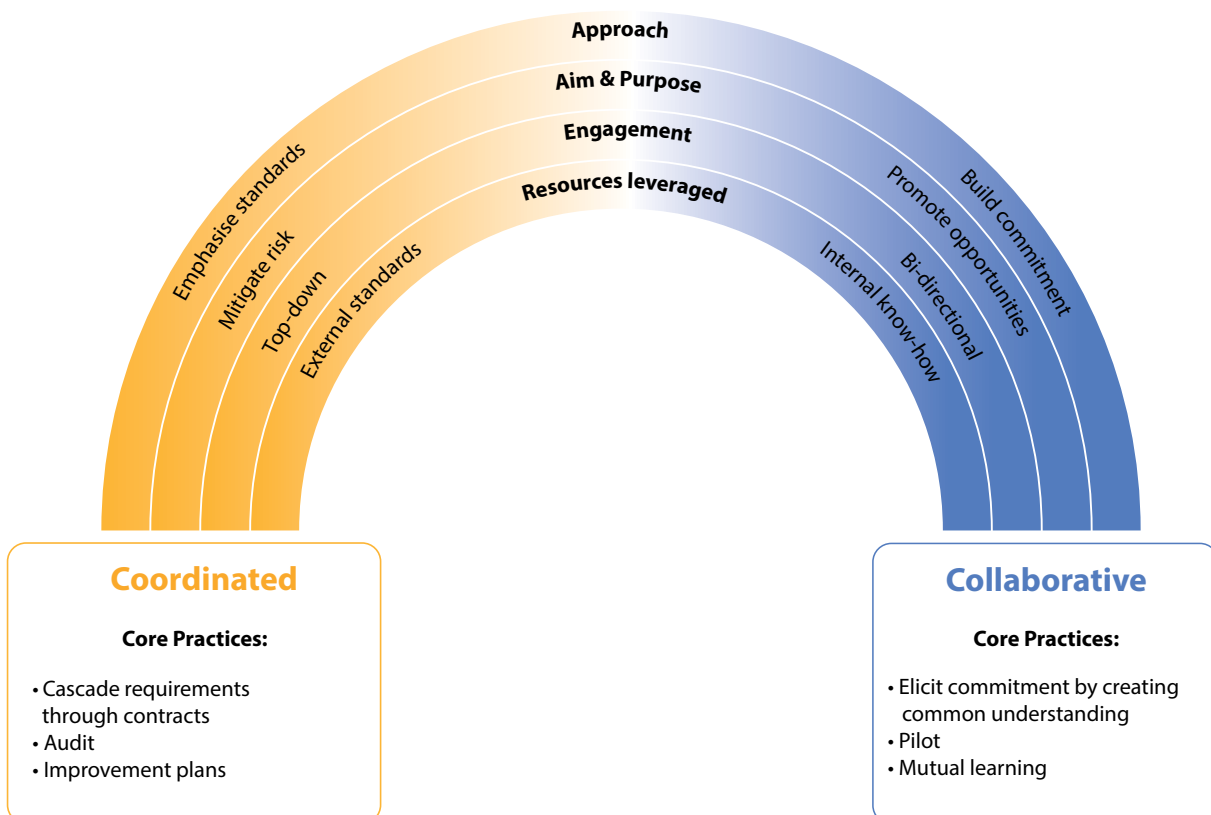
This guide is based on research conducted at the Cambridge Judge Business School, University of Cambridge, in collaboration with the Embedding Project and funded by BT Group and Huawei Technologies. The research project was led by Professor Jennifer Howard-Grenville and supported by Dr. Julia Grimm. It includes insights and learnings from 75+ interviews with sustainability and procurement leaders in companies across the world in a broad range of sectors.

Supplier Engagement: A Spectrum

There is no one best way to engage with suppliers and build collaboration. Instead, our research shows that there is a spectrum of engagement approaches that may be suitable depending on the specific characteristics of your suppliers and of the sustainability issues that you are aiming to tackle. To effect change in your company's supply chain, whether local or global, it is helpful to reflect on which approach is most suited to each supplier or supplier category and to each issue.

