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## **In Pursuit of a Sustainable Supply Chain**

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# In Pursuit of a Sustainable Supply Chain

## Structured Abstract

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<b>Purpose</b>	The aim of this paper is to provide clues to industry and academia on how best to approach the challenge of developing a sustainable supply chain.
<b>Design/methodology/approach</b>	A case study was undertaken of the Westpac Banking Corporation—one of the world's most socially responsible banks—to examine how they approached the challenge of managing corporate social responsibility (CSR) in their supply chain.
<b>Findings</b>	This paper highlights some of the challenges and opportunities associated with extending corporate governance beyond the firm boundary. Specific attention is given to a discussion of assessment and governance tools.
<b>Research limitations/implications</b>	The use of a single case study limits the generalizability of these findings. Future research can build on these findings by extending the scope to include additional firms, regions and methods.
<b>Practical implications</b>	A best practice model is developed from the discussion to provide practical guidance to firms.
<b>Originality/value</b>	While the extension of CSR to the supply chain is an emerging area of interest, the literature provides few clues on how best to pursue sustainable supply chain management. This paper provides a valuable and timely contribution to this topic by reviewing the lessons and practices of a recognised CSR leader.
<b>Keywords</b>	Sustainability, supply chain management, corporate social responsibility, CSR, banking.
<b>Paper type</b>	Case Study/Viewpoint

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# **In Pursuit of a Sustainable Supply Chain**

## **Introduction**

Corporate social responsibility (CSR) is viewed as an organisational philosophy that directs firms to consider and minimise the social impact of their profit making activities. While such an orientation may be said to detract from the core function of a business; namely to make a profit, prior research has reported direct links between a firm's corporate reputation and performance indicators such as profitability and customer satisfaction (Porter et al., 2006; Chad et al., 2006; Schiebel et al., 2003; Murphy et al., 2002; Simpson et al., 2002).

In recent years, firms have embraced the importance of working collaboratively with their supply chain partners to enhance their CSR performance (Nalebuff et al., 1996). This stems from the recognition that supply chains are comprised of inter-dependent units that can influence the reputation and performance of one another. Accordingly, firms are becoming aware of the need to develop strategies that extend their traditional corporate governance processes beyond the firm boundary to their supply chain partners (Kyle et al., 2005). The most visible indicator of this extension is the emergence of CSR oriented purchasing strategies—wherein firms have sought to reduce their exposure to potential risks by prescribing a set of standards that suppliers must meet in order to win their business.

While numerous scholars have noted the importance of incorporating CSR into the purchasing decisions of firms (Roberts, 2003; Bowersox, 1998; Stock, 1990); the literature provides little guidance on how best to pursue this objective. A key challenge for firms is to understand the impact that CSR has on the myriad of internal and external stakeholders. As such, firms desiring to improve the sustainability of their supply chains need to become more proactive in monitoring their suppliers across a range of business functions. Svensson (2007) suggests that, as a minimum, sustainable supply chain management (SSCM) requires a detailed consideration of the economic, ecological and social aspects of business practice.

Another concern regarding the implementation of CSR within the supply chain relates to the lack of reporting. For instance, a recent study investigating CSR practices in the UK construction industry highlighted that despite recognising the importance of CSR to the supply chain, CSR reporting did not emphasise the issue (Jones et al., 2000). They further asserted that while there were incidences

of environmental screening of suppliers and contractors, these impacts were not captured as part of a formal governance process and were generally not reflected in their social reporting activities.

Hervani et al. (2005) take up this issue by proposing a framework for measuring and reporting sustainable supply chain management practices. In particular, they argue that effective supply chain management requires greater strategic elevation of CSR in order to facilitate coordination across purchasing, manufacturing, distribution and marketing functions. To this end, Handfield et al. (2005) suggested that firms with a formal system to monitor and report on CSR issues in their supply chain will enjoy performance advantages and greater commitment from internal and external stakeholders.

Other benefits of pursuing a sustainable supply chain relate to the prospect of an improved corporate reputation. Roberts (2003) investigated the nexus between corporate reputation, management of sustainability issues and social impact of supply networks in the context of branded clothing, wood products and branded confectionary. The study revealed a strong relationship between reputation and the expectation of key supply chain stakeholders. In particular, the study found strong links between corporate reputation and the presence of an 'ethical sourcing code of conduct'. Interestingly, their study also found that CSR practices were more likely in industries characterised by strong consumer activism and high profile brands.

The next section of this paper will consider how an Australian bank that is renowned worldwide for its social responsibility ethos and practices has responded to the challenges and opportunities associated with pursuing CSR in the supply chain.