Supplier Level

The supplier engagement spectrum below shows that the way your company works with a particular supplier or category of suppliers can vary. The way you engage with a particular supplier is unlikely to be fully coordinated or fully collaborative. Instead, it is more likely to cluster around particular areas of the spectrum. Reflecting on the profile of your current engagement can help you to better understand your current approach and whether it is well suited to tackling the kind of issues that you are facing. It can also help you to understand where you could shift your approach along the spectrum to better align with your supply chain context.



Coordinated Approach

Companies typically use coordinated engagement practices to elicit supplier compliance on sustainability requirements. This approach tends to be more transactional, and risk driven. Companies adopting practices on this side of the spectrum often integrate existing industry standards into procurement contracts to ensure suppliers achieve a required level of practice or performance to mitigate a company's risk. The approach tends to be top-down: decisions on what to do and how to do it are typically made by the company. Core practices of a coordinated approach include cascading requirements through contracts, enforcing these requirements through audits, and implementing plans to improve suppliers' future performance.

This approach works well if your company is looking for consistency in performance: all suppliers need to live up to the same requirements. It creates efficiencies, by, for instance, having your company's established requirements directly integrated into all relevant procurement contracts. Coordinated engagement will also help your company hold your suppliers accountable, as you can audit them on the implementation of your standards. By cascading requirements down your supply chain, you have the potential to cover a broad range of suppliers who may face similar sustainability challenges or opportunities. However, with this approach it can be challenging to build the deeper engagement needed to understand individual suppliers' performance. This approach also runs the risk of unintended consequences because suppliers may have limited options to share the challenges they face in implementation or to make adjustments that are better suited to their circumstances and capabilities.

Collaborative Approach

Collaborative engagement with suppliers is often used to elicit commitment on sustainability and promote innovation via a process of customisation and partnering. Collaboration is largely investment-based with the aim to promote opportunities. A collaborative approach tends to be more flexible, as it allows for the development and implementation of potentially tailored sustainability practices and often entails companies working on a "case-by-case" basis with their suppliers, building internal know-how on both sides. Here, requirements are not necessarily explicitly captured in a contract, as the emphasis is on suppliers retaining responsibility and agency in making the desired change(s). The approach prioritises decentralised and shared decision-making and is bi-directional in the sense that suppliers are proactive in exploring and proposing what to do and how. On this side of the spectrum, companies and their suppliers often work to establish common ground on what should and can be done before piloting specific sustainability projects and practices. Any subsequent changes are typically implemented based on mutual learning.

This engagement approach lends itself well to companies pursuing innovation or finding new ways of collaborating or tackling a challenge. If your company creates the space for dialogue and the opportunity of investment, your suppliers are more likely to come up with innovative ideas of how to improve processes. This approach can also help surface untapped potential or expertise. Also, a more collaborative approach can help your company foster long-term relationships with your suppliers and build trust. This helps both your company and your suppliers to be more resilient in downturns or times of crisis. However, a collaborative approach can be resource- and time-intensive, and therefore requires a highly selective and strategic prioritisation of efforts. There is also a risk of limiting the extent to which you can hold suppliers accountable for performance to targets as they innovate and learn.

The table below summarises key benefits and risks of each the coordinated and collaborative approaches. Our research finds that most companies benefit from using both approaches, but chose which approach best suits particular supplier, issue, and context characteristics.

Coordinated		Collaborative
<ul style="list-style-type: none"> • Consistent • Efficient • Enables accountability 	Benefits	<ul style="list-style-type: none"> • Supports innovation • Fosters long term relationships • Reveals potential & expertise
<ul style="list-style-type: none"> • Limited transparency • Potentially unintended negative consequences 	Risks	<ul style="list-style-type: none"> • Resource-intensive • Limited accountability

Workbook Activity

Reflection 1

Please take a moment to reflect on your company’s approach to supplier engagement. Think about some specific suppliers or a supplier category. What core practices are you currently implementing? Where on the Supplier Engagement Spectrum would you plot your company’s approach?

Selecting Your Engagement Approach

Your company likely has multiple suppliers, supplier categories, and possibly supply chains, each with different features and distinct sustainability opportunities and challenges. Depending on those characteristics, your company may choose to implement some coordinated and some collaborative practices at the same time.

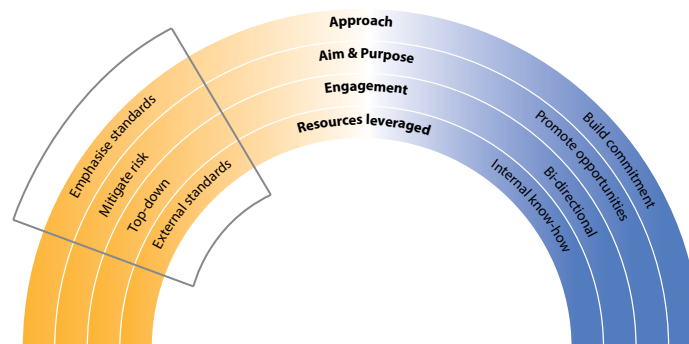
The practices best suited to meet your company's objectives depend on a combination of traditional supply chain considerations and more specific sustainability considerations.

Traditional Supply Chain Considerations

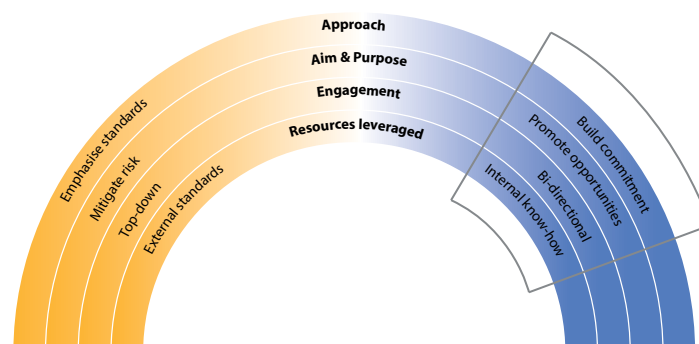
Traditional supply chain considerations focus on:

- A. the supplier's level of specialisation ("supplier specialisation"),
- B. the availability of substitute suppliers ("supplier availability"), and
- C. your company's history and relationship with the supplier ("supplier relationship").

If a supplier provides a generic product/service (low specialisation), for which there are many alternative suppliers (high substitute availability), and if this supplier tends to work only for short periods of time with a company (limited relationship), a company likely adopts a more coordinated approach to engage with this supplier.



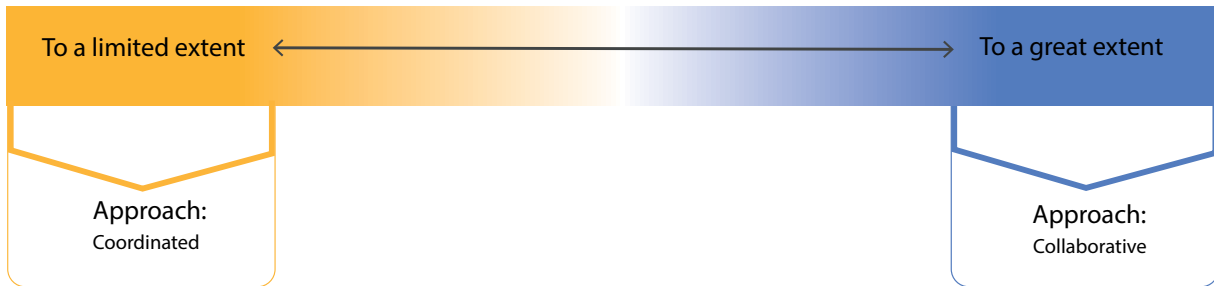
However, if a supplier offers a highly specialised product or service (high specialisation), for which there are few alternative suppliers (low substitute availability), and if there is a history of positive engagement with this supplier (strong relationship), a company likely adopts a more collaborative approach to engage with this supplier.