### **Westpac Banking Corporation**

Westpac Banking Corporation is internationally recognised for their CSR leadership<sup>1</sup>. Initiated in 2001 with a pledge in their annual report, Westpac responded to a growing tide of consumer discontentment by making a commitment to improve corporate governance, increase transparency and undertake greater stakeholder engagement. This subsequently resulted in the publication of their first Social Impact Report in 2002. The report outlined the bank's plan to meet the highest international standards in the area of CSR, including participation in the Dow Jones Sustainability Index, Equator Principles and the United Nations Environmental Protection Initiative for financial institutions.

The report also recognised the importance of CSR to the supply chain, highlighting the need to screen the social performance of their suppliers. The goal of Westpac's early CSR supply chain forays was focused on the identification of exemplar suppliers that shared their commitment to socially responsible and sustainable business practices. The initial work was limited to large suppliers and contract renewals. The bank's aim was to identify suppliers who posed a governance risk, with Westpac stating that they originally intended to use the process to weed out undesirables (Clark, 2007). Early in the process it became apparent that few suppliers could meet Westpac's high standards and the Bank was therefore forced to revise its expectations. They subsequently decided to take a longer term view and work cooperatively with their suppliers to identify the advantages of adopting a CSR orientation. This decision also reflects a desire by Westpac to minimise the commercial costs associated with attracting and acculturating new suppliers.

Westpac reiterated their commitment to CSR in the supply chain in later reports. A key extension was the development of a strategic approach to managing key supplier relationships. Of particular interest was gaining a better understanding of supply chain risks and positively influencing supply chain partners in the area of CSR. This strategy involved the implementation of six key phases:

1. Development of a sustainable supply chain framework (including policy and development);
2. Data gathering on the performance of current suppliers;
3. Data gathering and screening of potential new suppliers;
4. Compliance across business units to ensure universal engagement of group procurement in all supplier selection activities;
5. Supplier management and influencing; and
6. Enhanced reporting on supply chain impact in future social impact reports.

As part of Westpac's sustainable supply chain management strategy, suppliers were required to provide information on how they minimised their environmental impacts, and whether they had CSR plans for the future. This information gathering enabled Westpac to develop a clear business case to generate senior management support for SSCM. This in turn, promoted internal commitment to the program and assisted in obtaining the budget allocations required to resource and grow the initiative. Figure 1 presents the business case that underpins Westpac's commitment to sustainable supply chain management, indicating that the flow-on benefits from a sustainable supply chain include supply chain benefits, reduced costs and risks, and improved outcomes for both the organization and society.

--- Take in Figure 1 about here ---

From 2004, Westpac began to explicitly review their progress and performance in the area of supplier CSR. They conducted a series of supplier forums to discuss the progress of the program, and they also began reporting annual benchmarks and to outline their strategies for expanding the scope of their sustainable supply chain management practices. Key achievements in recent years include refining the supplier assessment processes, development of a detailed SSCM policy, and a supplier code of conduct. These achievements will be discussed in greater detail in the remaining sections of this paper.

### **Supplier Assessment Tool**

Data gathering is the logical starting point to drive supplier performance assessment because you ‘can’t manage what you can’t measure’. A questionnaire was therefore developed to assess suppliers. The survey tool contained 137 questions that capture information on the suppliers written policies and management systems in the areas of governance and ethics, labor standards, community involvement, environment and the marketplace (supply chain) management. The questionnaire was informed by the Dow Jones Sustainability Index and consultation with sustainability experts, suppliers and non-government organizations. Table 1 presents an overview of the various topics covered in the questionnaire. Within each section, the questionnaire probes to ascertain the depth of commitment, strategic alignment and resource investment made by suppliers in the area of CSR.

--- Take in Table 1 about here ---

Supplier responses to the questionnaire were used to benchmark them against Westpac and other like suppliers in their industry. The results enabled Westpac to identify areas for improvement and to set realistic targets for suppliers as part of a tailored sustainability action plan. Essentially, Westpac sought to assist their suppliers to develop a continuous improvement strategy in the area of sustainable supply chain management. This approach drew heavily on Westpac’s earlier experiences in the area of SSCM—acknowledging that embracing SSCM represents a significant philosophical shift for many of their suppliers. The bank has since realized that suppliers need time and support to recognize the benefits of sustainable SCM.

Most importantly, this strategy is yielding positive outcomes with a recent external review revealing that the SSCM process has helped to improve the receptiveness of CSR as a strategic priority for participating suppliers. Other lessons learnt by Westpac relate to the limitations of a ‘one-size-fits-all’ approach and the need for appropriate evaluation processes. The bank found that the resources required to monitor the compliance of smaller suppliers was inhibiting their ability to work more closely with their larger suppliers. As such, Westpac has recently developed an abridged tool for use with smaller suppliers. Likewise, the review also revealed that the time is now right to think more carefully about how best to audit the performance of key suppliers against their own written policies and management systems.