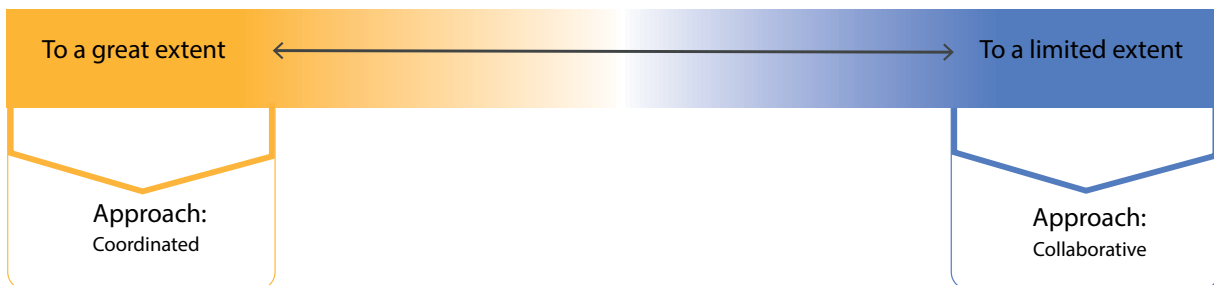
Workbook Activity

Please take a moment to reflect on one of your suppliers. With this supplier in mind, please answer the questions below.

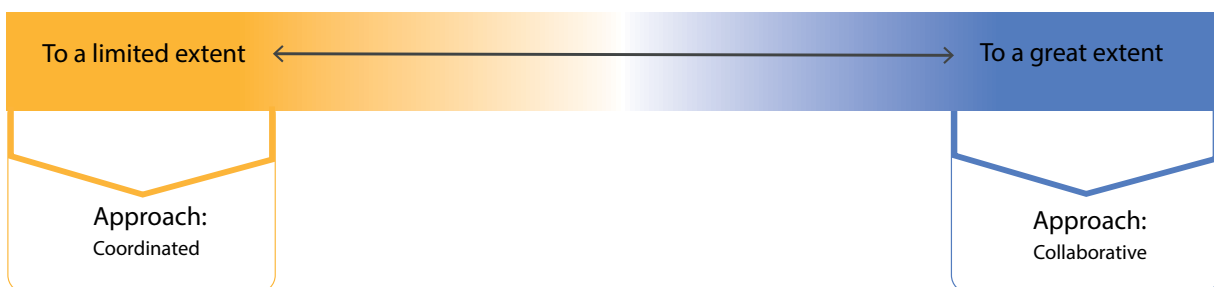
A) Supplier Specialisation: To what extent does this supplier provide a highly specialised product or service? Please mark the relevant spot on the spectrum.



B) Supplier Availability: To what extent are there readily available substitute suppliers for this product or service? Please mark the relevant spot on the spectrum.



C) Supplier Relationship: To what extent does your company have a history of positive engagement with this supplier? Please mark the relevant spot on the spectrum.



Reflection 2

Your responses above help you identify how to approach engagement with this supplier. Does this align with your Reflection 1 above? If not, how is it different?

In Practice

Take the case of a sportswear retailer. There are many suppliers for most types of garments, say a simple t-shirt, and so the level of specialisation is low while the availability of substitute suppliers is high. Additionally, as fashion seasons last only weeks, the relationship between suppliers and buying companies tends to be very short. Without the need or time to develop a strong relationship and mutual understanding that supports risk mitigation and builds trust, a sportswear retailer is likely to engage with these garment suppliers in a more coordinated way.

By contrast, the same company may have a high-tech product line, say, neoprene suits. The company is more likely to engage collaboratively with their suppliers of these products as they are likely to be highly specialised in their manufacturing methods and materials, having invested in equipment and specific know-how. Further, there would be fewer substitute suppliers of a high-tech product and buying companies may typically engage with them on a longer-term basis. These characteristics suggest a more collaborative engagement approach for the company with this type of supplier.

Sustainability Considerations

Our research revealed that the nature of sustainability issues and challenges can significantly influence how companies engage with their suppliers, so that approaches guided by traditional supply chain considerations are altered and the position on the engagement spectrum shifts.

Now consider how distinct sustainability opportunities and challenges may shift the appropriate approach for your supplier engagement. Sustainability considerations focus on:

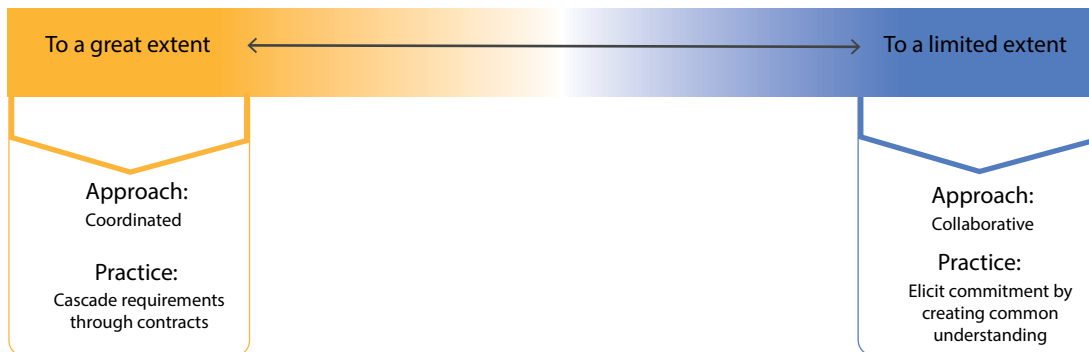
- D. how well-understood the sustainability issues is (“issue maturity”),
- E. how well understood and/or accepted the issue is within the regulatory or cultural context in which your supplier operates (“context maturity”), and
- F. the ability of your supplier to address the issue at stake (“supplier maturity”).

When you layer on these considerations, you may find you need to adjust your company’s position on the engagement spectrum and/or adopt a blend of practices.

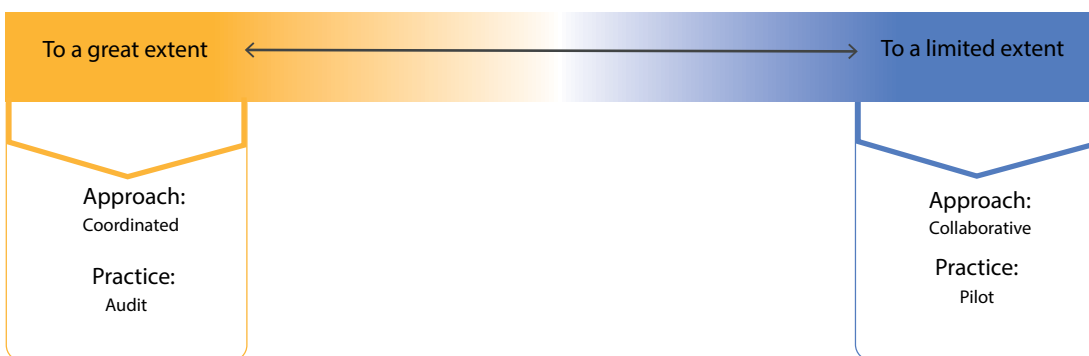
Workbook Activity

Reflecting again on the same supplier considered above, now also consider a particular sustainability issue that is crucial for your company to address with this supplier. With this issue in mind, answer the questions below.