### **Governance Tools**

To assist suppliers to meet Westpac’s CSR expectations in the area of supply chain management, and to provide a veritable ‘Gold Standard’ for their suppliers, the bank has developed two key governance tools: (1) a sustainable supply chain management policy; and (2) a supplier code of conduct. Originally released in 2003, the SSCM policy and guidance notes were updated and re-released in November 2005. The document provides a clear statement of the bank’s objectives and principles relating to sustainable supply chain management. It includes the terms of reference for the SSCM program within Westpac as well as clear guidelines for their existing suppliers, and procedures for sourcing and assessing new vendors. Specific details are provided on Westpac’s requirements for vendors in the areas of CSR management, risk management, treaties and covenants, human rights, labor practices, community involvement, environment, and supply chain systems.

The code of practice was released in draft form in 2007—to communicate in writing—Westpac’s expectations in the area of SSCM, with the code establishing in greater detail, the minimum CSR requirements for all Westpac suppliers. The main espoused advantage of the code is that it provides a self-compliance template for smaller suppliers. Accordingly, smaller suppliers will no longer be required to complete the SSCM questionnaire—they will only be required to commit to the standards imposed by the code. Only a small sample of such suppliers will be audited each year against the code, liberating resources that can be better used to support Westpac’s larger suppliers to raise their CSR performance, and consequently, to assist these suppliers to implement SSCM within their own supplier networks.

## **Concluding Comments**

Firms are becoming aware of the need to develop strategies that extend their traditional corporate governance processes beyond the firm boundary to their supply chain partners. In this regard, the present paper has examined the factors that drive and inhibit the pursuit of a sustainable supply chain. Following a review of the literature, a mini-case study was undertaken to explore how Westpac, one of the World's most socially responsible banks, has embraced the challenge of adopting a CSR oriented purchasing strategy. Emanating from this discussion, this paper has provided some normative guidance for firms wishing to adopt a similar strategy. These guidelines have been summarized in the best practice model presented in Table 2.

--- Take in Table 2 about here ---

While caution needs to be exercised when generalizing from case based research, this paper sought to provide some interesting insights regarding sustainable supply chain management. In particular, this paper represents an important and timely contribution to an under researched topic. Future research can build on this study by exploring whether these principles can be generalized across firms, industries and geographic boundaries.

## **Notes**

1. Westpac has been assessed as the global sustainability leader for the banking sector in the Dow Jones Sustainability Index for the past four years in a row.

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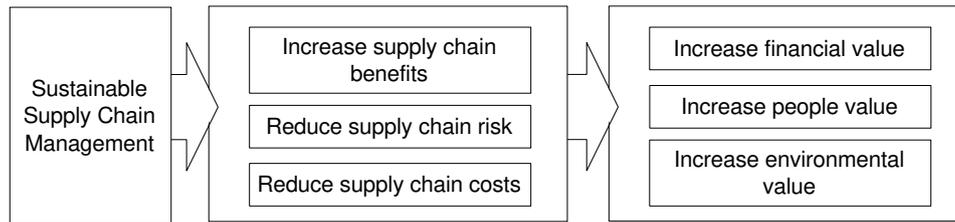
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**Figure 1: Business Case for Sustainable SCM**



**Table 1: Elements of the SSCM Questionnaire**

<b>Governance</b>	<b>Labor standards</b>	<b>Community</b>	<b>Environment</b>	<b>Marketplace</b>
- policies	- anti-	- strategy	- policies	- supply chain
- issue	discrimination	- activities	- eco-performance	management
identification	- diversity	- impacts	- targets	- stakeholder
- product	- child & forced			engagement
stewardship	labour			
- risk	- learning &			
management	development			
- management	- work/life balance			
systems	- OHS			
- public reporting				
- collaboration				
with Westpac				

**Table 2: Best practice model for SSCM**

- Step 1.** Create a strong business case for managing CSR in the supply chain.
- Step 2.** Use business case to generate internal support and to secure resource commitments from senior management.
- Step 3.** Develop governance tools that appropriately reflect CSR requirements for suppliers based on their strategic importance.
- Step 4.** Develop different assessment tools to measure the performance and compliance of suppliers.
- Step 5.** Provide quality feedback to stakeholders on the CSR performance of suppliers relative to expectations and the performance of their peers.
- Step 6.** Develop sustainability action plans to facilitate improvements where necessary.
- Step 7.** Undertake regular reviews of SSCM policies and practices, making adjustments where necessary to any of the above,