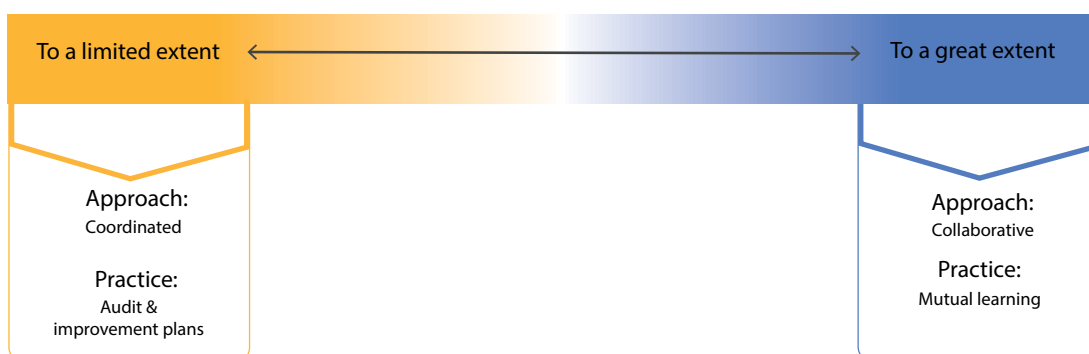
D) Issue Maturity: To what extent is there a strong understanding of this sustainability issue within your company/industry and more broadly among other stakeholders, and a robust set of frameworks developed to address it? Please mark the relevant spot on the spectrum.



E) Context Maturity: To what extent is this supplier operating in a jurisdiction with established norms and/or strong regulatory controls that support addressing this particular sustainability issue? Please mark the relevant spot on the spectrum.



F) Supplier Maturity: To what extent does this supplier have the necessary expertise and capability to address the sustainability issue? Please mark the relevant spot on the spectrum.



Reflection 3

Is your current approach to engaging this supplier on this issue aligned with what the issue, context, and supplier maturity call for?

In Practice

Companies usually adopt either a coordinated or a collaborative approach for an entire product category, depending on their overall supply chain objectives. When factoring in specific sustainability issues, companies often realise that their typical practices are not a good fit to help them achieve their sustainability objectives. They recognise they also need to draw on a different set of practices. From our conversations with procurement and sustainability professionals, we found that to best align with their procurement objectives, companies may need to move from a coordinated to a more collaborative approach, or vice versa, as they fine-tune their approach to the issue, supplier, and context maturity.

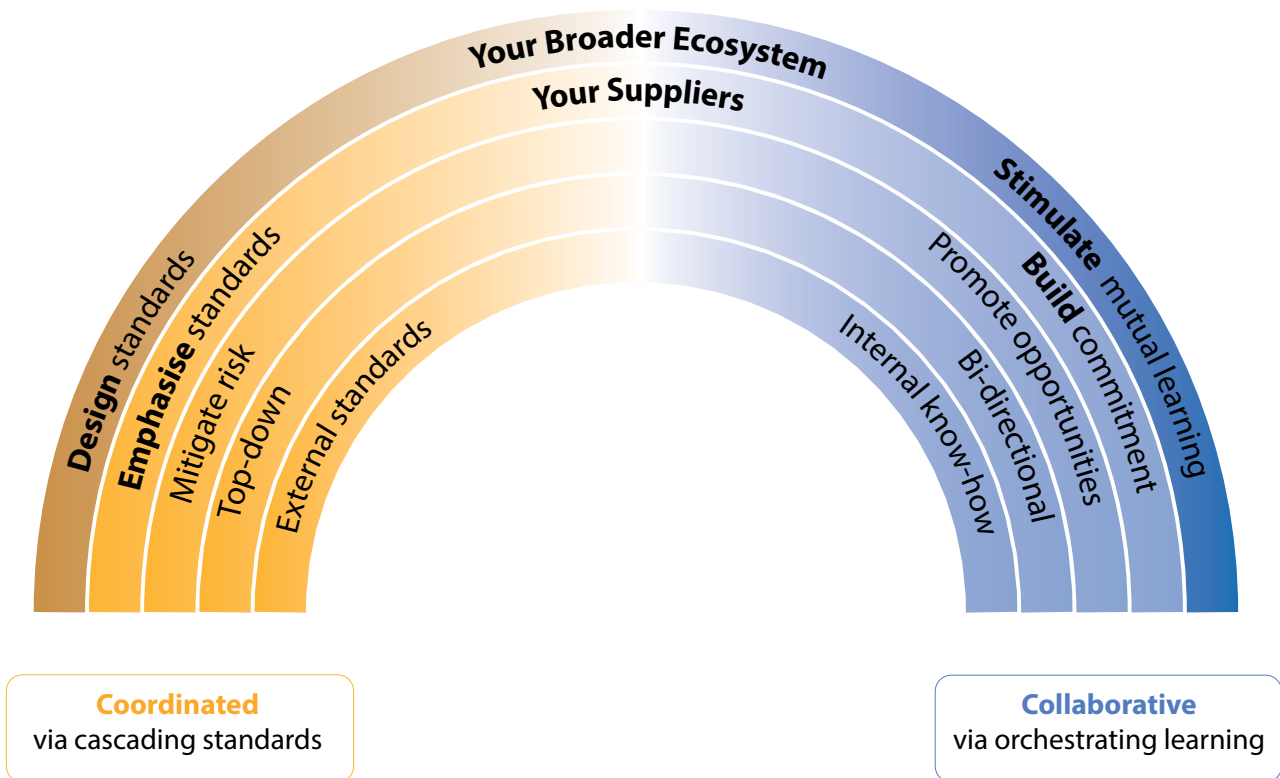
For example, a car manufacturer had initially adopted a coordinated approach with all its suppliers. The company became aware of potential human rights violations in their lower supply chain tiers, in jurisdictions with limited rule of law. In this case, cascading human rights requirements via their direct supplier down the supply chain proved ineffective. The car manufacturer had to take immediate action and decided to engage with their lower supply chain tiers, directly supporting their raw material suppliers to tackle these human rights issues. Starting with a coordinated approach and then moving to a more collaborative one, today this company is using a blend of each to ensure both the standards and the capabilities are in place to address the issue.

The coordinated and collaborative approaches are not mutually exclusive. A blend of practices is often most suitable to accommodate both supply chain considerations and sustainability objectives. That means that companies can be in several places on the engagement spectrum at once.

Ecosystem Level

The engagement spectrum can also be used from an ecosystem perspective, to consider the approaches and practices that support supply chain sustainability among multiple actors. The ecosystem perspective moves beyond the engagement with a single supplier and shows the potential for coalitions among buyers and/or suppliers to gain greater leverage on supply chain sustainability. Again, the engagement spectrum for this broader ecosystem action includes both coordinated approaches and collaborative approaches.

Your company will need to look beyond its immediate suppliers and supplier categories to your company's broader value chain, and to other companies, perhaps outside your industry, who share similar supply chain sustainability challenges. Your company can help shape the context for supply chain sustainability through a coordinated approach, working with others to cascade standards through supply chains and/or through a collaborative approach, working with others to orchestrate learning within the broader ecosystem.



Cascading Standards

If your company tends to take a more coordinated approach, you likely use a set of sustainability standards that each of your suppliers must adhere to. Requirements on compliance with standards are integrated into procurement contracts, as a key tool to mitigate risk.

However, these standards mostly originate in and draw on conversations held at industry or broader levels and often involve multiple stakeholders. For example, companies explore how to collectively address issues by meeting and discussing these with unions, governmental actors, non-profit organisations, or other relevant groups. Through this, harmonised standards may emerge, which helps create a level-playing-field in the broader ecosystem. Such standards may then be integrated into companies' policies and codes of conduct; hence they are cascaded across industries and through supply chains, generating broad impact.

In Practice

In the aftermath of the 2013 Bangladesh Rana Plaza catastrophe – the collapse of a supplier factory in which over 1100 workers died – companies in the apparel sector came together and harmonised their requirements on fire and building safety for suppliers and garment factories. While many standards had previously existed, they were competing and uneven. Suppliers were left overwhelmed and some forged compliance documents as a result. The harmonisation effort led to the Bangladesh Accord for Fire and Building Safety, a union-driven multi-stakeholder agreement, in which all major garment companies committed to respect a set of rules which they then integrated into their individual codes of conducts and, subsequently, into their procurement contracts. As a result, suppliers in Bangladesh were enabled to work with a much more coherent set of requirements for fire and building safety. The actual implementation of standards was more feasible for factory owners, and, in consequence, far fewer compliance documents were forged. In this case, development of an industry-wide standard contributed to improved working conditions and increased safety standards in the global garment supply chain.¹

Orchestrating Learning

If your company tends to take a more collaborative approach, you likely engage and invest in longer-term partnerships with one or several of your suppliers. Here, the focus is more on bi-directional learning and surfacing and promoting new opportunities, rather than on risk mitigation. Learning in this context is both about finding common ground on defining issues and identifying potential solutions, as well as sharing capabilities and knowledge. The latter often happens when suppliers are also exposed to external pressure or others' innovative practices on sustainability issues. Hence actions in the broader ecosystem can stimulate the opportunity to orchestrate learning and generate greater impact on supply chain sustainability.

¹ <https://bangladeshaccord.org/updates/2021/04/07/safety-remediation-progress>

In Practice

One company in the Information and Communications Technology industry used a long-term contract with a direct supplier to specify a shared commitment to reducing the carbon footprint of the supplied product. Details about how to achieve the reductions were left unspecified, enabling the direct supplier to explore alternatives for carbon emissions reduction among its own (component) suppliers. Through information exchange and modelling, specific opportunities for investments that would save energy and reduce carbon emissions were identified within the component supply chain, which also yielded cost savings for these suppliers. Overall, the ICT company and companies in two tiers of its supply chain learned together how to achieve modifications in manufacturing techniques that would yield carbon emissions reductions. More broadly, the ICT company and its direct supplier learned that contract clauses specifying a commitment to improving on a particular sustainability goal, but not specifying exactly how to achieve that goal, can lead to creative, tailored solutions that can also yield other benefits, like efficiency or cost savings.

By sharing these examples, these companies and others demonstrated to the broader ecosystem the potential for contract clauses to enable innovation and offer new ways of engaging supply chains to advance sustainability.

The table below summarises some of the key practices of each the coordinated and collaborative approaches on the broader ecosystem. Our research finds that most companies engage in several of these practices at once.

Coordinated

Collaborative

Business-driven (cross-)sector agreement for harmonisation of industry standards	Multi-stakeholder dialogue for mutual learning	Supplier innovation award for knowledge exchange & fostering of best practices
In business-driven agreements companies from one or different industry sectors come together to discuss requirements aimed at increasing sustainability performance in a particular supplier base.	Multi-stakeholder dialogues bring different perspectives and stakeholder groups together for discussion and agreement on priorities for sustainability challenges and development of approaches and practices to address them.	Companies encourage their suppliers to engage in pre-competitive contests around sustainability innovations and award outstanding ideas. This leads to learning in the broader supplier base and incentivizes others to think about improving their own practices and processes.

Workbook Activity

Reflection 4

Please take a moment to reflect on your company's broader ecosystem. Which practices do you use to engage with your entire supply chain(s) and/or with other companies in your sector and beyond? Are your ecosystem engagement practices aligned with what you seek to achieve at the supplier level? If not, what new practices should your company consider adopting?

Next Steps

Now that you have identified what shifts may be needed to better align procurement practices with your sustainability objectives and now that you have mapped the practices you currently implement, you may already be thinking ahead to new practices for your company to implement in the future. The Embedding Project has developed a *Sustainable Procurement Wheel* to offer you a portfolio of practices to embed sustainability across your procurement and supply chain processes and help you drive change across your value chain. More information can be found here: eproject.org/value-chains-guide

Acknowledgments

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Cambridge Judge Business School
University of Cambridge
Trumpington Street
Cambridge CB2 1AG
United Kingdom

T +44(0)1223 339700
enquiries@jbs.cam.ac.uk
www.jbs.cam.ac.uk